BlackBerry Limited

First Quarter Fiscal Year 2024 Results Conference Call

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Paul Treiber, *RBC Capital Markets*

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PRESENTATION

Operator

Good afternoon and welcome to the BlackBerry First Quarter Fiscal Year 2024 Results Conference Call. My name is Andrea, 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. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn today's call over to Mr. Tim Foote, Vice President of BlackBerry Investor Relations. Sir, please go ahead.

Tim Foote

Thank you, Andrea. Good afternoon and welcome to BlackBerry's First Quarter 2024 Earnings Conference Call. With me on the call today are Executive Chair and Chief Executive Officer, John Chen; and Chief Financial Officer, Steve Rai.

After I read our cautionary note regarding forward-looking statements, John will provide a business update and Steve will 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. These factors include the risk factors that are discussed in the company's annual filings and MD&A. You should not place undue reliance on the Company's forward-looking statements. Any forward-looking statements are made only as of today and the company has no intention, and undertakes no obligation, to update or revise any of them, 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 full year results. For a reconciliation between our GAAP and Non-GAAP numbers, please see the earnings press release published earlier today, which is available on the EDGAR, SEDAR and BlackBerry.com websites.

And with that I'll turn the call over to John.

John Chen

Thanks, Tim.

Good afternoon everyone, and thanks for joining today's call. Let me start with the IoT business unit. Revenue for the quarter was $45 million, and gross margin remained strong at 80%. Revenue came in lower than expected, for two main reasons.

The first relates to a number of leading industry players that are revising their development plans as they step up their software-defined vehicle efforts. This has caused some programs to be delayed. While seeing our customers placing a higher priority on the SDV transition is a good thing for both QNX and IVY, the delayed roll out of QNX development seat licenses has, therefore, pushed out revenue this quarter. This was purely a timing issue. As we have outlined in the past, from quarter to quarter, design-phase revenues will fluctuate depending on the timing of large design awards and when the work begins. However, we haven't seen any weakening of the strong secular trends driving the business. We remain confident in our ability to win new designs.

The second factor is the macro environment, which has impacted some regional production volumes, and with it, royalty revenues. As has been the case in recent quarters, the impact appears to be mixed across OEMs and geographies. While production in China in the early part of this year was much softer than expected, elsewhere in North America, Europe, Japan and Korea, output continues to look relatively steady, helped of course by an easing of supply side constraints.

We will closely monitor the situation and assess for any potential impacts for the year, and at this time we continue to expect to achieve the full-year revenue consensus for IoT. Further, we are reiterating the 18 – 22% 3-year revenue CAGR that we provided at our Analyst Day last month. These targets are based on a number of factors, including: Our strong QNX backlog, which we reported as being $640 million at last fiscal year end; Our pipeline of upcoming potential design wins; And our assessment of ongoing secular trends.

A data point that illustrates those trends, and our leadership position in this market, is our annual vehicle count. TechInsights, a leading technology analysis and market research firm, has published that QNX is now embedded in over 235 million vehicles, a year-on-year net increase of 20 million, or 9%. When compared to annual global vehicle production, this supports a growing market share for QNX.

QNX remains the foundational software of choice for leading Automakers and Tier 1 suppliers around the globe, as we continue to add new design wins. In the quarter QNX had 7 design wins in Auto, and 7 in General Embedded Market verticals. In Auto we continue to secure design wins in the digital cockpit domain. This fast-growing domain has largely led the way in consolidating various software stacks onto a single high-powered chip in the car.

This quarter we recorded wins with 2 of the top-5 global automakers. The first win includes our real-time operating system, as well as our hypervisor, and acoustics middleware. The second win will deploy 2 instances of QNX, supporting the digital cockpit and main body domain, both running on high performance compute engines.

We also secured a win with a leading US-based EV automaker, with multiple instances of QNX being deployed. QNX in that case will support a zonal and central compute architecture, including the digital cockpit and vehicle telematics. These wins demonstrate how we're expanding both the number of domains deploying QNX, and the number of layers of QNX deployed in each domain.

Outside of Auto we recorded wins supporting a range of different applications. In industrial, we secured an ADAS platform for heavy industrial machinery, that requires both our hypervisor and OS for safety. We also secured wins for industrial testing and control, including a next-generation controller for use in marine and aerospace applications, and a win with a leading global household appliance manufacturer for production line testing equipment. In medical, wins included medical eye laser equipment with a leading surgical technology manufacturer.

These designs in operational technologies, like medical and industrial, demonstrate our ability to win in this very large and growing market. These verticals are showing similar trends to Auto, including significantly higher compute at the edge and a need for complex, safety-critical software stacks – which is where QNX is the market leader.

On the product front, last month we announced the early access release of our next generation kernel. This is a significant step-change for QNX. The new release helps deliver significantly higher performance, in particular scaling almost linearly as the number of cores on the underlying chip increases, up to 64 cores.

While safety and reliability are essential parts of the QNX value proposition, it is also our leading performance in complex compute stacks that helps differentiate us from our competitors. This release will position QNX to support the future of rapidly increasing compute power at the edge, for many years to come.

Moving onto IVY. As planned, we have now released the General Availability version of IVY. This is a much more standalone version of the product than before, requiring far less support from the IVY technical team. We see this as a significant step forward for scaling our go to market efforts, allowing us to support a much wider range of proof-of-concept trials than before.

We are making good progress with building the IVY ecosystem, an important part of the overall value proposition. This past quarter we announced an investment in Michigan-based CerebrumX. Ford, Stellantis and Toyota are all currently working with CerebrumX, and they offer AI-driven solutions that analyze vehicle data on driver behavior and vehicle health. They harness this data to deliver applications such as fleet management and personalized insurance plans. IVY's end-to-end, edge-to-cloud platform will provide CerebrumX with higher quality, easier to use data, in a standardized development environment.

We also announced a go-to-market partnership with leading automotive cybersecurity firm, Upstream Security. Upstream Security's partners include BMW, Volvo and Renault, and they are already protecting over 20 million vehicles against cyber-attacks with their VDR, standing for Vehicle Detection and Response, platform. This new partnership with BlackBerry will allow them to leverage IVY's edge capabilities to pre-process data in near real-time, maintaining cybersecurity while significantly reducing cloud overhead.

The strategic decision by BlackBerry and AWS to develop a primarily edge-based architecture is proving to be the right call, especially as some cloud-only players, such as Wejo and Otonomo, have struggled to achieve profitability.

Turning now to the Cybersecurity business unit. Revenue for the quarter was $93 million, representing 6% sequential growth. Like many others in this market, we have also seen delays from elongated sales cycles, with additional layers of approval compared to previous quarters slowing our ability to convert our growing pipeline into revenue. That said, a leading indicator for revenue for this business is billings, and this quarter we booked total contract value, or TCV, billings of $122 million, significantly higher than revenue for the second consecutive quarter.

TCV billings grew for the fourth consecutive quarter, with 14% sequential, and 37% year-on-year growth. This growth was anchored on multi-year deals in our core Government vertical, where we continue to have a lot of success. In the quarter we closed one of the deals that slipped from Q4, with the other two still progressing well, and likely to close later in the year. We also see two new, large potential deals in government that have entered the pipeline.

Given this pipeline and billings momentum, we expect to achieve full-year revenue consensus and expect TCV billings for the year to be in the range of $430 to $480 million. Finally, we are reiterating the 3-year revenue growth CAGR of 9 – 12% that we gave at our Analyst Day.

Gross margin for the quarter improved to 60%, which is 700 basis points higher than the prior year, largely due to product mix. In addition, the decline in ARR slowed, and came in at $289 million. This trend is encouraging, and we remain on track for ARR to return to sequential growth in the second half of this fiscal year. The dollar-based net retention rate, or DBNRR, also stabilized at 81%. As a reminder, DBNRR doesn't include new logos.

As mentioned, in the quarter we secured new, renewed and expanded business with a number of leading government institutions. These included Shared Services Canada, Transport Canada, the Canadian House of Commons, the US Special Ops Command, the US Navy, US Army Corps of Engineers, the White House Communications Agency and the US Transportation Security Administration, or known as TSA.

Outside North America we secured business with the French Ministry of Defence, the German State Police, the Netherlands Ministry of General Affairs, the New Zealand Ministry of Foreign Affairs and the British Transport Police, to name a few. We also closed business in Healthcare and Financial services, including John Muir Health, Kaiser Permanente and Hartford Healthcare and a number of leading international banks.

On the channel front, a critical element of scaling our SMB go-to-market presence, this quarter we saw promising signs of progress from our renewed channel programs. In North America, deal registration and new logos brought by the channel increased significantly, both sequentially and year on year.

Turning briefly to product. Leading independent test lab, The Tolly Group, recently performed an assessment of a number of Endpoint Protection Platforms, EPPs, including CylanceEndpoint, Microsoft Defender and others, and tested performance for detection rates, CPU utilization and total scanning time. CylanceEndpoint came out on top with a market-leading 98.9% detection rate, both online and offline, while also using the lowest amount of CPU capacity. In comparison, competitors allowed between 9 to 52 times more malware through THAN Cylance.

Moving now to Licensing. This past quarter we were pleased to have closed the deal with Key Patent Innovations for the sale of the non-core portion of the patent portfolio. The deal includes an initial $170 million cash payment, which we have received, and the deal value could total as much as $900 million over time. KPI have already started to ramp up their monetization activities, including adding to their experienced team by hiring executives and patent lawyers, as well as starting to engage with potential licensees.

That said, it will take some time to be fully ramped up and we do not expect any meaningful additional revenue from the sale to be recognized this fiscal year. Under the terms of the deal, we retain ongoing revenue from any licensing arrangements in place prior to the sale, and in the quarter this was $17 million. We expect revenue to be approximately $5 million per quarter for the remainder of this fiscal year.

Let me now hand the call over to Steve who will provide more colour on our financials.

Steve Rai

Thank you, John. As usual, my comments on our financial performance for the first quarter will be in non-GAAP terms, unless otherwise noted. Total company revenue for the quarter was $373 million. IoT revenue was $45 million, Cybersecurity revenue was $93 million and Licensing revenue was $235 million. Software product revenue as a percentage of total revenue, remained in the range of 85 to 90%, with professional services forming the balance. The percentage of software product revenue that was recurring remained at approximately 90%.

The $235 million of Licensing and Other revenue, represents the $17 million of revenue from pre-existing arrangements that John mentioned earlier, and $218 million relating to the patent sale. More details will be available in our 10Q.

Related to this was $147 million of intellectual property assets, previously classified as held for sale on our balance sheet, which were sold as part of the transaction, and are recorded under cost of sales this quarter. Total company gross margin was 48%, and 22 percentage points higher when excluding the patent sale.

Operating expenses for the first quarter were $145 million. These non-GAAP operating expenses exclude: A $22 million fair value expense on the convertible debentures; $10 million in amortization of acquired intangibles; $8 million in stock compensation expense; and $5 million in restructuring expenses.

Both the non-GAAP operating profit and non-GAAP net profit for the first quarter were $35 million. The 6 cent non-GAAP basic earnings per share for the quarter beat expectations.

Adjusted EBITDA, excluding the non-GAAP adjustments previously mentioned, was $41 million. Total cash, cash equivalents and investments increased by $91 million to $578 million as at May 31, 2023. Net cash generated from operations was $99 million. The cash generated from the IP patent sale strengthens our balance sheet and helps finance our plans for profitable growth.

Given the macroeconomic backdrop, we remain selective on potential investments, and remain committed to, significantly reducing the level of EPS loss and operating cashflow usage this fiscal year.

That concludes my comments and I'll turn the call back to John.

John Chen

Thank you, Steve. Before we open the line for Q&A, I'd like to touch on the announcement we made in May regarding the strategic review of our portfolio. Our strategy is clear. We have robust operating plans for both of our business units to address their large and growing market opportunities. In addition, we see potential upside to the thesis from the convergence of Cybersecurity with the IoT.

Indeed, McKinsey recently issued a report on this trend of convergence and named BlackBerry as being well-positioned to capitalize on what they estimate to be a $750 billion TAM. We believe that executing against this strategy, hitting our 3-year targets and achieving profitable growth, will generate significant shareholder value.

Notwithstanding, the Board and Management are constantly focused on optimizing shareholder value and have therefore asked the question as to whether there are alternative approaches for delivering greater shareholder returns, for example by means of the two businesses operating as standalone companies.

As per our press release on May 1st, we have engaged leading investment bankers, Morgan Stanley and Perella Weinberg, and established an internal program management office to support this review, and I can tell investors that there is a lot of activity ongoing. Although the review is in the early stages, a lot of progress has already been made and the team is focused on performing a thorough process as quickly as we practically can.

It wouldn't be appropriate to provide further commentary until the Board has approved a specific outcome or has terminated its review.

That ends my prepared remarks, Andrea, would you please open the line for Q&A?

Operator

We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Luke Junk of Baird. Please go ahead.

John Chen

Hi, there.

Luke Junk – RW Baird

Good afternoon, thanks for taking the questions. First question, I want to ask about IoT. So, you cited some temporary delays to the start of new programs as a few of your customers review their software-defined vehicle plans. I guess, what I'm trying to understand is, how close you are to these customers as they made that change and your level of confidence that this is solely a timing issue versus something that could be more disruptive? And related to that, should we be thinking about the low end of full-year guidance or where would you expect to be within the guidance range given this result?

John Chen

Okay. Good question. From the design delay, we base our forecast on the project being awarded to us, mostly. It is embedded into our $640 million backlog that we announced. We already won the design. That's why we're expecting the Development Seats. We have very high confidence and are in very close contact with these customers and these are the huge, big customer names around the world. I feel comfortable with that.

There are, of course, design wins that may get affected in Q2, Q3, and Q4, but we wanted to make sure that we see that first before we make the adjustment. I personally believe that there might be some minor shifting of timeframes, but nothing that we expected to not winning it, or I don't actually expected that it'd be delayed for too long. That's that question, what is the...

Tim Foote

The outlook, John, would it be towards the bottom end of the guidance?

John Chen

Well, Tim has looked at the consensus number, and when we look at our range and our forecast, we feel comfortable with the consensus number. And I don't know whether it's high or low end.

Tim Foote

Towards the lower end.

John Chen

Okay.

Luke Junk

Okay. Thank you.

John Chen

But I think if you've estimated based on the consensus number, that should be reasonable for now.

Luke Junk

Okay, thank you for that. And then, for my follow-up, want to stay within IoT, John. Could you just comment on the level of engagement that you've seen since IVY's GA release earlier this month? I'm curious both with respect to OEMs and Tier 1 partners, if you could comment. And is there anything that has surprised you in the first month post-release? Thank you.

John Chen

From IVY?

Tim Foote

Yeah.

John Chen

I would rather not tell you the number of POCs that have been requested or are ongoing, but it's reasonably significant. I'll just leave it as that. Very high level of interest. Usually, IVY runs into – the competition for IVY, IVY is quite unique right now in the market. The competition that we run into is the customer themself. They believe that they could build, or they are building a data analytics platform that may not be as much as an Edge-to-cloud, maybe it's mostly cloud implementation. But once they see the simplicity of our solution and the number of applications that we have lined up, and we'll continue to line up, this is almost like building an App Store for the car.

They wanted – a lot of them wanted to test IVY under the POC, and then make a determination of whether that they should continue doing their own or they come to us. Some of them have already decided that they are coming with us. That's to the extent that I could comment on.

Luke Junk

I will leave it there. Thank you very much.

John Chen

Sure.

Operator

The next question comes from Mike Walkley of Canaccord Genuity. Please go ahead.

John Chen

Hello. Hi.

Mike Walkley – Canaccord

Hey, John. Switching gears maybe to the Cybersecurity business with the fourth consecutive quarter of billings growth. Can you share a little more color just what's driving the improving billings or maybe more specifically, what solutions in the portfolio are some of these multi-year government contracts choosing?

John Chen

I think there's a number. First of all, you know we had a challenge, we had two challenges in the past. We got one challenge is the SMB for the UEM challenge. They were leaving us and there was a lot of churn in that. That churn over the quarters, over the time has now stabilized. That's number one.

Number two, on UES, the Cylance product line, as you know, we were having trouble integrating it. We did integrate it, and then we caught up on the EDR technology. We're now winning bakeoffs. We're comfortable with that. And the customers start seeing that, so that our renewal rates are now trending up nicely, and that is – and winning new logos by replacing the kind of legacy folks in the SMB market. That's why I also commented on the channel, the channel does bring us a lot more business than it used do. So that is the second part of it.

And then we have growth, although now based on a slightly smaller number, for both AtHoc for the critical event management software, as well as the secure communication software. And they are typically tied to government, and the government problem is that it takes a long time. They all have a very high renewal rate, very high. In fact, we seldom ever lose one. It will be rare for us to lose the renewal and we're winning new ones but that takes time, as I said.

So, I feel that all the four components that make up our Cyber offering are all building some level of momentum and you're raising or addressing some of the issues, the pain points that we had.

Mike Walkley – Canaccord

Great. No, that's very, very helpful. And maybe just a follow-up question. Just going back to IoT and your big pipeline there. I know tough on the development seat timing, but as these new design wins turn to production, what are you thinking about in terms of revenue uptick in terms of what you're getting today from current royalties?

John Chen

The first set of revenue that we're going to get from the design wins that we have had is the Development Seat, as they get into a very strong development cycle, typically every OEM will buy more seats. That's number one. And then they sometimes will require professional services help which we'd also offer to make sure that they use QNX the most efficient way. Those are the second one.

Typically, an SOP, which is the start of production, on a design win, three to four years from the day we win it. But you see that, I think that is going to accelerate partly because of competition from China and some of the other Asian countries like Vietnam, and I think they will compress the cycle. I don't know whether I've answered your question, but that's kind of where we expect the revenue will come in. The $640 million are literally beyond the – this is only royalty, this is not – doesn't include professional services, doesn't include Development Seats. Though we will eventually get all that – hopefully get, if not all the majority of the $640 million. And we, of course, will continue to grow the $640 million.

Mike Walkley – Canaccord

Great. Well, thanks for taking my questions and congrats on finalizing the licensing sale.

John Chen

Thank you.

Operator

The next question comes from Paul Treiber of RBC Capital Markets. Please go ahead.

John Chen

Hi, Paul.

Paul Treiber – RBC Capital Markets

Oh, hi, John. Good afternoon. I'm going to apologize upfront for asking an accounting question, but just on the – can you explain the high-level reason for the revenue recognition on the patent sale of – and you received $170 million cash and you're recognizing $218 million. What's the reason for the difference there?

John Chen

I could ask Steve to tell you because I think we should recognize a lot more, but my accounting gurus all said that this is the right, proper constrained revenue. I think they used the word constrained. I have never used that term before. But I'll let Steve answer the question on of how this came about.

Steve Rai

Sure. as we disclosed the details of the terms of the deal, there's a – beyond the initial payment of the $170 million, which we did receive, there's a fixed amount that's due no later than a few years out and then there is some also, a royalty component as well. It's those other elements, in short, that under the accounting framework were the fixed piece obviously there's some discounting there that you apply to kind of net present value it back. And then, only a very small component of the – just the very near-term on the royalty component. So, the rest obviously will be recorded in future periods as the amounts become known over the next several years.

Paul Treiber – RBC Capital Markets

And the earn-out per se, or the future royalty, like is it a risk-adjusted measure, like how do your accountants arrive at that number?

Steve Rai

There's basically, there is a lot of factors that go into it and there is some risk waiting in it, but by no means does the accounting framework allow you to kind of look at the full stream and value the full stream over the remaining period, don't think of it as a fair value because the accounting does not represent the full fair value of that.

Paul Treiber – RBC Capital Markets

Okay, that's helpful to understand. Just in terms of cash flow though, if you take out the patent sale this quarter, cash flow from operations was negative. What were the headwinds to cash flow this quarter?

Steve Rai

Our first – I mean at the beginning of the year, usually that – our typical profile is to have a net cash usage in the early part of the year. In that regard, if you remove the amount related to the IP sale, it's a similar profile to what we typically have over the course of the year and then generate in later periods.

John Chen

Hey, Paul, and it is driven by, mainly by bonuses for last year, so called our VIP payment and compensation.

Paul Treiber – RBC Capital Markets

Okay, good to know. Just last question, I'm not sure you can answer, but I'll throw it out there. This arbitration in regards to the patent sale. Now, any comments there, any sort of outlook on that?

John Chen

Well, it's something that I shouldn't comment on. I think the lawyers won't like me to comment on it, but there's no merits to it and we will fight it vigorously, and I don't think you need to worry about it.

Paul Treiber – RBC Capital Markets

Thanks for taking the questions.

John Chen

Sure.

Operator

The next question comes from Daniel Chan of TD Cowen. Please go ahead.

John Chen

Hey, Dan.

Dan Chan – TD Cowen

Hey, John. On the new software-defined vehicle plans, you mentioned that there's timing differences, but just wondering if there's any changes to the scope of those programs that could either generate potential upside to what you originally had agreed to them.

John Chen

Yeah. Will you or anyone of the people in your firm at the MotorTrend event in CES in Vegas this beginning of the year? And the reason I ask that question is because nearly every OEM – we should try to get tickets for you guys in the future, even every OEM has a SDV plan, software-defined vehicle.

So, yes, the scope is expanding. We just don't want to get overly carried away with our estimates, but the scope is definitely expanding. It is truly a timing thing. In particular one case, we're relying on some really good developer seats that didn't come in, and that was purely a timing issue because they wanted to step up the program.

And there are some very visible public things, public announcements that they are – major OEMs are reorganizing some of their efforts and step out some of the car release days because of software, there are at least a handful of them. Because they're all my customer, I prefer not to mention here.

Dan Chan – TD Cowen

Okay, that's helpful. Thanks for that. And then, on the Cybersecurity side, the billings that you won, any color on whether – on how much of those were renewals versus new business? Thank you.

John Chen

Oh, that's interesting. I don't have it. We could have Tim follow up with you. I don't have the breakdown of the $122 million.

Dan Chan – TD Cowen

Okay, thanks. Just looking for some color on how much of that is just backfilling contracts that have expired versus how much…..

John Chen

I would tell you, the biggest one that was the most significant one was an extension of multiple number of years and also expanded the footprint of number of licenses. So, it's...

Dan Chan – TD Cowen

Okay, that's helpful.

John Chen

...in that case, it's both.

Dan Chan – TD Cowen

Great. Thank you.

John Chen

Sure, of course.

Operator

The next question comes from Trip Chowdhry of Global Equities Research. Please go ahead.

John Chen

Hey, Trip.

Trip Chowdhry – Global Equities Research

Congratulations. Very good backlog and billing numbers.

John Chen

Thank you.

Trip Chowdhry – Global Equities Research

In terms of IVY, you have very strong machine learning models for Cylance, and I was wondering is there a way using maybe some transfer learning or some other secret sauce that this intellectual horsepower you have in the Cylance machine learning AI products, we could transpose it into IVY? And if so, that'll be great. So, any thoughts you may have on that end?

John Chen

Yeah. Like every company, we obviously are looking at this plan. So first off, our threat-hunting group, as always, uses the AI. And we recently just offer the threat-hunting services to customers. In a way that it's all AI-driven models, it's like the fourth generation of that, and we've got literally billions of malware profiles and the experience that we build the model based on the machine-learning. You'll probably see that being a push.

Now, as with other AI capabilities going into products, we haven't finalized that. We're in a business of going through it, in a process of going through it, except I wanted to kind of – we want to make sure that we don't generate too much of a – reveal too much of our internal models when we go into the OpenAI world. We're literally in that kind of internal analysis of it and we're also waiting for the government.

I think the government will have something to say about how AI is allowed to be used and not allowed to be used in products because we're very sensitive to governments. We're a big provider of systems or software to governments around the world. We got to be very careful that we don't run afoul with their rules. So, those are the – I have people working on both, developing the product as well as understanding the policy.

Trip Chowdhry – Global Equities Research

Very good. A follow-up on same IVY and battery management system which is a very critical component of the modern electric vehicle. And again, you have technologies like in Cylance, and I was wondering if you may have thought about using the machine-learning models that you already have.

Maybe it needs to be trained on a different set of data to automate maybe battery management system for some performance enhancements which could literally differentiate yourself and maybe you will be the only player who can offer in a software-defined vehicles a complete intelligence in the battery management solutions. Any thoughts on that? And that's all from me, thank you.

John Chen

Yeah, Trip. Our labs people will know a lot more about that. And we, of course, will try to take advantage of it too, from a business side. But it's not something that we are deep into yet, but that's a good suggestion.

Trip Chowdhry – Global Equities Research

Thank you so much, very good.

John Chen

All right. Thanks, Trip.

Operator

The next question comes from Todd Coupland of CIBC. Please go ahead.

John Chen

Hey. Hey, Todd.

Todd Coupland – CIBC Capital Markets

Hey, John. I was wondering if you could talk about the expected quarterly cadence of IoT and Cyber? What does it look like for Q2 and then the back half of the year?

John Chen

I don't normally provide quarterly outlook, Todd, that's a good one. Given the environment out there, I think we should be little bit more cautious short-term, but the year, as I said, we feel good about our pipeline and all the deals that we're working on, particularly the government deals from the Cyber side.

We're waiting for the OEMs on the vehicle side to kind of release their development schedules, so to speak. Those are the two major things that we have to look forward to, look – examine very carefully and watch very carefully. I would say, I expect Q2 to be probably a little better than Q1, and then I expect second half as I said, particularly in the Cyber side, I expect the ARR to return positive sequentially.

Todd Coupland – CIBC Capital Markets

Okay. Appreciate that. And then what are your thoughts on your contract extension which is coming up this year? I know you've talked about it in the past. If you have anything incremental to say there, would be interested. Thanks a lot.

John Chen

Todd, it's a little complicated with the Imperium project. I'm waiting for kind of what the Imperium comes up with. Then I will kind of make my own decision of what I want to do. But it's all in good hands. Don't worry about it. I told the board let's wait for where the Imperium project is at and then we'll just make that decision.

Todd Coupland – CIBC Capital Markets

All right. And you'd indicated there was a lot of activity around that project, would you expect to still to take at least the summer before you get to your initial findings, or can it happen sooner than that?

John Chen

My guess, it will take, because we have a lot of effort going on, when you look at separating the business, you have to look at separating the income statement. That's the easy one. Then you have to separate the balance sheets, and then you have to look at the tax side of the equation, and then you have to look at what the markets offer and not offer. And there's just a ton of things that you cannot just skip, and so I still expect this to be the end of summer type thing.

Todd Coupland – CIBC Capital Markets

Yeah. Okay. Appreciate that color. Thanks a lot.

John Chen

Absolutely.

Operator

I would now like to turn the call back over to John Chen, Executive Chair and CEO of BlackBerry, for any closing remarks.

John Chen

I don't have any closing remarks. Thank you, everybody, for participating. We're always cognizant of the fact that you're in the East Coast and then it's late for you folks, and I appreciate it. So, I'll talk to you guys more and hopefully soon in the next quarter, if not, at least next quarter. Thank you all very much. Have a good evening.

Operator

That concludes today's conference. Thank you for attending today's presentation and you may now disconnect.