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BlackBerry Limited

Fiscal Year 2019 Fourth Quarter Results

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PRESENTATION

Operator:

Good morning and welcome to the BlackBerry Fiscal Year 2019 Fourth Quarter Results Conference Call. My name is Michelle 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. Should you need assistance during the call, please signal a conference specialist by pressing star, one. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to our host for today's call, Christopher Lee, Vice President of Finance. Please go ahead.

Christopher Lee:

Thank you, Michelle. Welcome to the BlackBerry Fiscal Fourth Quarter and Fiscal Year 2019 Results Conference Call. With me on the call today are Executive Chairman and Chief Executive Officer, John Chen; and Chief Financial Officer, Steve Capelli. After I read our cautionary note regarding forward-looking statements, John will provide a business update and Steve will then 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, including the risk factors that are discussed in the Company's Annual Information Form which is included in our Annual Report on Form 40-F and in our MD&A. You should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements 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 and annual results. For a reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release and supplement published earlier today.

I will now turn the call over to John.

John Chen:

Thank you, Chris. Good morning everybody. As Chris has stated earlier, I will only reference non-GAAP numbers in my summaries. BlackBerry had a very, very positive quarter and as well as the Fiscal 2019. Let me start with Fiscal 2019 results. For Fiscal 2019 we delivered upon all our financial outlook including 10% total Software and Services revenue growth, double-digit percentage total Software and Services Billings growth. We reported $0.24 in earnings per share versus $0.14 last fiscal year, and we generated $83 million in reported free cash flow.

In the quarter, we achieved 8%, now is for the Q4. In the quarter Q4 we achieved 8% year over year total company revenue growth—this was the first time in many years—driven by four consecutive years of Software and Services growth that overcame the quarter-to-quarter decline in Handset revenue and Service Access Fees.

We believe total company revenue growth is a significant milestone to both the company and our shareholders. This profitable growth is a clear indication that we have successfully pivoted to become an enterprise software company.

This quarter's results are due to the achievement of record high in total Software and Services Revenue, enabling BlackBerry to exceed the consensus expectations in both revenue and earnings per share for the quarter.

Finally, we completed our acquisition of Cylance. Cylance is the next generation endpoint security technology which participates in the fast-growing market and they provide technology that are shaping the future direction of cybersecurity. The AI and machine learning capabilities we added are synergistic with our long-term vision for BlackBerry Spark, our integrated secure communication platform for the IoT.

Now, let me provide some highlights for the fourth fiscal quarter. Total company revenue came in at $257 million; Total Software and Services Revenue was $248 million. As I mentioned before, this is a new record quarterly high. Total Software and Services Billings grew a solid double-digit percentage year-over-year for both the fiscal quarter as well for the fiscal year. Gross margin came in at 82%; Operating income was $58 million, positive for the 12th consecutive quarter. Operating margin was 23%, an increase of 9 percentage points from last quarter. This is the highest operating margin reported by the company since Fiscal 2011.

EPS came in at $0.11. Total ending cash and investments after the closing of the acquisition of Cylance came in as $1 billion.

Next, I will cover some significant highlights by business. Fourth quarter Enterprise Software and Services Revenue declined 20% year-over-year primarily due to the impact of the ASC 606 accounting. You may recall that in the fourth quarter of Fiscal 2018 we reported approximately $30 million of perpetual licenses that were recognized up front prior to ASC 606. It is worth noting that this is the last quarter of year-over-year comparative impact related to the implementation of ASC 606.

As we look at billings and other operating operational metrics in the quarter, we expect to see growth in Enterprise Software and Services in Fiscal 2020.

Billings grew strongly on a sequential basis. The strength in the quarter came mainly from financial services and the government vertical. In the financial services vertical, we received over 400 orders from banking customers from all around the world, which includes Barclays plc and Bank of Oman.

In the government vertical, some notable orders received including the Austrian Federal Computing Center, the Defense Logistics Agency, the Police Service of Scotland, Public Service and Procurement Canada, U.S. Air Force, U.S. Army, U.S. Navy, just to name a few. After the quarter, we made two major announcements that underscore our continued progress in the government sector. First, we were selected by NATO for our secure voice solution, SecuSuite for Government. Second, we announced the creation of BlackBerry Government Solutions, which is a Washington, D.C. based subsidiary that will deepen our reach within the United States government and ensure that all our company's solutions and products are FedRAMP authorized. This is a model that we can see deployed with other countries, in the future of course.

As we have demonstrated consistently throughout the fiscal year, we are well positioned to not only compete but to win in the regulated industries.

Our strongest revenue performer within Enterprise Software and Services in the quarter was our UEM, the Unified Endpoint Management business, which grew at a high single digit percentage on a sequential basis.

Enterprise Software and Services deferred revenue also grew in the fourth quarter since we have largely transitioned to a ratable revenue model. We are still on track to release the first module for the BlackBerry Spark platform this September. As a reminder, BlackBerry Spark is our integrated secure communications platform designed to address the hyperconnected needs of the IoT markets.

Let me move to BlackBerry Technology Solutions business. Fourth quarter BTS revenue came in increased 20% year-over-year. Growth in BTS is mainly driven by BlackBerry QNX, the software development license services and royalty revenue, they all grew year-over-year as we continue to be selected for designs by our customers in both the automotive as well as the general embedded market.

In the quarter, we had a total of 22 design wins, of which 14 were in automotive. Three of the wins were for infotainment and the remaining 11 wins were across ADAS, which is Advanced Driver Assist, digital cockpits, instrument cluster and other non-infotainment applications.

Based on one of our recent wins with a prominent Tier 1 supplier, we are seeing an emerging trend in the automotive software architecture where domain controllers are consolidating functions that have historically been distributed across many ECU, the electronic control units. This trend is constructive for BlackBerry QNX. Our safety certified operating system and hypervisor are very relevant for this current market demand.

During the quarter, we announced an investment of CA$310 million over 10 years to develop the next generation of safe and secure and embedded software for the future automobile and other enterprise markets, and other autonomous platforms. Our investment continues to increase the breadth of our products and that are necessary to serve the active safety and autonomous platforms now as well as in the future. I believe this investment is going to help BlackBerry stay head of the competition.

I'm going to move on to Radar. In the quarter, we added eight new customers including Fletes Mexico continuing our international expansion. We also received repeat orders from nine existing customers including Bimbo Bakeries USA and FlexiVan. We are actively engaged with a number of very large companies in our pipeline and we look to continue to ramp our volumes.

In our business reporting regarding Licensing, IP and Other Revenue, which in the future by the way we're going to refer to it as Licensing, I guess from now to perpetuity—we continue to execute well against the strategy to monetize our IP and technology portfolio. Our Licensing business performance in the fourth quarter resulted in an increase in revenue of 71% year-over-year. The performance was driven by the close of the opportunities we have actually highlighted and have been discussing with you early in fiscal year that we were all working on. We expect a steady annual revenue contribution from this business. Based on our pipeline, we are working towards a goal of around $270 million in Licensing revenue in Fiscal Year 2020.

A brief word on BlackBerry Cylance. Those of you who attended—by the way, we completed the acquisition the last week of February. Those of you who attended RSA this month, which is March, are aware of our release of CylancePERSONA, which generated a lot of interest as the first proactive protection solution based on individual behavioral characteristics. At RSA, we also announced that Verizon selected BlackBerry Cylance to be part of the Managed Security Services portfolio. This partnership strengthens our channel as well as broadens our reach to Verizon's enterprise and the small-medium business customer base.

BlackBerry Cylance was also recently recognized by multiple cybersecurity industry experts for their innovation and leadership. I guess ie: got a lot of awards at RSA. BlackBerry Cylance is off to a bright start and we are very pleased with this acquisition. It's a positive validation on our investment thesis.

Before I turn the call over to Steve, let me provide you a couple of key personnel updates. First, I am pleased to welcome and announce that Bryan Palma recently joined BlackBerry as our President and Chief Operating Officer. Bryan is an excellent addition to our team. Bryan started his career as a forensic specialist for the United States Secret Service. He was also the first CISO, the CISO for Pepsi, the VP of Cyber and Security Solutions for Boeing, and a Senior Vice President of an $8 billion professional services business from Cisco. The combination of Bryan's strong go-to-market focus and his cybersecurity background has enabled him to deliver growth at all his prior organizations and engagements.

As you have seen, we added some strong talent over the last several months with Bryan as well as Stuart and the Cylance team. We plan to add others to our team. All of them will be key for BlackBerry to execute against our strategy for profitable growth.

For Fiscal 2020, the Company is now organized into three business units whose leadership will report to me. Bryan will lead the new BlackBerry IoT business which will include our Enterprise Software and Services as well as the BlackBerry Technology Solutions team. Stuart, the co-founder and CEO of Cylance will lead the BlackBerry Cylance business. Steve Capelli will lead Licensing in conjunction with CFO role. I will now turn the call over to Steve to provide more details about our financial performance.

Steve Capelli:

Thank you, John. Before I comment on the fiscal quarter, I'd like to comment on Fiscal 2019. As John previously mentioned, I am pleased that we did what we said we would do regarding our Fiscal 2019 financial outlook. More importantly, we ended the year on a high note with total company revenue growth, gross margins over 80%, positive free cash flow generation and $1 billion in cash after closing the Cylance acquisition.

Now, on to the fiscal quarter. Note, my comments on our financial performance for the fiscal quarter will be in non-GAAP terms unless specified otherwise.

We delivered fourth quarter non-GAAP total company revenue of $257 million and GAAP total company revenue of $255 million. I will now break down revenue shortly.

Fourth quarter total company gross margin was 82%, primarily due to the higher mix of Licensing revenue. Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of $2 million and excludes stock compensation expense of $1 million and restructuring costs of $1 million. Operating expenses of $152 million were up 8% sequentially due primarily to the inclusion of Cylance in our numbers for about a week of our fiscal quarter.

Our non-GAAP operating expenses exclude $18 million in amortization of acquired intangibles, $13 million in stock comp expense, $8 million in acquisition and integration costs, $2 million in restructuring charges, and a one-time benefit of $9 million from a settlement with Panasonic, and a benefit of $6 million related to the fair value adjustment on the debentures.

Non-GAAP operating income was $58 million and non-GAAP net income was $60 million. Non-GAAP EPS was $0.11 in the quarter.

Our adjusted EBITDA was $73 million this quarter excluding the non-GAAP adjustments previously mentioned. This equates to an adjusted EBITDA margin of 28%.

I will now provide a breakdown of our revenue in the quarter. Total Software and Services Revenue was $248 million, representing 96% of total revenue, and up from 91% a year ago.

Total SAF revenue was $9 million and total handset device revenue was zero.

I will now provide a further breakdown of our Software and Services Revenue in the quarter. Please refer to the supplemental table in press release for the GAAP and non-GAAP details. Enterprise Software accounted for 37%; BlackBerry Technology Solutions accounted for 22%; Licensing accounted for 40%, and Cylance accounted for 1%. Recurring Software and Services Revenue was 93% in the quarter, consistent with the definition we used last quarter which was to include perpetual licenses recognized ratably.

Now moving on to our balance sheet and cash flow performance, total cash, cash equivalents and investments were $1 billion, which decreased by $1.4 million from November 30, 2018, due to the closing of the Cylance acquisition. Our net cash position was $400 million at the end of the quarter.

Free cash flow before considering the impact of acquisition and integration expenses, restructuring costs and legal proceedings was a positive $20 million. Cash generated in operations was $21 million, and capital expenditures were $3 million.

That concludes my comments. I'll now turn the call back to John to provide further outlook.

John Chen:

Thank you, Steve. Before I provide a Fiscal Year 2020 outlook, let me summarize our strategic priorities for the fiscal year and I will break it down by business unit.

For BlackBerry IoT, our goal is to drive profitable revenue growth, increase our market share in the industry verticals that we have been strong in and expand—starting to expand the verticals that we have been underweighted.

For BlackBerry Cylance, our goal is to increase market share, of course, while improving its profitability and reducing the cash burn.

For Licensing, we look to close opportunities that result in a higher amount of recurring revenue.

We are investing for growth, including expanding our channel reach and our innovation. We have begun to integrate AI and machine learning capabilities onto both our UEM product as well as the QNX product line, and we anticipate, at least at the beginning of the releases in 12 months, probably started with UEM first. We are also investing to accelerate the development of the Spark for our internal growth.

With that as a context, our outlook for Fiscal Year 2020 is as follows. We believe the total revenue growth will come in between 23% to 27%, driven by a double-digit percentage increase in billings. Revenue growth is broken down as follows: IoT business unit growth of between 12% to 16%. We expect BTS to grow faster than the Enterprise UEM business. We are sharing these details with you only on this call—I guess it should be only once on this call—to help you align your historical model with our going-forward financial reporting.

License we expect to decrease 5% year-over-year as we focus on closing opportunities that build upon our recurring licensing revenue base.

In summary, the combination of IoT and Licensing business units should deliver organic growth somewhere between 8% to 10%. Also, we expect BlackBerry Cylance growth somewhere between 25% to 30% from a base of around $170 million for the 12 months ending February 28, 2019.

Service Access Fees, SAF, to be around somewhere between $10 million to $20 million.

As stated earlier, we are investing for current and future growth. Though we are investing, we still anticipate being profitable on a full year basis, even with the diluted impact of the Cylance acquisition. As previously noted on the November announcement call, we anticipate the acquisition to be accretive in the second fiscal year and thereafter.

BlackBerry's standalone annual gross and operating margin profile is largely unchanged, however, we are adding about $300 million of costs related to Cylance. This will break down to about $75 million in the cost of goods sold, and $220 million in operating expense.

The total company intends to improve operating leverage throughout the Fiscal 2020.

We anticipate our Fiscal 2020 financial results will be consistent with the seasonality we have exhibited the last fiscal year. We anticipate minimal changes to the tax expense and capital expenditures that we have reported last year.

With all that, you should be able to come up with the final answers, with a definite number, but I will now—Operator, Michelle, I would like to open the call for question and answer, please.

Michelle?

Operator:

At this time, we will now begin the question and answer session. To ask a question, you may press star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We request that you limit yourself to one question and one follow-up.

Our first question will come from Steven Fox from Cross Research. Your line is open.

Steven Fox:

Hi. Good morning.

John Chen:

Good morning, Steve.

Steven Fox:

Two questions from me, please. First of all, John, given all the organizational changes, I was curious if you could sort of outline what it does to free up your time and maybe how your emphasis in terms of your own management is going to change going forward? Then, secondly, when we think about Cylance and obviously everything you've said is fairly consistent with when you announced the acquisition, but can you give us a little colour on maybe how their business plays out seasonally quarter to quarter roughly, and also how the direction we should think about the cash burn declining as the year goes on? Thanks.

John Chen:

I will leave the cash burn answer to Steve. The first question is I'm buying all the maps about beaches and golf courses and—no, no.

Steve, I think I will be immensely busy and part of the reason is to make sure that we have the synergy both in the financial side and more important the technology, and build out our internal communication platform for the IoT. There are some really big projects that I need to focus on, and also making sure that Cylance, being a very high growth company, continues that growth but being integrated into BlackBerry as one company. So, I have to kind of balance that culture on both cultures, and I think we'll work very well. I mean initially we are working exceedingly well right now, so people at Cylance are very excited to join us and we are very excited to have them.

Anyway, there's going to be a lot of work and hoping that I could spend more time in getting the company more focused on the strategy going forward.

There is, because of their growth, there wasn't really much of a seasonality, obviously, because they're growing every quarter basically, and so—but if you look at if four quarters over four quarters type thing, you can easily see Q1 being lower and Q4 being higher. I mean, the same kind of mathematics; a little bit more profound on our Enterprise sized business, less profound on theirs. Okay?

Steve Capelli:

Okay, so Steven, first of all we will submit a Business Acquisition Report. We have to submit by 75 days, on May 7th would be that deadline. We hope to have that done before our Analyst Day which is late April, so in about 30 days I think you'll have a better view.

John mentioned because of the high amount of recurring revenue how the revenue flow would come through, and on a cash flow basis we did say they would be accretive next year for us, but as we look to this year we're really looking at decreasing losses on cash. Do expect to have that throughout the full year, obviously more heavily weighted in Q1 and gradually moving out to more profitability or cash flow generation in Q4.

Steven Fox:

Great, that's helpful. Feel free to send some of those beach brochures over to me when you get a chance.

John Chen:

Okay, will do.

Operator:

Your next question will come from Gus Papageorgiou from Macquarie. Your line is open.

John Chen:

Hey Gus.

Gus Papageorgiou:

How are you guys? Thanks and congrats on a great quarter. Just a couple of questions.

John Chen:

Thanks.

Gus Papageorgiou:

On the Licensing, I think, Steve, you said $270 million annually?

John Chen:

No, that's for next year. For next year.

Gus Papageorgiou:

Yes, for next year, for next year. Is there any seasonality in that or is that pretty consistent across quarters? Then also on the gross margin, I mean very strong gross margins this quarter. I know Cylance is only there for a week. What kind of—thinking about the gross margin profile for the year, where should we—should we kind of be keeping it flat at where it is or trading up or down?

Steve Capelli:

Great questions. On the Licensing component, I would expect an uptick through the year Q1 to Q4, Q2 and Q3 be flat and probably a stronger Q4 as we did this year on the Licensing model. Secondarily, on the gross margins, when we combine the two companies, Cylance has a greater proportion of Professional Services and as we look at our company, when I combine the two I would say mid 70s. If you say 75% going forward, it would be a good number to work from.

Gus Papageorgiou:

Great. Thanks a lot.

Operator:

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

John Chen:

Hi.

Daniel Chan:

Thanks for taking my questions. Can you put the expected growth of Cylance of 25% to 30% in context of last year's growth where they stated they were doing about 90%? What are the factors that are kind of changing your assumptions here?

John Chen:

Ninety percent is an abnormality because of a virus. I don't remember, it was Petya or WannaCry.

Steve Capelli:

Or WannaCry.

John Chen:

It's because of that. Then also the math of small number versus bigger numbers. One other point—I'm glad you mentioned this—our apples-to-apples comparison, although I'm allergic to Apple—but apples-to-apples comparison is actually 5% off the growth because we mapped their fiscal year into ours. Mathematically Chris and Steve could show you that if you are interested.

You really need to look at the 25% to 30% growth. From their historical rate, it's actually 5% higher than that.

Steve Capelli:

They lose the impact of a strong quarter end because of the way we do the modeling on that. And Dan, your reference point of 100%, I think when the BAR is released you'll kind of see that 100% is actually even dated to a prior year …

John Chen:

A few years ago, yes.

Steve Capelli:

Then, so you'll see it. And not to mention that the competition in this marketplace is growing significantly less than that.

John Chen:

Yes, we are—if you map our number, we will be literally doubling the growth of our competition that are public.

Daniel Chan:

Okay, great. Thanks. That's very helpful. Was wondering if we could switch gears to the Enterprise segments. So, that segment dropped sequentially. Can we get some more colour there? Especially considering that most of it is now being recorded as recurring if you include the perpetual licenses. If it's mostly recurring and you're gaining customers, wouldn't you expect that segment to increase? I know you said that UEM grew sequentially so where did the sequential decline come from?

Steve Capelli:

Sure. The quarter-over-quarter, it's really the product mix. As you pointed out, there's certain product lines that are recurring in nature and others that are not. The fact remains that billings grew quarter-over-quarter and that was substantial, and as well as the fact that due to the mix you can look back and you see that John spoke about 95% recurring—93% recurring this quarter. Last quarter it was 88%, so we have more recurring, less immediate revenue and that's really the mix.

John Chen:

A higher percentage of business was actually UEM that came in, and they're all on ratable, so that pushed our numbers up by 5%, the recurring number—or the ratable number, sorry, by 5% up, and so it drops thus the revenue number.

Daniel Chan:

If I could just squeeze one more in, what was that recurring revenue number if you exclude the perpetual licenses?

Steve Capelli:

What was the recurring revenue—well, we said 93% is total company and that's how we report.

Daniel Chan:

But that's if you include the perpetual licenses recorded as ratably. What if you were to exclude those perpetual licenses that you-

John Chen:

We have very—this quarter we are very few—we have very few perpetual.

Steve Capelli:

Very few perpetual, so it would still be mid 80s.

John Chen:

Yeah, it would probably be mid and high 80s.

Steve Capelli:

Yes.

Daniel Chan:

Okay, great. Thank you very much.

John Chen:

Sure.

Operator:

Your next question comes from Paul Treiber from RBC Capital Markets. Your line is open.

John Chen:

Hey Paul.

Paul Treiber:

Thanks very much and good morning, guys.

John Chen:

Good morning.

Paul Treiber:

Just on the theme of recurring revenue, in regards to IP Licensing, I think in the past you mentioned sort of like a base level run rate, but what's the mix of recurring versus one-time in either the quarter or the year, and then relative to the $270 million outlook for next year?

John Chen:

Go ahead, Steve.

Steve Capelli:

First of all, we don't include IP revenue as part of our recurring percentages, so I want to just kind of set that tone first.

The second piece of it is we still say that $40 million to $45 million is that baseline of recurring revenue and the rest is more one-time in nature; however, as you've seen, we've been able to kind of deliver a consistent number above that number and that's due to our pipeline.

Paul Treiber:

Okay.

John Chen:

Your model, Paul, your model should be still about $40 million to $45 million a quarter on a baseline basis. You used the word baseline. You should use that and then the rest will come in more of the one-time.

Paul Treiber:

Okay. Bigger picture, in regards to the IP Licensing business, I think in the past you talked about there's 10 to 11 years or so remaining on the patents. Is the opportunity just to monetize the business and then what happens out 10 to 11 years, like to the extent are you replacing those patents or can you extend those patents to sustain the durability of that revenue stream?

John Chen:

We currently have over 100 patents in application that are new, and then added to it a set of patents also from Cylance, so we are fuelling up the pipeline very rapidly. We have a lot of innovation going on in the company so I wouldn't be overly concerned about running out of food.

Steve Capelli:

That includes patents also of QNX and other areas.

John Chen:

It's all in there, yes.

Paul Treiber:

Okay. Okay, thanks very much.

John Chen:

Sure, thanks.

Operator:

Your next question comes from Todd Coupland from CIBC. Your line is open.

Todd Coupland:

Good morning. One clarification and one question, if I could.

John Chen:

Hi Todd.

Todd Coupland:

I wanted to see if you could unpack the outlook for QNX and Enterprise Solutions. I know you've bundled it up together here, 12% to 16%, but how should we think about those two segments as we look out to next year?

John Chen:

QNX will be on the high end of that range and UEM on the lower end of that range.

Todd Coupland:

Okay. So, you still think that UEM can grow in the high single digits from regulated and governmental demand. That's how you're thinking about that?

John Chen:

Absolutely. Well, I hope it's a little better than high single digits, but yes. That's correct.

We have a lot of projects going on. We have new product in the pipeline. I'm not overly concerned. We saw a good sequential growth from Q3 to Q4.

Todd Coupland:

Okay. Then, on QNX, it's hard for us to see what's going on under the surface because you have Professional Services before you get the recurring revenue, and then you have various design wins ramping and you have the mix of design wins, ADAS versus entertainment, etc. What actually is happening overall from a growth perspective in the areas that you like? If I were to look at that 12% to

16%, 16% QNX, that's just okay relative to where you had been growing that business the last couple of years. Help us bridge what's going on in the business. Thanks.

John Chen:

Yes, I hope—there was also something you have to remember. The ratio of UEM revenue and the QNX revenue is such that I hope QNX is growing faster than 16%. If QNX—you know we have a design win type of a revenue model, and royalties are quite steady throughout all these years and gradually upticking. Design wins brings in development set, development seat revenue as well as some Professional Services, but by and large, this is a royalty based business.

I don't know how you want me to unpack it. This last fiscal year we just finished, we are reporting, we grew 25% year-over-year. That's a pretty good year and we shouldn't be dropping off any more than that, or we might even be going into 25 or a little bit higher. It's kind of a little difficult to just pinpoint exact numbers. We model ourselves as growing on a high teens type environment.

Todd Coupland:

Just last question, if I could, on Cylance. Lots of noise with the peers in the market. Some of them are probably bulking up to have a story to go public, etc. Help investors understand sort of competitive differentiation of Cylance to sort of like see through some of that commentary.

John Chen:

There are a lot of people call themselves cybersecurity company. There are basically three categories. One category is the one that we will call signature based. In the industry they refer to the first generation anti-virus software. This would be companies like Symantec and McAfee, of sorts. Then the second generation are turned more towards AI and machine learning, and much more lightweight and the players there are the 3 Cs, the Carbon Black, Cylance and CrowdStrike. Then you have the third category which are more tied to the IoT endpoints, more in the discovery type side of the equation. So, we are definitely in the newer generations, second generation anti-virus and cybersecurity threat detection and prediction technology.

In the second generation there are two major fields. One is called the EPP and one is called the EDR. EPP is more on the predictive protection; EDR is more on the remediations, detection and remediations. Cylance is, at least from the analyst community, the industry analyst community, has been ranked number one on EPP.

The RSA announcement, the reason I refer to it—this is obviously as part of our due diligence is they have the newest set of the EDR products also, so they just announced that in March.

We're pretty pleased with the technology and how competitive it is, but it's definitely in the top handful of names in the market.

Todd Coupland:

Great. Appreciate the color.

John Chen:

Sure.

Operator:

Our final question for today will come from Mike Walkley from Canaccord Genuity. Your line is open.

John Chen:

Hi Mike.

Mike Walkley:

Hi, thanks. Just following up on Cylance, just in the 25% to 30% guidance. Can you talk about if there are any cost synergies built into there? Is that more longer term? Can you share any initial feedback from your customers now that you've had it closed for a little over a month here? Thanks.

John Chen:

Yes. Initial feedback are very, very strong, very interested. A, there are overlap customers and the good news is BlackBerry is all on mobile, Cylance are mostly on PC and laptops, so we could now provide end-to-end.

In our math there is no revenue synergy assumed. Now, the reason why we don't have revenue synergy assumed is because we are integrating the two products from PC to mobile, and so as I said, the first set of products will come out in 12 months, and so the next fiscal year will be a growth catalyst from that. I'm quite excited about that fact that we could have a two-way, or hopefully more than two-way. Then after that we will integrate Cylance into the QNX offering.

Mike Walkley:

Great, thanks. Just my follow-up question, just on Radar, any updates there maybe on a quarterly run rate or total subs you have for Radar after a little over a year of the platform? Thanks.

John Chen:

Right now it's not significant enough for us to break it out. When it gets to that, be rest assured we will give you some numbers to follow, but the POCs are going on very well. We have very large customers kicking our tires, so to speak. It doesn't mean that we're going to win it all but we're going to win our share.

The repeat buying tells us the customers are happy and they're rolling out, and a couple of new ones is always nice, but it's still small as the total business.

Mike Walkley:

Great. Okay, thank you.

John Chen:

All right, thanks.

Well, thank you and we'll be around to answer any further of your questions so please do call us. Let me give you—provide some closing statements.

Before I start the closing statement, we do have an Analyst Day and please contact first if you would to come. I know it's filling up very quickly. The Analyst Day is the end of April in San Ramon, California. The significance of that is the Cylance founder will be there, the Chief Product Officer will be there to talk about everything about Cylance. We have our CTO also going to talk about the integration of Cylance product onto UEM and QNX, so it's pretty exciting from a technology—a lot of these questions that are being asked, the next level details they will be able to provide.

Anyway, the closing statements, we—obviously BlackBerry—the thing that pleases us is BlackBerry has evolved from a portfolio of strong assets to an enterprise security software company. We will talk about the platforms, the Spark platform that we are developing ourselves with the integration of Cylance onto it which will make it extremely competitive in the market.

We expect our security solution to generate more than a billion dollars in revenue for Fiscal 2020. There are not too many security companies of our size and reach.

We have a technology portfolio and significant know-how in data security and privacy that is extremely relevant to the emerging IoT market, so this is very encouraging from that.

All in all, I hope you can see the optimism of the Company, and we are executing. Still a lot of work to do but we feel pretty good about where we are today. Okay? And we will hopefully see you in late April. Thank you very much.

Operator:

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