BlackBerry Limited

Second Quarter Fiscal Year 2022 Results Conference Call

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CORPORATE PARTICIPANTS

John Chen, *Executive Chairman and Chief Executive Officer*

Steve Rai, *Chief Financial Officer*

Tim Foote, *Investor Relations*

CONFERENCE CALL PARTICIPANTS

T. Michael Walkley, *Canaccord Genuity, LLC*

Daniel Chan, *TD Securities Inc*

Paul Treiber, *RBC Capital Markets*

Todd Coupland, *CIBC*

Paul Steep, *Scotiabank Capital Inc*

PRESENTATION

Operator

Good afternoon and welcome to the BlackBerry Second Quarter and Fiscal Year 2022 Results Conference Call. My name is Ashley and I'll be your conference moderator for today's call. During the presentation, all participants will be in listen-only mode. We will be facilitating a brief question-and-answer 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, BlackBerry Investor Relations. Please go ahead.

Tim Foote

Thank you, Ashley. Good afternoon and welcome to BlackBerry's second quarter fiscal 2022 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 notes 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, including the COVID-19 pandemic. 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 results. For a reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release and supplement published earlier today, which are available on the EDGAR, SEDAR, and blackberry.com websites. And with that I will now turn the call over to John.

John Chen

Thanks, Tim. Good afternoon everyone and thanks for joining the call today. One correction. I think all the revenue numbers we use will be GAAP-based, right? So, when you say non-GAAP numbers, the revenue numbers we refer to are all GAAP-based numbers.

Starting with the headlines. This quarter the business performed well with revenue for all 3 business segments beating expectations.

The Cyber Security business unit delivered strong sequential billings and revenue growth.

The IoT business unit performed better than expected, with strong design-related activities partially offsetting the impact of the global chip shortage on production royalties.

Licensing revenue reflects the restrictions on monetization activity from the ongoing patent sale negotiations, which I'll talk about in more detail shortly. Licensing and Other revenue came in slightly stronger than expected.

This quarter BlackBerry generated positive operating cash flow.

Following the strengthening of our IoT leadership team in Q1, we have appointed John Giamatteo to lead our Cyber Security business unit, commencing October 4th. John was previously McAfee's President and Chief Revenue Officer, running their enterprise and consumer cybersecurity businesses. This new appointment completes the refocus of our software business into two business units. I'll cover this in more detail later.

I'll start my review with the IoT Business Unit.

Revenue came in at $40 million, which is better than expected primarily due to ongoing strength in the design activities area. Gross margin remained strong at 83%. IoT ARR increased to $89 million.

As you are aware, the auto industry experienced some significant headwinds in Q2 due to the global semiconductor chip shortage. This impacted production volumes, particularly in North America. Ford, for instance, a major customer our ours, reported 700,000 lost units of production in calendar Q2.

Production-based royalties are historically the largest single component of our QNX revenue. However, a significant portion of revenue is also generated from design activities, prior to the vehicle entering production.

This part of the business remains very vibrant, and we continued to generate strong development seat and professional services revenues. As a result, total IoT revenue in the quarter was better than expected. Furthermore, these design wins will translate into future production-based royalties.

As we look ahead to the rest of the year, we continue to see headwinds for vehicle production.
The problem appears to have shifted from the supply of wafers, to more of a back-end assembly and testing issue, largely due to spikes in COVID cases in Asia, as well some of the accidents going on in Asia, like some of the plants that had fires for example. Feedback from OEMs about the impact on production volumes in the second half is somewhat mixed and constantly evolving. For example, Daimler recently indicated that they are expecting a lessening impact by Q4, but Volkswagen, on the other hand, see challenges persisting into 2023.

In terms of outlook, we continue to see the past quarter as the low point, but significant headwinds are expected to continue into Q3 and Q4, and perhaps even beyond that, albeit with a sequentially decreasing impact.

The impact of the chip shortage on QNX royalty revenues is expected to be buffered somewhat by ongoing strength in design activities.

We are comfortable with the current IoT revenue consensus, meaning the full year revenue outlook remains unchanged.

As mentioned, despite the supply chain issues, QNX continues to win new designs at a very solid pace. In the quarter we had 23 new design wins, with 7 in Auto and 16 in the General Embedded Market.
Because of our market presence and leading technology, we are the trusted, go-to supplier and market leader in Auto.

Furthermore, we are delighted to announce that we now have design wins with 24 of the world's top 25 Electric Vehicle automakers as measured by volume, having been selected most recently by Daimler as part of their EV design. This is up from the 23 of 25 we had last quarter. These 24 OEMs between them represent 82% of global EV production. This demonstrates the leading position we have in this very fast-growing part of the auto industry.

I'd like to expand on a couple of design wins to give investors more colour as to why QNX was chosen and why we are the industry leader.

The first is with an Automotive Tier 1 that is building full digital cockpit and gateway solutions for a Chinese EV OEM using the QNX Real-time Operating System and Hypervisor. QNX technology is well known and trusted in the Chinese automotive industry given its reputation for safety and security. QNX was chosen above software solutions from both domestic and multinational competitors. Production is expected to start in 2022 and run for around 5 years.

The second is with a leading Japanese industrial robotics manufacturer that's a new logo for BlackBerry. The customer selected QNX, for an autonomous, 3D Robot warehousing system, ahead of leading competitors. QNX was chosen for its functional safety credentials. Production is expected to start this year and continue for a further 5 years.

Other notable design wins this quarter in Auto included instrument clusters and ADAS systems. In the GEM space design wins included medical diagnostics, industrial process controls and a thermal control system for a power plant.

I'm going to shift to Jarvis. During the quarter we launched Jarvis 2.0. This is a SaaS version of our software composition analysis tool, which was previously offered as a bespoke services engagement. Jarvis 2.0, which includes a market-leading binary code scanner, is an important part of how BlackBerry can assist customers to achieve compliance with the recent SBOM Executive Order, Software Bill of Materials, mandated by the Biden administration.

Moving to a brief update on IVY.

We are pleased with the ongoing progress being made.

Both BlackBerry and AWS have significant resources allocated to the project and our timeline remains on track. We are on schedule to release an early access version of the product in October that will enable further engagement with OEMs and also allow demonstrations at CES in January. This version will also be available to certain ecosystem partners to begin actively building applications on IVY.

Speaking of applications, for IVY to be embraced by Automakers, we recognise that it is important to demonstrate IVY's value to them.

Following on from an AI-driven battery management app that we announced last quarter, we've announced another application that will be built on IVY. This new application enables in-vehicle payments and is being delivered through a partnership with Car IQ, a Californian-based start-up.

The application will use direct access to the sensor data and edge compute, two of IVY's key differentiators, to produce a unique digital fingerprint for the vehicle. This will allow authentication of payments for items such as fuel, tolls, parking, servicing, etc. without the need for fleet credit cards or other traditional payment methods. This opens up the possibility for OEMs to participate in new revenue streams and is another of the many potential applications that IVY will enable.

In summary, IVY continues to progress nicely.

Now let me turn to Cyber Security.

This quarter the business unit delivered strong sequential billings and revenue growth.

Revenue was $120 million. Gross margin came in at 59%. ARR was $364 million. Dollar-based net retention was 95%.

As mentioned earlier, John Giamatteo will be joining BlackBerry to lead the Cyber Security business unit, taking over from Tom Eacobacci, who was acting General manager. John brings with him many years of cybersecurity industry experience. During his 6 years as President and Chief Revenue Officer at McAfee, he delivered both double-digit growth and margin expansion for the Enterprise, SMB, as well as the Consumer divisions.

John will build on the progress that has been made in recent quarters with the Cyber Security business unit's go to market engine and will also direct both product development and business unit strategy.
Tom Eacobacci has decided to pursue other opportunities and will leave BlackBerry at the end of October.

The addition of John to the team completes the split of the Software and Services business into two market-focused business units. Both IoT and Cyber are targeted with driving growth, and with it, shareholder value. The 2 business units will report directly to me.

As mentioned, this was a good quarter. While there is still work for the team to do, there are a few standout areas that I'd like to share with you.

This quarter we saw further growth in pipeline for our Cybersecurity products, especially for new logo customers. Pipeline grew strongly for BlackBerry Gateway, our zero-trust network access product launched last quarter.

To help realize this increased pipeline, investment in our direct sales force, in particular the hiring of quota-carrying sales heads, continued.

We are also making further progress with the channel, as illustrated by a 32% sequential growth in channel billings this quarter. New partner programs have also helped significantly increase both channel-driven pipeline generation and new logo billings, mainly in North America arena.

We have also seen robust growth in business through Managed Security Service Providers or MSSPs. You may recall that during the Q2 earnings call a year ago we targeted using MSSPs to quickly scale our Guard Managed Services offering. Today one of these partners, I'm happy to report, manages more than one hundred thousand endpoints using BlackBerry cyber products.

I'd like to take a closer look at some wins from the quarter that demonstrate why customers are choosing BlackBerry for their cybersecurity needs.

The first customer is one of the top 10 automakers in the world. This customer selected our Protect EPP and Optics EDR solutions following a competitive bake-off in which we went head-to-head with Crowdstrike and CarbonBlack. The customer selected BlackBerry due to our near-100% malware detection rate, our light-weight agent and flexible deployment options: both in the cloud and for standalone factory networks.

The second is a Fortune 100 financial services company. BlackBerry displaced Microsoft Defender with Protect and Optics. The company selected us particularly for our performance on MacOS.

The third is where we've had continued success within Australian State Government agencies. This quarter we sold Protect, Optics and our ThreatZero consulting services into a number of agencies, displacing predominantly legacy incumbents that included Trend Micro and Symantec. The customer chose BlackBerry for our next generation, prevention-first technology.

On the industry recognition front, SE Labs, a leading independent research firm based in London, has performed a rigorous set of tests on our EPP and EDR products, Protect and Optics. This "breach test" differs from their quarterly endpoint tests. Rather than simply loading known malware onto an endpoint, which typically masks the inability of traditional signature-based vendors to prevent zero-day threats, the breach test instead applies real world hacking tactics.

They applied comprehensive techniques to evade our defences and concluded that Protect and Optics provided complete prevention, complete detection, as well as zero false positives. A link to the full report can be found on our Investor Relations webpage.

This third-party validation of our product, not just our EPP, but also of our EDR, demonstrates how we have successfully closed the product gap to competitors with recent product launches. The market is now recognising some of the unique, differentiated abilities of our Cyber products, one of which is the maturity of our AI engine.

As in previous quarters, we are seeing new malware and ransomware hitting the headlines on an almost daily basis. Our AI engine, the most mature in the industry, continues to provide zero-day prevention against a host of these threats.

In the quarter our products successfully blocked new high-profile ransomware such as Hive, Lockbit, Ragnar Locker and many more before they could do any damage. BlackBerry's Cylance AI engine is firmly focused on preventing our customers from being breached, whereas some of the leading competitors instead focus on showing customers all the ways their system could be accessed.

On the UEM front, we are continuing to invest in our roadmap, delivering enhancements that add most value to customers.

We recently announced that enterprises can now benefit from BlackBerry's leading security while enjoying a seamless and native user experience with Microsoft 365 productivity apps. This is enabled by additional integrations between BlackBerry UEM and Microsoft 365, primarily through Azure Active Directory conditional access.

This is part of the latest version of UEM, U-series, which was released early this month. U-series also provides zero-day support for Android 12 and iOS 15.

This past quarter we secured important UEM renewals with government agencies such as the IRS, the Department of Homeland Security, the US Marine Corps, the US Army Corp of Engineers, the UK's Ministry of Defence, the United States Air Force, as well as leading enterprises such as General Dynamics and Magna. We also won a number of new logos such as the French National Institute for Criminal Research and the Tel Aviv Stock Exchange.

With continuing growth in pipeline, coupled with investments in our direct and channel sales, the outlook for the Cyber Security business unit is for sequential billings growth for the remainder of the fiscal year. This is expected to lead to modest sequential revenue growth due to the subscription model.
The full year outlook remains as before: at the lower end of the $495 - $515 million range.

Turning now to licensing.

As I mentioned earlier, negotiations to sell the portion of the patent portfolio relating to mobile devices, messaging, and wireless networking, are ongoing and we have made significant progress since our last earnings call, including preliminary agreement on many of the key terms of the deal.

We expect to execute a definitive agreement this quarter. Closing the transaction would be subject to normal regulatory review.

Naturally, given this backdrop, we will continue to limit monetization activities for the remainder of this fiscal year. Therefore, revenue for both Q3 and Q4 is expected to be similar to Q2 which is at $10 million per quarter.

While we expect that the sale will conclude successfully, the process has taken longer than anticipated. Should it not conclude this quarter, we have other options, including additional interested parties.
We will update investors on any material developments in a timely manner.

Let me now hand over to Steve to further review the financials.

Steve Rai – Chief Financial Officer

Thanks, John. My comments on our financial performance for the second quarter will be in non-GAAP terms unless otherwise noted. Please refer to the supplemental table in the press release for the GAAP and non-GAAP details.

We delivered second quarter total company revenue of $175 million. Second quarter total company gross margin was 65 percent.

Our Non-GAAP gross margin excludes stock compensation expense of $1 million.

Second quarter operating expenses were $143 million.

Our Non-GAAP operating expenses exclude: $32 million in amortization of acquired intangibles;
$11 million in stock compensation expense; and a $67 million fair value adjustment on the convertible debentures which is a non-cash accounting adjustment prone to large swings driven by market and trading conditions.

The second quarter Non-GAAP operating loss was $30 million, and the second quarter Non-GAAP net loss was $33 million.

Non-GAAP earnings per share was a 6 cents loss in the quarter.

Our adjusted EBITDA was negative $14 million this quarter, excluding the Non-GAAP adjustments previously mentioned.

We continue to invest in both our Cyber and IoT businesses to drive top line growth.

I will now provide a breakdown of our revenue in the quarter:

Cyber Security revenue was $120 million and IoT revenue was $40 million.
Software product revenue remained in the range of 80 to 85% of the total, with professional services comprising the balance. The recurring proportion of software product revenue was approximately 80%.

Licensing and Other revenue was $15 million. As John has mentioned, our IP monetization activities remain limited while negotiations for the potential sale continue.

Now moving to our balance sheet and cash flow performance:
Total cash, cash equivalents and investments were $772 million as at August 31, 2021, an increase of $3 million during the quarter. Our net cash position increased to $407 million.

Second quarter free cash flow was $10 million. Cash generated from operations was $12 million and capital expenditures were $2 million.

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

John Chen – Executive Chairman and Chief Executive Officer

Thank you, Steve. Before we move to Q&A, I'd like to summarize this past quarter.

I'm pleased with how the business performed, beating revenue expectations for all businesses, and delivering positive cashflow.

The structure of two market-focused software business units is already delivering results and we are adding additional relevant industry experience.

We're encouraged by the growth in Cyber Security pipeline and continue to invest in sales headcount.
QNX design activity remains very strong, and we are weathering the impact of the chip shortage well.
We are now also making good progress with IVY.

And with that I would like to ask the Operator to open the line for Q&A please.

QUESTION AND ANSWER SECTION

Operator

We will now begin the question-and-answer session [Operator Instructions] Our first question today will be from Mike Walkley with Canaccord. Your line is open.

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Hi, good evening.

John Chen

Hi Mike

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Thanks. Hi, John, how you're doing?

John Chen

Very good.

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Thanks for all the updates and the guidance. I guess my first question for you is your guidance arguably implies an aggressive second half outlook just to reach the full-year guidance. Can you walk us through what needs to go right to achieve that guidance for a stronger second half?

John Chen

Yeah, thank you for the question. So, there are some assumptions that, let me break it down a little bit. Licensing, of course, we already explained, so I don't have to go much detail with that. I think we're going to have $10 million a quarter for the next two quarters for the second half - that is each of the quarters - and that has something to do with the fact that we are not going to monetize or push on the monetization efforts and Licensing efforts while we are going through this negotiation for selling the portion of the patents that are on those areas of the business that we are no longer actively involved with.

Regarding IoT, the only wildcard is the chip shortage and the impact of that. From all the indicators, all the ups and downs and give and take and we spoke to a lot of the OEMs, that North America seems to be getting better in Q3 and Q4 as compared to Q2. A good example will be Ford. We believe they are improving. And GM also is, although they are going to shutdown a couple of factories in Q3, but I think by magnitude, it's improving versus the first half of the year. So, for North America you see it going back to improving in this situation.

Europe, however, still has about 10% to 15% impact on the production and so does Asia-Pacific. So, net of all that, if we are in that range without any dramatic departure, then the numbers that we expect in the second half still holds. And a big part of that, of course, is that we are winning some very strong design wins that bring us more development seat revenue as well as professional services revenue. So, I'm pretty comfortable with that.

On Cyber, it really is a function of one thing. I mean I've got two considerations in there. One thing, the major part is, we have a lot of salespeople who joined us in the last couple of two to three quarters. We have a pretty young pipeline, the activities in the pipeline have been very strong in the last quarter end too.

So, putting it together is actually a good thing, except that it might take time to ramp up and so the rate of conversion of the pipeline with a newer salesforce is the only wildcard and that's something that we have to manage very carefully. But the good news there is, even if it takes longer, this business doesn't tend to go away. So that's the assumption that we made in our forecast.

The other one is in Q4, we've got a couple of large government deals, especially in North America. Some of those need to come to fruition, and we expect them to. So those are the basis of our forecast and yes, second half seems to be a bigger number, a stronger number, than the first half, that's correct.

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Great, thank you, and just my follow-up question, yeah congrats on adding John Giamatteo to the team, is he going to run kind of the same playbook that was getting put in place for all the team or do you expect further changes with the rotation of such key position and does that impact your guidance thoughts at all?

John Chen

It's slightly early to tell, but I'm dying to hear his experience of growth, because he has been able to grow both the consumer business and enterprise business at McAfee when he was running the – being the President of McAfee and the CRO. So, I'm sure he will make some changes. I am doubtful that everything will remain exactly the same. On the other hand, the investment that we made in channel, the investment we made in pipeline, the investment we made in partners and engineering and the investment we made in hiring more sales heads (and we have a couple quarters to go), we hired a pretty good head of professional services, I'm sure that he will take full advantage of those.

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Great, thanks for taking my questions.

John Chen

All right, thank you.

Operator

Your next question comes from Daniel Chan with TD securities. Your line is open.

John Chen

Hey Daniel.

Daniel Chan, *TD Securities Inc*

Hey John

John Chen

Hi Dan.

Daniel Chan, *TD Securities Inc*

You mentioned earlier, that typically your QNX revenue had a higher mix of royalty versus development. Should we expect a higher mix of development for the next couple years as electronics and software development become ramped up in a lot of these OEMs?

John Chen

I think you should expect, probably for this year. I don't think in the future years it will continue to be the same. The reason I say this is because remember, I should be seeing some of the production revenue coming from ADAS, assuming the part shortages issue start to improve, and it has to improve over time. It's a huge industry for semi-conductors. For the whole semi-conductor industry, auto is not really that big. It's not 100% - it's probably like more like 15% of the market. So, it will address that, and I expect that our royalty rate to go back into some kind of growth, especially with all the design wins that we had in the last two to three years.

Daniel Chan, *TD Securities Inc*

Okay that's helpful. Can you remind us how you sell these development seats, is it more like a perpetual license or is there a recurring proportion to that as well?

John Chen

It's more like a perpetual licensing, its selling seats.

Daniel Chan, *TD Securities Inc*

Okay, and do you kind of get like a 20% maintenance?

John Chen

Yeah, we get upgrades and maintenance on it, yeah.

Daniel Chan, *TD Securities Inc*

Okay, one more if I may, Cyber Security ARR was flat sequentially while you've been seeing that the pipeline has been growing, just wondering when we're going start seeing that metric start to tick up whether there is some seasonality built into the quarters.

John Chen

Yeah, that's good question. I asked that question also and they always give me product mix answer - that some of them we took earlier upfront because of rev rec policy. I expect for these full sales, and I've said in the past so it's very consistent, midyear next year is where I'm going to see, hoping to see some strong growth from all of the investments we have made - the pipeline growing into new sales and so forth.

Daniel Chan, *TD Securities Inc*

Okay, thank you.

John Chen

Sure.

Operator

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

John Chen

Hi, there.

Paul Treiber, *RBC Capital Markets*

Oh, hi, John. The first question on the patent sale, I know you can't say much just given you're in the middle of negotiations, but your statement you mentioned that the negotiations are going well but then you also indicated that if it doesn't close you have other options. Just could you bridge between those two statements because they're are actually quite far apart from a tone perspective?

John Chen

That's good, that's a good one, I'm glad you caught it. Yes, it is going well, I fully expect to finish this, this quarter, but I'm tired of waiting. I know a lot of our investors are too. I'm not blaming anything on anybody, and maybe we have too many lawyers assigned to this. Sorry lawyers, but the key is it's a complex and big portfolio. It's rightfully so that they have done a lot of due diligence, and those things are now completed by the way. All the due diligence has been completed. And then, we have a lot of time spent on definitive agreement negotiations. By and large, with the exception of one or two items, we're done with that. And then, we have the purchase agreement. And so for me, it's been since last Christmas. It's coming up to next Christmas, so I basically draw the line in the sand and say, I can't just stop Licensing. The business needs to either move in one direction or the other. And then, there are other interested parties who are calling. We are not entertaining them, because as you recall, during a period of time not long ago in the past, we were in an exclusive discussion with these people. So, I can't really entertain a third party. So, my only point is, if you want to put a weighing percentage, I put 80:20, I put 80% we get it done this quarter. Does that help?

Paul Treiber, *RBC Capital Markets*

Yeah, that's very helpful. I wasn't going to ask for a percentage, but I'm glad you threw it out. Switching back to the business, just in regards to 24 out of 25 EV OEMs, how do we think about the magnitude or size of these wins? Do you find like the EV's the ASP's higher than a gasoline vehicle, is that what you're seeing generally?

John Chen

No, usually the ASP ties to functionality. If you look at functionality for like IVI, it's usually low single-digit dollars for royalty, but if you look at ADAS and clusters, they are usually high single-digit pushing into double digit per car. So, it's not gasoline versus electric vehicle. And so, the electric vehicle has one advantage, which is that it has more components of highly complex ECUs. When you have highly complex ECUs, it does two things for us. Number one, because we have the highest certification in security and safety, when you have a high complex ECU, like a computer engine in a car, they tend to go after the most secure and most safe product. So, we have an actual advantage to win it, that's number one. Number 2, they tend to use very complex algorithms and that will help us sell more than one copy for an ECU. So, when you sell these complex ECU's with ADAS or clusters or hypervisor, typically the ASP is on higher end. So, it's really more function that drives ASP versus EV or gas.

Paul Treiber, *RBC Capital Markets*

Okay that's helpful and then one follow-up. It seems like BlackBerry QNX has good traction in Chinese EV market. Could you speak to, does the pricing for that market, is it materially different than other OEMs or the other geographies for QNX?

John Chen

No, not materially different. So, also other things you need to be aware of is that a lot of those Chinese players actually have design centers in the United States. So, the market price is the market price because a lot of them are all in the US. But, of course, we have a Chinese team and they deal with the customers over there and the factories over there and so forth, but they are not materially different.

Paul Treiber, *RBC Capital Markets*

Okay, thank you I'll pass the line.

John Chen

Sure.

Operator

Your next question comes from Todd Coupland with CIBC. Your line is open.

John Chen

Hello there.

Todd Coupland, *CIBC*

Hey there John, nice to talk to you.

John Chen

Likewise, here.

Todd Coupland, *CIBC*

A follow-up on my follow up on the EV line of questioning. So that 25th OEM which you don't have who's always bringing out new vehicles, many, many new vehicles that are selling well and at lower prices, etc. What are the chances you'll be getting into that OEM?

John Chen

My team promised me, straight up and down that they're working it, and so I'm hopeful - the fact that they typically like to do complete vertical integrations, it will still require work from us. But we're working it.

Todd Coupland, *CIBC*

Yeah, okay. Then and then also on the patent sale, there's been press articles that in the trade press that you more or less have settled on a price and it was really the complexity of all the participants in a, I guess, a buyer's group if you will. Any comments on whether that is indeed correct, and it really is these, these details with the various parties that has yet to get worked out? Thanks a lot.

John Chen

I can't comment on ongoing negotiations because it doesn't help me whatsoever. I would say to you that, we have we have settled on the price, and that I would agree, that I would confirm. Everything else I can't really comment on.

Todd Coupland, *CIBC*

No problem, all right that's great, appreciate the colour. Thanks a lot.

John Chen

Absolutely, absolutely.

Operator

Your next question comes from Paul Steep with Scotia. Your line is open.

John Chen

Hi there.

Paul Steep, *Scotiabank Capital Inc*

Hi John, so two quick ones. The first one, maybe talk to us about how you're thinking about monetizing IVY and how those thoughts have evolved and then I'll toss out my quick follow-ups.

John Chen

I'm sorry how to monetize….?

Tim Foote

IVY

Paul Steep, *Scotiabank Capital Inc*

IVY.

John Chen

Ah IVY. Okay, well it's a work in progress, but I have a lot of ideas. First of all, I wanted something that is usage based and recurring based, and that's the revenue model. And if you look at what IVY really is, it's a collector of sensor data with the ability to analyze it, that's pushed on the edge and put on the cloud, apply AI to it and feed it back to the OEM or application providers. And one of the reasons why we spent so much time on application side, a quarter ago, we had an intelligent battery management system for performance and for managing anything related to a battery and the usage of it. And this past quarter, we turned our attention to have an application that turns your vehicle into a wallet, basically.

And it's a is a huge market for those of you who follow this, because the fleet cars, especially the trucks and the Amazon delivery trucks or FedEx or UPS or cargos or commercial trucks, if they get equipped with IVY, there's tons of sensor data between security and productivity. And the ability to not have to use a third-party to do payments and so forth are all very positive and cost-effective solutions for the truck owner and the truck runners.

Also, as I mentioned it earlier, the OEM have always tried to find ways to enrich their source of revenue after they sold the car, and IVY may be able to facilitate some of these applications. So that's where I'm really focused on, to create usage-based, whether it's app-based or functional-based, use cases. And in some cases, I could share with third parties, I could share with banks, I could share the revenue with OEM's and these are all possibilities, so that's how we focus on monetizing IVY.

Paul Steep, *Scotiabank Capital Inc*

Great, thanks. Two quick follow-ups I guess for yourself or Steve. First one was just related to your commentary about continuing to invest in salesforce, should we think of the numbers that you've sort of added this quarter in aggregate dollars are sort of reflective throughout the remainder of the year? And then the other sort of clarification, not asking you about a pending transaction but if the patent business didn't exist at BlackBerry, how should we think about stranded cost in the SG&A line or is it effectively pure profit that we just see maybe move off if that business was not to be there? Thank you.

John Chen

That's great, that's a very good question. I need to get clarification on the first question, what was -- can you repeat your first question?

Paul Steep, *Scotiabank Capital Inc*

Yeah, you talked about adding more sales head count, I'm just sort of looking at the pacing of what you've done in terms of investment, is that already sort of in the envelope or you're thinking about stepping on the gas a lot harder in your EV as you continue to win deals.

John Chen

Right, right. That's a good question. So, as you all know me, I've been here for seven years and I've always been focused on making money, running a profitable business. On the other hand, in the last year I've recognized that the business needs the investment to step on the gas, you used the word, and so for the time being, and we had done that in the last two quarters or three quarters, but for the time being I'm not going to be so focused on loss versus profit as long as it's manageable - meaning that it's not going to be outrageous and it's not going to kill a lot of my cash or burn a lot of my cash. Then we are going to step on the gas and continue hiring and continuing to increase. The idea is since we now have the product and we could generate the pipeline, if I could close the pipeline with more feet on the streets and channel partners and so forth, it will help me grow the business and then that will then create a profit that I need to offset a very profitable source of revenue which was licensing.

So, and licensing as you all know, I'm not getting the valuation of the licensing, at least the recognition in my stock price. Partly because that it is lumpy and a lot of you have expressed that you actually don't know how to measure and value that, and you don't know how to think about the growth part of it. So that's all fair. So, I believe that while we have a very fresh set of portfolios with a good average lifespan left in the portfolio, we should monetize it one time, take those proceeds, to step on the gas and then to invest in the cyber business which we know there is high growth. And we know we're all caught up the product gap. And then also enhance the growth of IoT and invest in IVY, which is a future revenue source which could be significant, and we have a great partner in Amazon there. So those are all I believe a positive value creation for BlackBerry.

Paul Steep, *Scotiabank Capital Inc*

That helps, thank you.

John Chen

Sure.

Operator

So, that concludes the Q&A session. I would like to turn the call back over to John Chen, Executive Chair and CEO of BlackBerry for closing remarks.

John Chen

Okay, well thank you, Ashley, and I thank everybody for joining us today. And before I end the call, I'd like to remind you that we actually have our 8th Annual BlackBerry Security Summit hosted virtually on October 13th. The event will feature live and on-demand sections including keynotes, addresses from BlackBerry Executives, customer-led case studies, insights into the Cyber Security and IoT technology landscapes. It's free to register for all of you, and if you haven't already, I encourage you to do so, otherwise the replay of the event will also be available through our Investor Relations website.

Thanks again and see you next time. Well, I hope to see you in person sometime. Take care.

Operator

This concludes today's call. Thank you for your participation.