BlackBerry Limited

Second Quarter Fiscal Year 2025 Earnings Call

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CORPORATE PARTICIPANTS

John Giamatteo - *Chief Executive Officer*

Tim Foote - *Chief Financial Officer*

PRESENTATION

Operator
Good day, and welcome to the BlackBerry's Second Quarter Fiscal Year 2025 Earnings Call. All participants will be in listen-only mode. Should you need assistance please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask question. To ask a question, you may press "*" then "1" on a touchtone phone, to withdraw your question, please press "*" then "2." Please note this event is being recorded.

I would now like to turn the conference over to Martha Gonder [ph], Director of Investor Relations, BlackBerry. Please go ahead.

Martha Gonder
Thank you, Dave. Good afternoon everyone, and welcome to BlackBerry's second quarter fiscal year 2025 earnings conference call. Joining me on today's call is BlackBerry's Chief Executive Officer, John Giamatteo, and Chief Financial Officer, Tim Foote.

After I read our cautionary note regarding forward-looking statements, John will provide a business update and Tim 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 that 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 or undertakes no obligation to update or revise any of them, except as required by law.

As is customary during the call, John and Tim will reference non-GAAP numbers in their summary for our quarterly results. For reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release published earlier today, which is available on EDGAR, SEDAR+ and blackberry.com websites.

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

John Giamatteo
Thanks Martha, and congratulations on your new role as Director of Investor Relations for the company.

Q2 was another good quarter for BlackBerry as we're making significant progress in delivering on our strategy both the IoT and Cybersecurity divisions delivered solid year-over-year as well as sequential revenue growth. The combination of this and the ongoing benefit from the actions to improve our cost profile drove year-over-year improvements in non-GAAP EPS and adjusted EBITDA with BlackBerry achieving breakeven ahead of plan. Likewise, cash used by operations also came in better than expected.

This past quarter, the IoT division delivered revenue of $55 million, representing 12% year-over-year growth and 4% sequential growth, and also exceeded the top end of the guidance range that we provided.

Gross margin improved by 1 percentage point sequentially to 82% due to favorable product mix. This quarter followed a similar trend to last in that strong royalty revenue has driven a significant portion of the better than expected results. Production-based royalties were stronger both sequentially and year-over-year. This improvement is in part a consequence of the growth in royalty backlog that we've built from the considerable amount of design wins that we've secured in recent years.

On the flip side, as in Q1, development seat revenue for Q2 remains somewhat subdued. Development seat consumption is generally driven by the timing of the ramp-up of automaker software development programs, and as we've mentioned in recent quarters, these programs have experienced significant delays. We've seen some improvement in recent months, but these delays continue to hold back development seat revenue in the near-term.

In addition to revenue recognized in the quarter, in Q2, we secured a number of new design wins that will generate future revenue. In particular, we secured a number of large automotive advanced driver assistance systems, or ADAS wins, among them, in Japan, we secured two design wins with leading OEMs to power ADAS functionality that includes surround camera and milliwave radar for identifying objects.

Among the design wins in digital cockpit, we secured a follow-on win to that announced last year with Hyundai Mobis, a subsidiary of South Korea's largest automaker, Hyundai. Running on a Qualcomm chipset that QNX hypervisor and advanced virtual frameworks will provide the safety critical foundation for integrated digital cluster infotainment and safety applications. We've made large investments in our QNX product portfolio in recent years, resulting in a number of significant product launches being announced at CES in January.

Generally speaking, new product adoption in automotive has a relatively long lead time, but we're pleased with the traction we've seen for these new products since their launch. In the quarter, we secured further design wins on our next generation SDP 8.0 platform. SDP 8.0 is the flagship next generation product in the QNX portfolio and provides customers with a step change increase in performance while maintaining the incredibly high-level of functional safety that QNX is renowned for.

One of the world's largest industrial OEMs upgraded from SDP 7.1 to SDP 8.0 for their next generation of design, or an optical guiding system to be used in airport shuttle busses. In addition, we secured a design win with a German specialized machine manufacturer for SDP 8.0 to power the control unit for pharmaceutical tablet presses.

During the quarter, we announced an exciting development for QNX Sound, our new software defined acoustics platform. HaleyTek, a Swedish developer of Android based infotainment systems, announced that they're building QNX Sound into their digital cockpit architecture, the foundation for which is QNX's hypervisor, QNX sound is a true value-add proposition enabling both significant bill of material savings by eliminating expensive audio hardware as well as potential net new revenue streams from custom audio experiences.

Finally, on the product side, you may recall that at CES we announced that Stellantis had leveraged QNX in the cloud to develop a digital twin of their cockpit architecture. This was a specific deployment, which our engineers have now productized for sale to the industry in general. We're in early discussions with a number of automakers and feel optimistic that this product will gain traction in coming quarters.

In addition to our core automotive market, we also see a large opportunity to build on our presence in adjacent verticals, or what we call the general embedded market. This past quarter, we took another step forward by adding a senior go-to-market executive with strong, relevant experience to help drive our efforts in this space.

Finally, a quick update on IVY, the auto software program delays that we've spoken about that have extended QNX development cycles have had an even greater impact on IVY. When automakers are fully focusing their efforts on delivering core systems on time, they have less bandwidth for new functionality like IVY. Despite this, we progressed multiple proof of concepts with major OEMs this fiscal year and are working on a number of potential opportunities for IVY, but it is unlikely that we'll see material revenue in the near-term.

On the cost side, now that IVY is through the significant investment required for its initial development, we've integrated the sales and R&D efforts into the core QNX team. We believe this not only drives efficiencies, but also leverages the reach and expertise of our QNX team.

Let me now move over to our Cybersecurity division. Similar to IoT, this was a solid quarter for Cyber. Revenue was $87 million, meaning we exceeded the top end of the guidance range we provided last quarter and achieved 10% year-over-year growth. This performance was driven by the three product groups that reflect BlackBerry's strong heritage in secure communications, that is, UEM Endpoint Management, AtHoc Critical Events Management, and SecuSmart Encrypted Voice and Data. All three components delivered year-over-year growth and collectively revenue increased by 24%.

While the UEM market is mature and there is strong competition in cloud-based deployments, our product has a niche with on-premise deployments in particular, particularly where data sovereignty and security are a significant concern. We typically see this need most in government and financial services, and as other UEM providers have ceased to invest due to the strength of the competition, we continue to strategically enhance the features that resonate most with our target market and deepen our competitive moat. This helped UEM to deliver both sequential and year-over-year revenue growth for Q2 while there is still some churn in our broader customer base we're offsetting this with new logos and customer expansions.

In the quarter, we secured important renewal and upsells, in particular with a number of government agencies, including the US Immigration and Customs Enforcement, the US Department of Energy, the US Army Corps of Engineers, and the UK Ministry of Defense.

Similarly, AtHoc had a solid quarter, with revenue growing both sequentially and year-over-year. We secured a significant renewal and expansion with the United States Department of State, as well as a large expansion with the air force, among other deals. Renewal rates for AtHoc remain very high at close to 100%, which speaks to how integrated our product is in the US federal deployments in particular.

Finally, our SecuSmart business had a good year-to-date; revenue in both Q1 and Q2 has been meaningfully ahead of the prior fiscal year. This strength has been driven by deals from its core customer base within the German government, where our full solution, typically sold along with hardware, is most commonly used. Because these licenses are tied to hardware, these customers typically buy new licenses to coincide with device refresh cycles, together with the fact that the software is deployed on-premise and therefore revenue is largely recognized upfront. This means there can be some variability in the top line for SecuSmart from quarter-to-quarter. However, this past quarter we saw further traction for our software only solution with a major net new logo government in Europe purchasing our SecuSUITE product for deployment in military applications.

Let me now move from secure communications to our Cylance endpoint security business. This remains a very competitive market and this quarter we continue to see some churn in our customer base that purchases product only, not managed services, and this drove year-over-year decline in Cylance revenue.

That said, we're pleased with the ongoing traction from the customers adopting managed services, or MDR this quarter. Our Cylance MDR offerings provide customers with a wide range of options to suit their needs and budgets, from our on-demand product right up to our newly launched XDR focused MDR Pro offering. New logo and upsell of MDR offset some of the churn we saw in the customer base this quarter. We've invested heavily in our Cylance product in recent years, and we're pleased that our solution was recognized by customers as a customer's choice winner in Gartner's recent evaluation.

In terms of key metrics for a Cyber business, Annual Recurring Revenue or ARR remains largely stable, flat year-over-year at $279 million. The Dollar-Based Net Retention Rate or DBNRR improved year-on-year by 7 percentage points and sequentially for the fourth consecutive quarter by 1 percentage point to 88%.

Let me comment briefly on our licensing business, which came in broadly in line with guidance at $3 million, this revenue relates largely to legacy deals that predate the sale of the non-core portion of the portfolio to Malikie. Gross margins remained at 67% after allowing for amortization on the patents that generated this revenue.

Now, during the quarter, we announced that Tim Foote was appointed as BlackBerry's new CFO. Tim had previously served as a CFO for the Cybersecurity division and in a number of other senior finance positions at BlackBerry, including as the head of investor relations. This deep knowledge of both BlackBerry and more broadly, the finance function as well as a strong appreciation for our shareholder base and financial...and what financial analysts are focused on position him really well in this role. I look forward to continuing my partnership with Tim as we keep moving the BlackBerry strategy forward.

So, with that, let me turn the call over to Tim, who can provide some more color around our financials.

Tim Foote
Thank you, John, and good afternoon, everyone. I'm incredibly proud to be joining this call as CFO. My top priority in this role is clear to increase shareholder value. In my opinion,

BlackBerry has a significant amount of value that is underappreciated. And as we continue to execute on our strategy, I'm focused on seeing that it's recognized. As usual, the numbers I'll reference except for revenue, will be non-GAAP. As John mentioned earlier, BlackBerry's second quarter results, not only met but exceeded the guidance range that we provided last quarter.

Total company revenue was $145 million, exceeding the upper end of the range of $144 million. Total company gross margin was consistent year-on-year at 66%. This year, we've made tremendous progress on our cost structure with operating expenses this past quarter decreasing to $99 million, that is $31 million or 24% lower than the $130 million baseline for OPEX that we provided as a reference point prior to recent cost reductions. It is also 10% lower than the guidance we gave for the FY '25 average quarterly OPEX of $110 million.

Cost remains a key focus going into the second half. And during September, we announced a number of further back-office headcount reductions and facility closures as we continue to streamline operations. The new management team at BlackBerry has managed to thread the needle of significantly reducing costs while at the same time, managing to stabilize the top line and even drive growth. As a result, we've delivered substantially improved profitability and cash usage.

For Q2, the non-GAAP operating loss was $4 million, and adjusted EBITDA beat expectations by finishing at breakeven for the quarter. Adjusted EBITDA this quarter is $22 million better on a year-on-year basis. Non-GAAP EPS also beat guidance at breakeven. Further, cash usage continues to improve.

You may recall that during our last earnings call, we outlined that due largely to timing of certain cash receipts and payments, we expected a sequential increase in operating cash usage. However, operating cash usage came in better than expected, improving by $2 million sequentially to $13 million. This is $43 million better than for Q2 last year. And in total, operating cash usage is $100 million better for the first half than the prior year before allowing for the proceeds from the patent sales.

Let me now provide financial outlook for Q3 and the fiscal year as a whole. For IoT, we expect revenue this quarter to increase sequentially and to be in the range of $56 million to $60 million. For the full year, we are raising the bottom end of our guidance range for IoT revenue, such that the range is now $225 million to $235 million. For Cyber, we expect revenue for Q3 to be in the range of $86 million to $90 million, and we're reiterating the full-year guidance range at $350 million to $365 million.

In terms of profitability, we expect adjusted EBITDA for Q3 to be in the range of breakeven to positive $10 million and non-GAAP EPS, up between minus $0.01 to positive $0.01. The full fiscal year, we expect adjusted EBITDA to be in the range of breakeven to positive $10 million and non-GAAP EPS to be in the now higher range or between negative $0.05 to negative $0.02. Finally, we expect a sequential improvement in cash flow for Q3 and for BlackBerry to return to positive cash flow and EBITDA in Q4.

And with that, let me now return the call to John.

John Giamatteo
Thanks for that, Tim. Before we move to Q&A, let me quickly summarize the key takeaways from this past quarter. This was a good quarter for BlackBerry, both our IoT and Cyber divisions

beat top-line expectations and delivered year-on-year growth. The hard work that the team has done with managing cost is really paying off with operating expenses now significantly lower than prior year and below $100 million a quarter.

Blackberry reached a significant milestone on the path to profitability by achieving breakeven for both EBITDA and non-GAAP EPS this quarter. And finally, cash burn for the quarter was $43 million better than last year and $100 million better year-on-year for the first half before allowing for the impact of the patent sale. I'm incredibly proud of the progress that everyone at BlackBerry has made as we find ourselves in a significantly stronger position going into the second half of the fiscal year.

And with that, let's move to Q&A. So, operator, Dave, can you please open up the lines?

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time, your question has been addressed and you would like to withdraw your question, please press "*" and then "2."

Our first question comes from Kingsley Crane with Canaccord Genuity. Please go ahead.

Kingsley Crane
Hi. Thanks so much for taking the question. Congrats on continued execution. First question, what magnitude of opportunity does QNX containers and the HaleyTek integration and launch open up on that side of the business? How can we think about new product unlocking design wins?

Tim Foote
Yes. Excellent question. Should I take that, John?

John Giamatteo
Yes.

Tim Foote
So, containers is something that we've heard a fair amount in the sort of this industry in the last few quarters. Ultimately, it's just part of the expansion…the ongoing expansion of the TAM, Kingsley, to be honest. Containers is something that people are very familiar with working in a cloud environment sort of Docker type approach. So, as we move QNX toward the cloud, people are obviously looking toward safety-certified containers as a way of working. So this is a natural evolution of that. And John mentioned in his remarks that we're starting to see some traction from the cloud side of things as we productized what we did with Stellantis that we showed you at CES.

What was the second part of the question? It was around sound? Yes, so, HaleyTek. So, on the sound side of things, this is another one of the new products that we launched earlier this year, and we're pleased that although there are long sales cycles here, it just opens up another aspect. So, in the past, we've talked about the more sockets, more layers narrative, which is about saying we want more QNX content in each and every vehicle and not only just the operating system by adding elements of middleware up the stack and sound is definitely one of those elements. So, seeing traction, seeing someone actually commit to build this product into vehicles, obviously, is a significant progress. So, we're pleased with that.

Kingsley Crane
Awesome. That's great to hear. And then on the financials, just Q3 guidance implies a modest sequential increase for Cyber before a markedly sharper increase in Q4. I think that's been a…historically been a seasonally lighter quarter. So, just anything that we should consider there this year would be helpful. Thank you.

Tim Foote
Yes. Good question. So, I would say actually, at the midpoint, it's kind of…it's just a continuation of the trend of what we're seeing. Traditionally, Q4 is strongest for us, actually from a billing standpoint. Q3 last year, we had some significant one time deals, which helped drive the hump in Q3. But if you take the midpoint, Kingsley, actually, you'll see sequential growth through Q3, Q4.

Kingsley Crane
Perfect. Thank you.

Operator
And the next question comes from Luke Junk with Baird. Please go ahead.

Luke Junk
Good afternoon. Thanks for taking the questions. First, just a question related to the EBITDA progression, reaching breakeven sooner than I expected in the quarter, a great achievement. Just trying to reconcile that with the full-year EBITDA guidance being maintained in the range of breakeven to $10 million. Is there something in timing we should be considering or some sort of offset in the back half? I guess if I look at the OPEX trajectory, it seems to be coming down quicker than you had anticipated, and that would seem to suggest maybe some upside to the full year. Thank you.

Tim Foote
Yes. So, you know, we're obviously trying to be prudent with our guidance here, Luke. So, Q1 was a negative 7%. We're delighted to be breakeven ahead of schedule in Q2. But at the midpoint, we still got a little bit to do to make the full year positive in terms of EBITDA. So, if you take…you can assume that there'll be sequential improvements going from Q2 into Q3 and Q3 into Q4. So, hopefully, that helps.

Luke Junk
It does. Thanks, Tim. And then second, just hoping you could just double-click on the organizational changes in IVY and integrating that more into the QNX organization on a go-forward basis, just relative to retaining key talent there while also reducing cost. Maybe if you could just kind of square the balancing of those two things.

John Giamatteo
Yes. Look, this is John. It's…we've actually…we invested a lot into IVY over the last few years, really, and we did it by virtue of a very dedicated team that was really focused on building out the IVY platform as a holistic project. I think we came to the conclusion that now once you get a product to a certain level, where there's a baseline, you're, meeting a lot of the features and capabilities that we're looking to deliver to the market. We kind of felt like there's some operational efficiencies that we could gain by bringing that team together very synergistically

with other QNX members, whether it's on the sales, front-end sales side, or on the R&D side. So, I think we kind of came to the conclusion in the first half of the year that leveraging some of those efficiency since we've made so much progress on moving that platform along that this was the right time to do that.

Luke Junk
Understood, I'll leave it there. Thank you.

Operator
And the next question comes from Paul Treiber with RBC Capital Markets. Please go ahead.

Paul Treiber
Thanks so much for taking the question. Could you provide an update on the separation process, you know, I think last quarter, you mentioned you're working through splitting up some of the IT systems and reorganizing that and just changes to the organizational structure, what's remaining to go from an operational perspective here?

John Giamatteo
Yes, Paul. We made tremendous progress on that. In fact, we're just having some deep-dive reviews on that over the course of the last couple of weeks. And a lot of the kind of low-hanging fruit of splitting it out, aligning it to the BUs. We think we've achieved that. We've got that largely in place. There are some components within the networking, some of our Cyber Protection Solutions within the CISO organization. I think we probably mentioned before, some of these things are naturally a little bit more intertwined that takes a little bit more time to unravel. So, we're trying to strike the right balance on move these resources, move the cost, put them into the BUs, let them operate them in a very agile way. But at the same time, don't go too far where we start to introduce dis-synergies. So, we kind of feel like we're striking the right balance, where the business is operating. You can see, you know, we're generating the revenues that we want, the design wins, the progress that we're making in how we operate it, but at the same time, driving the significant costs out of the business. So, we feel like we're striking in it right at the right balance at this point. We'll continue to look at that, but with an eye towards don't…we made so much progress on reducing our cost structure, we don't want to overstep it and now start to introduce additional costs just for the sake of saying things are separated. So, we're trying to strike that right balance.

Paul Treiber
That's helpful to understand. Just on…as you sort of untangle the two organizations, are you seeing structural differences in profitability between the two? How should we think about that here?

Tim Foote
Yes. So, I would say this whole process has given us the opportunity to take a fresh look. And what I'll say is if you tune in to the Investor Day on October 16th, we're definitely going to be providing a lot more color on that around divisional profitability. So, we'll leave it till then, if that's okay, Paul.

Paul Treiber
Sure. Just one last one for me. The…just on Cyber, it does look like the mix of licensed revenue was higher this quarter. Was that the primary driver of one of the major drivers of the upside relative to guidance? And then how do we think about that from a timing point of view,

was that…was it patched from prior quarters? Was it pulled forward from future quarters versus your expectations?

John Giamatteo
Yes, I think it was a combination of both license and hardware, as we mentioned. SecuSmart and some of our German customers, they had a device refresh cycle that they're working through, that generated some upside orders that were helpful to the business. But we were really encouraged with the durability of the UEM business this quarter. We're encouraged with the AtHoc business and some of the large customers that we renewed and did some expansions on. So, I think it's been…the achievement for this particular quarter was really kind of broad-based across license, service, and hardware.

Paul Treiber
Thanks for taking the questions.

John Giamatteo
Thanks, Paul.

Operator
And again, if you have a question, please press "*" and then "1". Our next question comes from Daniel Chan with TD Cowen. Please go ahead.

Daniel Chan
Hi, thanks for taking my questions. Any potential impact from the proposed ban on Chinese auto software and hardware, and maybe not just in the US, but the potential of it expanding to other countries?

Tim Foote
It's a really good question. Obviously, something we're watching very closely. The good news for QNX is we're very well diversified geographically and also from an industrial standpoint. I guess being a proud Canadian company kind of puts us slightly more in the neutral bucket. But it's fair to say we are definitely watching closely. China is an important market for us. So, we need to see what develops from that.

Daniel Chan
Thanks for that. And then the delayed or canceled programs that you…design programs that you're seeing now, how should we think about those impacting the potential royalty revenue in several years?

Tim Foote
Yes, it's a good question. Ultimately, the way we think about it, Dan, is that this work's not gone away. The secular trends are still very much there. It's just a question of timing how quickly the OEMs can actually get to the stage of developing this software and then ultimately moving it into production. The good news for us is this is a very long-term business. As you know, we win a design and we've got a revenue stream kind of locked in for the next 10 years. And we've already got $815 million in our backlog, which gives us a really solid base. So, as these kinks in this, bumps in the road, if you like, kind of get worked through, we're very confident that the secular trends that are powering this industry have not gone away and we'll continue to make progress.

Daniel Chan
Thanks, Tim. Just a couple of questions on Cybersecurity, if I may. The ARR kind of reversed trajectory, it kind of improved in Q1 and in this quarter, it kind of declined sequentially. What changed over the last three months to reverse that momentum?

John Giamatteo
Yes, that's a good…really good question. I would say overall, year-over-year was relatively flat. I think from quarter-to-quarter, there's going to be a little bit of variability, and some bumps in it. It's probably more of it is associated with some of the Cylance churn that, we've experienced over the course of the last quarter or two. So, that was probably part of some of the downward pressure. But at the same time, some of the trends that we've seen with UEM and AtHoc were offsetting some of that. So, there will always be, I think, a little bit of variability from quarter-to-quarter, just based on the nature of our businesses and the markets that they serve. But the…from a long-term perspective, we're pleased that it's much more stable than it's been in the last couple of years.

Daniel Chan
Thanks. And last one for me, nice to see the net revenue retention improving. Is it improving because the churn is getting better, or are you doing a better job with the upsell and cross-sell? Any color would be helpful? Thank you.

John Giamatteo
A combination of all of it, a little bit of a mixed bag, I think there's some…definitely some really good upsell on the AtHoc side, some really good upsell on the UEM side. That's offset a little bit with some of the Cylance churn. So, across the portfolio, it's good to see whatever it 7.4 consecutive quarters of moving in the right direction, still not where we want it to be by any means, but it's good to see it stabilizing and moving in the right direction.

Daniel Chan
Great. Thank you very much.

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

Trip Chowdhry
Thank you. Thank you. A very exciting quarter. I think the way I look at your company is a very underappreciated start-up. Why I say that is in every business you are, there is so much opportunity to create and shape the new and the new future based on the technologies and the platforms you have I was just thinking if your team is thinking on these three emerging opportunities that I think if you have a different narrative and a different perspective, you could be doing a lot better versus if I'm looking at other analysts' questions, they are very backward looking because they're thinking BlackBerry from a very traditional sense versus if you look at the BlackBerry as a start-up, which is not well understood, let me give a point…two, three points here. First, there's an emergence of generative AI devices. There's only one instance right now where Jonny, IVY and OpenAI are trying to create those devices. And if we can fast forward, it could be no less popular than iPhones down the road. This is, I'm extrapolating, but that's one new thing that has emerged over the last three, four months.

Second, when you think in terms of generative AI and various models that are coming, including small language models and now a lot of intelligence is being done on Intel AI PCs, for example, now as in the prepared remarks, you talked about UEM product being very good for onpremises if we extrapolate it because you have a wonderful CEO who came from McAfee, that is an opportunity when you have AIs and there is so much they call it, injection that is prone injections that are happening. It is just old paradigm in a new situation. So, something that is dead is getting exciting now. The only thing that…and there are many others we can go offline. But the way I'm thinking is we should be looking at BlackBerry as a start-up, attacking new problems with the technologies and the experiences you have. So, Tim, since I happen to know you very well, and you're one of the most sharpest, I would say, technologist CFOs. I was thinking if you have thought about it and what are your initial views on it, of course, this industry is being created right in front of our eyes. I really want BlackBerry to go and capture it. So, that's all from me. And congratulations on a nice quarter.

Tim Foote
No, thanks so much. John, did you want to address.

John Giamatteo
You know, just one thing I would…I really resonate, Trip, with how you talk about it as a start-up, taking a step back and taking a look at what businesses are we in, what can we turbocharge growth, whether AI centric. And I think one of the things that really has helped us is this whole strategy around setting up two BUs, it's really given us some interesting insights on to our product portfolios and which ones are more next-generation things that can lead to more dynamic growth in the markets that you're describing and which ones maybe from a capital allocation, we've got to pull back on. So, definitely, tune in more for some more details on that at the upcoming Investor Day, where we'll share kind of more of a portfolio look at the company and how we're shaping our investments and our capital allocations to invest in the kinds of things that you're talking about, Trip.

Trip Chowdhry
You are phenomenal. Thank you so much.

John Giamatteo
Thank you, Trip.

Operator
And the next question comes from Steven Li with Raymond James. Please go ahead.

Steven Li
Hey, thanks. John, I'm not sure if I misheard you. But on Cyber, I think I heard you say more customers are adopting your managed services offering. And that drove the year-over-year decline in Cylance's revenues. Did I mishear or can you elaborate?

John Giamatteo
Yes. Let me…maybe I wasn't clear, Steven. Just within Cylance there's kind of two components. Our historical…we bought the company, it was a very product-centric company, endpoint protection, and we've built out our EDR capability with optics. And that's the very…the classic product where our customers license it on a product-only basis. That part of the business, we're seeing that as just trends in the market in general. That's where we've had some sluggishness. That's the area where we've had some renewal rates, some defections. But where we saw some upside is existing customers that are moving from product-only scenario to MDR, where we manage people that don't have the resources or the wherewithal to manage their own environments, and they look for us to do it from an MDR perspective. So, that part of the business, we've actually seen good pipeline, some good conversions, some

interesting wins in the quarter, but that was kind of offset by some of the downside weakness on the product-only segment of our customer base.

Steven Li
Got it. That's helpful. Thanks, John.

Operator
This concludes our question and answer session. I would like to turn the conference back over to John Giamatteo for any closing remarks.

CONCLUSION

John Giamatteo
Terrific. Thank you, Dave. So, before we wrap up, I just want to remind everybody about our upcoming Investor Day at the New York Stock Exchange on October 16. At this event, for the first time, we're going to be providing segmented P&Ls for both our IoT and Cybersecurity divisions as well as the new outlook for fiscal year '26 and '27. We'll take a deeper dive into the performance of our four Cybersecurity product groups and review our capital allocation priorities and will also showcase the depth of expertise that we have in both IoT and our Cyber teams as they explain the market opportunities and where our products are positioned to capitalize on them. The event is available to the general public via webcast, and you can sign up on the investor relations webpage. So, thanks again for joining today and look forward to seeing you all next time.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.