



**BlackBerry Limited**

**Fiscal Year 2020 First Quarter Results**

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## C O R P O R A T E P A R T I C I P A N T S

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**John Chen**, *Executive Chairman and Chief Executive Officer*

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## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Daniel Chan**, *TD Securities*

**Steven Fox**, *Cross Research*

**Mike Walkley**, *Canaccord Genuity*

**Paul Steep**, *Scotia Capital*

**James Faucette**, *Morgan Stanley*

**Paul Treiber**, *RBC Capital Markets*

**Todd Coupland**, *CIBC*

## P R E S E N T A T I O N

### **Operator:**

Good morning and welcome to the BlackBerry Fiscal Year 2020 First Quarter Results Conference Call. My name is Lisa and I will be your conference moderator for today's call. During the presentation, all participants 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, Lisa. Welcome to the BlackBerry Fiscal Year 2020 First Quarter Results Conference Call. With me on the call today are Executive Chairman and Chief Executive Officer John Chen, and Chief Financial 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 will 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. Good morning everybody. BlackBerry is off to a good start in Fiscal 2020. Our Total Company Revenue grew 23% year-over-year. Total Company Revenue growth was driven by a 35% increase year-over-year in Total Software and Services Revenue.

To break it down further, on an organic basis, Total Software and Services Revenue grew 8% year-over-year, and in addition, BlackBerry Cylance Software and Services Revenue grew 31% year-over-year. I am pleased to report that our integration of BlackBerry Cylance is ahead of schedule. These activities result in revenue growth and help us in profitability in the first quarter of Fiscal 2020.

We are executing upon the strategic and operation goal for Fiscal 2020 that we shared with you last quarter. Our execution gives us confidence to reaffirm our Fiscal 2020 financial outlook. Now, let me provide some highlights for the first fiscal quarter. Sorry, I'm losing my voice a little bit, so I apologize.

Total Company Revenue was \$267 million; Total Software and Services Revenue was \$260 million which is a new record quarterly high. Total Software and Services Billings grew a strong double-digit percentage year-over-year. Total Company Gross Margin came in at 75%; Total Company Operating Income was \$5 million, the resulting operating margin was 2%; the Company EPS was \$0.01. Total ending cash and investments were \$935 million.

Next, I will cover some of our significant highlights in each of our software businesses.

Let me start with Cylance. Revenue came in at \$51 million, which grew 31% year-over-year. This was driven by an approximate 30% year-over-year increase in the number of new active subscription customers. This new customer growth in the quarter was broad-based across various industries led by Professional Services sector, manufacturing as well as government.

Annual recurring revenue, which is an indicator of the business momentum, was approximately \$172 million and up 30% year-over-year in the first quarter of Fiscal 2020.

Another metric, dollar-based net retention rate, which is an indicator of customer retention expansion, continues to be greater than 100%.

BlackBerry Cylance executed well during the integration process, which I mentioned earlier is tracking ahead of schedule. Here are some of the highlights and proof points. We have completed the back office function and personnel integration worldwide. The integration for the majority of the system and tools that have been used will be finished by the end of the second fiscal quarter, which is in a couple of months.

Both the Sales and R&D teams are working well together. We are seeing very promising interactions by our Sales team within the BlackBerry key account base. The R&D team is on track to integrate the Cylance technology into UEM. This integrated product will be available by next spring with the combination of the QNX and Cylance technologies thereafter. Also, the new products that BlackBerry Cylance announced earlier this year, namely Cocoon, Guard and Persona, are on track to be released throughout our fiscal year.

Let me briefly discuss our Licensing business. Revenue grew 14% year-over-year with some IP licensing business occurring earlier in Fiscal 2020 than we expected. We remain focused on entering into new IP licensing arrangements that generates recurring revenue.

Moving on to the IoT business, Total IoT Revenue grew 5% year-over-year. As shared with you last quarter, the BlackBerry Technology Solutions and the Enterprise Software and Services Group will combine to align our financial reporting with the way we manage the Company today, which is namely under executive Bryan Palma. To assist you with the year-over-year comparison though, BTS Revenue grew 16% and ESS Revenue growth was slightly up. During the quarter we made significant change to the sales leadership team in ESS which are now completed.

Let me walk through some highlights of BTS. BlackBerry QNX continued to drive revenue growth for BTS. BlackBerry QNX Licenses, Services and Royalty Revenue all grew year-over-year as we continue to be selected for designs by our customers in both Automotive and general embedded markets. In the quarter, we had a total of 17 design wins of which 13 were in Automotive and 4 were in general embedded markets. Among the Automotive wins, 11 were in applications like digital cockpits and digital instrument cluster; 2 of the 13 were infotainment wins.

One of our wins in the quarter was with LG Electronics, growing innovative partners to Automotive OEMs. BlackBerry QNX will be the preferred choice of all next generation automotive design that LG provides to multiple OEMs. These designs include infotainment systems, digital instrument cluster, digital consolidated cockpits as well as telematics systems. What these types of partnerships will bring to BlackBerry is the opportunity to reach new OEMs and increase our content per vehicle, thereby yielding a higher average revenue per car to BlackBerry.

Looking ahead, BTS is expected to have a very busy year of exciting new product launches. There are two main ones: the safety-certified Hypervisor, which will start shipping in November 2019, November of

this year, and the Integrated Digital Cockpit, available in beta starting at the same time, which is November 2019. I would like to highlight a little about the Digital Cockpit.

The BlackBerry QNX Platform for Digital Cockpits integrates a number of our technologies, namely BlackBerry Digital Instrument Cluster, Infotainment as well as Hypervisor technology, all managed in real-time for the safety and security requirements and they will come in as one platform, one system. Our platform also enables Android and Linux operating systems in a secure manner. Of course, we continue to support Android Auto as well as Apple CarPlay. This creates yet another opportunity for BlackBerry to have more content in the vehicle, leading to higher average revenue per car.

Based on the strong growth we have experienced in both infotainment and non-infotainment applications over the last several years, BlackBerry QNX is now embedded in over 150 million cars, up from the 120 million cars that we reported last June. This statistic has been validated by Strategy Analytics, an independent third party.

Before I move on to ESS, let me briefly talk about our Radar business. In the quarter, we added 20 new customers including one of the top three U.S. retailers specializing in home improvement. I apologize we did not have the permission to name the individual customer. The customer placed a 2,500 units order. Our Radar business is gaining more traction in the market. We are seeing increased activity, both directly and through the channels with reference coming from many existing customers and partners.

Now, let me walk through ESS, and I'd like to make three key highlights. Let me have a sip of water first. Sorry.

First, we are executing upon the strategic priorities for ESS we shared at the beginning of the fiscal year. We remain strong with customers in regulated industries. This group of customers represent a healthy majority of our revenue generated in ESS. We increased revenue year-over-year in this customer segment, added new customer such as the SMBC Nikko Securities, as well as government agencies in Canada, Germany and UAE.

Our Government Mobility Suite, which is based on UEM has achieved a FedRAMP rating status. This is a key milestone because our cloud-based solutions have demonstrated it has met the core security and process requirements of the United States government. Also, we are now listed on the FedRAMP marketplace, highlighting the availability of our solutions to the federal community. We anticipate our product being fully authorized and helping increase our market share within the U.S. government.

We are also seeing returns in our go-to-market investment in AtHoc, our crisis communication system, and SecuSmart, our secure voice solution. In the quarter, AtHoc won a number of new customers, even outside of the United States federal government. A key win in the quarter that we like to celebrate was with United Nations. We are also seeing new demand for SecuSmart, our secure voice capability, which historically has been a product for government agencies, is now seeing demand from multinational companies that do business in politically sensitive countries. We have over 15 pilots underway across both government and nongovernment sectors today.

Second, we are investing in new products. We will launch our first security solution for Spark, our secure communication platform for the IoT. It will be one month ahead of our original schedule. This will be unveiled at the Black Hat Conference in August. It addresses two security concepts that are currently top of mind of customers. These two are the continuous authentication and zero trust. As noted earlier, we are on track to integrate BlackBerry Cylance into UEM. This integration will add mobile threat detection capabilities using AI onto our endpoint management solution. This will be a very differentiated product in the endpoint market.

Current and prospective customers tell us they are very interested in these products and they are waiting for these releases. Our innovation will allow us to be even more competitive in the market and drive future revenue growth.

Third, we are investing in our organization, adding sales reps and channel coverages, while making necessary operational changes to promote future growth.

After reviewing the ESS pipeline for Fiscal 2020, and noting the business is seasonally weighted towards the second half of the fiscal year, we anticipate quarterly sequential revenue growth in this category throughout the fiscal year.

With that, I would like to turn the call to Steve to provide some details about our financial performance.

**Steve Capelli:**

Thank you, John. Note, my comments on our financial performance for the fiscal quarter will be in non-GAAP terms unless specified otherwise. Please refer to the supplemental table in the press release for the GAAP and non-GAAP details.

We delivered first quarter non-GAAP Total Company Revenue of \$267 million and GAAP Total Company Revenue of \$247 million. I will break down revenue shortly.

First quarter Total Company Gross Margin was 75%. Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of \$20 million and excludes stock compensation expense of \$1 million and restructuring costs of \$1 million. Operating expenses of \$194 million were up sequentially by \$42 million, primarily due to the inclusion of BlackBerry Cylance for a full fiscal quarter.

Our non-GAAP operating expenses exclude \$35 million in amortization of acquired intangibles, \$16 million in stock comp expense, \$5 million for software deferred commissions expense acquired, \$1 million in acquisition and integration costs, and a benefit of \$28 million related to the fair value adjustment on the convertible debenture.

Non-GAAP operating income was \$5 million and non-GAAP net income was \$5 million. Non-GAAP EPS was \$0.01 in the quarter.

Our Adjusted EBITDA was \$23 million this quarter excluding the non-GAAP adjustments previously mentioned. This equates to an Adjusted EBITDA margin of 9%.

I will now provide a breakdown of our revenue in the quarter. Total Software and Services Revenue was \$260 million, representing 97% of Total Revenue. Other Revenue is now comprised of Service Access Fees, commonly known as SAF. Service Access Fees were \$7 million, down from \$16 million or 56% year-over-year. Total handset device revenue was zero, down from \$8 million or 100% year-over-year. Both Service Access Fees and handset device revenue were expected to decline given the continued wind down of these legacy businesses.

I will now provide a further breakdown of our Software and Services Revenue in the quarter. The IoT business accounted for 53%; the BlackBerry Cylance business accounted for 20%, and the Licensing business accounted for 27%. Recurring Software and Services Revenue including BlackBerry Cylance

was above 90% in the quarter. Based on our current assumptions, we model Recurring Revenue to be within the range of 85% to 90% throughout the remainder of Fiscal 2020.

Now moving on to our balance sheet and cash flow performance. Total cash, cash equivalents and investments were \$935 million, which decreased by \$70 million from February 28, 2019, due to a combination of funding BlackBerry Cylance's operations and the payment of Fiscal 2019 bonuses during the quarter. Our net cash position was \$330 million at the end of the quarter.

Free cash flow before considering the impact of acquisition and integration expenses, restructuring costs and legal proceedings was negative \$49 million. Cash used in operations was \$64 million, and capital expenditures were \$2 million.

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

**John Chen:**

Thank you, Steve. I will provide our financial outlook before we do our Q&A session. As I said earlier, we reaffirm our financial outlook for the Fiscal '20 for the Total Company year-over-year. Year-over-year revenue growth will come in between 23% to 27% driven by double-digit percentage increase in billings. Revenue growth, according to our model, it will break down as follows.

IoT year-over-year revenue growth will come in between 12% to 16%; BlackBerry Cylance year-over-year growth is expected to be in the range of 25% to 30%; Licensing year-over-year will decline by about 5%; Service Access Fee to be between \$10 million and \$20 million of revenue for the total year of Fiscal Year '20.

We also reaffirm Total Company profitability for Fiscal 2020.

I will now open the all for Q&A. Operator, is that Lisa? Lisa, please proceed with that.

**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 comes from Daniel Chan from TD Securities. Your line is open.

**Daniel Chan:**

Hi. Good morning.

**John Chen:**

Good morning.

**Daniel Chan:**

John, any early surprises from the Cylance integration, either positive or negative, that you hadn't anticipated seven months ago?

**John Chen:**

The positive—there are a lot of good positive things. The most positive thing is the technology side. The team works extremely well together. We put our integration plan in putting the technology together wonderfully, putting AI capability onto UEM endpoints to differentiate ourselves. That goes very well; progress made. We set up the team on both ends and things are just moving along very nicely. As I said earlier in my script, we expect that to be done within this fiscal year. Will be done meaning to be released as a product, so that's reasonably record time.

The next team that has launched is to look into putting Cylance AI technology onto the Automotive platform on the QNX. That is going on very well, too. Lots of ideas exchanged. A little behind in terms of launching that, partly because QNX have a pretty full schedule for the two products that I mentioned earlier, and that will come shortly after.

I think on the technological side it's very, very positive.

The sales, we're starting slow. As I said a couple of quarters ago, BlackBerry is a mobile first company, so all our product runs are Mobility. Cylance is more for focus on PC and routers and servers in fixed point assets, so it's important that we align our product roadmap to cover end-to-end, from Mobile all the way to server and routers, and when we do that—which is, again, within a year that we are talking about—then I think there will be a lot more synergies kicked in from the sales side, on the revenue side.

**Daniel Chan:**

That sounds good. I'm also wondering if you had any thoughts on what you think might be weighing on the stock price. We've seen the shares underperform the overall market and I think the CrowdStrike IPO has some positive readthrough for you. Does anything come up in your discussions that may explain it?

**John Chen:**

Good question. We obviously pay attention to the stock price, especially it seems it is weaker than the market, and in discussing with our shareholders I think their concerns is—one concern we eliminated by the CrowdStrike IPO. Their concern is, A, has BlackBerry overpaid Cylance? Paid too much for Cylance? And B, could BlackBerry really integrate the business? This is a good opportunity, and thanks for asking the question, number one, I think this is a completely undervalued asset. If you look at what we paid for Cylance, you will see that it will be slightly under 7 times, if you follow the math from the bar up to our 25% to 30% revenue growth. You will see that it will probably come in at 6.6 or 6.7, in that range, and while I don't know where CrowdStrike is today, but at one point in time, not too distant in the future, they're trading 40 times revenue. So, I think this is great news for BlackBerry. That's number one.

Integration, this is one of the reasons why we spend a little bit more time on our script in covering integration, the backhaul this is all covered. Our system will be covered by the end of this quarter, which is in the next two months. We started the engineering thing we talk about, and we also started the synergies between the market, calling on common customers jointly together, and so all calling on the big banks and the governments that BlackBerry has and bring Cylance into that.

Cylance has a good SMB channel. We try to get BlackBerry products, the traditional BlackBerry products through the Cylance channel.



It will all help. I think the integration is well in hand and I wouldn't be overly concerned about it.

**Daniel Chan:**

Great. Thank you very much.

**John Chen:**

Sure. Thanks.

**Operator:**

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

**John Chen:**

Good morning.

**Steven Fox:**

Hi. Good morning, guys. First off John, I was wondering. A little more detail on Cylance, so you mentioned for example 100%-plus net retention rate. Can you provide a little bit more color on directionally where that could go and how that might compare to some others out there in similar business models? Also, given the first quarter sales growth, I'm curious why the full year for Cylance can't be a little bit better than you originally thought? Then I had a follow-up.

**John Chen:**

It's easy to answer your first question, the retention rate. It looks like, speaking to Cylance customers, once they install the product, they really like it and they buy more, and so this is why the retention rate, dollar retention rate is up.

There are really two comps out there Carbon Black and CrowdStrike, and I would say from what I understand—and again, my understanding of this is an early knowledge base, but from what I understand comparing those two, now that they are public we will see the numbers, we are kind of in between. We're better—it seems like we're doing better than Carbon Black and we're not doing as well as CrowdStrike, looking at that from a number point of view. Now, how long could CrowdStrike sustain that kind of craziness number is for you guys to decide. That's your job, not mine.

But I feel very good about the Company. When I look at it, it's really is the customer staying with you, and are they buying more? The answer to both of those questions, both talking to them and looking at the numbers, is affirmative, so those are good things.

We typically are a little bit more conservative and so you could think about us between 25% to 30%; we definitely are focused more on the high end of that range, and if we could do better, we'll report better.

**Steven Fox:**

Okay, great. Then just in terms of the sales force reorganization, it seems like you had a little bit of a drag on Q1 sales. Was that about as expected or was there a little bit difference in terms of how it impacted your business during the quarter and where—is it done, etc. looking ahead? Thanks.

**John Chen:**

Yeah. Thanks, Steve. Yes, it's done. It's completed. We made some management changes. I think it's necessary for the business given the phase we are in, and our phase that we are in is the growth, it's more of a growth phase. We brought Bryan in and he's very focused on enterprise and building an enterprise sales force. He brought in a couple of very talented executives who have been in the business for a long time, both in sales and in field marketing, and then we have promoted some of our internal people to run bigger theatre who have proven that they could grow.

The good news is these were all planned as Bryan came in, and it's all done right now. We're now executing; there's no more major changes that we anticipate.

**Steven Fox:**

Great. Thank you so much.

**John Chen:**

Sure.

**Operator:**

Our next question comes from the line of Mike Walkley from Canaccord Genuity. Your line is open.

**John Chen:**

Hi there.

**Mike Walkley:**

Great, thank you. Just on the QNX portion of the business expected to grow at the higher end of that 12% to 16% growth, can you talk about the growth in the royalty piece of the business? I imagine you have some Pro Services ramping ahead of new projects. Also, with your two new products coming to market, can you help us think about what that could do in terms of dollar content per vehicle once those platforms end up in automobiles? Thank you.

**John Chen:**

Yes. Actually, the growth is rather even between Royalty, Professional Services because the gestation period for revenue are so long and sticky. Long is one problem and sticky is the one benefit. Because they are so long and sticky you don't really get all of a sudden a big chunk of Professional Services. Now, with LG win we might see some uptick in Pro Serv in the coming quarters, but that's just my own speculation. It was not a confirmed fact yet. But we see uptick in all three segments: Development seats, that usually comes with when you have a design win, and Professional Services, that depends a little bit about the customer. Some of the customers, especially like the Tier 1 for example, they already have a lot of engineering resources, so they know what they want to do with the technology and they are familiar with the technology. We don't seem to get a lot of Pro Serv from them. But if it's more than OEM then we

could—because all the OEMs are ramping up their technological skill set, we seem to have a lot more over that. Then, of course, the Royalty will come later.

I don't really see any major uptick in any one of the three buckets, only to tell you that in this past quarter compared to a year ago all three of those revenue grew.

Regarding on the ARPU, because we got into a lot more on new cycle products like the Digital Cockpit and the clusters, the ARPU is at least measurably higher per car. Now, but I have to be—I have to warn the fact that the whole, a lot of our current base Royalty are still coming from the infotainment wins that we have done in the last three to five years, and so this is not a sudden sea change of ARPU; it will be a gradual change of ARPU, a gradual uptick of ARPU.

So, we feel good about our business. You're right, we expect it to be on the high end. This particular quarter, they came in on the high end at 16%.

**Mike Walkley:**

Great, thanks. Just a follow-up question. Just on the Licensing business, with the strong start to the year relative to your full year guidance, should we just kind of think about that kind of flattish in the mid 60s the rest of the year, or do you expect maybe a seasonal close to the year strong like last year? Just trying to think about the cadence of how you're that down 5% for the year.

**Steve Capelli:**

Yes, I'd like to answer that one. I'm pretty close to it. I believe the second half will be stronger than the first half. You might have a similar number as Q1 or slightly down from that number in Q2, but I expect that Q3 and Q4 the combined number will be greater than the first half.

**Mike Walkley:**

Great, thank you.

**Steve Capelli:**

And that we will make the estimates that we've already guided you to.

**John Chen:**

It's easy for him to make the estimate when you go year-over-year minus 5%, but Steve is very close to this part of the business. That is true.

**Mike Walkley:**

Great. Thank you.

**John Chen:**

Sure, thanks.

**Operator:**

Our next question comes from the line of Paul Steep from Scotia Capital. Your line is open.

**John Chen:**

Hi Paul.

**Paul Steep:**

Great, thanks. Good morning. John, could you talk a little bit—you put the announcement out just before yesterday's AGM about the total installed base of QNX cars. You've given us little hints around it today. Maybe talk about that net 30 million in vehicles shipped growth in terms of where it generally was and sort of the uptick in I guess we'd call it non-infotainment design wins, how that's starting to ramp into the base? Then I've got one quick clarification. Thanks.

**John Chen:**

Yes. We are seeing—let's back up a second. I think that in the last few years the design wins are starting to see a lot of them in Asia, and so when I look at the detail of the 150 million breakdown, I am seeing an uptick in the Asian market. Asia is now represent about 37%. They might be manufactured in Asia and being driven somewhere in another part of the world; we only count the manufacturer source. So, that just tells you a little bit about the auto market over in Asia is very healthy and is growing. Europe continues to be a big sector and obviously U.S.

We are, on the dollar basis, because of these design wins, recent design wins in the last three to five years, are a little bit higher ARPU than the infotainment, so we continue to see that uptick of revenue, and it's now also biased towards Asia and Europe.

**Paul Steep:**

Great, that's helpful. Just on the ESS sales, realignment, just to be clear, is this centered more around the UEM business? I am assuming rightly or wrongly that this isn't touching AtHoc or SecuSmart and that those businesses are more or less still executing.

Then, you just talked about leadership going through. Have all the reps that are going to be changed out been changed out? I guess the question is around your confidence in seeing that uptick in the rest of the year. We know that usually new people do bring some other change with them sometimes. Thanks.

**John Chen:**

Yes, that's a good question. It's actually getting UEM ready for Spark, we're making this change. Yes, AtHoc and SecuSmart, and particularly AtHoc, continue to perform well. That is not an issue for us.

What we need to do with the new team is to make sure that they do—they get ready for Spark, they continue the UEM regulated industry business, and they are more focused on adding other verticals to it so that we are not going back—I mean we love our customers, don't get me wrong—but we are not going back to the same customers over and over and over again and we need to have a much newer source of revenue, much broader reach through the channel.

By the way, the management change are mostly management change. We don't have any intention to change over our reps. That's not the point. The new management people will bring in new reps, but it's in addition. We're not thinking about wholesale changing our reps.

**Christopher Lee:**

Next question.

**John Chen:**

Yes, next question, please.

**Operator:**

Our next question comes from the line of James Faucette from Morgan Stanley. Your line is open

**John Chen:**

Hi.

**James Faucette:**

Great. Hey, good morning.

**John Chen:**

Good morning.

**James Faucette:**

Thanks a lot for taking my questions. I just wanted to ask a couple of follow-up questions on Cylance. First, your growth rates that you're anticipating for the rest of the year would imply that you expect a little bit of incremental deceleration from maybe what the business was doing before. Just want to get a sense of where you think those growth rates will bottom out. Then, more broadly, clearly you feel like you've got a pretty good deal on the Cylance acquisition, especially compared to some of the other assets, the way they are being valued. What do you think are the key things that you're focused on operationally that will allow the market to assign a better value to Cylance inside of BlackBerry than what you were able to pay? Thanks a lot.

**John Chen:**

That's interesting. First question, James, you always have a way to turn a positive situation into a little bit of a negative spin. I don't anticipate (inaudible) ...

**James Faucette:**

I'm just asking where you think growth rates are going to bottom out (inaudible).

**John Chen:**

I don't anticipate deceleration. They're doing well. The team that runs the sales over at Cylance, a very highly qualified gentleman, been with RSA for a very long time, and he has a really good set of plans to expand with the help of the BlackBerry team and the BlackBerry base. I really—I mean the most important thing is to get the joint product done. When you get the joint product done then both teams

have a lot more things to sell in the bag. I don't—I think for this year, because it will take us a year to get the integrated product with UEM and AI, I believe that for this year I'm being modest in about 25% to 30%. Remember, the key word that I use, and I've made the guidance, was this is our model. That means that I'll miss some and I'll beat some. If you want me to bet money on which one I'll beat and which one I'll miss, I'm probably going to bet money on beating Cylance number. That would be my guess. I mean, I don't know what my colleagues think, but judging from the momentum and the differentiation out there, I feel pretty good about that. And the market, as you know very well, is quite robust itself.

As far as an operational concern, this is why I kept Cylance separate and report directly to me, because as much as I like the integration and the synergy, I also want Cylance to continue their expansion in the channel business. They have literally over 1,000 channel partners and they are mostly focused on SMB, and so—and I wanted that business. They started to make some inroads on the consumer side of the equation by working with OEMs like laptop OEMs and desktop OEMs, and I wanted to continue that too.

You will then see the number, like we showed today, a separate number, and I hope through that it gives visibility to the shareholders of the business and how well the business is doing. I also adopted the industry standards metrics, as I said, ARR and the retention rate and all that good stuff, to make sure that people know that although this is part of BlackBerry, although there is a lot of synergy between the BlackBerry business and Cylance business, especially in products, technology and maybe go-to-market, they are also going to go after the traditional business and to continue that growth. I hope that through that visibility for our shareholders I get valuation. I probably need help from somebody like yourself to highlight that.

**John Faucette:**

Thanks very much, John.

**John Chen:**

Sure.

**Operator:**

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

**John Chen:**

Hey Paul.

**Paul Treiber:**

Thanks very much. Good morning. In regards to ESS, I think last quarter there was a couple of large term license deals that were delayed. Could you—did any of those close this quarter, or do you expect them to close in coming quarters?

**John Chen:**

I think the majority of them all closed.

**Paul Treiber:**

Okay, thank you. The second question is on automotive, and this is where you've been very successful in the design wins side but then the question is really around the timeframe for design wins converting to revenue. Have you seen any change in that timeframe? Is there any way you can estimate it? Do you look at backlog for that business and how has that been tracking?

**John Chen:**

Good question. Some of our people, our QNX management always look at the backlog. The part of the QNX business that's good, it's quite predictable because of that backlog. The gestation period unfortunately doesn't really change a lot. We would always like it to be shorter. The reason it doesn't change a lot, it takes—once we have the design wins, the design wins usually, by the way, takes anywhere from six months to a year, and once you get the design wins, you get some early revenue from maybe Pro Serv we talk about, and definitely Developer seats, but those are in six figures typically. We talk about a couple hundred thousand dollars here and there. Then the designs get kicked in.

I am, for example, intimately kind of working on—well informed on a couple of the OEMs, especially Jaguar, the Jaguar Land Rover and I speak to the CEO on a very regular basis to make sure that we get the new car ready and go. I've been talking to him for the last couple of years. We have products that are about to come out probably in a year or two. You could see that the design period of themselves is roughly about a three-year cycle. Then once that happens, then they start production ship, and then usually that production ship is two or three years. If they continue the family, like the Daimler group does when they do a family, they don't change the family for at least 10 years. So, you could see the tail is quite long. Then a lot of our currently Royalty is enjoying that tail, and the margins of course is very high.

**Paul Treiber:**

Then when you look at the BTS business, the growth rate of that business, where do you think we are in the S curve? Do you think—I'll just leave it at that. Where do you think we are in the S curve?

**John Chen:**

Early. We expect growth to continue and to increase. We probably will not see a step function, but we will see a trend up. We are in the mid teens at this point, and if you remember, last year we had a tremendously good year. We grew 25% year-over-year. We expect it to be 16% or above this year, but you should expect double-digit growth.

**Paul Treiber:**

Okay, thank you.

**John Chen:**

That's percentage, I mean.

**Operator:**

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

**John Chen:**

Hi.

**Todd Coupland:**

Good morning, John.

**John Chen:**

Good morning.

**Todd Coupland:**

I'm not piling on on this question, but I do wonder about it and certainly a lot of investors ask about it. There's an obvious difference in growth rate between Cylance and CrowdStrike. You're more or less 30% and they're plus 60% this year, more or less. I'm just wondering, when you look at that and then relative to the market, how do you think about the differences and how should we be thinking about that? Thanks a lot.

**John Chen:**

It's a great question. We, of course, will not be satisfied until we get parity or better than CrowdStrike. Now, CrowdStrike does—by the way, I'm new to this industry, so just take it with a grain of salt. When people get ready for their IPO—you all are even more experienced in this area—you know that they're spending an enormous amount of money, they are losing an enormous amount of money, they are spending an enormous amount of cash to get to this coming out party, and so the sustainability of their growth rate is what I am very interested in. I mean I wish they could sustain it; that means the market is there and we could then do better in our own growth rate, okay? But I'm a little bit doubtful. Those numbers are very, very high.

Now, we've been in business, our retention rates are great. As I said, between the people buying from us and buying more, we have over 100% of revenue. At 100%, sorry. You could sense that our customers are loyal to us and they are buying more, and they are using more. We will get more new customers because we have 30% net new customers for the quarter.

We will obviously try to do better than 30% and get to a market rate that both CrowdStrike and us could go and enjoy. We are, however, I want to point out doing better than our other competitor in terms of growth rate and—I don't know, they don't do retention rate, I don't think. They don't announce that and so I can't tell you whether they have the same retention advantage.

But, anyway, I wouldn't take a—I think we should take it as a little bit of a longer game.

**Todd Coupland:**

Great. Thanks for the colour.

**John Chen:**

Sure. Okay.

**Operator:**

I would now like to turn the call back to John Chen for closing remarks.



**John Chen:**

Lisa, thank you.

As I said earlier at the start of the call, gang, BlackBerry is off to a pretty good start here in 2020. We talked a lot about Cylance this year on this call. It is a strategic asset, not because it is just a solid business that is growing and doing well, but we have overwhelming positive response from our customers and partners, and we are very pleased with the technology, being able to help out and differentiate our existing technology in UEM and QNX.

We have a lot of products coming out this year and although it may not fully affect this year's result, but it will help set us up good for next year in terms of growth. I think we have over 30 products across the entire company scheduled to launch this year.

We have two main operation priorities. One is to step up our investment to sustain that future growth. We are, some of us are already working on the next fiscal year; only Bryan works in the current fiscal year. Bryan is probably on the call and that puts a little bit more pressure on him. And we will focus on integrating Cylance which will yield a much longer-term shareholder value, and we're off to a really good start of integration, products, people, so I'm very pleased with that.

I thank you very much for your time today. I hope to talk to you guys soon. Have a great day.

**Operator:**

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