



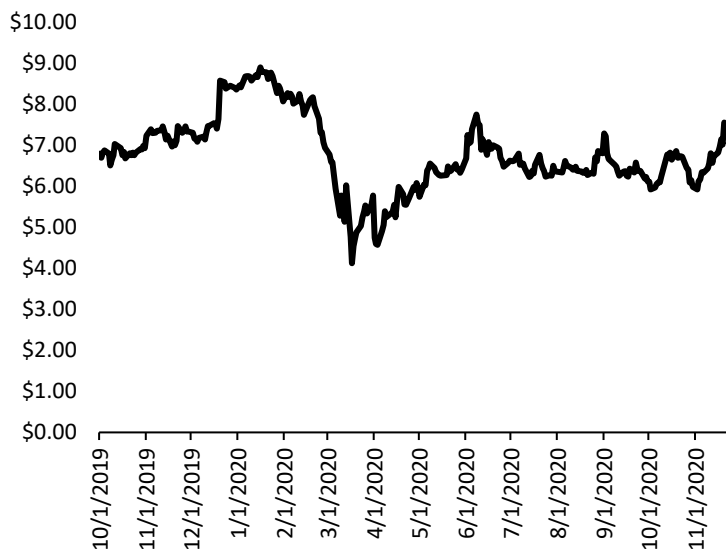
BLACKBERRY SPECULATIVE BUY: WILL ITS 7-YEAR BUSINESS TRANSFORMATION START TO PAY DIVIDENDS?

Company Overview:

Company Name:	BlackBerry Inc.
Exchange:	NYSE
Ticker:	BB
Country:	United States
Sub Industry:	Software and Services

Company Data:

Price Rating:	Speculative Buy
Price Target:	\$18.06
Current Price:	\$8.15
Price Date:	23/10/20
52 Week Average:	\$4.56
Market Cap:	\$4.560 (bn)
Enterprise Value:	\$4.320 (bn)



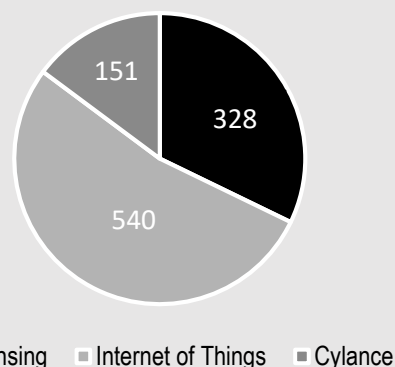
Company / Industry Overview

- Historically a mobile phone company, BlackBerry is now one of the fastest growing security software companies in Canada.
- Specializing in endpoint security, BlackBerry's technology will allow technologies such as Autonomous Vehicles to run smoothly in a protected cloud, or for governments to communicate and share confidential information securely across borders.
- BlackBerry's product mix is 3-fold, with the company specializing in enterprise endpoint security, autonomous vehicle endpoint protection, and it has an IP portfolio with over 38,000 patents and growing.
- BlackBerry currently operates in the \$22 Billion 'Internet of Things' market, that is expected to grow to \$38 Billion in the coming years.
- BlackBerry's main competitors include firms such as CrowdStrike, Avast, Norton, Microsoft, and Amazon Web Services

Figure 1: Total Software and Services Revenue (\$Millions)



Figure 2: Product Mix





Reasons to Invest in BlackBerry

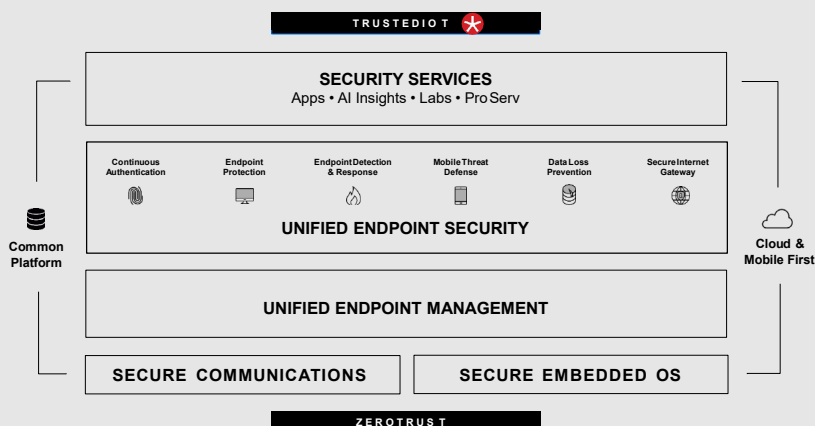
BlackBerry is capitalizing on the growing market trend of connecting and securing endpoints, especially in the autonomous vehicle market. BlackBerry's EOT software allows endpoints to communicate securely and maintain privacy, removing the need for redundant predictive modelling, and instead creating an interconnected network of autonomous vehicles. Any fears of AVs being hacked are effectively quelled by BlackBerry's QNX software, which controls all the safety and security aspects of self-driving cars. The company secures more than 500 million endpoints including 150 million cars.

1. Business Transformation: From Devices to Software

- BlackBerry's high-profile business transformation hasn't just occurred on paper. Software as a Service has grown as a revenue segment from 3% in 2014 to 98% in 2020. This is reflected in the increased gross margin, from 36% to 76%, and its ability to generate free cash flow.
- Much of BlackBerry's growth has occurred via acquisition, however the company is starting to improve its in-house capabilities through synergies realized from these acquisitions, as well as through Year-Over-Year improvements in research and development.

	FY14	FY20
Revenue (% YoY)	\$6.8B	\$1.1B
GM % ²	36%	76%
Adjusted EBITDA	\$194M 3% Margin	\$149M 14% Margin
FCF	(\$393M)	\$14M
M&A		

2. Industry Exposure and Wide Client-Base



BlackBerry's client base currently includes high-profile customers such as 9/10 of the G20 Governments, 77% of Fortune 500 Companies, and it connects over 175 Million endpoints in its autonomous vehicle segment.

BlackBerry currently protects 96% of the enterprise threat landscape, and its importance in 2020 had only grown. The company predicts that by 2025, a total of 6 Billion endpoints will be connected, and BlackBerry will have a key share of that market.

With that said, BlackBerry's peers such as CrowdStrike, also have similar client bases as many of these companies hire different software providers depending on their specific needs.



BlackBerry Valuation Methodology

We made use of a discounted cash flow (DCF) analysis to reach our valuation and price target of \$19.39 per share for BlackBerry Limited. We believe that although this high valuation is possible, especially due to the changing nature of the company's business model, investors must be wary of the risks associated with a company transformation and the risks that other, more established competitors pose.

- We see BlackBerry as an unrealized growth play in a sector that is still on the rise and will become more important as enterprise security becomes more of a growing trend. In fact, the IOT market is expected to grow from \$22Bn to \$38Bn in the coming years.
- Utilizing a 10-year forecasted growth rate of 3-5%, as well as an improvement in gross and operating margins, our derived DCF target price for BlackBerry implies 151% upside.
- While BlackBerry seems overvalued from a DCF standpoint, we must acknowledge that it is trading at a significant discount to its peers, and in the coming years its focus on software and security should yield a higher growth rate than when the company was operating in the mobile phone sector.

DCF Projections Selected Financials - DCF Base Case - (\$M)	Forecasted									
	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Revenue	1058.3	1115.1	1183.7	1267.3	1355.7	1445.3	1527.5	1598.0	1653.0	1700.7
COGS & Other Expenses	317.5	334.5	355.1	380.2	338.9	361.3	381.9	399.5	413.3	425.2
EBITDA	740.8	780.6	828.6	887.1	1016.8	1084.0	1145.6	1198.5	1239.8	1275.5
D&A	185.2	195.2	207.1	221.8	237.2	252.9	267.3	279.7	289.3	297.6
EBIT	555.6	585.5	621.4	665.3	779.5	831.1	878.3	918.9	950.5	977.9
Taxes	166.7	175.6	184.6	199.6	233.9	249.3	263.5	275.7	285.1	293.4
NOPAT	388.9	409.8	435.0	465.7	545.7	581.7	614.8	643.2	665.3	684.5
(+) D&A	185.2	195.2	207.1	221.8	237.2	252.9	267.3	279.7	289.3	297.6
(-) Net WC	52.9	55.8	59.2	63.4	67.8	72.3	76.4	79.9	82.7	85.0
(-) CAPEX	31.7	33.5	35.5	38.0	40.7	43.4	45.8	47.9	49.6	51.0
Unlevered Free Cash Flow	489.5	515.8	547.5	586.1	674.5	719.0	759.9	795.0	822.4	846.1
Discount Factor	0.91	0.83	0.76	0.70	0.63	0.58	0.53	0.48	0.44	0.40
Discounted UFCF	446.9	430.0	416.7	407.4	428.0	416.7	402.1	384.1	362.7	340.8

Implied Enterprise to Equity Value Bridge		Implied Share Price	
Enterprise Value	9,897.5	Implied Equity Value	10,076.5
(+) Cash & Cash Eqv	895.0	Shares Outstanding (Fully Diluted)	558.0
(-) Debt	(716.0)	Implied Share Price	18.06
(-) Non-Controlling Interests	0.0	Current Share Price	8.15
(-) Underfunded Pensions	0.0	Implied Upside	122%
(-) Preferred Shares	0.0		
Implied Equity Value	10,076.5		

5 Year Revenue Growth Rate	19.4%
Gross Margin	60%
EBIT Margin	8%
Forecasted Growth Rate	3-5%
Terminal Growth Rate	2%
Discount Rate	8.85%
Implied Price Per Share	\$18.06
Current Share Price	\$8.15

Future Catalysts:

- **Covid-19 Growth:** Work from home increased cyberattacks/second by more than 30%. As a provider of endpoint security, this helped BlackBerry widen its client base in order to protect firms from the increased security exposure that comes with employees working at home.
- **Management Stock-Based Incentives:** In his latest contract, CEO John Chen received \$405Mn in stock-based incentives. After years of transformation, this is a clear signal to investors that BlackBerry is once again turning its attention to share-price growth.

Investment Risks:

- **Low Market Penetration:** Despite having such a wide range of clients, at various corporate levels, BlackBerry is only one of many security firms that these companies hire, and its market penetration in the industry as well as with individual clients is quite low.
- **Investor Stigma:** For years, BlackBerry has been seen as a fallen Canadian giant, and this has been sorely reflected in their share price. Despite the massive turnaround, investors may not buy the hype, and could turn to other growth tech plays such as Lightspeed, Kinaxis, and CrowdStrike.

Disclosure: The information contained within this research report is for general educational purposes only. It is not a substitute for financial advice from a licensed professional. Please conduct your own research when making investment decisions.