

BlackBerry

Q2 FY '26 Earnings Conference Call

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CORPORATE PARTICIPANTS

Martha Gonder - *IR*

John Giamatteo - *CEO*

Tim Foote - *CFO*

PRESENTATION

Operator

Good morning and welcome to the BlackBerry's second quarter fiscal year 2026 results conference call. My name is Michael, 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 facilitate -- 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 zero. As a reminder, this conference is being recorded for replay purposes. I would now like to turn today's call over to Martha Gonder, Director of Investor Relations, BlackBerry. Please go ahead.

Martha Gonder

Thank you, Michael. Good morning, everyone, and welcome to BlackBerry's second quarter fiscal year 2026 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 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. 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 Tim 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, let me turn the call over to John.

John Giamatteo

Well, thanks, Martha, and thanks to everyone for joining today's call. Q2 was another strong quarter for BlackBerry with all three of our divisions beating the top end of guidance. The company revenue for the quarter was stronger than expected, growing 3% year-over-year to \$129.6 million. BlackBerry delivered another quarter of solid profitability with total company adjusted EBITDA reaching 20% of revenue and GAAP net income being positive for the second consecutive quarter at \$13.3 million.

Likewise, non-GAAP EPS beat guidance at positive \$0.04. Despite the headwinds of significant tax payments in the quarter, we were able to return to positive cash flow earlier than anticipated with operating cash flow at \$3.4 million. At a divisional level, QNX beat expectations for both revenue and adjusted EBITDA to achieve a rule of 40 quarter. We delivered 15% year-over-year

revenue growth and a 32% adjusted EBITDA margin for Q2. QNX revenue for the quarter was \$63.1 million, primarily driven by strong royalties. These solid results are a testament to how the QNX team continues to successfully navigate what remains an uncertain macro environment. This is further evidenced by QNX design wins being ahead of plan in Q2 after a slower start to the year in Q1. The pipeline for potential design wins in the second half of this fiscal year looks solid.

In the quarter, we secured a number of noteworthy design wins, including a mid-8-figure design win in the Chinese market with a leading global Tier 1 supplier to power ADAS applications. QNX is also progressing with ecosystem partners. BMW and Qualcomm announced that they have jointly developed a scalable platform called Snapdragon Ride Pilot, which is built on QNX. This product offered by Qualcomm to all global automakers and Tier 1 suppliers enables an active safety system that is continually updated with cloud-based information from global fleets.

We secured another win for our cloud-based development platform, Cabin, with one of the top five global automakers. This was also a significant quarter for our QNX Sound product where we had a pivotal win to deliver software-defined audio with a leading domestic Chinese automaker and a leading branded audio partner. This marks a significant step forward in adoption of this product. Like in auto, we continue to see growth in a number of high-performance safety-critical use cases in the general embedded space. In particular, we're seeing progress in the verticals where we've been increasing focus and investment, namely medical instrumentation, industrial automation, and robotics. During this past quarter, we secured a significant win with a leading North American camera and vision module supplier for QNX to be used globally in automated mobile robots and subsequently in humanoid robotics. This is another data point that our investment strategy is showing returns.

During the quarter, the latest version of our QNX operating system passed the safety and security audits conducted by TUV Rheinland and QNX OS for Safety 8.0 was formally released on July 31. Having the product fully certified by arguably the leading body in this space allows customers to demonstrate the product's compliance with rigorous international standards. The QNX8 pipeline continues to grow and remains approximately 50-50 between auto and GEM, and this pipeline is being converted. In Q2, a top global automaker purchased new QNX8 development seat licenses. We also announced that QNX OS for Safety 8 will power NVIDIA's DRIVE AGX Thor development kit. This kit enables software development on the NVIDIA AGC Thor SoC, a truly powerful next-generation chip that facilitates generative AI. QNX forms the foundation for NVIDIA's DRIVE OS that is often used in conjunction with NVIDIA chipsets in the car.

There was also meaningful progress for the vehicle software platform that we're investing in and have partnered with Vector Informatik to develop. The platform pre-integrates our operating system with a number of middleware components. We believe that this platform will help automakers accelerate their path to software-defined vehicles, greatly expanding QNX's addressable market and increasing our overall software content in the car. We were excited to launch the first early access version of this product this past quarter, and we're working closely with Vector to implement and accelerate our go-to-market strategy.

We continue to see momentum with QNX Everywhere, our initiative to accelerate the growth of the QNX developer and ecosystem community through the availability of our products for non-commercial use and the development of QNX-centric training programs. We see this as a strategically important program that aims to significantly strengthen the position of QNX in the market for the long term. This past quarter, MIT was one of six universities to sign up to using QNX in their engineering curriculums with more than 4,000 students having already attended

QNX learning sessions globally. So, in summary, despite the continued uncertainty in the automotive market, BlackBerry's QNX division delivered strong results in Q2 and progress across all our key growth initiatives, and we have a solid pipeline of opportunities for the second half of the fiscal year.

Moving now on to Secure Communications division, which had another solid quarter, beating the top end of our guidance range and finishing higher sequentially with quarterly revenue of \$59.9 million. The better-than-expected results were driven by a combination of slowing customer churn for UEM as well as some upside for both AtHoc and Secusmart. Annual Recurring Revenue, or ARR, grew by \$4 million in the quarter to \$213 million, and the Dollar-Based Net Retention Rate, or DBNRR, improved to 93%. Although the revenue was down year-over-year due to a significant device refresh cycle last fiscal year, this was a good quarter for sales of Secusmart to the German government, including a five-year deal with a key government agency for hosted secure voice services. Offering a hosted service is a new recurring revenue business model for BlackBerry that, together with more software-only sales, can help create a more predictable revenue profile for the Secusmart business.

This deal can serve as a test case and open the door for future deals of this nature. We also saw traction with deployment of Secusmart on iOS devices. In the past, Secusmart was largely limited to Android. The R&D effort to add support for iOS has significantly increased the size of our potential opportunity within the German government. Outside of Germany, this quarter, we secured a deal with a Canadian government entity, and the pipeline of opportunities globally remains robust. During Q2, we secured a large renewal and upsell with the U.S. State Department for our AtHoc critical events management platform. This deal includes four option years, which could result in this being a five-year renewal. FedRAMP HIGH approval and new features added to the AtHoc platform recently were key for the State Department in expanding their relationship with BlackBerry for their emergency notification and accountability platform. In addition, we secured AtHoc wins with the United States Coast Guard and Veteran Affairs, among others.

As mentioned, this quarter, we saw the continuation of the trend for reduced customer churn for UEM. An increased focus on data sovereignty plays to BlackBerry UEM's strengths, especially with on premise deployments. In particular, we secured a number of non-government renewals that helped solidify the base. Renewals included a number of major financial institutions as well as Rolls-Royce, leading law firm, Hogan Lovells, defense engineering firm, Babcock, the IRS, and the Department of Homeland Security, just to name a few.

During the quarter, BlackBerry UEM became the first solution to be certified by Germany's Federal Office for Information Security, or BSI. Meeting these very rigorous standards shows BlackBerry's commitment to this market and opens up potential for UEM expansion opportunities in Germany. Overall, this was another solid quarter for Secure Comms. The pipeline of potential large deals with government customers continues to be strong. However, sales cycles remain relatively long.

Touching briefly on IP licensing. In addition to the run rate of revenue from pre-existing arrangements, which remains solid, we secured a net new one-time deal in the quarter that helped revenue to beat expectations at \$6.6 million. And with that, let me now turn the call over to Tim for more color on our financials.

Tim Foote

Thank you, John, and good morning, everyone. As John mentioned, revenue for the total company in the quarter exceeded the top end of guidance at \$129.6 million. Operating leverage driven by the strong top line combined with tight cost control enabled us to deliver expanded profit

margins. Total company adjusted gross margins expanded by 4 percentage points year-over-year to 75% and remained flat sequentially despite a greater proportion of Secusmart hardware in the mix.

Adjusted operating expenses were approximately 5% lower year-over-year at \$74.8 million. This reduction is in spite of increased investment in strategic growth drivers for QNX, namely our GEM expansion and the vehicle software platform as well as FX headwinds from a weaker U.S. dollar this fiscal year. This demonstrates how we're successfully controlling costs and driving efficiencies across the business.

As was the case in Q1, this past quarter, we benefited from approximately \$4 million of grant funding from the Canadian government's Strategic Innovation Fund. We do not expect to receive any further P&L benefit from this program for the remainder of the fiscal year. As a result of top line growth, expanded gross margins, and reduced operating expenses, total company adjusted EBITDA grew a very strong 72% year-over-year to \$25.9 million. Adjusted net income for Q2 was \$24.2 million, and GAAP net income was \$13.3 million. This is a \$33 million turnaround in GAAP net income from the \$19.7 million loss in the prior year. Indeed, it is also a significant expansion from the \$1.9 million of positive GAAP net income we achieved in Q1.

Adjusted EPS also beat expectations at positive \$0.04. QNX revenue beat the top end of the guidance range at \$63.1 million, representing 15% year-over-year growth. QNX gross margins expanded by 2 percentage points sequentially and were flat year-over-year at a strong 83%. QNX's adjusted EBITDA in Q2 marked the most profitable quarter in the division's history with a 32% margin. Adjusted EBITDA exceeded the top end of guidance at \$20.5 million, a 56% year-over-year increase.

Revenue for Secure Communications exceeded the top end of guidance in the quarter at \$59.9 million. Gross margin was higher year-over-year and lower sequentially at 66% as a result of revenue mix. Secure Communications remained solidly profitable despite the Secusmart hardware component in the product mix for Q2, delivering stronger-than-expected adjusted EBITDA at \$9.7 million or 16% of revenue. Finally, our licensing division delivered better-than-expected revenue of \$6.6 million, leverage from which drove adjusted EBITDA higher to \$5.6 million.

Adjusted corporate operating costs, excluding amortization, came in at \$9.9 million in Q2, in line with guidance. Despite paying \$19 million of tax due from prior years, the company had better-than-expected conversion of profit into cash and was able to deliver positive operating cash flow of \$3.4 million and free cash flow of \$2.6 million in the quarter. Total cash and investments increased year-over-year by \$99.2 million and decreased by \$18.4 million sequentially to \$363.5 million. The sequential decrease was as a result of us continuing to take advantage of what we believe to be an undervalued share price and repurchasing approximately \$20 million or approximately \$5 million shares at an average price per share of \$3.97 in the quarter. These shares have been subsequently canceled, bringing the total number of shares removed by the program to date to 7.6 million. As you know, we're investing for growth, especially in our QNX business. Despite this investment, we expect to deliver positive cash flow this fiscal year, further increasing our net cash position. As a result, we will continue to consider where it makes sense to buy back additional shares.

Turning now to financial outlook for the third fiscal quarter and the full fiscal year. Overall, we have seen a stronger-than-expected first half of fiscal year 2026 for both the QNX and Secure Comms divisions. And we're very pleased to be able to raise expectations for both revenue and adjusted

EBITDA for the full year as a result. When we first presented full year guidance during last fiscal year's Q4 earnings call, there were a significant number of unknowns. We faced a backdrop of significant tariff uncertainty and possible threats from DOGE and other potential government policy changes. While these changes have not gone away, we feel that the level of uncertainty has decreased. As a result, we are pricing in less downside risk in today's guidance than previously, and the top end of the range requires further improvement from the macro and other secular trends.

We expect revenue for QNX in Q3 to be in the range of \$66 million to \$70 million and for adjusted EBITDA to be in the range of \$13 million to \$17 million. As I mentioned, we are increasing our full year revenue guidance by \$3 million at the midpoint while also narrowing the range to \$256 million to \$270 million. Likewise, we're raising our full year adjusted EBITDA guidance by \$11 million at the midpoint to be between \$64 million and \$73 million as QNX continues to deliver a combination of double-digit growth and strong profit margins.

For Secure Communications, we expect revenue for Q3 to be in the range of \$60 million to \$64 million and for adjusted EBITDA to be between \$12 million and \$16 million. For the second quarter in a row, we are raising our full year revenue guidance for Secure Communications such that the range is now \$239 million to \$247 million. We're also raising our guidance for adjusted EBITDA with it now expected to be between \$38 million and \$48 million. For licensing, we reiterate our prior guidance for revenue to be approximately \$6 million and adjusted EBITDA to be approximately \$5 million per quarter. For the full fiscal year, we're holding revenue guidance at approximately \$24 million and adjusted EBITDA at approximately \$20 million. We continue to expect adjusted corporate OpEx, excluding amortization, to be approximately \$10 million a quarter or \$40 million for the full fiscal year. At the total company level, we expect revenue for Q3 to be in the range of \$132 million to \$140 million and adjusted EBITDA to be between \$20 million and \$28 million.

Given the increased full year guidance for both QNX and Secure Communications revenue as well as adjusted EBITDA, we are raising guidance for the total company, as well. For the full fiscal year 2026, we are raising the midpoint for total company revenue by \$7 million and now expect it to be between \$519 million and \$541 million. And we're raising guidance for adjusted EBITDA at the midpoint by \$12 million to be in the range of \$82 million to \$101 million. For non-GAAP EPS, we expect it to be between \$0.02 and \$0.04 in the third quarter and to now be between \$0.11 and \$0.15 for the full fiscal year.

Now that most of the restructuring and tax payments for prior years are behind us, we expect to be cash flow positive for the remainder of fiscal 2026. We expect positive operating cash flow for Q3 in the range of a solid \$10 million to \$20 million. For the full fiscal year, we are raising our guidance and expect to generate between \$35 million and \$40 million in operating cash flow. This does not include the additional \$38 million of cash from the second tranche of proceeds from the sale of Cylance to Arctic Wolf that we expect to receive in Q4. This is classified separately as cash flows from investing activities. And with that, let me now turn the call back to John.

John Giamatteo

Well, thanks for that, Tim. And before we move to Q&A, let me quickly summarize what was another strong quarter for BlackBerry. We delivered year-over-year top line growth and expanded gross margins while simultaneously decreasing OpEx. This combination allowed BlackBerry to deliver rock-solid profitability in Q2. QNX delivered a rule of 40 quarter with 15% revenue growth and 32% adjusted EBITDA margin. Secure Comms saw improvement in its key metrics and delivered a solid 16% adjusted EBITDA margin. We exit the first half of the fiscal year having

delivered top line growth, expanded profit margins, and positive cash flow generation. So, with that, let's now move to Q&A. Operator, could you please open up the lines?

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, please press star one on your telephone keypad. Please make sure your line is unmuted. 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. And your first question comes from Luke [Inaudible] with Baird. Please go ahead.

Unknown

Good morning. Thanks for taking the question. A couple QNX questions for me. Tim, maybe to start with, could you just double-click on how we should think about operating leverage in QNX from here? So, growing in the mid-teens year-over-year this quarter, but OpEx in terms of R&D and sales and marketing still coming down year-over-year in aggregate, which gave you really good leverage. I know some of that was the R&D credit. If we just pull in that string, what does it say about the business from here from a leverage standpoint? And maybe specific to guidance and the sequential walk, just anything we should be keeping in mind, one-timers or seasonality into the third quarter? Thank you.

Tim Foote

Yeah. Great question, Luke, and good morning. So, I see a lot of leverage in the QNX model. I mean, we're already at gross margins of 83%. And over time, we should see that improve, particularly as the mix of royalty starts to increase as things start -- we start to see some of these bigger programs move into production. On the costs -- the OpEx side, you're right. We had a \$4 million benefit this quarter from the SIF funding. But generally speaking, we are investing in both R&D and sales and marketing, particularly sales and marketing to drive that GEM opportunity that we've been talking about. But regardless of that investment, I still see leverage through the model. I think the investment we're putting into R&D will start to stabilize. And whilst we'll continue to invest in sales and marketing, it won't be at the scale that we hope to grow the top line. So, you add all that together, very strong gross margins, leverage coming out of OpEx, we should see some pretty strong adjusted EBITDA margins going forward.

Unknown

Got it. And then for my follow-up, John, you mentioned that I think it was a mid-8-figure design win in China with the Tier 1 for ADAS applications. Just being curious if you could maybe expand on your overall approach to the China market. Just strategically, certainly, that's a market in automotive that's at the leading edge of software-defined vehicles right now. Just curious how you lean into that in China specifically and then sort of the offshoot of that would be some benefit I would anticipate repatriating that into rest of world, as well? Thanks, John.

John Giamatteo

Yep. Thanks, Luke. Yeah, I think one of the interesting dynamics with the China market in particular is we're seeing -- due to some incidents, some safety issues and some of the concern, we're seeing them -- that market shift more towards safety-critical software and the need for a high-performance type of capability where maybe a few years ago it wasn't that -- the demand for those kinds of capabilities weren't quite as rich, and I think that has really opened up. There's, I think, some high-profile accidents that happened that is really awakened in that market to the

need of something -- to the magnitude of our SDP8 [sp] and some of our capabilities, which we think really are differentiated from everybody else in the market.

So, I think that trend is a positive one for us, and it certainly enabled us to make some progress this particular quarter. But that -- in general, as more of that shift goes towards safety critical and the higher end, higher compute, higher-performance capabilities, we think that plays into our strength and how we're performing in the marketplace. And it's also further evidenced by how the silicon players, the ecosystem partners are leaning in with us with our relationships with Qualcomm and NVIDIA and the progress we're making there. So, hopefully, that gives you a little bit more color on why we feel we're making a little more progress not only in China but around the world.

Unknown

Very interesting. I'll leave it there. Thanks, John.

Operator

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

Paul Treiber

Thanks very much and good morning. Just also a couple of questions on QNX, as well. Just on the outlook for the year, the outlook continues to be back-end loaded for QNX. Can you just remind us again what you see as the driver of the pickup in the back half of the year? And does that -- specifically, does that reflect either licensed or professional services, which is more onetime in nature, or is it a ramp in royalties?

Tim Foote

Yeah. Good question. Good morning, Paul. So, if you look at the trends, the revenue trend or pattern really for QNX for the last couple of years, it has been back-end loaded. It's pretty much a sequential increase all the way through with Q1 always being the lowest and Q4 always being the highest. Some of that is seasonality around when design work begins. Obviously, you know the biggest kind of moving part from quarter-to-quarter is development seat licenses, and that is driven really by start of programs, that design work. And that tends to be towards the back end of the year. So, we probably expect to see that pattern generally speaking going forward, but we'll have to see. But that's really what's driving it. But over time, we're also seeing growth in royalties as some of these programs start to come online. So, quarter-over-quarter, generally, you start to see growth in royalties, as well.

Paul Treiber

Big picture on QNX in the auto market. You mentioned a lot of uncertainty at the beginning of the year. The feedback that you're getting from auto OEMs in terms of the prioritization of new platform development, like -- and you mentioned the potential for seeing the move of big programs into production. Like, are you hearing that these big programs are back on track and the plans have moved maybe back to where they were previously whereas there's a concern that they might have been pushed out?

Tim Foote

I won't go as far as to say back on track. So, I think everything is no doubt shifted to the right. But I would say programs are starting to come online. Obviously, not as quickly as we would have liked at the beginning. I don't want to kind of paint the picture that we're totally through all of the headwinds that we saw. I mean, with tariff uncertainty has now become kind of really just a more certain tariff headwind, but the challenges of developing software remain complex, and those

have certainly not gone away. So, I think inevitably, over time, you're going to see problems get solved and vehicles come online. But I wouldn't paint the picture that we're totally out of the woods. But I think everyone's got just a little bit more certainty than we had at the beginning of the year when we gave guidance on Liberation Day.

John Giamatteo

Yeah. And just further to that what Tim has outlined, the S&P took the global light vehicle production. We feel that's increased -- the OEMs maintaining their guidance is another kind of data point that things are starting to stabilize. So, definitely April, May, June, it was kind of feels like the pause button was pressed, and it's not quite completely ramped. But we definitely feel like it's being unpressed, and there's a little more kind of momentum going on as we look at the second half of the year.

Paul Treiber

That's good to hear. I'll pass the line.

Operator

Again, if you have a question, please press star then one. Your next question comes from Todd Coupland with CIBC. Please go ahead.

Todd Coupland

Yeah. Good morning, everyone. I had a question on QNX. I was wondering if you could update us on the backlog and the backlog growth in the quarter. And as a follow-up, with 15% growth in QNX in Q2 and double-digit implied in the second half of the year, are you comfortably in double-digit growth range for QNX now? Just talk about the sustainability of that. Thanks a lot.

Tim Foote

I'll take the first part. Maybe, John, you want to take the second. So, in terms of backlog, obviously, this is not -- it's not a quarterly business. You have some fairly wild volatility in the design win dollars that you get from quarter-to-quarter, and that's really just timing of when those decisions take place. So, that's why we give that metric on an annual basis to kind of normalize from some of that movement. But the color I'd give is that Q1 -- John mentioned the pause button. I think there was a challenge for a lot of OEMs and hence the certain reluctance to commit to new designs. So, Q1 was weaker, but Q2 has come back pretty well, and we're actually ahead of plan for Q2. And when we look at the second half, the pipeline of opportunities looks really solid. So, we're feeling really good about where we are going forward. But obviously, we had to navigate through what was a challenge in Q1, and we'll give you an update on backlog as normal at the end of Q4. And then on the growth, John?

John Giamatteo

Yeah. The -- I really feel between, Todd, the progress that we've got in terms of what we've already booked and some of the new programs that are coming online, our vehicle platform initiative, the adoption of SDP8, we talked about the Sound win, QNX Sound, which is another. And we're very excited about the diversification into GEM with some of the wins that we have in some of the robotics space. So, I mean, all of that, I think lines up to what we've given from a guidance standpoint as a solid second half of the year. And between that and the pipeline that Tim is talking about, we're optimistic that we're going to keep the momentum going into not only the second half of the year but as we think about next year, as well.

Todd Coupland

Great. Thank you.

CONCLUSION

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to John Giamatteo, CEO of BlackBerry, for closing remarks.

John Giamatteo

Very good. Thanks, Michael. So, before we end the call, I just wanted to mention some upcoming events that we're excited about that BlackBerry is going to be in attendance. The QNX team will be at ELIV in Bonn, Germany and the American Medical Device Summit in Chicago in October and Embedded World North America in November while our Secure Communications division will be at Expo & Congress in Nuremberg, Germany and in the GITEX Global in Dubai next month. So, if you're in any of these locations, please stop by the events at our booth, and we look forward to host you and talk to you more about the exciting developments that are happening all across BlackBerry. So, thanks, everyone, for joining the call today, and we look forward to talking to you next time.

Operator

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