

BlackBerry posts 3Q loss of \$4.4B (Update)

December 20 2013, by Rob Gillies



This April 23, 2013 file photo shows a BlackBerry Q10 smartphone in Toronto. BlackBerry on Friday, Dec. 20, 2013 reported a massive \$4.4 billion loss in the third quarter and 56 percent drop in revenue. The results are the Blackberry's first under new chairman and interim chief executive John Chen. (AP Photo/The Canadian Press, Graeme Roy, File)

BlackBerry reported a massive \$4.4 billion loss in the third quarter and a 56 percent drop in revenue in its first quarterly report under new chairman and chief executive John Chen.

Despite the results, Chen said on a conference call with analysts that BlackBerry "has a really good shot" of turning a profit in 2016 and management will try its best to achieve the goal. Chen later laughed when an analyst wished him the "best of luck."

The former Sybase CEO is credited with turning around Sybase, a data company that was sold to SAP in 2010. Chen said reviving BlackBerry will be his most "complicated" challenge but noted, however, that the company has \$3.2 billion in cash, which will "definitely allow us to engineer our turnaround."

BlackBerry also announced Friday that it's entering into a five-year partnership with Foxconn, the Taiwanese company that assembles products in vast factories in China. Foxconn, known for its manufacturing contract work on Apple's iPhones and iPads, will jointly design and manufacture most BlackBerry devices and manage inventory of the devices in an agreement that will offload much of BlackBerry's manufacturing costs.

"I'm hoping we never have to have a conversation going forward about inventory write downs," Chen said.

He said Foxconn's BlackBerry phones will be released in March or April and will be built in Indonesia and Mexico.

BlackBerry reported revenue of \$1.2 billion, down from \$2.7 billion in the same quarter last year.

Chen has said the company "is very much alive" but is putting more emphasis on BlackBerry's software business than its hardware business.

"I'll be happy to have a breakeven or a low margin device business and then have that help us to monetize software," said

Chen, who he is dropping the interim label from his title, said the market has spoken. BlackBerry said it sold just 1.9 million smartphones in the quarter compared to 3.7 million in the previous quarter. Most of those were old BlackBerry 7 devices. This year's launch of BlackBerry 10, its revamped operating system, and fancier devices—the touchscreen Z10 and Q10 for keyboard loyalists—was supposed to rejuvenate the brand and lure customers. But the much-delayed phones failed to turn the company around and have led to a billion dollar loss last quarter and a \$1.6 billion loss in the third quarter.

"It was ugly," said Colin Gillis, an analyst at BGC Partners.

Gillis said the Foxconn agreement may help keep Blackberry alive by offering lower cost phones into the emerging markets like Indonesia with minimal inventory risk to the company. It also allows Blackberry to focus on designing and producing a small batch of devices for high end business users where security is paramount, and where the company still has pockets of loyalty, he said.

BlackBerry's net loss amounted to \$8.37 per share in the latest quarter. Its adjusted loss from continuing operations, which excludes restructuring and other items, was \$354 million, or 67 cents per share.

Analysts polled by FactSet, on average, expect an adjusted loss of 43 cents per share on revenue of \$1.66 billion.

Shares of BlackBerry initially fell in premarket trading but jumped after Chen's conference call. The stock closed up 15.5 percent, or 97 cents, to \$7.22.

Gillis explained that the stock had been trading at merely its cash value. So any "heartbeat of hope can cause the market to add a dash of value to the actual company and its assets," he said.

Indeed, BlackBerry reported a strong cash position at the end of the quarter with \$3.2 billion and no debt. The company's market capitalization is \$3.2 billion, a far cry from its \$83 billion market cap in June 2008.

The BlackBerry smartphone, pioneered in 1999, had been the dominant mobile device for on-the-go business people and other consumers before Apple introduced the iPhone in 2007. Apple's device showed that phones could handle much more than email and calls. In the years since, BlackBerry Ltd. has been hammered by competition from the iPhone as well as Android-based rivals.

Chen is putting more emphasis on BlackBerry's mobile device management business, a collection of software that allows IT departments to manage different devices connected to their corporate networks. He is also emphasizing BlackBerry's popular BlackBerry Messenger application that is now also available on Apple and Android devices. And he is also trying to highlight Blackberry's embedded QNX software systems, which are used in-vehicle infotainment systems and industrial machines.

"John articulates a reasonable strategy," Gillis said. "He's reached into his pockets and said 'What do I have left?' and said 'let's grow these things.'"

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