

**BlackBerry Limited**

**First Quarter Fiscal Year 2023 Results Conference Call**

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## CORPORATE PARTICIPANTS

**John Chen**, *Executive Chairman and Chief Executive Officer*

**Steve Rai**, *Chief Financial Officer*

**Tim Foote**, *Vice President, Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**Paul Treiber**, *RBC Capital Markets*

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

**Todd Coupland**, *CIBC*

**Dan Chan**, *TD Securities*

## PRESENTATION

### Operator

Good afternoon and welcome to the BlackBerry First Quarter Fiscal Year 2023 Results Conference Call. My name is Brent, and I will be your conference moderator for today's call. During the presentation, all participants will be in a listen-only mode. We will be facilitating a brief question-and-answer session towards the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

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

### Tim Foote

Thank you, Brent. Good afternoon and welcome to BlackBerry's first quarter fiscal 2023 earnings conference call. With me on the call today are Executive Chair and Chief Executive Officer, John Chen, and Chief Financial Officer, Steve Rai. After I read our cautionary 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. You should not place undue reliance on the company's forward-looking statements. Any forward-looking statements are made only as of today and the company has no intention and undertakes no obligation to update or revise any of them, except as required by law.

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

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

**John Chen**

Thanks, Tim. Good afternoon, everybody, and thanks for joining the call. I must first apologize. After speaking for two days because we had our AGM and board meeting, my throat is a little scratchy, so I apologize for that.

Anyway, this quarter, we built on the momentum from fiscal 22 and continued to execute well, delivering solid year-over-year revenue growth. Total Software and Services revenue was \$164 million, representing a 9% increase year-over-year.

Let me first start my review today with the IoT business unit. Despite a tough macro environment for auto, we delivered revenue of \$51 million, which represents 19% year-over-year growth. Gross margin came in at 84%. IoT ARR was \$94 million, increasing 9% year-over-year. We recorded strong revenue from pre-production Development Seats & Professional Services, setting yet another quarterly record for the third quarter in a row. As you know, this is not only a positive for the current year, but also a strong indicator of future revenue once the design enters production.

Our strength in securing new design wins has driven a year-over-year increase in our royalty revenue backlog, which is now at approximately \$560 million, a 14% increase from a year ago. Further, the number of vehicles with QNX software embedded has increased year-over-year from over 195 million to over 215 million.

I'm pleased that the strength of our design wins once again allowed us to overcome the impact of the headwind that the auto industry is currently facing. These headwinds include COVID-related lockdowns in China, supply chain issues, the Ukraine war, inflation, and rising interest rates.

On the supply chain front, the situation appears to be showing some signs of stabilization. While the economic issues will impact the overall auto market, demand for higher-end models and Electric Vehicles appears to be holding up.

As mentioned, QNX continued to perform well in terms of securing new design wins. In the quarter, we gained a total of 14 new design wins, with 9 in auto and 5 in the General Embedded Market. We are a market leader in ADAS, advanced driver assist, that is, and digital cockpits, both fast-growing safety critical domains.

In fact, Strategy Analytics, a leading independent auto analyst, estimates the three-year CAGR for ADAS market to be 29% and digital cockpit to be 40%. And within those domains, we plan to grow even faster than that as we continue to win market share.

In the quarter, we had a number of large design wins in digital cockpit. In addition to wins with leading Tier 1's, Bosch and Visteon, we secured a win with a global automaker based in North America as well as BICV, a leading Chinese Tier 1 for augmented reality, AI and hologram-enabled digital cockpit, to be deployed in Renault Jiangling's latest fully electric sedan. That's quite a bit of technology. Furthermore, despite lockdown challenges, we're able to secure a number of new design wins with major Chinese automakers, including autonomous drive design with Great Wall Motor and others.

Outside of auto, this quarter, our QNX Hypervisor was pre-certified by the independent auditors at TÜV Rheinland to the highest level of safety for medical device software. We continue to make progress with medical design wins and a good example in the quarter was for a dialysis machine with a major technology customer based in India.

Let me now provide you with an update on the progress we're making with IVY. As previously mentioned, we have received more proof of concept or POC trial requests than we could currently handle, and we continue to receive more. This is a strong indicator that IVY is a product with the right strategy, in the right place and the right time. In the quarter, we commenced a number of POCs which include leading global automakers and Tier 1's. Engagement so far has been positive and some of the learnings are helping guide our product development. Product development is advancing well, and our June release now supports an even wider range of sensors and hardware. We're also progressing well with developer tools.

Progress is also being made on the application ecosystem side and we're currently engaged with multiple potential partners. These partners enable a wide variety of exciting use cases, including AI-driven battery management, predictive maintenance, and user-based insurance, just to name a few. And a number of them are being considered for inclusion in the current POCs. Overall, we continue to be excited by the potential opportunity for IVY and are pleased with our progress this quarter.

Now, moving on to Cybersecurity. This was a solid quarter for the Cybersecurity business unit. Revenue came in at \$113 million, a 6% growth year-over-year. Billings on a total contract value basis was \$89 million, a 16% year-over-year increase. Gross margin was 53%, ARR was \$334 million. Dollar-based net retention rate was 88%. This number, of course, does not include new logo wins nor certain professional license wins in government.

With the elevated cyber threat levels, we see a strong demand environment at present. Given this backdrop, we continue to invest in go-to-market. In the quarter, we added net direct quota-carrying head count. We are pleased with how these additions to the team are ramping up and of course, it will take a few quarters for them to reach full productivity.

During the past quarter, we also expanded our channel presence. We added Midis Group, a partner with over 5,000 employees, and a presence in over 70 countries across the Middle East, Europe, and Africa. This significantly expands our reach in those markets. Midis brings a lot of experience in cyber, having been a distributor with McAfee, Symantec, and Trend Micro.

We've also made a number of enhancements to our Managed Security Service Providers, or MSSPs, program. As growth in our Guard MBR solution has shown, there is a very large demand for managed services in Cybersecurity and MSSPs allow us to greatly scale out our go-to-market.

During the quarter, we secured a number of new logo wins, mainly displacing legacy vendors. The legacy vendor market remains a very large opportunity for BlackBerry, and we have been running a number of targeted campaigns. In particular, this quarter, we saw a number of customers move from Kaspersky to Cylance Protect. Cylance Protect works very well in this context and its lightweight agent is both quick and easy to deploy.

We continue to compete head-to-head and win against other next-gen Cyber players. A good example of a win this past quarter was of a major US-based medical industry customer with a deployment of tens of thousands of endpoints in a direct head-to-head competition against CrowdStrike. The customer selected BlackBerry because they were impressed by the effectiveness of our product, especially against the Log4J and Kerberos, as well as our high level of customer service.

Our cyber products received further external validation in a recent Mitre Attack evaluation. Our Cylance suite of solutions was 100% successful in preventing both the Wizard Spider and Sandworm attacks very early in each scenario, and critically, before any damage occurred.

Let me now provide an update for UEM. This quarter, we secured renewals with some of our largest customers, including The U.S. Airforce, U.S. Navy, U.S. Special Ops Command, the Canadian Senate, the Supreme Court of Canada, and the Royal Canadian Mint. We booked a great amount of business with law enforcement agency in the quarter, such as with the UK Serious Fraud Office, the London and Manchester Police Services as well as the Vancouver Police Department. We were pleased to build and increase the number of UEM licenses and deploy additional products to these customers.

In addition to government, we secured renewals and upsells with a number of leading financial services customers, including leading bank, MUFG. I believe they are the largest Japanese bank. Mizuho and Sumitomo Mitsui Banking Corporation, three of the large – Japan's four largest banks; Switzerland's Julius Baer Group, First Citizen's Bank and Liberty Bank in the United States as well as other leading banks in both Germany and Canada.

As we mentioned previously, given the competitive market, we continue to strengthen our UEM product offering and were pleased to partner with Google to add support for enterprises running Chrome OS and Chrome browser - support that Microsoft Intune does not offer. According to IDC, Chrome OS recently overtook macOS as the number two desktop OS with more than 10% market share, and Chrome is also the world's leading browser with approximately 70% market share.

The strength of our UEM offering continues to be recognized and last month, IDC Marketscape named BlackBerry as the leader in UEM for the third year in a row. Among other items, they highlight a wide range of government and industry security and compliance certifications that BlackBerry UEM holds. These certifications help BlackBerry maintain its strong position in the core regulated market.

And now, a brief word about Licensing. In the quarter, Licensing revenue was \$4 million and gross margin was 50%. Earlier this month, we issued a press release updating the status of the proposed sale of the legacy portion of our patent portfolio. The buyer, Catapult, is working to secure their financing and we look forward to the completion of the transaction. At the same time, as we are no longer under exclusivity with Catapult, we are free to explore new options as they come our way. We will provide more details as and when appropriate.

Let me now hand over to Steve who'll provide additional color on our financial results for the quarter.

**Steve Rai**

Thank you, John. As usual, my comments on our financial performance this past quarter will be in non-GAAP terms, unless otherwise noted. Also, please refer to the supplemental table in the press release for the GAAP and non-GAAP details.

Total company revenue for the quarter was \$168 million. First quarter total company gross margin was 63%. Our non-GAAP gross margin excludes stock compensation expense of \$1 million. First quarter operating expenses were \$132 million. Our non-GAAP operating expenses exclude \$23 million in amortization of acquired intangibles, \$1 million of restructuring expenses, \$165 million related to a one-time litigation settlement of a matter dating back to 2013, \$6 million in stock compensation expense, and \$46 million fair value gain on the convertible debentures.

This quarter, non-GAAP operating loss was \$27 million and non-GAAP net loss was \$31 million. The GAAP basic loss per share of \$0.31 was primarily driven by the one-time impact of the litigation settlement. Non-GAAP loss per share was \$0.05 in the quarter. Our adjusted EBITDA was negative \$21 million, excluding the non-GAAP adjustments previously mentioned.

I will now provide a breakdown of our revenue in the quarter. Cybersecurity revenue was \$113 million and IoT revenue was \$51 million. Software product revenue remained in the range of 80% to 85% of the total, with professional services making up the balance. The recurring portion of software product revenue remained at approximately 80%. Licensing and Other revenue was \$4 million.

I'll now move to our balance sheet and cash flow performance. Total cash, cash equivalents, and investments were \$721 million as of May 31, 2022. Our net cash position was \$356 million. Q1 is traditionally a seasonal high for use of cash given the payment of annual bonuses and other annual items, and together with the ongoing investment in the business, free cash usage was \$43 million. Cash used by operations was \$42 million and capital expenditures were \$1 million.

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

**John Chen**

Thank you, Steve. Before we commence our Q&A session, let me first provide a current year outlook. There's no change from our previous guidance. We continue to expect from fiscal year 2023 revenue for

the IoT business unit to be in the range of \$200 to \$210 million and revenue for the Cybersecurity business unit to be broadly in line with the fiscal year 2022, with about 8% to 12% year-over-year billings growth.

I'd like to thank everybody who attended our recent Analyst Day. I think it was May 12. For those who weren't able to join, we provided three and five-year revenue targets for BlackBerry. We expect the total company revenue excluding IVY, to grow with a five-year CAGR of approximately 13%, with revenue of \$886 million in FY 2025 and \$1.2 billion in FY 2027.

Breaking this down by business unit, while the IoT SAM is expected to grow in the range of 8% to 12% over the next three years, we expect to grow IoT revenue at a five-year CAGR of approximately 20%. This is double the industry growth rate. This faster-than-market growth rate is primarily driven by market share gains in our core safety-critical Auto domains. In addition to auto, we also expect growth from adjacent verticals, particularly medical and industrial, broadening our addressable market.

We estimate revenue in FY 2025 to be approximately \$307 million and approximately \$443 million in FY 2027. This model is partially built on the multi-year revenue backlog from already confirmed designs and a line of sight to upcoming potential new design wins. It is important to note that these IoT targets do not include any revenue from IVY, which then becomes upside to the story.

For Cyber, given the strong market condition, our technology portfolio, and the roadmap, we expect revenue to grow with a five-year CAGR of approximately 10%. The Cyber business unit includes both the more mature endpoint management products as well as the higher-growth endpoint security products. We target Cybersecurity revenue of \$579 million in FY 2025 and \$770 million in FY 2027. We expect operating leverage for the business, expanding gross margin by over 100 basis points per year on average and trending towards a 20% operating margin by FY 2027.

Given the investment we're making, we expect moderately negative EPS and cash flow this current fiscal year, approaching EPS and cash flow breakeven in FY 2024, and becoming EPS and cash flow positive from FY 2025 onwards. We expect the two markets to converge and our position in both IoT and Cybersecurity will place us in a very strong position to capitalize on these growing market trends.

So let me summarize the key takeaway from the quarter. One, this was a good quarter where we delivered year-over-year revenue growth in both our IoT and Cyber business units. Two, we set another quarterly record for design activities in IoT, offsetting the impact of macro headwinds on Auto production. Three, on the Cyber side, we recorded solid double-digit billings growth and continue to make progress in expanding our market reach.

One final point, this quarter, we released our first ESG report, with highlights including BlackBerry achieving carbon neutrality. For those who haven't seen it yet, a copy can be downloaded from our website.

That concludes my remarks. Brent, can you please open the line for Q&A?

**Operator**

We will begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Paul Treiber with RBC Capital Markets. Your line is open.

**John Chen**

Hi, Paul.

**Paul Treiber – RBC Capital Markets**

Thanks so much and good afternoon. Hi there, John. First question, can you connect the dots between, in the Cyber business, between the decline in ARR versus the very healthy billings growth in the quarter? And more specifically was there any contribution from perpetual licenses such as SecuSuite in the quarter?

**John Chen**

Yes. Actually, your second question answers somewhat partially the first question. We had a good SecuSuite quarter selling to the government and it's perpetual because of the way the government purchases technology. And so that did not get fully reflected in ARR. There was some minor churn for the UEM mid-market which we have identified last quarter, so the combination of those two explains the delta.

**Paul Treiber – RBC Capital Markets**

That's helpful. Thank you. And second question, just on the patent sale and not so much on the details. As you mentioned, you can't disclose. Obviously, negotiations are ongoing, but if the sale doesn't go through and you don't find a third-party, I mean would you revert back to IP licensing? Or are you – you're definitely going to go through with the sale. You just have to find the right buyer and the right price.

**John Chen**

I believe for simplicity of our company's story and the focus; we should find a buyer. And I believe we will find a buyer, but we will not shy away from monetizing ourselves. We do have our team on standby and ready, but my first priority is to secure a buyer. And there have been other people that have approached, but I still believe that Catapult will get it done.

**Paul Treiber – RBC Capital Markets**

Okay, great. That is helpful. I'll pass the line.

**John Chen**

Thank you.



**Operator:**

Your next question is from the line of Trip Chowdhry with Global Equities Research. Your line is open.

**John Chen**

Hey, Trip. Trip, how are you?

**Trip Chowdhry – Global Equities Research LLC**

Hello, John. Wonderful, wonderful. Always exciting to hear about IVY. Two questions I have. First is regarding the chip supply position. Do you think because of the depression in cryptos, some chip capacity may have been released and that may be easing out the chip shortage that the automotive industry is facing? Are you seeing something to that effect?

**John Chen**

Seeing the chip shortages?

**Tim Foote**

So, I think it's the fact that cryptocurrency is currently depressed, is that freeing up chips?

**John Chen**

I'm not good enough to answer your question there, Trip. I'm not a big crypto fan.

**Trip Chowdhry – Global Equities Research LLC**

No, no.

**John Chen**

Hate to say that. I got you. So, I don't follow that very closely. I know it's very depressed at this point and I don't know the relationship with that. I'm sure there are some with the chip shortages issue. So sorry, I can't answer that question.

**Trip Chowdhry – Global Equities Research LLC**

No worries. Second question I had is regarding the IVY platform and you're getting insurance, auto insurance on top of it. I was wondering what kind of a use case – use cases can you think about that can evolve over a period of time and that's all for me.

**John Chen**

Trip, that's a very good question. So, we have in our partnership at least one, if not two organizations specializing in this area, in the insurance area, for example. The biggest thing about the insurance area with auto is pay as you go, kind of a usage-based insurance model.

And then the other one is a redefinition of how the insurance – kind of related to the first one, how they were calculated. And it's particularly more meaningful in the fleet management side of the equation. So other use cases, there's a lot of use cases on IVY or IVY could host a lot of use cases.

Of course, we told you guys about battery management. The whole area of predictive maintenance is huge, and every OEM will want to get their hands around this data, around the action that could generate, whether it's physically or over-the-air update. So, we're seeing a lot of interest of a lot of different use cases and auto as a wallet, there's also a lot of financial technology around it. And so, it's an exciting time for IVY.

**Trip Chowdhry** – Global Equities Research LLC

Thank you very much. All the best.

**John Chen**

Thank you, Trip.

**Operator:**

[Operator Instructions] Your next question comes from the line of Todd Coupland with CIBC. Your line is open.

**John Chen**

Hey, Todd. Todd, how are you?

**Todd Coupland** – CIBC World Markets, Inc.

Oh, hey there, John. Good evening. I'm doing well. Thank you. I had a couple questions. First, on IoT, you talked about how you're seeing the supply chain ease. Could you just talk about what you're seeing that's changed since you gave the last update?

**John Chen**

Yeah. On the supply chain side, the OEMs around the world, they finally have a good strategy. And then although – of course, each of them has their own strategy, but I see it is more tilted to high-end cars being built, that they are able to manage their supply chain issue and build and release cars that are of more value to them, so high-end cars being built. Of course, there is a constant demand for electric vehicles, particularly given today's environment with the gas prices and the environment.

And the good thing about us is QNX is typically embedded in the high-end cars, more so than the lower-end models. And in addition to that, we have a strong footprint, 24 of the top 25 production volume producers uses QNX, of the EV OEMs that is, the electric vehicle world. So as their volume go up, although still a small percentage of total vehicles sold, I think it's like 12% right now. We're seeing the volume uptick so it's a good trend for us.

**Todd Coupland** – CIBC World Markets, Inc.

But I guess it's not material enough to move the IoT guide for the year.

**John Chen**

No, no. Because there is a headwind, we had a little delay on something – some of the stuff when China has a lockdown because of COVID. And then of course, now as you all read, you guys probably know this very well, that the interest rate uptick is causing a little bit of a demand slowdown for new vehicle purchases, and so those are all factors that we still need to confront with.

So, our strategy is we see a strong design win rate. We're winning a lot of new design win and they typically come through with license – developer license and some professional services revenue. We're strong enough in those areas that it covers the shortfall in production or slowdown in production, if there is any. So, we believe that our guidance is still good, and I hope I am wrong on the conservative side, but I think our guidance is still good and there's a mix shift a little bit.

**Todd Coupland** – CIBC World Markets, Inc.

Okay. That's helpful. And then my second question had to do on the Cyber business you talked about, modest churn in SMBs. And you've talked about that for a couple of quarters. What I was wondering is we're starting to see an enterprise staff being given options of BlackBerry UEM versus, let's say, a competitor. And I'm just wondering if you're seeing that in other enterprises and does that give you some concern that the churn might bleed into larger businesses. Just talk about that trend. Thanks a lot.

**John Chen**

Yeah. Currently, we haven't seen that. So, this is important that we continue to work on our products and partnerships, which I talked about. So far, the UEM churn is usually in a non-regulated space and in the more small/medium enterprise. So, for the very large one, we have continuous renewal and particularly the government world. So, no, I haven't seen that as a major trend at all, even banks. So far, been okay. Knock on wood.

**Todd Coupland** – CIBC World Markets, Inc.

Okay. Great. Thanks a lot.

**John Chen**

Thank you.

**Operator:**

Your next question comes from the line of Daniel Chan with TD Securities. Your line is open.

**John Chen**

Hey. Dan, how are you?

**Dan Chan – TD Securities, Inc**

Hi, John. Good, thanks. Just wondering if you can provide some color on the drivers behind the 14% increase in the QNX backlog. Is that due to recovery in production volumes, extension of some programs or higher ASP? Just any color on that would be helpful.

**John Chen**

Yeah. We'll start with the design wins we've been telling you folks every quarter. And so, we have a very strict guideline and formula of what gets counted, what didn't get counted. And we're very conservative on that, but this is as a result of what the OEM told us that this is the volume you should expect in future years on the total program. And we sometimes – we will discount on it, sometime, we took it as is. And it was an accumulation of those, offsetting obviously the run-off, which is the royalty we got in in the last 12 months and that results the 14% increase.

**Dan Chan – TD Securities, Inc.**

Okay. That's helpful. Thank you for that. And then I wanted to ask another question on the patent sale. You said you would explore options as they come in. I just want to know like whether you guys are actively looking for other options. Like are you actually going back to other bids you had during the initial process or are you starting from the beginning again?

**John Chen**

No, no, not at all. In fact, we've been approached by others. I'm not actively looking for it or starting from square one. As I said, I want to make sure that the shareholder knows that we're not just stuck with one option, but we do expect to see, and we would like to see the previously announced deal with Catapult to happen. But what we're basically saying is we've been getting calls and we are now responding to the calls because the exclusivity has expired.

**Dan Chan – TD Securities, Inc.**

Great. Thanks, John.

**John Chen**

Sure.

**Operator:**

There are no further questions at this time. I would like to turn the call back over to Mr. John Chen, Executive Chair and CEO of BlackBerry, for closing remarks.

**John Chen**

Thank you, Brent. Thank you, everybody, for joining us. I realize it's late back East and I'm looking forward to speaking with you all again soon. And have a good day – a good evening.

**Operator**

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.