

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of BlackBerry Limited for the three months ended May 31, 2024, included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the Company's audited consolidated financial statements and accompanying notes and MD&A for the fiscal year ended February 29, 2024 (the "Annual MD&A"). The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

Additional information about the Company, which is included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2024 (the "Annual Report"), can be found on SEDAR+ at www.sedarplus.ca and on the SEC's website at www.sec.gov.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including under the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities laws, including statements relating to:

- the Company's plans, strategies and objectives, including its intentions to increase and enhance its product and service offerings and to patent new innovations;
- the Company's expectations with respect to enhancing operational focus and flexibility, driving improved profitability, and increasing optionality for optimizing shareholder value through the full separation of its principal business units;
- the Company's expectations with respect to its revenue, non-GAAP EPS and adjusted EBITDA in the second quarter of fiscal 2025 and fiscal 2025 as a whole, annual recurring revenue of the Company's Cybersecurity division and non-GAAP operating expenses for fiscal 2025 and non-GAAP EPS and cash flow in the fourth quarter fiscal 2025;
- the Company's estimates of purchase obligations and other contractual commitments; and
- the Company's expectations with respect to the sufficiency of its financial resources.

The words "expect", "anticipate", "estimate", "may", "will", "should", "could", "intend", "believe", "target", "plan" and similar expressions are intended to identify forward-looking statements in this MD&A, including in the sections entitled "Business Overview", "Business Overview - Products and Services", "Business Overview - Business Separation", "Non-GAAP Financial Measures - Key Metrics", "Results of Operations - Three months ended May 31, 2024 compared to the three months ended May 31, 2023 - Revenue - Revenue by Segment", "Results of Operations - Three months ended May 31, 2024 compared to the three months ended May 31, 2023 - Net Loss" and "Financial Condition - Contractual and Other Obligations". 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 appropriate in the circumstances, including but not limited to, the Company's expectations regarding its business, strategy, opportunities and prospects, the launch of new products and services, general economic conditions, competition, the Company's expectations regarding its financial performance, and the Company's expectations regarding the ongoing separation of its businesses. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risk factors discussed in Part I, Item 1A "Risk Factors" in the Annual Report.

All of these factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Any statements that are forward-looking statements are intended to enable the Company's shareholders to view the anticipated performance and prospects of the Company from management's perspective at the time such statements are made, and they are subject to the risks that are inherent in all forward-looking statements, as described above, as well as difficulties in forecasting the Company's financial results and performance for future periods, particularly over longer periods, given changes in technology and the Company's business strategy, evolving industry standards, intense competition and short product life cycles that characterize the industries in which the Company operates. See the "Strategy" subsection in Part I, Item 1 "Business" of the Annual Report.

The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Business Overview

The Company provides intelligent security software and services to enterprises and governments around the world. The Company secures more than 235 million vehicles. Based in Waterloo, Ontario, the Company leverages artificial intelligence (“AI”) and machine learning to deliver innovative solutions in the areas of cybersecurity, safety and data privacy, and is a leader in the areas of endpoint security, endpoint management, encryption, and embedded systems.

The Company has two core divisions, Cybersecurity and IoT, each addressing large and growing market opportunities.

The Company’s Cybersecurity division is a pioneer in the use of artificial intelligence (“AI”) and machine learning to deliver innovative solutions in the areas of cybersecurity and data privacy. It is a leader in next-generation endpoint security, endpoint management, secure communications and critical event management.

The Company’s IoT division provides embedded software solutions and the Company believes it is the world’s leading automotive foundational software supplier. Its customers include major automotive OEMs and Tier 1 suppliers that use its products in vehicles, as well as top medical OEMs. The Company’s solutions are implemented into all of the top ten automotive OEMs, top seven Tier 1 suppliers, 24 of the 25 top EV OEMs, and nine of the ten top medical OEMs.

The Company primarily generates revenue from the licensing of enterprise software and sales of associated services, including its endpoint management and cybersecurity solutions, BlackBerry QNX® software for the embedded market, technology licensing and professional consulting services. The Company focuses on strategic industries with vertical-specific use cases, including regulated enterprise markets such as financial services, government, healthcare, professional services and transportation, and other markets where embedded software and critical infrastructure are important, such as utilities, mining and manufacturing.

Products and Services

The Company has a rich pedigree in innovation and has developed a range of products and services that assist customers in addressing their needs as their industries evolve, which are structured in three groups: Cybersecurity, IoT (collectively with Cybersecurity, “software and services”) and Licensing and Other.

Cybersecurity

The Cybersecurity business consists of Cylance® cybersecurity and BlackBerry unified endpoint management (“UEM”) solutions, collectively known as BlackBerry Spark, SecuSUITE® and BlackBerry® AtHoc®.

BlackBerry’s Cylance cybersecurity solutions include: CylanceENDPOINT™, an integrated endpoint security solution that leverages the Cylance AI model and OneAlert EDR console, to prevent, detect and remediate cyber threats at the endpoint, including on mobile; CylanceMDR™, a managed detection and response solution that provides 24/7 threat hunting and monitoring, as well as integrated critical event management communications during a cyber incident; CylanceEDGE™, an AI-powered continuous authentication zero trust network access solution that provides secure access to applications and data loss prevention; and CylanceINTELLIGENCE™, a contextual cyber threat intelligence service. The Company also offers incident response, compromise assessment and containment services to assist clients with forensic analysis, state of existing systems and remediation of attacks. These solutions are designed to provide a continuous state of resilience for the Company’s customers and support the outcomes they require by: (i) complementing, extending, or fully managing security capabilities with the Company’s experts and extended technology ecosystem, (ii) enabling the workforce in a way that is fast, easy and satisfying, while providing security visibility, controls and peace of mind; and (iii) reducing complexity and overhead costs associated with security operations.

The Company’s UEM offerings include BlackBerry® UEM, BlackBerry® Dynamics™, BlackBerry® Workspaces, and BlackBerry Messenger (BBM®) Enterprise. BlackBerry UEM employs a containerized approach to manage and secure devices, third party and custom applications, identity, content and endpoints across all leading operating systems, as well as providing regulatory compliance tools. BlackBerry Dynamics offers a best-in-class development platform and secure container for mobile applications, including the Company’s own enterprise applications such as BlackBerry® Work and BlackBerry® Connect for secure collaboration. BlackBerry Workspaces is a secure Enterprise File Sync and Share (EFSS) solution. BBM Enterprise is an enterprise-grade secure instant messaging solution for messaging, voice and video.

BlackBerry SecuSUITE is a certified, multi-OS voice and text messaging solution with advanced encryption, anti-eavesdropping and continuous authentication capabilities, providing a maximum level of security on conventional mobile devices for government and businesses.

BlackBerry AtHoc is a secure, networked critical event management solution that enables people, devices and organizations to exchange critical information in real time during business continuity and life safety operations. The platform securely connects with a diverse set of endpoints to distribute emergency mass notifications, improves personnel accountability and facilitates the bidirectional collection and sharing of data within and between organizations.

IoT

The IoT business consists of BlackBerry Technology Solutions (“BTS”), BlackBerry Radar® and BlackBerry IVY®.

The principal component of BTS is BlackBerry QNX, a global provider of real-time operating systems, hypervisors, middleware, development tools, and professional services for connected embedded systems in the automotive, medical, industrial automation and other markets. A recognized leader in automotive software, BlackBerry QNX offers a growing portfolio of safety-certified, secure and reliable platform solutions and is focused on achieving design wins with automotive OEMs, Tier 1 vendors and automotive semiconductor suppliers. These solutions include the BlackBerry QNX real-time operating system, QNX® Hypervisor for Safety and QNX® Software Development Platform (SDP), as well as other products designed to alleviate the challenges of compliance with ISO 26262, the automotive industry’s functional safety standard. The QNX pre-certified microkernel operating system is specifically tailored for safety-critical embedded systems and toolchains that are pre-qualified for building these systems. The QNX Hypervisor for Safety prevents safety systems from potential impact of malfunction in other systems. These products help drive a faster time to market and also reduce developer friction.

BlackBerry QNX is also a preferred supplier of embedded systems for companies building medical devices, train-control systems, industrial robots, hardware security modules, building automation systems, green energy solutions, and other mission-critical applications. BlackBerry QNX collaborates closely with customers to understand their specific requirements and more quickly and effectively develop solutions to meet their evolving needs.

In addition to BlackBerry QNX, BTS includes BlackBerry® Certicom® cryptography and key management products.

BlackBerry Certicom leverages patented elliptic curve cryptography to provide device security, anti-counterfeiting and product authentication solutions. BlackBerry Certicom’s offerings include its managed public key infrastructure (“PKI”) platform, key management and provisioning technology that helps customers to protect the integrity of their silicon chips and devices from the point of manufacturing through the device life cycle. BlackBerry Certicom’s secure key provisioning, code signing and security credential management system services protect next-generation connected cars, critical infrastructure and IoT deployments from product counterfeiting, re-manufacturing and unauthorized network access.

BlackBerry Radar is a family of asset monitoring and telematics solutions for the transportation and logistics industry. The BlackBerry Radar solution includes devices and secure cloud-based dashboards for tracking containers, trailers, chassis, flatbeds and heavy machinery, for reporting locations and sensor data, and for enabling custom alerts and fleet management analytics.

The Company has partnered with Amazon Web Services, Inc. (“AWS”) to develop and market BlackBerry IVY, an intelligent vehicle data platform leveraging BlackBerry QNX’s automotive capabilities. BlackBerry IVY allows automakers to safely access a vehicle’s sensor data, normalize it, and apply machine learning at the edge to generate and share predictive insights and inferences. Automakers and developers will be able to use this information to create responsive in-vehicle applications and services that enhance driver and passenger experiences. BlackBerry IVY supports multiple operating systems and hardware platforms, as well as multi-cloud deployments, in order to ensure compatibility across vehicle models and brands.

The BlackBerry Cybersecurity and IoT groups are complemented by the enterprise and cybersecurity consulting services offered by the Company’s BlackBerry® Professional Services business. BlackBerry Professional Services provides platform-agnostic strategies to address mobility-based challenges, providing expert deployment support, end-to-end delivery (from system design to user training), application consulting, and experienced project management. The Company’s cybersecurity consulting services and tools, combined with its other security solutions, help customers identify the latest cybersecurity threats, test for vulnerabilities, develop risk-appropriate mitigations, maintain IT security standards and techniques, and defend against the risk of future attacks.

Licensing and Other

Licensing and Other consists primarily of the Company's patent licensing business.

The Company's Licensing business is responsible for the management and monetization of the Company's global patent portfolio. The patent portfolio continues to provide a competitive advantage in the Company's core product areas as well as providing leverage in the development of future technologies and licensing programs in both core and adjacent vertical markets. The Company owns rights to an array of patented and patent pending technologies which include, but are not limited to, operating systems, networking infrastructure, acoustics, messaging, enterprise software, automotive subsystems, cybersecurity, cryptography and wireless communications.

Recent Developments

The Company continued to execute on its strategy in fiscal 2025 and announced the following significant achievements during and subsequent to the most recent quarter:

Products and Innovation:

- Launched CylanceMDR, an expert driven and AI-powered Managed Detection and Response (MDR) solution, including an innovative "On-Demand" solution;
- Introduced Cylance Assistant, a generative AI cybersecurity advisor that will help organizations speed up decision-making and stop more threats faster with fewer resources;
- Announced that BlackBerry UEM placed in the upper-right quadrant as a 2024 Gartner® Peer Insights™ Customers' Choice for Unified Endpoint Management tools; and
- Announced that The Tolly Group identified CylanceENDPOINT as detecting up to 25 percent more threats and with up to eight times less system impact than competitors.

Customers and Partners:

- Announced a partnership between ETAS and BlackBerry QNX to jointly sell and market software solutions to provide the safe and secure foundation for the Software-Defined Vehicle (SDV); and
- Announced a collaboration with AMD to advance foundational precision and control for the robotics industry by enabling new levels of low latency and jitter, and repeatable determinism.

Environmental, Sustainability and Corporate Governance:

- Nominated Lori O'Neill, an experienced corporate director and financial expert for election to its Board of Directors.

Business Separation

On December 11, 2023, the Company announced that it intends to pursue a full separation of the IoT and Cybersecurity businesses, including the separation and streamlining of the Company's centralized corporate functions into business-unit specific teams, with a view to establishing each business as an independently-operated, profitable and cashflow-positive division. The Company intends for the separation to enhance the operational focus and flexibility for each business, drive improved profitability, and increase optionality for the Company to optimize shareholder value. On February 12, 2024, the Company announced its progress in separation and provided targets in respect to annualized net profit improvements to be achieved through a combination of cost reductions and margin expansion, identified previously achieved annualized cost savings in the third quarter of fiscal 2024, and provided guidance regarding expected improvements in operating cash flow in fiscal 2025. On April 3, 2024, the Company disclosed that it had taken action in fiscal 2024 to reduce annualized expenditures by approximately \$105 million and is working towards further run rate reductions.

First Quarter Fiscal 2025 Summary Results of Operations

The following table sets forth certain consolidated statements of operations data for the quarter ended May 31, 2024 compared to the quarter ended May 31, 2023 under U.S. GAAP:

	For the Three Months Ended (in millions, except for share and per share amounts)		
	May 31, 2024	May 31, 2023	Change
Revenue	\$ 144	\$ 373	\$ (229)
Gross margin	96	179	(83)
Operating expenses	135	190	(55)
Investment income, net	5	3	2
Loss before income taxes	(34)	(8)	(26)
Provision for income taxes	8	3	5
Net loss	<u>\$ (42)</u>	<u>\$ (11)</u>	<u>\$ (31)</u>
Loss per share - reported			
Basic	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>	
Diluted	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>	
Weighted-average number of shares outstanding (000's)			
Basic	589,821	582,812	
Diluted ⁽¹⁾	589,821	582,812	

⁽¹⁾ Diluted loss per share on a U.S. GAAP basis for the first quarter of fiscal 2025 and the first quarter of fiscal 2024 does not include the dilutive effect of the Debentures (as defined in "Financial Condition - Debt Financing and Other Funding Sources"), as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis for the first quarter of fiscal 2025 and the first quarter of fiscal 2024 does not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive. See Note 7 to the Consolidated Financial Statements for the Company's calculation of the diluted weighted average number of shares outstanding.

The following table shows information by operating segment for the three months ended May 31, 2024 and May 31, 2023. The Company reports segment information in accordance with U.S. GAAP Accounting Standards Codification Section 280 based on the "management" approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker for making decisions and assessing performance of the Company's reportable operating segments. See Note 10 to the Consolidated Financial Statements for a description of the Company's operating segments.

	For the Three Months Ended (in millions)									Segment Totals		
	Cybersecurity			IoT			Licensing and Other					
	May 31, 2024	May 31, 2023	Change	May 31, 2024	May 31, 2023	Change	May 31, 2024	May 31, 2023	Change	May 31, 2024	May 31, 2023	Change
Segment revenue	\$ 85	\$ 93	\$ (8)	\$ 53	\$ 45	\$ 8	\$ 6	\$ 235	\$ (229)	\$ 144	\$ 373	\$ (229)
Segment cost of sales	35	37	(2)	10	9	1	2	147	(145)	47	193	(146)
Segment gross margin	<u>\$ 50</u>	<u>\$ 56</u>	<u>\$ (6)</u>	<u>\$ 43</u>	<u>\$ 36</u>	<u>\$ 7</u>	<u>\$ 4</u>	<u>\$ 88</u>	<u>\$ (84)</u>	<u>\$ 97</u>	<u>\$ 180</u>	<u>\$ (83)</u>

The following table reconciles the Company's segment results for the three months ended May 31, 2024 to consolidated U.S. GAAP results:

For the Three Months Ended May 31, 2024						
<i>(in millions)</i>						
	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 85	\$ 53	\$ 6	\$ 144	\$ —	\$ 144
Cost of sales	35	10	2	47	1	48
Gross margin ⁽¹⁾	\$ 50	\$ 43	\$ 4	\$ 97	\$ (1)	\$ 96
Operating expenses					135	135
Investment income, net					5	5
Loss before income taxes						\$ (34)

⁽¹⁾ See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2024.

The following table reconciles the Company's segment results for the three months ended May 31, 2023 to consolidated U.S. GAAP results:

For the Three Months Ended May 31, 2023						
<i>(in millions)</i>						
	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 93	\$ 45	\$ 235	\$ 373	\$ —	\$ 373
Cost of sales	37	9	147	193	1	194
Gross margin ⁽¹⁾	\$ 56	\$ 36	\$ 88	\$ 180	\$ (1)	\$ 179
Operating expenses					190	190
Investment income, net					3	3
Loss before income taxes						\$ (8)

⁽¹⁾ See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2023.

Financial Highlights

The Company had \$283 million in cash, cash equivalents and investments as of May 31, 2024 (February 29, 2024 - \$298 million).

In the first quarter of fiscal 2025, the Company recognized revenue of \$144 million and incurred a net loss of \$42 million, or \$0.07 basic and diluted loss per share on a U.S. GAAP basis (first quarter of fiscal 2024 - revenue of \$373 million and net loss of \$11 million, or \$0.02 basic and diluted loss per share).

The Company recognized adjusted net loss of \$15 million, and adjusted loss of \$0.03 per share, on a non-GAAP basis in the first quarter of fiscal 2025 (first quarter of fiscal 2024 - adjusted net income of \$35 million, and adjusted earnings of \$0.06 per share). See "Non-GAAP Financial Measures" below.

Non-GAAP Financial Measures

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis. On June 26, 2024, the Company announced financial results for the three months ended May 31, 2024, which included certain non-GAAP financial measures and non-GAAP ratios, including adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net income (loss), adjusted earnings (loss) per share, adjusted research and development expense, adjusted sales and marketing expense, adjusted general and administrative expense, adjusted amortization expense, adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage, adjusted EBITDA margin percentage and free cash flow (usage).

In the Company's internal reports, management evaluates the performance of the Company's business on a non-GAAP basis by excluding the impact of certain items below from the Company's U.S. GAAP financial results. The Company believes that

these non-GAAP financial measures and non-GAAP ratios provide management, as well as readers of the Company's financial statements, with a consistent basis for comparison across accounting periods and are useful in helping management and readers understand the Company's operating results and underlying operational trends. Non-GAAP financial measures and non-GAAP ratios exclude certain amounts as described below:

- *Debentures fair value adjustment.* The Company elected to measure the 2020 Debentures (as defined in "Financial Condition - Debt Financing and Other Funding Sources") at fair value in accordance with the fair value option under U.S. GAAP. Each period, the fair value of the 2020 Debentures was recalculated and the resulting non-cash income and charges from the change in fair value from non-credit components of the 2020 Debentures were recognized in income. The amount varied each period depending on changes to the Company's share price, share price volatility and credit indices. This was not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *Restructuring charges.* The Company believes that restructuring costs relating to employee termination benefits, facilities, streamlining the Company's centralized corporate functions into Cybersecurity and IoT specific teams and other costs pursuant to the programs to reduce its annual expenses amongst R&D, infrastructure and other functions do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods
- *Stock compensation expenses.* Equity compensation is a non-cash expense and does not impact the ongoing operating decisions taken by the Company's management.
- *Amortization of acquired intangible assets.* When the Company acquires intangible assets through business combinations, the assets are recorded as part of purchase accounting and contribute to revenue generation. Such acquired intangible assets depreciate over time and the related amortization will recur in future periods until the assets have been fully amortized. This is not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *Long-lived asset impairment charge.* The Company believes that long-lived asset impairment charges do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *Goodwill impairment charge.* The Company believes that goodwill impairment charges do not reflect expected future operating expenses, are non-cash, and may not be meaningful when comparing the Company's operating performance against that of prior periods.

On a U.S. GAAP basis, the impacts of these items are reflected in the Company's income statement. However, the Company believes that the provision of supplemental non-GAAP measures allows investors to evaluate the financial performance of the Company's business using the same evaluation measures that management uses, and is therefore a useful indication of the Company's performance or expected performance of future operations and facilitates period-to-period comparison of operating performance. As a result, the Company considers it appropriate and reasonable to provide, in addition to U.S. GAAP measures, supplementary non-GAAP financial measures that exclude certain items from the presentation of its financial results.

Reconciliation of non-GAAP based measures with most directly comparable U.S. GAAP based measures for the three months ended May 31, 2024 and May 31, 2023

Readers are cautioned that adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net income (loss), adjusted earnings (loss) per share, adjusted research and development expense, adjusted sales and marketing expense, adjusted general and administrative expense, adjusted amortization expense, adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage, adjusted EBITDA margin percentage and free cash flow (usage) and similar measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similarly titled measures reported by other companies. These non-GAAP financial measures should be considered in the context of the U.S. GAAP results, which are described in this MD&A and presented in the Consolidated Financial Statements.

A reconciliation of the most directly comparable U.S. GAAP financial measures for the three months ended May 31, 2024 and May 31, 2023 to adjusted financial measures is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2024	May 31, 2023
Gross margin	\$ 96	\$ 179
Stock compensation expense	1	1
Adjusted gross margin	<u>\$ 97</u>	<u>\$ 180</u>
Gross margin %	66.7 %	48.0 %
Stock compensation expense	0.7 %	0.3 %
Adjusted gross margin %	<u>67.4 %</u>	<u>48.3 %</u>

Reconciliation of U.S. GAAP operating expense for the three months ended May 31, 2024, February 29, 2024 and May 31, 2023 to adjusted operating expense is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2024	February 29, 2024	May 31, 2023
Operating expense	\$ 135	\$ 185	\$ 190
Restructuring charges	8	20	5
Stock compensation expense	7	5	8
Debentures fair value adjustment	—	—	22
Acquired intangibles amortization	8	8	10
Goodwill impairment charge	—	35	—
LLA impairment charge	3	4	—
Adjusted operating expense	<u>\$ 109</u>	<u>\$ 113</u>	<u>\$ 145</u>

Reconciliation of U.S. GAAP net loss and U.S. GAAP basic loss per share for the three months ended May 31, 2024 and May 31, 2023 to adjusted net income (loss) and adjusted basic earnings (loss) per share is reflected in the table below:

For the Three Months Ended (in millions, except per share amounts)	May 31, 2024		May 31, 2023	
		Basic loss per share		Basic earnings (loss) per share
Net loss	\$ (42)	\$(0.07)	\$ (11)	\$(0.02)
Restructuring charges	8		5	
Stock compensation expense	8		9	
Debentures fair value adjustment	—		22	
Acquired intangibles amortization	8		10	
LLA impairment charge	3		—	
Adjusted net income (loss)	<u>\$ (15)</u>	<u>\$(0.03)</u>	<u>\$ 35</u>	<u>\$0.06</u>

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended May 31, 2024 and May 31, 2023 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2024	May 31, 2023
Research and development	\$ 42	\$ 54
Stock compensation expense	2	2
Adjusted research and development expense	\$ 40	\$ 52
Sales and marketing	\$ 38	\$ 45
Stock compensation expense	2	1
Adjusted sales and marketing expense	\$ 36	\$ 44
General and administrative	\$ 40	\$ 54
Restructuring charges	8	5
Stock compensation expense	3	5
Adjusted general and administrative expense	\$ 29	\$ 44
Amortization	\$ 12	\$ 15
Acquired intangibles amortization	8	10
Adjusted amortization expense	\$ 4	\$ 5

Adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage and adjusted EBITDA margin percentage for the three months ended May 31, 2024 and May 31, 2023 are reflected in the table below.

For the Three Months Ended (in millions)	May 31, 2024	May 31, 2023
Operating loss	\$ (39)	\$ (11)
Non-GAAP adjustments to operating loss		
Restructuring charges	8	5
Stock compensation expense	8	9
Debentures fair value adjustment	—	22
Acquired intangibles amortization	8	10
LLA impairment charge	3	—
Total non-GAAP adjustments to operating loss	27	46
Adjusted operating income (loss)	(12)	35
Amortization	13	16
Acquired intangibles amortization	(8)	(10)
Adjusted EBITDA	\$ (7)	\$ 41
Revenue	\$ 144	\$ 373
Adjusted operating income (loss) margin % ⁽¹⁾	(8%)	9%
Adjusted EBITDA margin % ⁽²⁾	(5%)	11%

⁽¹⁾ Adjusted operating income (loss) margin % is calculated by dividing adjusted operating income (loss) by revenue.

⁽²⁾ Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by revenue.

The Company uses free cash flow (usage) when assessing its sources of liquidity, capital resources, and quality of earnings. The Company believes that free cash flow (usage) is helpful in understanding the Company's capital requirements and provides an additional means to reflect the cash flow trends in the Company's business.

Reconciliation of U.S. GAAP net cash used in operating activities for the three months ended May 31, 2024 and May 31, 2023 to free cash flow (usage) is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2024	May 31, 2023
Net cash provided by (used in) operating activities	\$ (15)	\$ 99
Acquisition of property, plant and equipment	(1)	(2)
Free cash flow (usage)	<u>\$ (16)</u>	<u>\$ 97</u>

Key Metrics

The Company regularly monitors a number of financial and operating metrics, including the following key metrics, in order to measure the Company's current performance and estimated future performance. Readers are cautioned that annual recurring revenue ("ARR"), dollar-based net retention rate ("DBNRR"), and recurring revenue percentage do not have any standardized meaning and are unlikely to be comparable to similarly titled measures reported by other companies.

Comparative breakdowns of certain key metrics for the three months ended or as at May 31, 2024 and May 31, 2023 are set forth below.

For the Three Months Ended (in millions)	May 31, 2024	May 31, 2023	Change
Cybersecurity Annual Recurring Revenue	\$ 285	\$ 289	\$ (4)
Cybersecurity Dollar-Based Net Retention Rate	87 %	81 %	6%
Recurring Software Product Revenue Percentage	~ 80 %	~ 90 %	(10%)

Cybersecurity Annual Recurring Revenue

The Company defines ARR as the annualized value of all subscription, term, maintenance, services, and royalty contracts that generate recurring revenue as of the end of the reporting period. The Company uses ARR as an indicator of business momentum for the Cybersecurity business.

Cybersecurity ARR was approximately \$285 million as at May 31, 2024 and increased compared to \$280 million as at February 29, 2024 and decreased compared to \$289 million as at May 31, 2023.

The Company previously stated that it expected Cybersecurity ARR to be flat sequentially in the first quarter of fiscal 2025. Cybersecurity ARR increased by \$5 million sequentially in the first quarter of fiscal 2025.

Cybersecurity Dollar-Based Net Retention Rate

The Company calculates the Cybersecurity DBNRR as of period end by first calculating the Cybersecurity ARR from the customer base as at 12 months prior to the current period end ("Prior Period ARR"). The Company then calculates the Cybersecurity ARR for the same cohort of customers as at the current period end ("Current Period ARR"). The Company then divides the Current Period ARR by the Prior Period ARR to calculate the DBNRR.

Cybersecurity DBNRR was 87% as at May 31, 2024 and increased compared to 85% as at February 29, 2024 and 81% as at May 31, 2023.

Recurring Software Product Revenue Percentage

The Company defines recurring software product revenue percentage as recurring software product revenue divided by total software and services revenue. Recurring software product revenue is comprised of subscription and term licenses, maintenance arrangements, royalty arrangements and perpetual licenses recognized ratably under ASC 606. Total software and services revenue is comprised of recurring product revenue, non-recurring product revenue and professional services. The Company uses recurring software product revenue percentage to provide visibility into the revenue expected to be recognized in the current and future periods.

Total software and services product revenue, excluding professional services, was approximately 80% recurring for the three months ended May 31, 2024 and decreased compared to approximately 90% recurring for the three months ended February 29, 2024 due to product mix and decreased compared to approximately 90% for the three months ended May 31, 2023, also due to product mix.

Results of Operations - Three months ended May 31, 2024 compared to the three months ended May 31, 2023

Revenue

Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Three Months Ended (in millions)		
	May 31, 2024	May 31, 2023	Change
Revenue by Segment			
Cybersecurity	\$ 85	\$ 93	\$ (8)
IoT	53	45	8
Licensing and Other	6	235	(229)
	<u>\$ 144</u>	<u>\$ 373</u>	<u>\$ (229)</u>

% Revenue by Segment

Cybersecurity	59.0 %	24.9 %
IoT	36.8 %	12.1 %
Licensing and Other	4.2 %	63.0 %
	<u>100.0 %</u>	<u>100.0 %</u>

Cybersecurity

The decrease in Cybersecurity revenue of \$8 million was primarily due to a decrease of \$17 million relating to product revenue in BlackBerry Spark, partially offset by an increase of \$10 million in product revenue in Secusmart.

The Company previously stated that it expected Cybersecurity revenue in the first quarter of fiscal 2025 to be in the range of \$78 million to \$82 million. Cybersecurity revenue was \$85 million due to better-than-expected product revenue in Secusmart.

The Company expects Cybersecurity revenue in the second quarter of fiscal 2025 to be in the range of \$82 million to \$86 million.

IoT

The increase in IoT revenue of \$8 million was primarily due to an increase of \$7 million in BlackBerry QNX royalty revenue and an increase of \$2 million in professional services, partially offset by a decrease of \$1 million in BlackBerry QNX development seat revenue.

The Company previously stated that it expected IoT revenue to be in the range of \$48 million to \$52 million in the first quarter of fiscal 2025. IoT revenue was \$53 million in the first quarter of fiscal 2025.

The Company expects IoT revenue to be in the range of \$50 million to \$54 million in the second quarter of fiscal 2025.

Licensing and Other

The decrease in Licensing and Other revenue of \$229 million was primarily due to \$218 million associated with the Company's patent sale in the first quarter of fiscal 2024, which was a one-time event, and a decrease of \$11 million in revenue from the Company's intellectual property licensing arrangements.

The Company previously stated that it expected revenue from intellectual property licensing to be approximately \$4 million in each of the four quarters of fiscal 2025. Intellectual property licensing revenue was \$6 million in the first quarter of fiscal 2025.

The Company previously stated that it expected total Company revenue to be approximately \$130 million to \$138 million in the first quarter of fiscal 2025. Total Company revenue was \$144 million in the first quarter of fiscal 2025 due to better-than-expected product revenue in Secusmart.

The Company expects total BlackBerry revenue to be in the range of \$136 million to \$144 million in the second quarter of fiscal 2025.

Revenue by Geography

Comparative breakdowns of the geographic regions are set forth in the following table:

	For the Three Months Ended (in millions)		
	May 31, 2024	May 31, 2023	Change
Revenue by Geography			
North America	\$ 68	\$ 317	\$ (249)
Europe, Middle East and Africa	47	37	10
Other regions	29	19	10
	<u>\$ 144</u>	<u>\$ 373</u>	<u>\$ (229)</u>
% Revenue by Geography			
North America	47.2 %	85.0 %	
Europe, Middle East and Africa	32.7 %	9.9 %	
Other regions	20.1 %	5.1 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

North America Revenue

The decrease in North America revenue of \$249 million was primarily due to a decrease of \$229 million relating to Licensing and Other due to the reasons discussed above in "Revenue by Segment", a decrease of \$17 relating to product revenue in BlackBerry Spark and a decrease of \$2 million in BlackBerry QNX development seat revenue, partially offset by an increase of \$3 million in BlackBerry QNX royalty revenue.

Europe, Middle East and Africa Revenue

The increase in Europe, Middle East and Africa revenue of \$10 million was primarily due to an increase of \$9 million relating to product revenue in Secusmart and an increase of \$1 million in BlackBerry QNX royalty revenue.

Other Regions Revenue

The increase in Other regions revenue of \$10 million was primarily due to an increase of \$4 million in professional services, an increase of \$3 million relating to BlackBerry QNX royalty revenue and an increase of \$1 million in BlackBerry QNX development seat revenue.

Gross Margin

Consolidated Gross Margin

Consolidated gross margin decreased by \$83 million to approximately \$96 million in the first quarter of fiscal 2025 (first quarter of fiscal 2024 - \$179 million). The decrease was primarily due to the patent sale in the first quarter of fiscal 2024, which was a one-time event, and a decrease in revenue from BlackBerry Spark due to the reasons discussed above in "Revenue by Segment", partially offset by an increase in revenue from BlackBerry QNX due to the reasons discussed above in "Revenue by Segment", as the cost of sales for most software and services products does not significantly fluctuate based on business volume.

Consolidated Gross Margin Percentage

Consolidated gross margin percentage increased by 18.7% to approximately 66.7% of consolidated revenue in the first quarter of fiscal 2025 (first quarter of fiscal 2024 - 48.0%). The increase was primarily due to a change in mix, specifically a higher gross margin contribution from BlackBerry QNX, and a lower gross margin contribution from Licensing and Other, which had a lower relative gross margin percentage in first quarter of fiscal 2024 due to the patent sale.

Gross Margin by Segment

See “First Quarter Fiscal 2025 Summary Results of Operations” for information about the Company’s operating segments and the basis of operating segment results.

	For the Three Months Ended (in millions)											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	May 31, 2024		Change	May 31, 2024		Change	May 31, 2024		Change	May 31, 2024		Change
Segment revenue	\$ 85	\$ 93	\$ (8)	\$ 53	\$ 45	\$ 8	\$ 6	\$ 235	\$(229)	\$ 144	\$ 373	\$(229)
Segment cost of sales	35	37	(2)	10	9	1	2	147	(145)	47	193	(146)
Segment gross margin	<u>\$ 50</u>	<u>\$ 56</u>	<u>\$ (6)</u>	<u>\$ 43</u>	<u>\$ 36</u>	<u>\$ 7</u>	<u>\$ 4</u>	<u>\$ 88</u>	<u>\$(84)</u>	<u>\$ 97</u>	<u>\$ 180</u>	<u>\$(83)</u>
Segment gross margin %	<u>59 %</u>	<u>60 %</u>	<u>(1%)</u>	<u>81 %</u>	<u>80 %</u>	<u>1 %</u>	<u>67 %</u>	<u>37 %</u>	<u>30%</u>	<u>67 %</u>	<u>48 %</u>	<u>19%</u>

Cybersecurity

The decrease in Cybersecurity gross margin of \$6 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease of \$2 million in infrastructure costs.

The decrease in Cybersecurity gross margin percentage of 1% was due to the same reasons discussed above.

IoT

The increase in IoT gross margin of \$7 million was primarily due to the reasons discussed above in “Revenue by Segment”, as the Company’s cost of sales does not significantly fluctuate based on business volume.

The increase in IoT gross margin percentage of 1% was due to the same reasons discussed above.

Licensing and Other

The decrease in Licensing and Other gross margin of \$84 million was primarily due to patent sale in the first quarter of fiscal 2024, which had a lower relative gross margin percentage due to the cost basis of the sold assets which was de-recognized.

The increase in Licensing and Other gross margin percentage of 30% was due to the same reason discussed above.

Operating Expenses

The table below presents a comparison of research and development, sales and marketing, general and administrative, and amortization expenses for the quarter ended May 31, 2024, compared to the quarter ended February 29, 2024 and the quarter ended May 31, 2023. The Company believes it is meaningful to provide a sequential comparison between the first quarter of fiscal 2025 and the fourth quarter of fiscal 2024.

	For the Three Months Ended (in millions)		
	May 31, 2024	February 29, 2024	May 31, 2023
Revenue	\$ 144	\$ 173	\$ 373
Operating expenses			
Research and development	42	40	54
Sales and marketing	38	41	45
General and administrative	40	53	54
Amortization	12	12	15
Impairment of long-lived assets	3	4	—
Impairment of goodwill	—	35	—
Debentures fair value adjustment	—	—	22
Total	\$ 135	\$ 185	\$ 190
Operating Expenses as % of Revenue			
Research and development	29.2%	23.1%	14.5%
Sales and marketing	26.4%	23.7%	12.1%
General and administrative	27.8%	30.6%	14.5%
Amortization	8.3%	6.9%	4.0%
Impairment of long-lived assets	2.1%	2.3%	—%
Impairment of goodwill	—%	20.2%	—%
Debentures fair value adjustment	—%	—%	5.9%
Total	93.8 %	106.9 %	50.9 %

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2024, February 29, 2024 and May 31, 2023.

U.S. GAAP Operating Expenses

Operating expenses decreased by \$50 million, or 27.0%, in the first quarter of fiscal 2025, compared to the fourth quarter of fiscal 2024 primarily due to the goodwill impairment charge of \$35 million in the fourth quarter of fiscal 2024, which did not recur, a decrease of \$12 million in restructuring costs, a decrease of \$7 million in salaries and benefits expenses and a decrease of \$4 million in consulting expenses, partially offset by an increase of \$6 million in variable incentive plan costs and an increase of \$1 million in the Company’s deferred share unit costs.

Operating expenses decreased by \$55 million, or 28.9%, in the first quarter of fiscal 2025, compared to the first quarter of fiscal 2024 primarily due to the fair value adjustment related to the 2020 Debentures incurred in the first quarter of fiscal 2024 of \$22 million, which did not recur, a decrease of \$16 million in salaries and benefits expenses, a decrease of \$5 million in credit loss provision, a decrease of \$4 million in consulting expenses, a decrease of \$3 million in amortization expense, a decrease of \$3 million in legal expense and a decrease of \$2 million in the Company’s deferred share unit costs, partially offset by an increase of \$3 million in restructuring costs.

Adjusted Operating Expenses

Adjusted operating expenses decreased by \$4 million, or 3.5%, to \$109 million in the first quarter of fiscal 2025 compared to \$113 million in the fourth quarter of fiscal 2024. The decrease was primarily due to a decrease of \$7 million in salaries and benefits expenses, a decrease of \$4 million in consulting expenses and a decrease of \$2 million in sales incentive plan costs, partially offset by an increase of \$6 million in variable incentive plan costs.

Adjusted operating expenses decreased by \$36 million, or 24.8%, to \$109 million in the first quarter of fiscal 2025, compared to \$145 million in the first quarter of fiscal 2024. The decrease was primarily due to a decrease of \$16 million in salaries and benefits expense, a decrease of \$5 million in credit loss provision, a decrease of \$4 million in consulting expenses, a decrease of \$3 million in legal expenses, a decrease of \$2 million in the Company's deferred share unit costs and a decrease of \$2 million in marketing and advertising costs.

The Company previously stated that it expected its average quarterly non-GAAP operating expense run rate to be approximately \$110 million in fiscal 2025. Non-GAAP operating expense was \$109 million in the first quarter of fiscal 2025.

Research and Development Expenses

Research and development expenses consist primarily of salaries and benefits costs for technical personnel, new product development costs, travel expenses, office and building costs, infrastructure costs and other employee costs.

Research and development expenses decreased by \$12 million, or 22.2%, in the first quarter of fiscal 2025 compared to \$54 million in the first quarter of fiscal 2024 primarily due to a decrease of \$7 million in salaries and benefits expense and a decrease of \$2 million in consulting expenses.

Adjusted research and development expenses decreased by \$12 million, or 23.1%, to \$40 million in the first quarter of fiscal 2025, compared to \$52 million in the first quarter of fiscal 2024. The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of marketing, advertising and promotion, salaries and benefits, information technology costs and travel expenses.

Sales and marketing expenses decreased by \$7 million, or 15.6% in fiscal 2025, in the first quarter of fiscal 2025 compared to the first quarter of fiscal 2024, primarily due to a decrease of \$6 million in salaries and benefits expense and a decrease of \$2 million in marketing and advertising costs.

Adjusted sales and marketing expenses decreased by \$8 million, or 18.2%, to \$36 million in the first quarter of fiscal 2025 compared to \$44 million in the first quarter of fiscal 2024. The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

General and Administrative Expenses

General and administration expenses consist primarily of salaries and benefits, external advisory fees, information technology costs, office and related staffing infrastructure costs.

General and administrative expenses decreased by \$14 million, or 25.9%, in the first quarter of fiscal 2025 compared to the first quarter of fiscal 2024. The decrease was primarily due to a decrease of \$5 million in credit loss provision, a decrease of \$3 million in salaries and benefits expense, a decrease of \$2 million in legal expense, a decrease of \$2 million in the Company's deferred share unit cost and a decrease of \$2 million in stock compensation expense, partially offset by an increase of \$3 million in restructuring costs.

Adjusted general and administrative expenses decreased by \$15 million, or 34.1%, to \$29 million in the first quarter of fiscal 2025 compared to \$44 million in the fourth quarter of fiscal 2024. The decrease was primarily due to a decrease of \$5 million in credit loss provision, a decrease of \$3 million in salaries and benefits, a decrease of \$2 million in legal expense, a decrease of \$2 million in the Company's deferred share unit cost and a decrease of \$1 million in lease expense.

Amortization Expense

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the quarter ended May 31, 2024 compared to the quarter ended May 31, 2023. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)		
	Included in Operating Expense		
	May 31, 2024	May 31, 2023	Change
Property, plant and equipment	\$ 2	\$ 3	\$ (1)
Intangible assets	10	12	(2)
Total	\$ 12	\$ 15	\$ (3)
	Included in Cost of Sales		
	May 31, 2024	May 31, 2023	Change
Intangible assets	\$ 1	\$ 1	\$ —

Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$3 million was primarily due to the lower cost base of acquired technology assets.

Adjusted amortization expense decreased by \$1 million to \$4 million in the first quarter of fiscal 2025 compared to \$5 million in the first quarter of fiscal 2024 was primarily due to the lower cost base of assets.

Amortization included in Cost of Sales

Amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations was \$1 million in the first quarter of fiscal 2025, consistent with the first quarter of fiscal 2024.

Investment Income, Net

Investment income, net, which includes the interest expense from the Debentures, was \$5 million in the first quarter of fiscal 2025 and increased by \$2 million from investment income, net of \$3 million in the first quarter of fiscal 2024 primarily due to unrealized gains recognized from observable price changes on non-marketable equity investments without readily determinable fair value and interest income on significant financing components within certain revenue contracts with customers, partially offset by a lower average cash and investment balance.

Income Taxes

For the first quarter of fiscal 2025, the Company's net effective income tax expense rate was approximately 24% (first quarter of fiscal 2024 - net effective income tax expense rate of approximately 38%). The Company's net effective income tax rate reflects the change in unrecognized income tax benefits, if any, and the fact that the Company has a significant valuation allowance against its deferred tax assets; in particular, any change in loss carry forwards or research and development credits, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

Net Loss

The Company's net loss for the first quarter of fiscal 2025 was \$42 million, or \$0.07 basic and diluted loss per share on a U.S. GAAP basis (first quarter of fiscal 2024 - net loss of \$11 million, or \$0.02 basic and diluted loss per share). The increase in net loss of \$31 million was primarily due to a decrease in revenue, as described above in "Revenue by Segment", partially offset by a decrease in operating expenses, as described above in "Operating Expenses" and an increase in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

Adjusted net loss was \$15 million in the first quarter of fiscal 2025, or \$0.03 adjusted basic loss per share (first quarter of fiscal 2024 - adjusted net income of \$35 million, or \$0.06 adjusted basic earnings per share). The decrease in adjusted net income of \$50 million was primarily due to a decrease in revenue as described above in “Revenue by Segment”, partially offset by a decrease in operating expenses as described above in “Operating Expenses”, and an increase in gross margin percentage, as described above in “Consolidated Gross Margin Percentage”.

The Company expected a sequential increase in operating cash usage in the first quarter of fiscal 2025. Operating cash flow usage was \$15 million in the first quarter of fiscal 2025 and consistent with the fourth quarter of fiscal 2024 due to timing of collections.

The Company expects a sequential increase in operating cash usage in the second quarter of fiscal 2025, before improvement in the third quarter of fiscal 2025.

The Company previously stated that it expected non-GAAP EPS to be in the range of (\$0.04) to (\$0.06), and adjusted EBITDA to be in the range of negative \$15 million to negative \$25 million in the first quarter of fiscal 2025. Non-GAAP EPS was (\$0.03) due to better-than-expected revenue. Adjusted EBITDA was negative \$5 million in the first quarter of fiscal 2025 due to better-than-expected revenue.

The Company expects non-GAAP EPS to be in the range of (\$0.02) to (\$0.04), and adjusted EBITDA to be in the range of negative \$5 million to negative \$15 million in the second quarter of fiscal 2025.

The Company expects non-GAAP EPS to be in the range of (\$0.03) to (\$0.07), and adjusted EBITDA to be in the range of breakeven to \$10 million for fiscal 2025 as a whole.

The Company does not provide a reconciliation of expected adjusted EBITDA and expected Non-GAAP basic EPS for the second quarter and full fiscal year 2025 to the most directly comparable expected GAAP measures because it is unable to predict with reasonable certainty, among other things, restructuring charges and impairment charges and, accordingly, a reconciliation is not available without unreasonable effort. These items are uncertain, depend on various factors, and could have a material impact on GAAP reported results for the guidance period.

The weighted average number of shares outstanding was 590 million common shares for basic and diluted loss per share for the first quarter of fiscal 2025 (first quarter of fiscal 2024 - 583 million common shares for basic and diluted loss per share).

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments decreased by \$15 million to \$283 million as at May 31, 2024 from \$298 million as at February 29, 2024, primarily due to changes in working capital.

A comparative summary of cash, cash equivalents, and investments is set out below:

	As at (in millions)		
	May 31, 2024	February 29, 2024	Change
Cash and cash equivalents	\$ 143	\$ 175	\$ (32)
Restricted cash and cash equivalents	17	25	(8)
Short-term investments	86	62	24
Long-term investments	37	36	1
Cash, cash equivalents, and investments	<u>\$ 283</u>	<u>\$ 298</u>	<u>\$ (15)</u>

The table below summarizes the current assets, current liabilities, and working capital of the Company:

	As at (in millions)		
	May 31, 2024	February 29, 2024	Change
Current assets	\$ 458	\$ 508	\$ (50)
Current liabilities	321	356	(35)
Working capital	<u>\$ 137</u>	<u>\$ 152</u>	<u>\$ (15)</u>

Current Assets

The decrease in current assets of \$50 million at the end of the first quarter of fiscal 2025 from the end of the fourth quarter of fiscal 2024 was primarily due to a decrease in accounts receivable, net of allowance of \$51 million, a decrease in cash and cash

equivalents of \$32 million, and a decrease in taxes receivables of \$1 million, partially offset by an increase in short term investments of \$24 million and an increase of \$10 million in other current assets.

At May 31, 2024, accounts receivable, net of allowance was \$148 million, a decrease of \$51 million from February 29, 2024. The decrease was primarily due to lower revenue recognized over the three months ended May 31, 2024 compared to the three months ended February 29, 2024, partially offset by an increase in days sales outstanding to 111 days at the end of the first quarter of fiscal 2025 from 100 days at the end of the fourth quarter of fiscal 2024.

At May 31, 2024, income taxes receivable was \$3 million, a decrease of \$1 million from February 29, 2024. The decrease was primarily due to the utilization of tax receivable balances against other tax liabilities.

At May 31, 2024, other receivables were \$21 million, consistent with February 29, 2024.

At May 31, 2024, other current assets were \$57 million, an increase of \$10 million from February 29, 2024. The increase was primarily due to an increase of \$6 million in prepaid software maintenance, an increase of \$3 million in prepaid subcontractor services and an increase of \$2 million in prepaid rent.

Current Liabilities

The decrease in current liabilities of \$35 million at the end of the first quarter of 2025 from the end of the fourth quarter of fiscal 2024 was primarily due to a decrease in deferred revenue, current of \$20 million, a decrease in accounts payable of \$11 million and a decrease in accrued liabilities of \$5 million, partially offset by an increase in income taxes payable of \$1 million.

Deferred revenue, current was \$174 million, which reflects a decrease of \$20 million compared to February 29, 2024 that was attributable to a decrease of \$13 million in deferred revenue, current related to BlackBerry Spark, a decrease in \$5 million in deferred revenue, current related to BlackBerry QNX and a decrease of \$2 million in deferred revenue, current related to Secusmart.

Accounts payable were \$6 million, reflecting a decrease of \$11 million from February 29, 2024, which was primarily due to timing of payments.

Accrued liabilities were \$112 million at the end of the first quarter of 2025, reflecting a decrease of \$5 million compared to February 29, 2024, which was primarily due to a decrease of \$9 million in accrued restructuring costs and a decrease of \$5 million in variable incentive plan accrual, partially offset by an increase of \$5 million in accrued cost of goods sold.

Income taxes payable were \$29 million, reflecting an increase of \$1 million compared to February 29, 2024, which was primarily due to changes in the quarterly tax provision.

Cash flows for the three months ended May 31, 2024 compared to the three months ended May 31, 2023 were as follows:

	For the Three Months Ended		
	<i>(in millions)</i>		
	May 31, 2024	May 31, 2023	Change
Net cash flows provided by (used in):			
Operating activities	\$ (15)	\$ 99	\$ (114)
Investing activities	(26)	(38)	12
Financing activities	1	2	(1)
Net increase (decrease) in cash and cash equivalents	<u>\$ (40)</u>	<u>\$ 63</u>	<u>\$ (103)</u>

Operating Activities

The increase in net cash flows used in operating activities of \$114 million primarily reflects the net changes in working capital.

Investing Activities

During the three months ended May 31, 2024, cash flows used in investing activities were \$26 million and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$24 million, cash used in the acquisition of intangible assets of \$1 million, and the acquisition of property, plant and equipment of \$1 million. For the same period in the prior fiscal year, cash flows used in investing activities were \$38 million and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$28 million, acquisition of intangible assets of \$8 million, and the acquisition of property, plant and equipment of \$2 million.

Financing Activities

The decrease in cash flows provided by financing activities was \$1 million for the first three months of fiscal 2025 due a decrease in common shares issued upon the exercise of stock options and under the employee share purchase plan.

Debt Financing and Other Funding Sources

See Note 5 to the Consolidated Financial Statements for a description of the Company's \$200 million aggregate principal amount of 3.00% senior convertible unsecured notes issued in January 2024 (the "Notes") and the \$365 million aggregate principal amount of convertible debentures issued in September 2020, which matured in November 2023 (the "2020 Debentures" and, collectively with the Notes, the "Debentures").

The Company has \$17 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$283 million as at May 31, 2024. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

Contractual and Other Obligations

The following table sets out aggregate information about the Company's contractual and other obligations and the periods in which payments are due as at May 31, 2024:

	<i>(in millions)</i>		
	Total	Short-term (next 12 months)	Long-term (>12 months)
Operating lease obligations	\$ 59	\$ 24	\$ 35
Purchase obligations and commitments	68	68	—
Debt interest and principal payments	230	6	224
Total	<u>\$ 357</u>	<u>\$ 98</u>	<u>\$ 259</u>

Total contractual and other obligations as at May 31, 2024 increased by approximately \$13 million as compared to the February 29, 2024 balance of approximately \$344 million, which was attributable to an increase in purchase obligations and commitments, partially offset by a decrease in operating lease obligations.

The Company does not have any material off-balance sheet arrangements.

Accounting Policies and Critical Accounting Estimates

There have been no changes to the Company's accounting policies or critical accounting estimates from those described under "Accounting Policies and Critical Accounting Estimates" in the Annual MD&A, other than the accounting standards adopted during fiscal 2025 as described in Note 1 to the Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is engaged in operating and financing activities that generate risk in three primary areas:

Foreign Exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the first quarter of fiscal 2025 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At May 31, 2024, approximately 21% of cash and cash equivalents, 22% of accounts receivables and 76% of accounts payable were denominated in foreign currencies (February 29, 2024 – 19%, 25% and 59%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. If overall foreign currency exchange rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at May 31, 2024 (after hedging activities), the impact to the Company would be immaterial.