BlackBerry Limited

Fourth Quarter and Fiscal Year 2023 Results Conference Call

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PRESENTATION

Operator

Good afternoon and welcome to the BlackBerry Fourth Quarter and Full Fiscal Year 2023 Results Conference Call. My name is Jason, 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 Tim Foote, Vice President of BlackBerry Investor Relations. Please go ahead.

Tim Foote

Thank you, Jason. Good afternoon and welcome to BlackBerry's fourth quarter and full fiscal year 2023 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 US 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 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 the call today. Let me start my review today with the IoT Business unit. This has been a very good year. Despite a challenging macro environment, BlackBerry IoT closed out the year with strong 16% year over year revenue growth to $206 million. This is in line with the outlook range we provided this time last year.

QNX had a record year for adding new royalty backlog from design wins. In fact, backlog at the end of fiscal '23 has grown to a new record high of $640 million. Going forward, we'll report this annually in Q4, rather than Q1, to enable a more in-depth discussion during our Analyst Day, which typically happens in May. The result is yet more tangible evidence that our strategy for QNX and IoT is really paying off. The business is executing and capitalizing on strong secular trends. The move towards high-performance, safety-critical software, running on more powerful chipsets is opening up significant opportunities for QNX.

In addition to generating royalty backlog, the new design wins also drove near-record levels for pre-production revenue in Q4, that is revenue from Development Seat licenses as well as Professional Services. Furthermore, the IoT business unit delivered a strong 81% gross margin.

In the quarter we secured a total of 36 new design wins, with 6 in Auto and 30 in GEM. QNX is winning in multiple Auto domains, in particular, we continue to perform well in the fast-growing ADAS and Digital Cockpit domains.

In addition to Auto, in adjacent verticals we also see similar trends towards high performance, safety-critical software at the edge. Medical and Industrial are among a number of verticals making this transition, and QNX is capitalizing on it. Examples this quarter include a win with Abbott Labs for a real-time medical analyzer and with Corindus Vascular for a robotic stroke treatment application. There were also wins with South Korea's Doosan for nuclear power plant controllers and Honeywell for industrial conveyer control units.

Some of you on the call today may have joined us, either in person or virtually, at CES that happened in January. This was a very successful event for the team, with significant interest from, and meetings with, leading OEMs & Tier 1's.

At CES we also co-hosted the first Software Defined Vehicle Innovator Awards with MotorTrend. This event brought together and celebrated the best and brightest in software development across the Auto industry. This was a key marketing event for us.

One of our major announcements at CES was that the QNX RTOS is now available in the cloud through the AWS Marketplace. This both extends the reach of QNX to AWS's developer community and eliminates the need for physical hardware. The initial response has been positive, with Auto and GEM developers accessing QNX from locations around the world.

Let me now move to IVY. This quarter we made a significant step forward with IVY, announcing the first design win. Following a successful POC trial, Dongfeng, one of China's leading automakers selected a digital cockpit solution from Tier 1 supplier, Pateo, that includes BlackBerry IVY, to run in their Voyah range of electric vehicles.

At CES the team demonstrated IVY running on 3 commercially available platforms, including Bosch, Pateo and AWS Graviton. There was particularly strong interest in seeing IVY running live in a Jeep Grand Cherokee at the booth. Not only was IVY an important feature of the BlackBerry booth, it was also featured prominently at the AWS booth. Overall CES generated significant interest for potential new proof of concept trials for IVY.

Product development remains on track, and as we announced at CES, we're targeting the General Availability release in May. This is an important step in scaling IVY's go-to-market and POC efforts.

The IVY ecosystem is also developing well. One of the IVY fund investments, Electra Vehicles, a smart battery management application, was successfully included as part of our first IVY design win. This quarter we added a partner specializing in AI-powered driver monitoring technology aimed at fleet customers, called iDrive. iDrive is a California-based company that plans to leverage IVY sensor data to improve driver safety and fleet efficiency.

Let me now turn to outlook for this coming fiscal year. Headwinds for Auto production from the macro environment and supply chain challenges persist, although they appear to be easing a bit. Global light-vehicle production, a key driver for our royalty revenue, is expected to increase by around 4% in 2023 to around 85M vehicles. Despite this improvement, production will remain well below the 95M vehicles in 2018, that is prior to both the pandemic and supply chain difficulties.

Even with these industry-wide challenges, we expect strong growth for BlackBerry IoT this fiscal year, and for revenue to be in the range of $240 to $250 million. This translates from +17% to +21% year on year growth, and is in line with the outlook given at our Analyst Day last May. We see this growth coming from a combination of both ongoing momentum in new design wins, as well as an uptick in royalties. Given the anticipated timing of design wins through the year, we see the growth largely weighted to the second half. We expect revenue for Q1 to be in the range of $50 to $53 million.

Turning now to the Cybersecurity business unit. Revenue for the quarter was $88 million. Billings increased sequentially, for the third consecutive quarter, to $107 million. Gross margin was 59%. ARR was $298 million, and the Dollar-Based Net Retention Rate was 81%.

This was a challenging quarter for closing large deals in the government space. We saw an elongation of sales cycles in this vertical, with additional layers of approval and review. In particular, we saw a number of key deals slip into later quarters, and we don't consider those deals lost, but rather delayed. Given the product mix of these deals, that included mostly perpetual licenses, the impact on in-quarter revenue was significant. However, strong billings growth from other, non-government verticals, including Financial Services, resulted in Cyber billings increasing overall for the third consecutive quarter.

You may recall that we recently outlined the strong opportunity that we see for our Cylance products in the middle-market space. From our SMB wins this year, as well as feedback from customers, we've learned that having simple, but effective, turnkey products is the key to scaling this business. Therefore, we've productized according to the market need and launched 2 new offerings under the headline: "More security. Less complexity." These new offerings are designed to be: simpler to use, more cost effective, and deliver leading edge security.

The first product is Cylance Endpoint, that brings together and augments our suite of Cylance endpoint products into one easy to use, cost effective solution. The product leverages our battle-hardened AI engine, along with a major user experience overhaul. This includes the addition of our new OneAlert console that combines XDR data sources and Machine Learning for simple, intuitive, prioritized alerts. Cylance Endpoint is also available as a managed service through Cylance Guard MDR.

The second product is Cylance Edge, a product that connects users to their work effortlessly & securely, right out of the box. Customers can securely access cloud-based SaaS applications, as well as gain visibility into how sensitive data is stored and shared.

The third development that I'd like to highlight is an exciting point of differentiation of BlackBerry versus our competitors. We've integrated our AtHoc critical event management into Guard managed services to provide unified communications for cyber-crisis response, even if communication channels like email, are compromised. We will provide significantly more detail and demonstrate these new products at RSA in San Francisco next month, so please stay tuned.

Turning now to UEM. We were delighted when Gartner announced that BlackBerry UEM was the only vendor voted in the top right quadrant by customers for deployment, capabilities, and support. Receiving this recognition, based on reviews from some of the most security conscious customers in the world, demonstrates the level of performance that only BlackBerry can provide.

In the market we're seeing a tailwind from the return to corporate-issued devices, given concerns around security and lack of control. For customers making this transition, particularly in financial services, but in other verticals as well, BlackBerry is seen as the go-to, most secure solution in the market and we see this driving interest. One key competitive advantage for our products is that Microsoft Intune is unable to block specific apps that present a security or privacy risk across all devices, whereas BlackBerry UEM can. On the product development front, we announced new features for UEM this quarter. These include being the first in the industry to integrate with Adobe Experience Manager, enabling secure document signing on mobile that meets rigorous Government security standards.

Once again, we secured sales with leading customers in our core regulated verticals, especially government and financial services, this quarter. Among those we are able to name are Bank of America, Deutsche Bank, TD Ameritrade, the Bank of Italy, the Swiss National Bank and the Bank of India. In government, wins included the US Air Force, the Scottish Government, the US Department of the Treasury, the Netherlands government's SSC-ICT shared service centre and the Australian Department of Health & Human Services.

Turning now to outlook for the Cyber BU. For the coming fiscal year, and allowing for factors such as the macroeconomic backdrop, we expect revenue to be in the range of $425 to $450 million. Correspondingly, we expect billings to be in the range of $430 to $480 million, an increase of between +7% and +20% year-over-year.

For Q1, we expect revenue to increase sequentially, and be in the range of $100 to $110 million. As was the case this past quarter, we expect Billings to continue to exceed revenue this fiscal year, which is a strong leading indicator of a return to revenue growth. Furthermore, we expect ARR to return to sequential growth in the second half of this fiscal year.

Moving now to Licensing. Last week we were pleased to announce the patent sale agreement with Key Patent Innovations for up to $900 million. BlackBerry will receive a combination of cash at closing and potential future royalties as a share of profits generated from the portfolio.

KPI, whose team is based in Ireland, brings significant experience and expertise for maximizing the value of the patents, and with it the overall deal value for BlackBerry. Importantly, the agreement with KPI has no financing conditions and they have secured all of their funding from a leading US-based investment firm with more than $30 billion in assets under management.

Adding meaningfully to the overall deal value, BlackBerry will retain approximately 2,000 patents that would have been sold under the previous transaction with Catapult, as well as BlackBerry keeping all existing revenue-generating contracts. Considering all of these factors, especially the assessed level of certainty and ability to execute, we consider this deal to have a higher overall value and therefore be the best outcome for shareholders.

The transaction is subject to the standard regulatory approvals, and we expect it to close in Q2. Following the completion of the sale, we plan to leverage 3rd parties to opportunistically monetize the remaining patents. However, this is likely to take some time to ramp up, so revenue, excluding proceeds from the patent sale, is expected to be approximately $5 million per quarter this fiscal year.In the quarter we recognized $10 million of revenue relating to past patent deals. This revenue is not as a result of net new agreements and had no impact on the sale of the patent portfolio.

Let me now turn the call over to Steve, for more details on our financials.

Steve Rai

Thank you, John. As usual, my comments on our financial performance for the fourth quarter will be in non-GAAP terms, unless otherwise noted. Total company revenue for the quarter was $151 million. IoT revenue was $53 million and Cybersecurity revenue was $88 million. Software product revenue as a percentage of total revenue, remained in the range of 85 to 90%, and professional services made up the balance. The percentage of software product revenue that was recurring increased to around 90%, given the delay of some large, mainly perpetual deals, that John mentioned earlier.

Licensing and Other revenue was $10 million. Total company gross margin was 67 percent. Operating expenses for the fourth quarter were $118 million. These non-GAAP operating expenses exclude: A $26 million fair value gain on the convertible debentures; $15 million in amortization of acquired intangibles; $9 million in stock compensation expense; and $7 million in restructuring expenses, as a result of steps taken in the quarter to streamline costs, including facilities and IT infrastructure.

Non-GAAP operating expenses also exclude a $476 million non-cash accounting impairment of goodwill and Long-lived Assets for the Spark reporting unit. This represents a non-cash charge of $0.82 to GAAP earnings per share. In accordance with accounting rules, we were required to perform a Goodwill impairment review by determining a fair value for all our reporting units, the total of which is required to reconcile to our market capitalization. BlackBerry's market capitalization at the test date had declined year-on-year, similar to the broad-based stock market decline over the same period. Further details will be disclosed in our Form 10-K.

The non-GAAP operating loss for the fourth quarter was $17 million and non-GAAP net loss was $13 million. The 2 cent non-GAAP basic loss per share for the quarter beat expectations. Adjusted EBITDA, excluding the non-GAAP adjustments previously mentioned, was negative $12 million. Total cash, cash equivalents and investments were $487 million as at February 28, 2023. Free cash usage in the quarter reduced to $9 million.

In this coming fiscal year, we will be focused on driving towards both profitable growth and being cashflow positive. In our IoT business we will continue to invest, given the relatively high level of visibility we have for growth. On the Cyber side, we have identified a clear plan to deliver expansion of both gross margin and operating margin. The Outlook for the coming year is for a significantly lower EPS loss and cashflow usage.

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

John Chen

Thank you, Steve. Before we open the line for Q&A, let me recap on the key messages from the quarter. This was another strong quarter and a record year for QNX royalty backlog for BlackBerry IoT. We enter FY24 with significant design win momentum, and although we still face macroeconomic and supply chain headwinds, we expect revenue growth of approximately 20% this coming fiscal year.

The Cyber business unit was impacted this quarter by elongated sales cycles in government, causing a number of large deals to slip to later quarters. However, the non-government business drove sequential billings growth for the third consecutive quarter.

We expect to deliver revenue growth of approximately 5% and billings growth of approximately 15% this fiscal year, and to return to sequential ARR growth for the Cybersecurity business unit in the second half. And finally, we entered into a fully-funded agreement to sell the non-core patent portfolio for up to $900 million, while also retaining more patents and retaining existing revenue contracts.
That concludes my remarks. Jason, can 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 from Baird. Please go ahead.

Luke Junk – RW Baird & Co.

Good afternoon. Thank you for taking the questions. To start, hoping you could extend please on where you were able to take cost out of the P&L already this quarter. So OpEx, down sequentially? And looking forward, what you envision with respect to your plan to deliver gross margin and operating margin expansion, especially in Cybersecurity? Maybe if you could just speak to some specific actions and areas of the cost stack that you're focused on. Thank you.

John Chen

Okay. We have been focusing on improving gross margin and operating margin for the Cyber business for quite some time. And in this past quarter, we see some of the results. Shifting costs to a lower cost base area, hiring people in those areas, more so than hiring people in a more expensive area is certainly one way of doing that, particularly mostly in the replacement of attrition and being a little bit more disciplined on pricing and discounting. And that's also been put in place.

So by and large, we were able to do that. And our plan calls us to continue to do that for the balance of the year or the new fiscal year. And versus the difference between that and then we also reduced G&A costs where we can. And we've done a lot. Facility cost is another aspect of it. So many, many different areas. It's a very concerted effort.

From an IoT perspective, this is the unit that has been exempt from focusing on that. They are just focusing on growth, and they have – I think they're still going to hire 200 some people this year or if they could right now, assuming we have the candidates. So those are the kind of the how we allocate capital and spending.

Luke Junk – RW Baird & Co.

Yeah. Thank you for that, John. Very helpful. And then for my follow-up, hoping to take a step back and just talk about the bigger picture in IoT and in auto specifically. And just love to get your perspective on the focus of that market going forward from here. One of the clearest takeaways at CES this year walking the floor was the prevalence of just an increase in centralized architectures, which also has very clear implications for auto software and ultimately software-defined vehicles.

John Chen

Yeah.

Luke Junk – RW Baird & Co.

Can you just speak to where you're finding your auto customers right now in terms of their readiness for a software forward future in auto? And do you think there is an increasing sense of urgency, especially OEMs trying to figure out software? Thank you.

John Chen

Yeah, yeah. Very much so. I think you said everything that is consistent with what we have been learning from customers and analysts also. You talk to each of the OEMs. They all have a strong investment in SDV, I mean those software-defined vehicle and approach. And they need foundational software and they need it from a safety perspective.

A number of years back, there were a couple of large OEM's, that attempted to do the foundational software themselves, and they have all decided to join forces with us and work with us directly. And these are very big names. And we, of course, welcome the partnership. If you look at our win rate and – I mean I don't want to jinx it, but it's extremely, extremely high. In fact, I think our team wins 90% of the deals out there or something like that.

And then in addition to that, our products related to hypervisor, ADAS, related to cockpit, all very popular wins out there and usage out there. And then I also wanted to say beyond auto, we're also see a lot of strong interest. As I said in my script, all the chip technology companies are pushing multi-core and multi-processing, parallel processing and all that good stuff. And they need safety, and they need a container, our container. They need a hypervisor. And we seem to have a very good, strong track record in the eyes of the customer. I'm pretty comfortable that we're going to see continued growth, at least for the immediate future.

Luke Junk – RW Baird & Co.

Thank you for that. I'll go ahead and leave it there.

John Chen

Okay. Thank you.

Operator

Our next question comes from Daniel Chan from TD Securities. Please go ahead.

Daniel Chan – TD Securities

Hi.

John Chen

Please go ahead.

Daniel Chan – TD Securities

Hi. Thank you. When you're monetizing the remaining patents, are you looking to license them out or are you looking to sell them? If you're looking to license them, should we expect it to be faster, more broadly licensed considering their standards essential patents?

John Chen

Yeah. It's licensing. The remaining patents are now in two groups once the transaction is done. One group is the embedded and the Cybersecurity patents. And the other group is the mobile patent, mobile phones and related networking patents. The latter, we will monetize through third parties and probably, in some cases, we will trim the patents down a little bit by selling some. And the former, we haven't really decided the overall plan yet. And of course, we will always be interested in licensing to people, but it's probably not going to be an active process.

Daniel Chan

Okay. Thanks for that, John. And then, John, around this time five years ago, the board extended your arrangement to lead the company until November this year. Just wondering whether you can share with us what your plans are as we get closer to November.

John Chen

No, no, I – we started the conversation between me and the board. Stay tuned on that. We don't have anything to report at this point.

Daniel Chan – TD Securities

Okay. Thank you.

John Chen

Sure.

Operator

Our next question comes from Mike Walkley from Canaccord. Please go ahead.

John Chen

Hi, Mike.

Mike Walkley – Canaccord Genuity

Hey, John. Just want to dig a little bit more into the Cybersecurity business. It's great to hear on the SMB side a simplified approach and managed responses. We hear that more and more. Can you talk about competition within that business? And with this new approach, how quickly you get that implemented? And is that giving you confidence in ARR returning to growth in second half of the year?

John Chen

Good question. There's a lot of competition. I think you folks hear different cybersecurity companies all kind of gunning for the SMB. The good things about the SMB market is that it is: A, big; and B, they lack the ability to have their own security team, normally. They are very receptive to our MDR solution, our Guard solution. And then we are now streamlining this turnkey product set just to make sure that they don't need to have a certain level of capability or knowledge before they could put it in use. And either they use it themselves or they use us to help them to use it.

But this is very popular. I think you're going to hear it from – you already heard it, I'm sure, from most of all the key players. The good news is the market is big, it's growing. I think there is a lot of SMB for the first time, who are taking this investment quite seriously because they have to, given what the trend of the cybersecurity world looks like and the ransom world looks like. There is a lot of white space for replacement of prior technology, the first generation. With that two combination, the market is big, but the competition is fierce, too. I would agree with that.

Mike Walkley – Canaccord Genuity

Okay. That's helpful. And yeah, I think simplified approach is what the SMB is really looking for. Just as my follow-up question, just digging a little more into Cybersecurity, is ARR stable to growing outside the UEM business? And maybe you can update us on UEM, kind of where that is on churning off some customers that you wanted to kind of end of life as you focus more on the large government type deals?

John Chen

Yeah. UEM in the last couple of quarters, ARR and the business is stable, which is a good sign, gave us some level of comfort.

Mike Walkley – Canaccord Genuity

Yeah. Okay. Thank you.

John Chen

Sure.

Operator

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

John Chen

Hey, Paul.

Paul Treiber – RBC Capital Markets

Thanks, and good afternoon. Just since we are on the topic of cybersecurity, could you speak to the traction that you've seen or cross-selling cyber into the UEM base, which is predominantly large enterprise?

John Chen

Yeah. Let's see. We see some, but we're not dominant because our UES, our Cylance base is typically SMB, and our UEM base is typically very large names. But on the other hand, there has been some up-sell. I would say that it's promising, but not very high volume at this point. But however, this is something that we will go do. And mostly, you are going to have to go after the McAfee, and the Symantec, and the Trend Micro base.

Paul Treiber – RBC Capital Markets

And what fundamentally has been the challenge? Is it product? Is it pricing? Is it sales? Can you help us better understand that.

John Chen

Yeah. Three years ago, it was the product. We lacked – our EDR was not as up to snuff as everybody else. We have better EPP, but the world wants both. We slipped from that. Now it's really more on what leverage we could create. Product is now – gotten back into a competitive mode. We have some differentiated things that are based on our AI model, the Cylance AI model and the lightweight agent and the offline mode and all that. We have some really strong reasons for people to – for customers to take a look at and use and – but we need better traction in the indirect sales side.

Our direct salespeople – and after the last year, year-plus, building and so forth, we feel comfortable that the productivity is there. Now we need to get some leverage. We need more deals. And the only way that we could do that is to engage the third-parties better. And that's the number one focus in this year's plan.

Paul Treiber – RBC Capital Markets

That's helpful. And then just one more if I may. Just in regards to IoT, you mentioned very strong win rates. Could you speak to the pricing and how ARPUs are tracking? And obviously, OEMs are hard to sell into. Do you still see opportunities to expand ARPU like you – when you were targeting a couple of years ago, I think there was a number of like $25 or so growth there?

John Chen

Yeah.

Paul Treiber – RBC Capital Markets

Is that still an achievable long-term target?

John Chen

Absolutely. In fact, I would say to you today – I hope I don't have to eat these words myself. I would say to you today, and I'll explain why, too. Today, I have more confidence in $25 per car ARPU than when I first came up with that as a goal a number of years back. And the reason is now we are basically being accepted as the foundational software for major auto companies like – names that I could review like Volvo and BMW and Volkswagen, and this is all public information. They are all centralized on BlackBerry QNX.

When you have foundational software and early in the conversation regarding software-defined vehicles, it allows us to up-sell modules. And that brings a different type of economics, because in the past, we were talking about one copy and charge one time. Now we're talking about building on that platform and up-selling. I think our people are very excited about it and rightfully so. I see the same trend. Customers are more receptive to buying more adaptive modules from – and then plugged into the platform, and which – of course, we have safety certification across everything we sell.

Paul Treiber – RBC Capital Markets

Thanks for taking the questions.

Operator

Our next question comes from Todd Coupland from CIBC. Please go ahead.

John Chen

Hi, Todd.

Todd Coupland – CIBC Capital Markets

Hi. Hey, John. Good evening. I want to follow-up on that last ARPU question. Maybe I'll ask it a little differently. When you look at the IoT backlog that you quote, what would be the software per vehicle embedded in that, in the wins that you have already? Is it high-single digits? Is it double digits, in that $25 range? Can you give us any color on? Actually, you've booked...

John Chen

Yeah. Yeah. So there are a handful of wins that could push us in that area of $20, $25, but most of them, I would say, in high-single digit and low-double digit.

Todd Coupland – CIBC Capital Markets

Okay. And I mean obviously, if you are $10 or higher, that's quite a bit higher than just the infotainment OS where you've come from. When would you see production volume of those double-digit type ARPU starting to kick in?

John Chen

Well, part of the reason that we feel – I don't know what I should say, comfortable, but we feel okay with our 17% to 20% growth this year, is because we expect to see some of this – the so-called start of production, the SOP. And so, I believe FY 2025, 2026, we have a higher growth number. If you remember, we said a five-year compounded growth rate of about 20%. So, we came in the first year at 16%. This year, it's going to be 17% to 20%. And so that imply the math says that we'll have to be over 20% in the next couple of years.

Todd Coupland – CIBC Capital Markets

Yeah. So, what you're saying with that, those handful of like higher ARPU deals later in the year, that's what your – that's what gets you to that. I don't know exactly where the number lands in Q2, but let's call it, $65 million to $75 million a quarter implied for Q3 and Q4, if you take your guide at face value?

John Chen

Yes. That's correct.

Todd Coupland – CIBC Capital Markets

Yeah.

John Chen

We map in the production. The only wrinkle is something that's not within our control. The wrinkle will be a macroeconomic issue of higher interest rates. That slows down production, a deterioration of supply chain or chip availability that will slow down production. That will put a wrinkle on us, the second half. But given everything we know today and all the conversations with the OEMs, the team feel very comfortable, quite comfortable. I have to – I'm usually very optimistic. So, you have to factor that in. They feel comfortable of delivering the outlook that I provided earlier.

Todd Coupland – CIBC Capital Markets

And baked into the outlook is that 85 million production volume for the market and then you'll get that higher ARPU even if you don't get back to those 2018 levels? Is that the right thing to talk about?

John Chen

Yes. That's the math that we base it on. Yes, correct.

Todd Coupland – CIBC Capital Markets

Okay. And my second question has to do with the outstanding debentures. What's your thinking on a target balance sheet? With the extra cash from the patent sale, would you look to repay that debt, or would you look to roll it over? Just talk about your plans on repayment.

John Chen

Our plan is to repay the debt.

Todd Coupland – CIBC Capital Markets

Repay all of it?

John Chen

Yeah. If somebody wants to roll a small portion over, we will be open to it, but that's not our current plan.

Todd Coupland – CIBC Capital Markets

Yeah. Yeah. Welcome. Okay. That's great. Thanks a lot.

John Chen

Sure.

Operator

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

John Chen

Thank you. Thank you, Jason. Before we end the call today, I'd like to remind you about a few events coming up. Between April 24th and 27th, BlackBerry will be at the RSA Conference. And we'll be demonstrating the new product offerings that I mentioned earlier. So, if you happen to be there, please do drop by.

On May 17th, we will be hosting a virtual Analyst Day, in which management will provide a comprehensive overview of our long-term strategy, product innovation, market opportunities, go-to-market approach and of course, the financial outlook.

Then on May 23rd, we 'll be hosting a retail investor focused, live Q&A, in which John Giamatteo, the President of BlackBerry Cyber Security; and Mattias Eriksson, President of BlackBerry IoT, will answer your questions. So, please feel free to send them to Tim in advance at investorrelations@blackberry.com, or you can submit them through the portal on that day. We'll provide more details on all these events in the coming weeks. So, please stay tuned. As always, I thank every one of you for joining today's call and I hope to speak to you soon.

Operator

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