# BlackBerry Limited

## Third Quarter Fiscal Year 2024 Results Conference Call

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**Mike Walkley,** *Canaccord*

**Paul Treiber**, *RBC*

**Luke Junk**, *RW Baird*

**Trip Chowdhry**, *Global Equities Research*

**Todd Coupland,** *CIBC*

**Daniel Chan**, *TD Cowen*

## PRESENTATION

**Operator**

Good afternoon and welcome to the BlackBerry Third Quarter Fiscal Year 2024 Results Conference Call. My name is Chuck, 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.

Sir, please go ahead.

**Tim Foote**

Thank you, Chuck. Good afternoon and welcome to BlackBerry's third quarter fiscal 2024 earnings conference call. I'm delighted to say that joining me on today's call is BlackBerry's new Chief Executive Officer, John Giamatteo 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 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 plus and BlackBerry.com websites.

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

**John Giamatteo**

Thanks, Tim.

Hello everyone, my name is John Giamatteo and I'm delighted to be joining you all today as BlackBerry's new CEO. I'm sure some of you will already know me from my time as President of the Cybersecurity business unit, where, while we still have work to do, the team has made significant progress with product, go-to-market and overall operational efficiency during the past couple of years.

As President I've been at the heart of BlackBerry's operations and am already very familiar with how things work, the challenges we face and the steps we need to take going forward.

I've stepped into this role at a pivotal time for BlackBerry. As we have a lot of work ahead of us. Among my first priorities is to fully separate the IoT and Cybersecurity business units, rightsizing our operations and driving efficiencies in the process. But I'll come back to this more later in the call.

Let me first discuss our performance this quarter, starting with the IoT business. The IoT team delivered the strongest quarter for revenue for several years, despite a number of industry-level headwinds. Revenue for the quarter increased 12% sequentially and 8% year on year to $55 million. Gross margin remained at a strong 84%. The main driver for revenue growth this quarter was automotive, and in particular, Advanced Driver Assistance Systems, or ADAS.

Revenue from royalties increased sequentially, and while still below the long-term average, represented 44% of QNX revenue. Development seats was 32% and services 24% of revenue in the quarter.

In addition to delivering solid revenue, we maintained our design win momentum, adding meaningfully to our QNX royalty backlog. This was a strong quarter for new ADAS-related design wins. We secured a design win for our RTOS for Safety and secure C++ libraries for use in a front-facing camera solution that will be deployed by a leading European automaker.

QNX will also be the foundation for an ADAS platform to be developed by a global Tier 1 supplier and used by two leading Asian OEMs. Among the other ADAS wins was a design with one of the largest automakers in the world, who will use QNX OS-for-Safety as its operating system.

But this wasn't only a good quarter for Automotive. We secured a number of new GEM design wins as well. The use cases secured this quarter were broad. They included displacing a rival product with the QNX Hypervisor for an industrial automation controller that will be used in applications such as petroleum refineries, factory automation and wastewater treatment.

In medical we secured a significant design for infusion pumps for bedside medication delivery. And our Hypervisor and Black Channel products will be used in autonomous off-road defense vehicles as well. We continue to be excited about the large and growing opportunities outside of auto, where the need for safety-critical, high-performance software-at-the-edge is growing fast.

Speaking of high performance, we remain firmly on track for the general access release of our QNX SDP 8.0 next-generation platform. This will be a really significant product launch and everyone at BlackBerry couldn't be more excited about this. The step-change in performance and scalability will enable developers to fully harness the significant levels of additional compute that next generation processors offer. Look out for more information on this exciting development at CES in January.

Turning now to a brief update on IVY. We continue to make progress in what is a long sales cycle business. Proof of Concept trials are progressing well and feedback from customers remains strong. We remain focused on converting POCs into design wins and hope to announce another win at CES in January.

The IVY ecosystem continues to grow strongly and at CES we will be demonstrating more than 20 use cases with 12 partners, and expect there to be 3 third-party booths demonstrating IVY-based products.

Moving now to outlook for the IoT business in Q4. As mentioned, the strong revenue growth and continued design win momentum in Q3 was achieved despite some macro headwinds. The first was the UAW labour disputes, which naturally has had a negative impact on production volumes for some of our largest customers and we expect this impact to be felt in our fiscal Q4.

The second is ongoing slippage of software programs at major automakers. Leading OEMs continue to deal with the challenges of delivering very complex automotive software solutions and while there is no change in strategic direction towards software-defined vehicles, some of the timelines have been pushed back.

Because of these near-term headwinds, we're taking a more conservative view on our Q4 revenue outlook. That said, we continue to expect QNX to have its strongest quarter ever. with revenue in the range of $62 to $66 million.

Let me now turn to the Cybersecurity business unit. This was a strong quarter for Cyber. Revenue in Q3 was $114 million, growing 44% sequentially and 8% year over year. Gross margin improved by 14 percentage points to 68%. While ARR of $273 million showed a sequential decrease, it was the smallest decrease in the last 2 years, pointing to a stabilization in Q4 before an anticipated return to growth next fiscal year.

The Dollar Based Net Retention Rate improved by 1 percentage point to 82%. Cyber total contract value, or TCV, billings was $109 million, representing solid sequential growth of 47% and year over year growth of 6%. The Cyber business has a very strong foothold in the government space, where leading governments around the world trust BlackBerry's software to secure their environments, communications and data.

While this type of business often has longer sales cycles, the partnerships that are built are often very long term. We were delighted to build such a partnership with the government of Malaysia this quarter by securing a significant, multi-year contract to provide a full range of products. The deal included our Cylance, UEM, AtHoc and Secusmart offerings. As part of the deal, BlackBerry will establish a Cybersecurity Center of Excellence in Kuala Lumpur during calendar year 2024.

We were also very pleased to land a significant, 7-year AtHoc contract with the US Department of Homeland Security. AtHoc, which is the leading Critical Event Management solution in the US Federal Government, with 75% market share, will be used to power the DHS' new Personnel Emergency Notification System.

Revenue recognition on some of the products in our portfolio results in significant in-quarter revenue, in particular our Secusmart secure communications software offerings and some elements of UEM endpoint management. The remainder, in contrast, are generally recognized on a ratable basis. Given the strong Secusmart content this quarter, this was a significant tailwind, helping in part to drive both revenue and gross margin improvements.

While deals of this magnitude don't necessarily land every quarter, we are very pleased with the overall traction we are seeing with Secusmart outside of its core German market.

Let me now switch to some of the key product developments that we have going on in Cyber. Over the past couple of years, our Cyber product team has been busy bringing leading solutions to market, closing a number of product gaps and positioning us to compete.

During the quarter we announced the latest of these with the launch of a Generative AI-powered Cybersecurity SoC assistant. This solution helps customers to quickly understand threat alerts and prioritize their response with in-line generative AI assistance, without needing to be an expert in prompt engineering.

We also announced a number of enhancements to our Secusmart product suite for secure communications. This included encrypted video and group audio calls along with additional compliance tools and administrative features as well.

Moving now to outlook for the Cyber business in Q4. We expect revenue to be in the range of $83 to $88 million for the quarter. This is lower than our previous outlook, primarily because of a reassessment of the likelihood, size, and timing of some of the large government deals in the pipeline. We also expect ARR to stabilize, and to be flat sequentially.

Touching briefly on Licensing, revenue for the quarter was $6 million, and we continue to expect Q4 to be approximately $5 million as before.

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

Steve, over to you.

**Steve Rai**

Thank you, John.

As always, my comments on our financial performance will be in non-GAAP terms, unless otherwise noted. Total company revenue for the quarter was $175 million. IoT revenue was $55 million, Cybersecurity revenue was $114 million and Licensing revenue was $6 million.

The percentage of software product revenue that was recurring decreased to approximately 70%, primarily driven by the impact of Secusmart revenue relating to the Malaysia deal that John referenced. Total company gross margin improved to 73%, also largely driven by Malaysia. Operating expenses were $115 million, broadly flat quarter on quarter, but as in Q2, benefiting from some one-time items, such as reaching benefit caps for the calendar year.

Non-GAAP operating expenses exclude: A $13 million fair value gain on the convertible debentures; $11 million in impairment of long-lived assets; $9 million in amortization of acquired intangibles; $9 million in restructuring expenses; and $7 million in stock compensation expense. Non-GAAP operating profit was $13 million, and non-GAAP net profit for the third quarter was $3 million.

BlackBerry delivered 1 cent of non-GAAP basic earnings per share for the quarter, beating expectations. Adjusted EBITDA, excluding the non-GAAP adjustments outlined, was $18 million. Total cash, cash equivalents and investments decreased to $271 million as at November 30th, due in part to cash used by operating activities of $31 million, but primarily to a $215 million net reduction in outstanding debt.

During the quarter the $365 million of convertible debentures issued in September 2020 were fully repaid as previously communicated. A smaller $150 million of short-term debentures were then issued, which mature in February 2024, with an option to extend to May 2024, should both parties agree. Despite significant increases in the level of interest rates since 2020, the coupon on these extension debentures remains at 1.75%, and the conversion price remains at $6.

This provides BlackBerry with meaningful additional liquidity at attractive rates while we evaluate longer-term financing needs.

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

**John Giamatteo**

Thank you, Steve.

Last week we announced a change in strategic direction of the company. The Board, with input from its advisors has reassessed the earlier decision to pursue a subsidiary IPO of the IoT business. We believe that there is increased optionality for optimizing shareholder value by stepping back from that path, and instead focusing on fully separating the IoT and Cyber businesses.

As part of this, we will have the opportunity to optimize and streamline processes, building even stronger standalone divisions. A key focus is to return BlackBerry to profitability and positive cashflow, and this requires us to take some tough decisions on our cost structure.

In Q3 we took a number of actions to reduce expenses in the Cyber business and the back-office that will reduce our cost run rate by around $50 million per year. These decisions, along with strong collection of receivables, played a part in almost halving our operating cash usage from $56 million last quarter, to $31 million in Q3.

Given the combination of strong billings this past quarter and the benefit of a full quarter of cost reductions, we expect to further improve operating cashflow in Q4. However, we believe that we can go further. BlackBerry has been in an investment mode, particularly in Cyber, and now that a number of key product enhancements have been brought to market, we are in a position to return investment levels closer to industry averages.

Furthermore, BlackBerry's business has significantly pivoted and made a number of acquisitions over the years, and we see ways to streamline how our back office works. For instance, despite recent cost reduction efforts we still have 36 offices worldwide. We also have some duplicative teams.

To illustrate the potential opportunities, let me outline our current Opex expectations for Q4. As mentioned, we expect total company revenue to be in the range of $150 to $159 million. On a non-GAAP basis, Sales and Marketing is expected to be approximately 27% of revenue, while R&D 30% and G&A, excluding amortization, 20%. Both R&D and G&A are high compared to our long-term targets, but we see opportunities to significantly rightsize across the board, while continuing to nurture the exciting growth opportunities in our two divisions. We are targeting completion of the separation process into two fully standalone divisions, with a much lighter-weight corporate overlay, in calendar year 2024.

Before we open the lines for Q&A, let me quickly summarize the key messages.

This was a good quarter for BlackBerry. The IoT business unit delivered its strongest quarterly revenue for the past 2 years, and maintained strong momentum in adding royalty backlog from design wins in Auto and GEM. The Cyber business secured large government deals that helped drive strong sequential revenue growth, and ARR continues to stabilize.

We took actions relating to our cost structure that, in part, contributed to a significantly lower operating cashflow usage, and we are targeting significant further cost reductions. And we have begun work to separate our IoT and Cyber business units into fully standalone divisions, that we believe will position BlackBerry for more strategic alternatives to drive increased shareholder value.

Let’s now move to Q&A.

Operator, please can you open the lines?

**Operator**

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

**Mike Walkley – Canaccord**

Great. Thanks for taking my questions. And John, congratulations on promotion to CEO.

**John Giamatteo**

Thank you.

**Mike Walkley – Canaccord**

I just wanted to dig in, I guess, to start with on the Cybersecurity outlook given the probability of some of the larger government deals. Are these deals have taken longer to close which is common for some of the large deals in this tougher macro environment or if some have been lost? And I guess given the lumpiness within Cybersecurity, how should we think maybe about a run rate for the business off of what your guidance is this year into 2025? I know you’re not providing long-term guidance, but you think this business grows off of what you put up for 2024. Thank you.

**John Giamatteo**

Yeah. Great questions across the board and I think a couple of things. One, to the first question around the deals and the lumpiness of them and did they go away or is it timing, a couple of things. I think a number of them are more timing related activities, that tends to be the way it is. I think some of the dynamics that’s happening right now, whether it’s the continuing resolution activity in the US government that tends to slow things down a little bit and there’s similar kinds of things happening in the German government, where obviously we have a big footprint with our Secusmart business.

So, I think a number of them are more timing related. And some of them – there’s one deal in particular where they decided to go more towards an iOS solution than an Android solution and that lowers a little bit of the addressable market for us as they make a decision to operate or adapt to another operating system.

So, on that perspective, some of it’s timing, a little bit of customer moving into a different technology that tends to use a little bit less of what we offer, but I think that’s how I would address that. As far as longer term with government such it does represent, it’s naturally a pretty lumpy business just the way that works. We’re fortunate enough this quarter, the lumps went our way with Malaysia and DHS and a couple other things.

So, my commitment is to just give you the best, transparent, realistic view of this business that I possibly can, which is why I'd love to be able to say some of these opportunities are in the forecast and give you a bit of a higher guidance. But I want to be balanced and prudent and pragmatic about it and that's my commitment as I move into this new role to try and give you as much transparency as I can.

**Mike Walkley – Canaccord**

Okay. Great. And maybe just a follow-up question for you on the bigger picture. Sounds like you've already made some really hard decisions on cutting cost on the Cybersecurity side, but it sounds like maybe IoT, you're leaving alone or is that business have areas you can streamline also? I know you've been in the CEO seat for a short time, but how are you thinking about allocating resources to the two businesses as you work towards reporting them separately?

**John Giamatteo**

Yeah, I think that's probably something that's worth coming back to next quarter as we dig into it. I mean, I think it's fair to say the IoT business is much – in a better and a more stable place, it's definitely been on more of a growth trajectory. So, naturally, we take that into account. We don't want to disrupt the momentum that we're seeing on the IoT side at all. But since it's day seven in the job, in this new role, if you give me a little more time, will come back to you with some more insights next quarter.

**Mike Walkley – Canaccord**

Yeah. Fair enough. Best wishes for a successful new role and Happy Holidays to everybody on the call.

**John Giamatteo**

Same to you, thank you.

**Operator**

The next question will come from Paul Treiber with RBC Capital Markets. Please go ahead.

**Paul Treiber – RBC Capital Markets**

Thanks for taking the question and good afternoon. Just a high-level question, just in regards to the separation of QNX and Cyber, you mentioned better positioning the company for strategic alternatives. What specifically did you mean by that? I mean, are you looking at divesting some segments or an entire segment here?

**John Giamatteo**

I think it gives us, Paul, just more flexibility. I think in the past, they've been a little bit blended. We had Cyber, we had IoT, we had a corporate convergence strategy which sometimes I think limits some of the optionality, some that we have out there. So, making a very decisive decision around two business units, independently driving towards profitability. We think that gives us more optionality, whatever they may be, whether that's a spin off sale, whether that our board will consider the best options that maximize our shareholder value and, in the interim, getting them aligned independently focused on their large –

each of them have large respective TAMs in their industries, we kind of just felt that's a better approach and gives us better options for the future.

**Paul Treiber – RBC Capital Markets**

Okay. Thanks for that color. The second question just on liquidity and cash flow. With your comments on Q4 cash flow improving, it's helpful. But how do we think about liquidity here particularly with the converts and the option to extend them, but as you separate into two businesses, how do you think about managing cash and how much cash should be consumed in the short term just with any restructuring payouts?

**Steve Rai**

So, a couple of things, Paul. So, we're – obviously, as John said, next quarter, which should be our year-end, we'll be in a position to provide more color concretely on those plans, And there will be updates, of course, with respect to the financing structure. Certainly, we're pursuing and exploring longer term financing and looking at the different options to put that in place, which is being actively worked. We've got sufficient liquidity and access to capital to kind of execute on the plan. Obviously, the goal in the very short-term is to get both businesses generating positive cash flow. So, there isn't a – there shouldn't be a significant drag in the business after a relatively short period of time, but we're working on those plans.

**Paul Treiber – RBC Capital Markets**

And then just last question from me, just back to John. I mean, you've been head of the Cyber business for a couple of years, you have seen the investments in product and go-to-market. Where do you see the business at strategically in terms of product, in terms of trying to capture mind share with customers and how do you see the growth trajectory going forward in that business?

**John Giamatteo**

Yeah, the Cyber business unit, a number of different dynamics because we have a number of different products that address different segments – but one thing I will call out was like the Malaysia deal was actually an interesting example of how they bought into our whole vision of the portfolio, and maybe one product in the portfolio on its own, maybe there's a better product out there, maybe – but the overall holistic solution and how we deliver it, really caught their attention and convinced them that we were the right company to partner with. So, I do think the entire portfolio approach is helpful in certain accounts like the big government like that, that's looking for a broad set of solutions.

But our AtHoc business is firing on all cylinders gaining market share, our Secusmart business, very, very strong in the German government and we've got some nice wins outside of Germany this year, which we think is a step in the right direction. UES, we have been focused on the Cylance platform to really get that product back to where we need it to be. There were some gaps in the portfolio, there were some quality issues. So, each of them have a number, and UEM is a very mature product that has a little bit less growth. So holistically, we think there's an opportunity for this business to grow. We're looking very closely and what – as we think about next year's plans in AOP, and we'll come back to you with a projection for next quarter. But a lot of different dynamics in the Cyber business, which is why sometimes it's hard to handicap growth because of these factors that kind of run within it. So, we'll come back to you with more details next quarter, but hopefully that gives you a few snippets.

**Paul Treiber – RBC Capital Markets**

Thanks.

**Operator**

The next question will come from Luke Junk with Baird. Please go ahead.

**Luke Junk – RW Baird**

Good afternoon. Thanks for taking the questions. I want to start with IoT. Just hoping you could comment at a high level on the bookings environment in automotive, just wondering if you're seeing any impact of moderating EV demand on the software side realizing that these macro issues we've been dealing with have been preexisting for a few quarters now, but is EV interplaying with that at all, John?

**John Giamatteo**

Yeah. We've definitely seen that. EV – some of the big next-generation EV projects, there's been some delays by some of the big OEMs. So, absolutely, we're seeing. But I would say on this one, we are more – the underlying fundamentals of our IoT business, I believe, just couldn't be stronger right now. When I think about the backlog that we have for our royalties, when you think about the design wins, the number of design wins, automotive and otherwise with GEM and other things that we're getting, we think that's an opportunity.

IVY is a bit of a – when we think of how well-positioned we are in that market, I think we're in a really good position to weather some of these headwinds that come from time to time. And this – the last couple of quarters, there's been some headwinds between the strikes with UAW, between some of the – as a result, some of the manufacturers pulled back a little bit on some of their more sophisticated vehicles. But I think, all in all, we're really well-positioned as these headwinds subside, and we start seeing more things rolling off the lines and more of these new designs which inevitably are going to come to market we think we're really well-positioned. Very strong backlog, which I think sets us up well for the future.

**Luke Junk – RW Baird**

Thanks for that. And then bigger picture question, appreciate the color on you're looking at the cost structure, cash flows those sorts of things. And John, I'm just hoping to understand your approach and really just looking at BlackBerry overall, operations at the segment level, should we think of you having a sort of a player-coach mentality?

**John Giamatteo**

A player-coach mentality? Maybe. That's an interesting way to describe it. We've got great team in IoT, great, strong leadership who built a really strong business there. So, absolutely, we want to give them the resources, the support, the financial backing, anything that the bigger company can provide. So, yeah, definitely look at it as two companies on their own driving their own businesses and with a kind of a holding company structure that's there to support them with all the things that they need to drive their business forward.

So, I don't know if you call that player-coach, but certainly maybe parent-child. You want your children to get up and run and reach for the stars, and we're going to do everything we can to give them everything they need to do it.

**Luke Junk – RW Baird**

Okay. I'll leave it there. Thank you.

**John Giamatteo**

Thanks, Luke.

**Operator**

The next question will come from Trip Chowdhry with Global Equities Research. Please go ahead.

**Trip Chowdhry – Global Equities Research**

Thank you so much and a very good quarter. I had a couple of questions, first, on Cybersecurity. Traditional machine learning created a new set of challenges in Cybersecurity, which with Cylance and BlackBerry addressed very well and now we have – we are having these Generative AI including transformer models, which are coming into the marketplace. I was wondering what kind of a market expansion you see these new technologies pose to BlackBerry, and how does BlackBerry plan to monetize or capitalize on these new threats that are going to come because of these new generative technologies? And then I have a follow-up.

**John Giamatteo**

Thanks, Trip. Yeah, absolutely. We think AI has a big role to play in this industry. It's actually one of the things that we think is one of our differentiators is our machine learning, our AI technology that underpins our entire portfolio. Cylance was – I would say, the inventor, the creator of AI/ML cybersecurity. We're on our 7th generation of machine learning where our efficacy rates are the best that they've ever been. So, this is something that we watch closely, we invest closely, we incorporate some of the technology, not only into our Cyber threat intelligence, but just how we, even in our EDR capabilities.

When a notification comes up, how can we help our SOC analyst, our customers identify these issues much more quickly using AI technology. So, we think it has a very big role to play. We're going to continue to invest in it and leverage it as a way for us to grow our revenue.

**Trip Chowdhry – Global Equities Research**

Perfect. The second question is like some of the previous people also asked about software in this new generation cars including EVs. And even as of today, Porsche has not got the software system in place, the software continues to be their weakest link including these new generation companies, you said Fisker you named them and traditional companies too.

So, I was wondering like what is preventing these established automakers from fully embracing BlackBerry and QNX and why are they still going on the path of pretty much failure to do it themselves when they can't even – they don't even have the software skills? I think they can just buy versus make decision should be a no-brainer. Why are these companies not embracing QNX and have a jumpstart on the software-defined vehicles? Any thoughts I'll appreciate it. And thanks again, good execution this quarter.

**John Giamatteo**

Thanks, Trip. Trip, I was just wondering if you want to come over and join our sales team because I love it. Absolutely, we feel the same that there's software-defined vehicles that bring that technology in – just – is good for everybody. It's good for the OEMs. It's good for their customers, good for us. We're fortunate the team has done a great job. We have very entrenched with over 235 million vehicles that have QNX today, the design wins with our big customers today I think positions us really well. I think we're getting our fair share of the market and I think there is more to be had. I think there has been some headwinds this year with just everything going on, with the economy and strikes and whatever that may be having them pull back a little bit. But when the floodgates open and they bring in these next-generation EV vehicles that have more software than ever before, I think we couldn't be better positioned to capture even more of that market share, particularly, with things like our most recent release, SDP 8.0. I think that leverages the processor capacity and that next generation capability. So, something we're all over, we're going to continue to be all over and we're hopeful that be announcing more and more design wins for you guys in the future.

**Trip Chowdhry – Global Equities Research**

Thank you so much. All the best.

**John Giamatteo**

Thanks, Trip.

**Operator**

The next question will come from Todd Coupland with CIBC. Please go ahead.

**Todd Coupland – CIBC Capital Markets**

Yeah. Good evening. I just had a couple of cash questions. What's the expectation for cash restructuring cost relating to Cyber?

**Steve Rai**

So, we're working through that, but it's not going to be astronomical. It'll be well within our means to handle with the available resources.

**Todd Coupland – CIBC**

Okay. And is that expected to be booked in the fourth quarter?

**Steve Rai**

You'll have to stay tuned, but we'll provide an update. We're working through that.

**Todd Coupland – CIBC**

Okay. And at this point, what is the expected timing to get Cyber cash flow positive with the track you're getting yourself on?

**John Giamatteo**

Todd, I think that's something we're going to have to come back to you on. We made great strides over the course of the last couple of years. We've got more plans that we're working through now. And I think it's probably best for us to give you a more comprehensive update in next quarter after we've done some of that work.

**Todd Coupland – CIBC**

I see. Okay. And then I just wanted to make sure I had this right. It sounded like you said you expect to have this separation complete next fiscal year. So, it sounds like it's going to take a little while to work through the redundancies, the 36 offices, and whatever other optimization plans you want to put in place. Can you just talk us through a rough timeline on that? Thanks a lot.

**John Giamatteo**

Yeah, I think on this one, it's – I think it's going to be one of those things where as we go through the process, there is going to be some low-hanging fruits, some quick wins, some things that we can do really quickly that will save us some money get the teams aligned, et cetera. And then there'll be other ones that are going to take a little bit longer, but I think mid-calendar year, getting into a position where we can have the majority of the functions and capabilities within the two business units up and running and standalone, I think that would be success for us. I think there'll be some straggling things, there might be some IT-related things that take a little bit longer to untangle and unwind and get them set up properly within the divisions. But that's how we feel that we want to move as fast as we possibly can.

**Todd Coupland – CIBC**

That's all for me. Thanks a lot.

**John Giamatteo**

Thanks, Todd.

**Operator**

The next question will come from Daniel Chan with TD Cowen. Please go ahead.

**Dan Chan – TD Cowen**

Yes, thanks. John, I think your contract calls out some incentives for you to get the business to cash flow positive by Q1 fiscal 2025, which isn't a lot of time considering how much work there is to do. So, appreciate the highlight of some of the organic cost cuts that you're thinking about just wondering if there are any other options you're weighing at this point. In particular, your predecessor said he wasn't really considering any asset sales to bring the business to profitability. Just wondering whether there are other options outside of the organic cost cuts you're thinking about.

**John Giamatteo**

Yeah. As I come into this, just a different, fresh – new approach, not fresh, but just, I want to look at all of our options. I think obviously the organic things that you mentioned Dan, to me those should be the majority of our time. Let's streamline things, let's get the divisions up and running, that's where the big money is going to be.

At the same time, maybe – coming in with just a different perspective, I've been with the company for a couple of years. I've come from this, so to take a look at some of the other assets that we have and decide whether or not they make sense to be part of the company or is there opportunity to monetize in some other way. If the answer is yes, I think, I'll be open to looking at all those kinds of things but kind of in the spirit of 80/20, 80% of getting to cash flow positive is probably going to come from the organic stuff, but to the extent that we can find the 10%, 15%, 20% for some other things, that's an option we'll take a look at.

**Dan Chan – TD Cowen**

That's helpful. Thanks. Can you get to your targets just by cost cuts alone?

**John Giamatteo**

How about we'll come back to you next quarter? I'd love to, but honestly, I'd love for us to get a little more growth out of the business. There's two ways of getting to cash flow positive and part of that's growth and part of that's taking the cost structure down. Obviously, since revenue has been a little bit lumpy, we've been focusing more on the cost side of things, but between trying to drive revenue, trying to focus on the cost, maybe look at some of the assets as you mentioned, all of these things go into the equation to get us to a better place a year from now.

**Dan Chan – TD Cowen**

Okay, that's great. Maybe on the ARR a little bit, that metric continue to decline. And as you pointed out, it's slowing its decline, but I think the expectation was for that to have stabilized or even growing by now. What has been the source of its continued declines? And you called out it's stabilizing by next quarter, what's giving you the confidence that it's going to stabilize next quarter? Thank you.

**John Giamatteo**

Yeah, we've been stabilizing from an ARR perspective. We've had some, I would say, some churn that mostly has come from some of our UES customers, the smaller UES customers. We've had a little bit of UEM churn. So, renewal rates is something that we're focused on. And some of that will be improving the product, making it more stable. Our customer's will stay with it. That's part of the equation.

The other is some customers that may be upset and said they're going to move on, that'll get flushed out, will get to that low point. And I really do believe between the product stabilizing and the customers that may have vocally said they're unhappy and have moved on. I think we're really getting now to a point where we hit that – we're bottoming out, we're hitting that step-up point, and now as we get wins like Malaysia onto the board, that'll start moving us in the other direction. We've had some other net new logo wins that'll start us moving in a better direction. So, I know we might be a quarter or so behind where we hope to be at this point. But I really am optimistic that we're leveling that off and looking for seeing prospects for growth as we go into next year.

**Dan Chan – TD Cowen**

Thanks John.

**John Giamatteo**

All right. Thanks, Daniel.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. John Giamatteo, CEO of BlackBerry, for any closing remarks. Please go ahead, sir.

**John Giamatteo**

Thank you, Operator.

Let me finish today by reminding everyone that our IoT division will be showcasing a number of exciting developments in both QNX and IVY at CES in Las Vegas, from January 9th to 12th, as well as co-hosting the MotorTrend Software-Defined Vehicle Innovator awards as well.

There will be an investor-focused Q&A on Wednesday January 10th, featuring members of the IoT leadership team. Please look out for further details early in the new year on how you can join the live stream.

Thank you again to everyone for joining the call and we'll speak to you again soon.

Bye, everyone.

**Operator**

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