BlackBerry Limited

Fiscal Year 2019 Third Quarter Results

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Daniel Chan, *TD Securities*

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PRESENTATION

Operator:

Good morning and welcome to the BlackBerry Fiscal Year 2019 Third Quarter Results Conference Call. My name is Matthew and I will be your conference moderator for today's call. During the presentation presentations will be in a listen-only mode. We will be facilitating a brief question and answer session towards the end of the conference. Should you need assistance during the call, please signal a conference specialist by pressing star, zero. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to our host for today's call, Christopher Lee, Vice President of Finance. Please go ahead.

Christopher Lee:

Thank you, Matthew. Welcome to the BlackBerry Fiscal Year 2019 Third Quarter Results Conference Call. With me on the call today are Executive Chairman and Chief Executive Officer, John Chen; and Chief Financial Officer and Chief Operating Officer, Steve Capelli. After I read our cautionary note regarding forward-looking statements, John will provide a business update and Steve will then review the financial results. We will then open the call for a brief Q&A session.

This call is available to the general public via call-in numbers and via webcast in the Investor information section at BlackBerry.com. A replay ill also be available on the BlackBerry.com website. Some of the statements we'll be making today constitute forward-looking statements and are made pursuant to the Safe Harbor provisions of applicable U.S. and Canadian securities laws. We'll indicate forward-looking statements by using words such as expect, will, should, model, intend, believe and similar expressions. Forward-looking statements are based on estimates and assumptions made by the company in light of its experience and its perception of historical trends current, conditions and expected future developments as well as other factors that the company believes are relevant. Many factors could cause the company's actual results or performance to differ materially from those expressed or implied by the forward-looking statements, including the risk factors that are discussed in the company's Annual Information Form which is included in our Annual Report on Form 40-F and in our MD&A. You should not place undue reliance on the company's forward-looking statements. The company has no intention and undertakes no obligation to update or revise any forward-looking statements except as required by law. As is customary during the call, John and Steve will reference non-GAAP numbers in their summary of our quarterly and annual results. For a reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release and supplement published earlier today.

I will now turn the call over to John.

John Chen:

Thank you, Chris. Christopher, sorry. Christopher, I didn't know your name is Christopher. But anyway, thank you, Christopher.

Good morning, everybody. As Chris stated, I will reference non-GAAP numbers in my summary for our quarterly results. BlackBerry had an exciting third fiscal quarter. We exceeded revenue and earnings per share expectations for the quarter; we delivered year-over-year double-digit percentage growth, Total Software and Services revenue, earnings per share as well as free cash flow. We also entered into a definitive agreement to acquire Cylance, an artificial intelligence and cybersecurity leader. This acquisition will be a key investment to accelerate BlackBerry's future Software and Services growth. I will chat more about our acquisition and how it fits into BlackBerry's strategy later in the call.

We continue to execute against our Fiscal 2019 financial and operating plan. We delivered another good quarter of financial results. We are tracking to achieve the annual financial guidance we shared at the beginning of the year.

Let me provide some highlights for the third fiscal quarter. Total revenue came in at $228 million. Total Software and Services revenue was $219 million; this is a new record quarterly high. Total Software and Services billing grew year-over-year. Year-to-date Fiscal 2019 total company Software and Services billings grew by double-digit percentage versus the comparable period last year. Gross margin came in at 76%. Operating income was $27 million, positive for the 11th consecutive quarter. Operating margin was 12%, an increase of 4 percentage points from last quarter. This, by the way, matches the highest operating margin reported by the company since Fiscal 2012. EPS was $0.05. Total ending cash and investments were $2.4 billion.

Next, I will cover some of the significant highlights by business. First I will start with BlackBerry Technology Solutions, which includes embedded software and asset tracking. BTS revenue increased 23% year-over-year. Growth in BTS continues to be driven primarily by BlackBerry QNX where software development license, services and royalty revenue have all grown double-digit percentage year-over-year.

The increase in revenue has been broad-based across various different types of applications in both the automotive as well as the general embedded markets. We continue to be chosen by customers from around the world and the number of design wins in the quarter increased both sequentially as well as year-over-year. I will speak about our automotive business since I know a lot of you are mostly interested by our activities in that vertical.

We had five infotainment design wins in the quarter including a notable win with Aptiv in Asia Pacific. We also had four design wins in non-infotainment categories like ADAS, instrument cluster and domain controllers. Two of those wins were for instrument clusters were with Denso in North America and with Dalian Eastern Display in Asia Pacific. In addition, after the quarter ended, LeddarTech, a Canadian startup, chose QNX as the operating system for its auto and mobility LiDAR platform. LiDAR stands for Light Detection and Ranging. LeddarTech is known for its production of solid state LiDAR sensors and was recognized for its new innovation at CES 2018.

On BlackBerry Radar, our asset tracking business, we are making progress quarter-over-quarter. We added nine new customers including Bimbo Bakeries USA, KrielkampTrucking and Matson. We also received repeat orders from six existing customers, including FlexiVan.

A word on our Licensing business. Our Licensing business continues to perform well. We have a robust pipeline. We intend to close these Licensing opportunities while building upon our recurring revenue base of $40 million to $45 million per quarter.

Next, I will discuss our Enterprise Software business. We achieved 7% sequential revenue growth this quarter. This represents our second consecutive quarter of sequential revenue growth, after implementing ASC 606 in the first fiscal quarter of 2019, which moved more of our Enterprise Software and Services revenue to a ratable model.

In the quarter, our standout performer was our government business. Some of our notable wins include the Defense Intelligence Agency, the Federal Emergency Management Agency - FEMA, the IRS - the Internal Revenue Services, the Transportation Security Administration - the TSA, the U.S. Air Force and the U.S. Marine Corps.

Our authority to operate has increased from six U.S. government agencies last quarter to eight agencies this quarter, including the U.S. Agency for International Development as well as the Department of Energy in the United States.

Our BlackBerry FEDRAMP cloud user base increased by 20% from last quarter to approximately 1.2 million users.

Additionally, we saw increased demand for subscriptions to our UEM Content Suite from existing customers. The Content Suite provides customers with our highest level of security and includes secured document collaboration, which is BlackBerry Workspaces, and digital rights management.

Some brief comments on Spark. As you are aware Spark is the platform we are developing to secure communications and collaboration amongst all smart endpoints. Spark brings together all our technology assets and capabilities on a single end-to-end platform. We believe there are many significant opportunities for Spark to address in the world where endpoints are hyperconnected as well as intelligent, but also requiring absolute data privacy and security. So one such opportunity is Smart Cities and Intelligent Transportation Systems. You see evidence of our vision and leadership with our recent announcement of a Security Credential Management System – or SCMS – that will allow vehicles and infrastructure to exchange information in a trustworthy and private manner using our digital certificates technology. We believe BlackBerry can be at the foundation of Smart Cities in the future autonomous vehicle world. And it's necessary too.

Last month we announced entering into a definitive agreement to acquire Cylance. As I mentioned on our November call, the acquisition will provide BlackBerry with additional cybersecurity capabilities with state-of-the-art AI – artificial intelligence – and as well as machine learning technology. These cybersecurity capabilities will fit nicely with everything we do, from today with UEM and QNX, and to our future, which includes Spark, and is consistent with our long-term strategic strategy we shared with you throughout the fiscal year.

Our customers should be excited because our combination will bring complementary technology from cryptology to NOCs, to AI, and know-how that will allow BlackBerry to offer what we believe is the most secure end-to-end data and communication platform. We will go into more details on the technology, as well as the use cases, at our Analyst Day next April.

Before I turn the call over to Steve, let me provide you with a quick update on the acquisition process.

We have already received the HSR Antitrust clearance. We actually received this early. Our joint voluntary notice has been filed with CFIUS. We anticipate receiving comments by the end of January 2019, and should be closed shortly thereafter.

I will now turn the call over to Steve to provide some more details about our financial results and our quarterly performance.

Steve Capelli:

Thank you, John. My comments on our financial performance for the fiscal quarter will be in non-GAAP terms unless specified otherwise.

We delivered third quarter non-GAAP Total Company revenue of $228 million and GAAP Total Company revenue of $226 million. I will break down the revenue shortly.

Third quarter Total Company gross margin was 76%. Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of $2 million and excludes stock compensation expense of $1 million. Operating expenses of $146 million were down 3% sequentially as we continue to maintain financial discipline by optimizing our resources, becoming more efficient and improving our bottom line.

Our non-GAAP operating expenses exclude $20 million in amortization of acquired intangibles, $14 million in stock comp expense, $1 million in restructuring charges, and a benefit of $69 million related to the fair value adjustment on the debentures.

Non-GAAP operating income was $27 million and non-GAAP net income was $28 million. Non-GAAP EPS was $0.05 in the third quarter.

Our Adjusted EBITDA was $44 million this quarter excluding the non-GAAP adjustments previously mentioned. This equates to an Adjusted EBITDA margin of 19%.

I will now provide a breakdown of our revenue in the quarter. Total Software and Services revenue was $219 million, representing 96% of total revenue, and up from 85% compared to a year ago.

Total SAF revenue was $9 million and total handset device revenue was zero. SAF continues to wind down as expected.

I will now provide a further breakdown of our Software and Services revenue in the quarter. Enterprise Software accounted for 45%; BlackBerry Technology Solutions accounted for 24%, and Licensing, IP and Other accounted for 31%. Please refer to the supplemental table in the press release for the GAAP and non-GAAP details.

I am pleased to report we continue to make good progress since we implemented ASC 606 at the beginning of this fiscal year. You may recall that we reported an 18% year-over-year decline in Enterprise Software and Services revenue in Q1. Since Q1, we have achieved sequential growth in Enterprise Software and Services revenue so that the reported year-over-year decline has improved from 18% in Q1 to 10% in Q2 and 8% in Q3. We experienced the same progressive improvement if we were to account for the third quarter of last year under ASC 606 in the same way this fiscal year. On that basis, Enterprise Software and Services revenue would have experienced approximately 6% growth year-over-year this quarter.

Recurring Software and Services revenue was approximately 79% in the quarter, consistent with the definition we have previously used before implementing ASC 606, which was to exclude perpetual licenses from this calculation because they were recognized up front. However, with the implementation of ASC 606 in the first quarter of Fiscal 2019, any perpetual licenses we enter now are recognized ratably over four years. When including these perpetual licenses, recurring revenue would have been approximately 88% this quarter.

Now moving on to our balance sheet and working capital performance, total cash, cash equivalents and investments were $2.4 billion, which increased by $47 million from August 31, 2018. Our net cash position was $1.8 billion at the end of the quarter.

Moving to the cash flow statement, free cash flow before considering the impact of restructuring and legal proceedings was positive $39 million. Cash generated in operations was $62 million, and capital expenditures were $5 million.

That concludes my comments. I'll now turn the call back to John to provide our financial outlook.

John Chen:

Thank you, Steve. We are reaffirming our Fiscal year 2019 Financial Outlook which are:
Total company Software and Services billings grown to be double-digit; total Software and Services revenue annual growth of between 8% to 10%; non-GAAP EPS to be positive; and we will deliver positive free cash flow.

With that, Matthew, I would like to open this for Q&A.

Operator:

Thank you. We will now begin the question and answer session. To ask a question, you may press star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We request that you limit yourself to one question and one follow-up.

Our first question today will be from Paul Steep with Scotia Capital Markets. Your line is open.

John Chen:

Hey Paul.

Paul Steep:

Good morning.

Steve or John, can you talk a little bit about IP and Licensing business? John, you mentioned that the base was 40 to 50 but we're wondering did that step up in the quarter to a higher level, or was there anything one-time or unusual that either moved forward from Q4 into the quarter, or are we at a new higher baseline? Thank you.

John Chen:

I said 40 to 45, you added 5 million to it. Our recurring quarterly IP is about 40 to 45. It will creep up over time. Yes, there were a one-time in the quarter but I like to talk about one time because as I said earlier, we have a pipeline of licensing deals and we intend to close it. The timing of the close a lot of times are somewhat unpredictable, so we do have a good close in Q3. No, we did not come in at the expense of Q4.

Steve Capelli:

I just wanted to add to John's comment about the pipeline, which is while we can't guarantee each and every quarter will be the same, we've been pretty consistent in bringing in revenue above that 40 to 45 number.

Paul Steep:

Okay. A quick follow-up. I guess, John, can you talk a little bit about the ramp up in auto design wins, how we've seen that sort of layer on in the last couple of quarters? You gave us some nice detail about new wins, but what I'm thinking back to is wins that you've won over the last sort of 18 months, how those are starting to stack into the numbers in terms of non-IVI type wins; where you're at in terms of shipping ADAS and non-IVI type applications.

John Chen:

Okay. Happy holidays. The gestation period of design wins are long in QNX, but once you get it it's also a very long tail and quite stable on a quarterly basis. What we really are experiencing right now, the growth comes from probably something that we had won—the design projects that we won about three years ago. They are shipping those designs embedded into the auto, we're starting to see the royalty flow.

What we are winning, like today, we probably won't see it for two, three years out. It will help create that base, but so as you could see this is why it was so important to highlight the design wins so that you know that the pipelines are there and the revenue will be coming on a rather predictable way, so that's why we highlight it.

And the non—you know that we have a big push on getting beyond IVI, the infotainment, and although IVI—I just caution everybody—it's still a very, very good business. We have won some really big ones in most recently and all the calls now have IVI; it's kind of a standard now. I wouldn't think IVI is not as good as a piece of business.

Paul Steep:

Thank you.

Operator:

Our next question comes from the line of Todd Coupland from CIBC. Your line is open.

John Chen:

Hi Todd.

Todd Coupland:

Good morning. One clarification and one question, if I could.

John Chen:

Okay.

Todd Coupland:

On IP Licensing, there was some—I might have missed this so I apologize if I did. There was some discussion in the press that you had signed a licensing deal with Nokia. Was that contributing this quarter in the higher revenue?

John Chen:

Yes.

Todd Coupland:

Okay. Is that finished now?

John Chen:

Finished? I'd say Nokia are finished for the time being, yes. I don't understand the word finished. We obviously-

Todd Coupland:

What I mean is does it represent everything that you've signed with Nokia up until now?

Steve Capelli:

You know what? I don't want to go through the details in terms of the transaction itself, but I think in terms of future revenue I would not see future revenue in the short term from Nokia, correct.

John Chen:

Unless we have new licensing, new licensing agreements. Nokia and us could also work on new licensing. That's not precluded.

Todd Coupland:

Just background for the question. I think there were some things written in the press where people were thinking it was sort of a plus-$100 million opportunity and there was a few things in the quarter that would have made up to $68 million, so that was the background for the question.

John Chen:

Don't believe what is written out there.

Todd Coupland:

Yeah, yeah. Second question, I want to ask you about competition in device management. Is there any change in market share with what appears to have been a rise in Microsoft's position in some of the market research firms in Magic Quadrants that are out there in the past year? Just wondering how you're stacking up against that. We've had some investors ask this competitive question now with a little bit stronger push from Microsoft. Any color on that would be helpful.

John Chen:

No doubt Microsoft is pushing very hard, and it's actually every player in the market. To us it's a little bit different because we are concentrated on regulated industry and we're concentrated on federal and—federal meaning governments, I shouldn't say federal—governments around the world G7 and so forth. So, we've concentrated on that and we're concentrated on banking and finance where security and compliance are the number on ingredients, or number one requirements. So, we don't see as much of the lower end and the mid-range deals. Yes, you could see Microsoft are pretty aggressive in that space.

We still maintain our number two position in market share, according to IDC most recent publication. We don't expect to—obviously they're competition but we expect to at least hold that position.

Steve Capelli:

Longer term, if the acquisition of Cylance goes through, that may help us further our platform for UEM as well.

Todd Coupland:

Thanks very much.

John Chen:

Thank you.

Operator:

Our next question comes from the line of Gus Papageorgiou from Macquarie.

John Chen:

Hey Gus.

Gus Papageorgiou:

Hi.

John Chen:

What's happening with the auto market?

Gus Papageorgiou:

Well, since you're asking …

John Chen:

I was starting to ask you about that question.

Gus Papageorgiou:

I just wanted to maybe ask for a little more color on BTS. Nice growth there, up 22% year-over-year. I'm wondering if you could kind of segment IVI growth versus growth in the other software modules and maybe what we're seeing there kind of as you're looking forward? Should we kind of assume IVI is flat and what kind of growth rate would you expect for the kind of other software modules in that line of business?

John Chen:

Well, no. We talk all these design wins. All these ADAS, clusters, instrumentation, hypervisors, all those wins are good wins. They are all design wins. So, technically speaking you're not really seeing the revenue in the numbers that we're reporting today, but only to the exception of maybe some development seats and some professional services, but those are not a high number.

The IVI/non-IVI growth is pretty split, as you can see that we have nine design wins, five in infotainment, four in ADAS and cluster areas. We're making progress pretty much across the board.

Gus Papageorgiou:

So IVI is actually growing pretty well and that we shouldn't assume that it's flat, and I guess so consequently it's because you have the design wins and the seats. Once these other programs going to volume, should we see a huge—a big ramp then, and what kind of timing could we expect?

John Chen:

Yeah, the timing to expect is usually two, three years, as you know the business quite well.

Let me describe it this way. If you remember a couple of quarters ago I said three four years ago our platform is probably running about 20 million or so a quarter. Right now we're running at close to 50 million a quarter, and so—and that was a result of all the design wins three, four years ago when people keep asking me—when I told people that we have good design wins and they say, "Well, where's the beef?" Right? "Where's the revenue?" And now we're showing you the revenue of the design wins that we had in two, three years out.

So, the next step up of that you should start seeing probably not immediately, about a year out, maybe, you could start seeing the next plateau reached. That's the nature of this particular business. The good thing, again, what I want to emphasize is once you started to have revenue coming, it's the flow is not only predictable and it's ramping slightly over the lifecycle, it's a long flow. It's a long tail.

Gus Papageorgiou:

Great. Thank you very much.

John Chen:

All right. Sure.

Operator:

Our next question comes from the line of Daniel Chan with TD Securities. Your line is open.

Daniel Chan:

Hi.

John Chen:

Hi, good morning.

Steve Capelli:

Good morning.

Daniel Chan

I was just wondering if you had a chance to talk to some of your existing customers about Cylance and if you could provide us with any early feedback you're getting from them.

John Chen

Yes. So, first of all, we are really not supposed to talk about this before our Hart-Scott-Rodino was cleared, which is antitrust. So, we haven't really talked to a lot of customers in detail of how this is going to work. But we now could start doing that in some form now, but the early indication from the customers of a very high interest. They all wanted to know how it gets to the mobility and how we could use the technology into auto. We have good conversation, good discussion.

Daniel Chan

That's good to hear. I just want to switch gears to the enterprise software side. Could you talk about how you're making improvements there and that's showing up in your year-over-year. Just wonder if you guys can give us some indication of how your customers and your direct sales team is adapting to the sale of more subscription licenses than perpetual? Is that where it needs to be now or is there some more work to done?

John Chen

Well, it's an ongoing process. The sales force is still adjusting to the subscription. But, I wanted to tell everybody that we don't really have that big a sales force issue to deal with, because our compensation plans for the sales people had no difference, whether it's subscription or—because we comp people on billing. So, there's no difference on how we take revenue. So, I wouldn't be concerned about that.

Steve Capelli

Yes. The major difference, as you know, is not just perpetual to subscription, but just the fact that you can't change your quarter results in the final week of a quarter. So, what you have to do is, the rhythm has to be week-to-week—day-to-day, week-to-week as opposed to month-to-month. And so, that's a change.

John Chen

That's a change.

Steve Capelli:

Right. That's a change, but not…

John Chen

That change is we're still working that.

Steve Capelli:

Yes, it is, clearly.

Daniel Chan

But, if you're concentrating your team on billings, is it fair to say that they are more—they are more likely to get a larger or a good—chase a larger multi-year deal than a one-time perpetual license?

John Chen

No. We still like a two or three-year subscription deal. That's what we're asking every—people to do.

Steve Capelli:

And perpetual license would always be higher dollar value. So, you know what I'm getting at, Dan?

Daniel Chan

Yes. But, my thinking is, after the two to three years are done from a subscription license, then they have an opportunity to renew that. That's better for the sales guys long-term. Isn't it?

John Chen

Correct. And better for the Company, which is why we chose that path.

Daniel Chan

Okay, thank you.

Operator:

Our next question comes from the line of Steven Fox with Cross Research. Your line is open.

Steven Fox

Hi, good morning. Couple of questions on the relationship with Aptiv which you highlighted with these five infotainment wins in Asia. My understanding is you've had a partnership on the autonomous driving side for the better part of the year, but this is infotainment win. So, I'm just curious, if the two are going hand-in-hand. And then when you talk about winning business in Asia with Aptiv, is that multiple OEMs, certain types of programs, can you just sort of expand on that as well? Thanks.

John Chen

Yes. That particular one is—they're using us as their platform. So, it will eventually map into multiple customers. They obviously have customers in mind already. So, we do have relationship with them on autonomous platform. But we also have a relationship with them, as you can see, on connected cars.

Steven Fox

And the win in Asia was for a platform that's for a single OEM, or is it multiple OEMs?

John Chen

In this particular instance, it's one single OEM.

Steven Fox

Okay, great. And then, just broadly speaking, when you think about working with some of the Tier 1s, is there certain criteria you're looking at in terms of how it most benefits you guys or is there a number of Tier 1s that you can find attractive, no matter what? Thanks.

John Chen:

We like to work with every Tier 1. Every Tier 1, every integrator. So, I don’t think we have established profile of a Tier 1. Obviously, they need to have a good enough technology background and channel, because we don’t want them to misuse our technology. Sometimes, some Tier 1s require our help to integrate the technology and that’s when our professional services work comes in.

Steven Fox

Great. Thank you so much.

Operator:

Our next question comes from the line of Paul Treiber with RBC Capital Markets. Your line is open.

Paul Treiber:

Thanks so much and good morning. Great. My line is working today. Could you clarify on the billings growth, I think, I heard earlier that it was double-digit year-to-date, but then was just an increase year-over-year? Is that right? And then, if so, for this quarter, what led to the change?

John Chen:

To the change.

Steve Capelli:

Yes. For the quarter as a total company, our billings growth was single digit. However, we still stay on track for double-digit for the year for the Company. And we're really dealing with I think more or less the law of small numbers as opposed to anything significant in the market.

Paul Treiber:

Okay. So, it’s just the quarterly ebbs and flows, and you didn't see any new macro changes or anything in the quarter that would give you any reason to be concerned?

John Chen:

No, not yet.

Paul Treiber:

And then secondly, similar to the enterprise software business, a couple of months ago you announced a partnership with Check Point. Could you provide an update there in terms of how that's rolling out? And then, also can you explain how that partnership would also fit into, like the BlackBerry, post Cylance?

John Chen:

Okay. That's a good question. So, at that time, we have—we announced actually three—not at the same time, but three MTD partners, the mobile threat detection partners, and Check Point is one of them. The other two are Lookout and Zimperium. From what I could check in the market, Lookout and Check Point are quite active with us. At Lookout, we have won a number of deals and Check Point, we have quite a bit of pipelines there. So, things are looking good.

But, as to the after Cylance integrate, Cylance, of course we're going to put over the endpoint protection prediction technology, and hopefully that we could work with Lookout and Zimperium and Check Point on extending what they have to offer. So, I think we could, because it's a similar market but slightly different technology.

Paul Treiber:

Okay, I see. Just lastly on ESS, enterprise software, how do we think about the seasonality of revenue going into Q4 in light of 606?

Steve Capelli:

Well, Q4 was our biggest perpetual license quarter last year. So, you have a little bit of a change there. And I would still expect a sequential growth from Q3. I won't tell you whether it'll be the same rate as we've done in Q1 to Q2 and Q2 and Q3 but I will still expect an uptick.

John Chen:

Yes. We'll see sequential growth in revenue from Q3. We also will see the 606 damping effect also goes down as we continue to make progress. Like Steve mentioned earlier, we went from minus 18 year-over-year, to minus 10, to minus 8. It should be better than that.

Paul Treiber:

And just so I fully understand, even with 606, there's still some license revenue that you would take on upfront basis?

Steve Capelli:

Yes. So, how it works is as follows. As long as we have delivered all of the services at the time, we can take the revenue. Let me give you an example. So, you could have a situation where a singular product is being sold as opposed to the suite. And obviously in that space we have a product Secusmart, which is different functionality than our normal UEM. So, we do have some components that will have the immediacy of revenue.

John Chen:

But that's not high. That's not high.

Steve Capelli:

And you can tell it's not high because when we factor in the recurring revenue at the high 80 rate, small number.

John Chen:

Yes, those are small numbers. I mean, it is true, like Steve said that those conditions does exist but is not high.

Paul Treiber:

(Inaudible).

Operator:

Our next question comes from Trip Chowdhry with Global Equity Research. Your line is open.

John Chen:

Hey, Trip.

Trip Chowdhry:

Thank you. Again, very exciting numbers here. Two questions on Cylance. We were at Amazon AWS conference. I can tell you the acquisition you have made is fundamentally a game changer for the whole industry. I'm just wondering, currently, based on your comments, you seem to be focused on making sure Cylance integrates and works well with your existing products. The impression I got from talking to various people at the AWS conference was, Cylance itself has a multi-billion dollar opportunity in competitive replacements of old generation security products in the industry. Because this—the company you acquired literally is a game-changer because machine learning algorithms, precision is about 80%, probably the highest in the industry. I was wondering, do you think it will make sense to just keep Cylance segmental revenue separate, so that we can monitor the impact Cylance is having under BlackBerry?

John Chen:

Very good, it's a great question. First of all, I think you know me for a very long time. I'm trying to be a little bit more conservative without having seen an entire integration plan. No doubt Cylance is itself is a high growth entity in their own business and no doubt that they are the standout on the EPP protection within AI technology. And they are highly competitive against replacing the old signature-based technology, which are Symantec and McAfee. And so those are very exciting opportunities. I'm not—I'm still pursuing those opportunities obviously.

What I wanted to explain to the shareholder is not something that we added to the number of things we are already doing; it's complementary to what we're doing. And in addition to the opportunity they could explore in the whole cybersecurity world, which is obviously, multi, multi, multi-billion dollars marketplace. So, we have not—I have not decided on the organization going forward. We will keep them as a separate business unit for sure. That has been decided. And so, once we decided what the organization going forward, we will then adjust for the reporting of that. And I could hear your point and we'll most likely—can't guarantee you, most likely will keep Cylance reporting as a separate line.

Trip Chowdhry:

Beautiful. Congratulations on exceptional execution, and happy holidays.

John Chen:

Thank you. Happy holidays to you.

Operator:

There are no further questions. I'll now pass it over to John.

John Chen:

Okay, good. Thank you. Thank you, Matthew. Okay. Thank you very much for everybody's time today. I'd like to wish you all a very happy season—a happy holiday season. And we look forward to seeing you in Vegas, Las Vegas for the CES in January—early January. And I also want to remind everybody, don't forget to put on your calendar to come talk to us on our Analyst Day in April at San Ramon, California where the weather is a lot better than Toronto. Thank you all very much and have a great holiday. Bye.

Operator:

This concludes today's call. Thank you for your participation. And you may now disconnect.