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D-Wave

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Greetings and welcome to the D-Wave Third Quarter Earnings Call.
As a reminder this conference is being recorded.
I would now like turn the conference over to Kevin Hunt, Investor Relations, please go ahead.

Kevin Hunt
Thank you and good morning.

With me today are Dr. Alan Baratz, our Chief Executive Officer, and John Markovich, our Chief Financial Officer.

Before we begin, I would like to remind everyone that this call may contain forward-looking statements and should be considered in conjunction with cautionary statements contained in our earnings release in the Company's most recent periodic SEC report. During today's call, Management will provide certain information that will constitute non-GAAP financial and operational measures under SEC rules, such as non-GAAP gross profit, non-GAAP operating expenses, Adjusted EBITDA, and bookings.

Reconciliations to GAAP financial measures and certain additional information are also included in today's earnings release, which is available in the Investor Relations section of our Company website at www.dwavequantum.com.

I'll now hand over the call to Alan.

Alan Baratz
Thanks, Kevin. Good morning, everyone, and thank you all for joining us today.

This is a pivotal moment in quantum computing. What started as an academic endeavor to explore the potential for quantum technology to solve our world's toughest computational problems, is now moving full steam ahead into enterprise scale, adoption, and deployment. The significance of this transformative shift cannot be overstated. We've moved out of early adopter quantum experimentation and into production use of quantum technologies to fuel daily business operations, and only one Company can truly claim it has made this pivot, and that is D-Wave Quantum.

Our quantum systems, software solutions, and services put us substantially further ahead than any other quantum computing company. When others talk about the commercialization of quantum, they're speaking in aspirational terms about a future state, or they're referring to shipping a system likely to a government or educational institution, which is then used for research in the hope of developing commercial applications years from now.

At D-Wave, we were doing that a decade ago and we had a similar revenue ramp at that time from selling a few systems, but that wasn't sustainable. Continued growth requires the ability to solve important problems that deliver commercial value. When D-Wave talks about the commercialization of quantum, we're showing concrete evidence of actual production applications being built and now deployed by companies around the world. We have the first mover advantage because we chose a different quantum technology focus, annealing quantum computing, and no one else is offering this to the market right now.

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Industry analyst firm IDC has noted, and I'm quoting from them, as the only quantum hardware developer in the quantum annealing market, D-Wave is in a unique position of being able to provide enterprises with a quantum computing infrastructure as a service, QCaaS, offering that is designed to address the needs of enterprises interested in becoming quantum ready in annealing. When we look back at the moment when quantum crossed the chasm and started delivering enterprise value and utility, the world will point to D-Wave.

It's my pleasure to share with you today D-Wave's third quarter results, which very clearly show positive momentum across every facet of our business. Let's get into the specifics.

D-Wave's commercial traction is evident in our third quarter results. We achieved $2.9 million in bookings representing a 53% increase over last year's third quarter bookings. Q3 represents the sixth consecutive quarter of year-over-year growth in bookings. When comparing the most recent trailing four quarters with the immediately preceding four quarters, the average deal size per booking increased by 172% for commercial customers and 178% for all customers.

From a revenue perspective, revenue from commercial customers, meaning those organizations outside of government and academic institutions, continues to drive the Company's growth. On a trailing 12-month basis, commercial revenue was up 62% when comparing the most recent trailing 12 months to the prior trailing 12 months. In fact, commercial revenue represented 70% of total revenue over the last 12 months, a 20% increase over the prior 12-month period.

Very importantly, applications are beginning to move into production. Our applications represent quantum solutions to real world business problems that companies are now starting to deploy in daily operations. D-Wave has built 26 successful proofs of concept with several moving into production deployment, including Patterson Food Group for e-commerce delivery driver scheduling, and now in-store resource scheduling.

We expect the number of customers in production to increase significantly over the next couple of quarters with customers in financial services, construction, engineering, IT services, and advertising all expected to move into production with D-Wave built quantum and quantum hybrid applications. This means these businesses will need constant and consistent interaction with D-Wave's quantum computing system ranging from every few minutes or seconds to weekly, in order to run their operations.

Unlike building proofs of concept in production applications represent recurring QCaaS, quantum compute as a service revenue for us expected over multiple years. It's also important to note that these applications are all backed by D-Wave's remarkable professional services team, which is fueling a good portion of our revenue as customers swiftly move along the quantum journey from problem identification to proof of concept development to production application deployment.

Let me now share highlights of what some of our customers are accomplishing with the help of D-Wave technology. We're thrilled to share that Patterson Food Group, Canada's largest western based provider of food and health products, is moving multiple quantum hybrid applications into production. The first, an e-commerce driver delivery scheduling application is now in production to create schedules that serve over a hundred stores. The application has trimmed what was once an 80-hour task to just 15 hours each week, an 80%-time savings.

In addition, the Company will soon bring another quantum hybrid application into production, one that optimizes in-store resource scheduling in stores across Canada. Satispay is the leading Italian FinTech unicorn focused on revolutionizing mobile payments. Together we built a quantum hybrid application that optimizes customer rewards initiatives using D-Wave's constrained quadratic model hybrid solver. The application showed an improvement of 50% in customer rewards programs for the same amount of budget. A testament to the potential business value Satispay plans to transition the quantum hybrid application into production with internal teams expected to use it weekly.

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Davidson, a technology services company that provides innovative engineering, technical and management solutions for the Department of Defense, aerospace, and commercial customers, has been working with D-Wave on several quantum hybrid applications to advance national defense efforts. Most recently, we've built a radar scheduling application that efficiently manages the time limited resources of a phased array radar system enabling scheduling of communication with moving objects. We observed enhanced resource utilization in all our test cases. On average, we achieved a 15% increase in utilization across all problem scenarios and time limits with the highest improvement reaching an impressive 42%.

Momentum Worldwide is a global experiential agency, part of the Interpublic Group, IPG and Momentum's clients include many of the world's most famous brands. A recurring task for the agency is to create routes for promotional tours. Currently, creating these tours take significant work hours and domain expertise to ensure that all client requirements and federal regulations are considered.

For this project D-Wave developed a hybrid quantum classical solution utilizing D-Wave's Leap platform to automate the creation of these tours with optimal routes, reducing Momentum's operational costs for producing and running these tours. The prototype D-Wave provided was able to solve the given problem in less than an hour and is well designed to allow for an easy transition to full production quality application.

VINCI Energies. We've been working with our European partner, QuantumBasel and VINCI Energies, an accelerator of environmental and digital transition, on a pilot project to better design the layout of an HVAC system for a new building considering discreet duct sizes and joint costs. VINCI Energy has been developing an automated solution for what had been a largely manual process. Built to supplement that automated solution, our quantum hybrid application showed better qualitative and quantitative results across all evaluation metrics. Overall, we've been able to identify a lower cost and more aesthetically pleasing solution for HVAC system placement.

To further capitalize on this transformative phase in Quantum's commercialization, we've reimagined and restructured our go-to-market efforts, focusing on a more targeted verticalization approach directed primarily at manufacturing and logistics companies initially. These are customers on the forefront of massive digitization efforts as they incorporate cutting edge technologies designed to optimize the supply chain and identify new processes that fuel operational efficiencies and cost savings. As part of this new go-to-market strategy, we're also doubling down on key use cases with the broadest near term applicability, including vehicle routing, crew scheduling, manufacturing job shop scheduling, and resource allocation.

New use cases and verticals will be added as they become mature, which we expect will include risk management, machine learning, defense and aerospace, and process and flow. To broaden our reach and potential customer footprint with these key verticals and use cases, we're increasing our focus on partners and resellers, especially systems integrators and ISVs. We currently sell through a group of strategic partners including Deloitte, uptownBasel, NEC, Unisys and (inaudible) and are in active conversations with many others to scale our go-to-market efforts.

Recent product enhancements support this growing channel partner ecosystem, making it even easier for them to manage multiple customer engagements with us. New administration features in our Leap Quantum cloud service now give our partners the ability to manage their own organization and associated projects in our Leap real-time Quantum Cloud service.

We're seeing progress and momentum beyond commercial applications as well. We've been actively meeting with members of the United States Congress and other policy stakeholders to help ensure the reauthorization of the US National Quantum Initiative before year end. We support legislation that explicitly includes all quantum technologies, annealing, gate model, and hybrid. This, along with expanded focus on supporting near term application development and workforce upskilling, will ensure the US quantum programs are properly focused.

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Our product development efforts also reflect this hyper focus on the commercialization of quantum, with software and hardware innovations that will improve the size, scale, and quality of real world business problems we can solve for our customers. Our technical roadmap is focused on delivering product advancements that directly impact customer ROI now and, in the future, including greater processing power. We're increasing process and performance to fuel customer success through our next generation advantage two system with improved qubit coherence and connectivity that is expected to address even more complex customer optimization problems. Increased software value, we're advancing our quantum hybrid solver software to improve solution quality for larger more complex customer problems and of course reliability and access. We're laser focused on production readiness and system reliability, continued compliance initiatives, and expanded support for our growing go-to-market effort.

We're proud of the fact that we've delivered five generations of quantum systems, each outperforming the previous generation to more successfully address customers increasingly complex computational problems. The current advantage system, which features more than 5,000 qubits and 15-way connectivity coupled with our quantum hybrid solvers, are capable of unlocking large application problems including binary and integer variables, linear and quadratic terms, problems with up to a hundred thousand constraints and 500,000 variables, and equality and inequality constraints.

Our current advantage system is well-suited for tackling the identified near term priority use cases I mentioned earlier, including vehicle routing, crew scheduling, manufacturing job shop scheduling, and resource allocation. Our sixth generation system, Advantage Two, is expected to have more than 7,000 qubits and 20-way connectivity, enabling customers to address even larger problems with increased complexity.

Very importantly, we recently calibrated a 1,100 qubit prototype of Advantage Two that was fabricated in our new lower noise fabrication stack. Early performance benchmarks indicate even higher performance and advantage on optimization problems, which could be particularly powerful for new use cases such as machine learning.

We also recently demonstrated successful quantum error mitigation, an important technique for reducing errors in quantum computation on the upcoming Advantage Two annealing quantum system prototype, extending the coherent range by nearly an order of magnitude.

We're focusing qubit development efforts on coherence and connectivity to important measures of qubit effectiveness and processing power. A testament to our technical leadership, we recently announced notable progress in the development of high coherence qubits, which are qubits capable of doing quantum capitations for a longer period of time without errors.

We have designed, manufactured, and operated fluxonium qubits that have demonstrated quantum properties that are comparable to the best seen to date in peer reviewed scientific literature. These results are expected to have a significant impact on our technologies. We also believe we'll be the first quantum company to definitively demonstrate quantum supremacy in significant and meaningful problems, beyond random number generation. We aim to provide conclusive evidence of our systems capability to outperform classical computation and quantum simulation and our research efforts are underway.

Due to extending the value of our solutions to customers is the ongoing innovations we're making with our software. We've introduced several new software advancements to support customers' needs and to unlock new and expanded use cases. Most recently we launched new algorithmic updates to our constrained quadratic model hybrid solver that deliver increased performance for existing binary problem classes, which can include offer allocation, portfolio optimization, and satisfiability. Future software developments are expected to improve solution quality for our priority verticals and key use cases in manufacturing and logistics, as well as advanced applications involving AI and machine learning.

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As evidence of our advancing commercial maturity, much of our technical focus is on ensuring delivery of a secure, reliable, and production grade quantum tech stack at scale and across geographies. That requires a variety of initiatives including seamless deployment of new features, progressing in efforts to achieve SOC two type two data compliance, and expansion of our Leap platform to new countries and more.

Given our customers are entrusting us with supporting production deployments that are starting to directly impact their daily operations, the sophistication of our uptime and reliability efforts must maintain the highest standards.

Before I hand it over to John, I wanted to conclude my remarks by sharing an update on our liquidity. We're pleased to report that we have continued to substantially improve the Company's cash position, which was $53.3 million at the end of the third quarter, which represents a $45.8 million increase over the second quarter cash position of $7.5 million. This represents the largest quarter end cash position in the Company's history.

With that, I'll hand it over to John to provide a review of our 2023 third quarter and year-to-date results. John?

John Markovich
Thank you, Alan and thank you to everyone taking the time to participate in our call today.

Revenue in the third quarter of fiscal 2023 totaled $2.6 million, an increase of approximately $900,000 or 51% from the third quarter of fiscal 2022 revenue of $1.7 million and up 50% sequentially over the immediately preceding fiscal second quarter revenue of $1.7 million. As we outlined in our first and second quarter earnings releases, the timing of revenue recognition associated with our professional services contracts may vary from period to period. However, D-Wave is generally paid in advance of the completion of its professional services engagement and the corresponding revenue recognition timeframe.

During the third quarter, D-Wave achieved record professional services revenue of $1.4 million that is a leading indicator of potential production applications in the future.

I will be providing non-GAAP operating metrics, including bookings and average deal size as well as non-GAAP financial metrics including non-GAAP gross profit, non-GAAP gross margins, non-GAAP operating expenses, and Adjusted EBITDA loss, as we believe these metrics improve investors' ability to evaluate our underlying operating performance. These measures are defined in the tables at the bottom of today's third quarter earnings press release with the non-GAAP financial metrics, for the most part, adjusting for non-cash and non-recurring expenses.

Due to the timing associated with our professional services revenue, we believe that our bookings performance may at times be a better indicator of our business momentum than quarterly revenue. We define bookings as orders received from our customers that are expected to generate revenue in the future. We present the operational metric of bookings because it reflects customers' demand for our products and services and to assist investors in analyzing our performance in future periods.

Bookings for the third quarter totaled $2.9 million, an increase of $1 million or 53% when compared to the third quarter of 2022 bookings of $1.9 million and an increase of approximately $400,000 or 16% from the immediately preceding fiscal 2023 second quarter bookings of $2.5 million. This $2.9 million in third quarter bookings represents our sixth consecutive quarter of year-over-year growth in bookings.

In comparing the most recent four quarters with the immediately preceding four quarters, the average deal size per booking increased by 172% for commercial customers and by 178% for all customers. Continuing to compare the last four quarters with the immediately preceding four quarters, revenue

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derived from commercial customers increased by $2.2 million or 62%, average revenue per commercial customer increased by 68%.

Commercial revenue was a percentage of total revenue increased from 50% to 70%, and we had 73 commercial customers compared to 76 commercial customers that includes nearly two dozen Forbes Global 2,000 companies.

Over the last four quarters we had a total of 123 revenue producing customers compared to 121 revenue producing customers in the immediately preceding four quarters, with total customers including commercial, educational, and government accounts.

With respect to gross profit, the GAAP gross profit for the third quarter was $1.5 million, an increase of approximately $500,000 or 47% from the year earlier 2022 third quarter GAAP gross profit of $1 million, and an increase of approximately $800,000 or 117% from the immediately preceding second quarter GAAP gross profit of $700,000, with the increase due primarily to the growth in revenue.

With respect to the non-GAAP gross profit, it was $1.9 million for the third quarter, an increase of approximately $800,000 or 72% from the fiscal 2022 third quarter non-GAPP gross profit of $1.1 million and an increase of approximately $900,000 or 95% from the immediately preceding second quarter non-GAAP gross profit of $1 million, with the increase due principally to higher revenue. The difference between GAAP and non-GAAP gross profit is limited to non-cash stock-based compensation and depreciation expenses that are excluded from the non-GAAP gross profit measure.

With respect to margins, the GAAP gross margin for the third quarter was 59.7%, representing the second consecutive quarter of sequential quarter-to-quarter improvement in GAAP gross margins due primarily to the growth in revenue, and 1% lower than the 61.4% GAAP gross margin in the prior-year third quarter with a decrease due entirely to higher non-cash stock-based compensation expense in the third quarter fiscal 2023 cost of sales.

With respect to non-GAAP gross margins, they were 75.6% for the third quarter, an increase of 9.2% from the year earlier, 2022 third quarter non-GAAP gross margin of 66.4%, and an increase of 17.5% from the immediately preceding second quarter non-GAAP gross margin of 58.1%. Again, with the increase due principally to the higher revenue.

With respect to operating expenses, the GAAP operating expenses for the third quarter were $19.9 million compared to $16.2 million in the year earlier fiscal 2022 third quarter, with the increase due primarily to higher non-cash stock-based compensation expense as well as higher public company and headcount related expenses. On a sequential quarter-to-quarter basis, the $19.9 million in third quarter GAAP operating expenses represents the second consecutive quarter sequential quarter-to-quarter decreases in GAAP operating expenses driven primarily by lower G&A expenses.

With respect to the non-GAAP adjusted operating expenses, a total $13.5 million for the third quarter, a decrease of approximately $700,000 or 5% from the $14.2 million in non-GAAP adjusted operating expenses in the fiscal 2022 third quarter. Again, on a sequential quarter-to-quarter basis, the $13.5 million in third quarter non-GAAP adjusted operating expenses represents the second consecutive quarter of sequential quarter-to-quarter decreases in non-GAAP adjusted operating expenses and is reflective of the Company's focus on expense management, with the decline driven by lower operating expenses in all OpEx categories including R&D, G&A and sales and marketing expenses. Again, the difference between GAP and non-GAAP operating expenses is primarily non-cash stock-based compensation expense, non-recurring one-time expenses, and depreciation.

Net loss for the third quarter was $15.8 million or 12 cents per share compared with a net loss of $13.3 million or 11 cents per share in the fiscal 2022 third quarter. On a sequential quarter-to-quarter basis, the $15.8 million third quarter net loss represents the second consecutive quarter of sequential quarter-to-

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quarter improvement in net loss that was driven by higher gross profit in combination with lower operating expenses.

The Adjusted EBITDA loss for the quarter was $11.6 million, an improvement of $1.4 million or 11% compared with the $13 million Adjusted EBITDA loss in the prior year third quarter. On a sequential quarter-to-quarter basis, the $11.6 million quarter Adjusted EBITDA loss represents the second consecutive quarter of sequential quarter-to-quarter improvement and Adjusted EBITDA loss.

I'll now cover the Company's year-to-date operating performance for the first nine months of the year. Revenue for the nine months ended September 30, 2023, total $5.9 million, an increase of $1.1 million or 22% from revenue of $4.8 million in the nine months ended September 30, 2022. Bookings for the nine months ended September 30 were $8.4 million, an increase of $4.6 million or 125% from bookings in the corresponding fiscal 2022, nine-month period. GAAP gross profit for the nine months ended September 30, 2023, was $2.7 million, a decrease of approximately $300,000 or 9% from $2.9 million in GAAP gross profit from the nine months ended September 30, 2022, with the decrease due primarily to higher non-cash stock-based compensation expenses in the fiscal 2023 cost of sales.

With respect to the non-GAAP gross profit for the nine months ended September 30, it totaled $3.8 million, an increase of approximately $700,000 or 21% from the non-GAAP gross profit of $3.1 million in the prior year nine-month period. With respect to gross margins, the GAAP gross margin for the nine months ended September 30, 2023, was 45.4%, a decrease of 15.7% and the 61.1% GAAP gross margin in the earlier nine-month period with the decrease due primarily to higher non-cash stock-based compensation expense in Fiscal 2023 cost of sales.

The non-GAAP gross margin from the nine months ended September 30 was 64.6%, a decrease of seven tenths of a percent from the 65.3% non-GAAP gross margin in the earlier nine-month period.

The net loss for the nine months ended September 30, 2023, was $66.3 million or $0.50 per share compared with a net loss of $38.7 million or $0.32 per share in the corresponding fiscal 2022, nine-month period.

Adjusted EBITDA loss for the nine months ended September 30 was $43.4 million compared with $34 million in the nine months ended September 30, 2022, with the increase due primarily to higher a public company and headcount related expenses.

Now I will move on to the balance sheet and liquidity. As Alan outlined earlier, as of the end of the third quarter D-Wave’s consolidated a cash balance totaled $53.3 million, an increase of $45.8 million or over 600% from the $7.5 million consolidated cash balance at the end of the immediately preceding second quarter ended June 30. Again, the $53.3 million cash balance represents the Company's largest quarter end cash balance in its history.

During the nine months ended September 30, 2023, D-Wave raised over $94 million in debt in equity, including $63.5 million dollars in equity, primarily from the Company's common stock purchase agreement, which we commonly refer to as the equity line of credit, or ELOC, with Lincoln Park Capital Fund, and $30.5 million in debt primarily with PSPIB Unitas Investments II Inc., an affiliate of PSP Investments, that we refer to as the PSP loan.

As previously disclosed on June 16, 2022, D-Wave entered into the ELOC with Lincoln Park, wherein the Company has the right but not the obligation to issue and sell up to $150 million of shares of its common stock to Lincoln Park, subject to certain limitations and satisfaction of certain conditions over a three-year period. As of the end of the third quarter, D-Wave had $84.4 million in remaining capacity under the ELOC with two years remaining under the commitment. D-Wave's ability to raise funds under the ELOC is subject to a number of conditions, including having a sufficient number of registered shares and D-Wave's stock price being a dollar per share or above.

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As previously disclosed on April 13, 2023, D-Wave entered into a $50 million four-year term loan agreement with PSP. The PSP loan agreement is comprised of three individual tranches of $15 million, $15 million, and $20 million respectively. To date, D-Wave has drawn on the first two tranches totaling $30 million. However, the issuance of the third tranche is subject to certain conditions and there can be no assurance that the Company will be able to meet the conditions necessary to draw on the third tranche.

With respect to our outlook for the balance of the year, based upon information available on November 8, 2023, our fiscal 2023 revenue guidance is in the range of $10 million to $11.5 million, and our fiscal 2023 Adjusted EBITDA loss guidance is less than $56 million. As we have previously stated, we believe that D-Wave has the opportunity to be the first independent publicly held quantum computing company to achieve sustained profitability and to achieve this milestone with substantially less funding than required by any other independent publicly held quantum computing company.

With that, we'll now open up the call for questions.

Q&A Session:

Operator
Thank you. Our first question comes from David Williams with Benchmark. Please proceed with your question.

David Williams
Hey, good morning, and thanks for taking my question. Alan, it sounds like you guys have made a lot of progress here and very enthusiastic about the opportunities. I really like hearing the production or deployments of production solutions. Can you talk a little bit about, you said you had 26 proof of concepts with several moving into production, how should we think that pace kind of progresses through the year and into next year?

Alan Baratz
Yes. Thanks David, for the question. First of all, I do want to take a step back because I think it's really important to understand that we are building right now a very different business from what everybody else in the quantum space is doing. Specifically, we are from the ground up, building a commercial quantum business. Starting from scratch, developing the industry, the market, and building the business, and that doesn't happen instantly. It starts with engaging the market to help them understand the value that quantum can bring to their business.

From there, moving on to working with them to actually get their hands on the technology and understand with applications that are important and of value to them, what's possible. We do that through our professional services organization, and we call those proofs of concept. We have developed, as we commented, over 20 successful proofs of concept with customers. Sometimes those application areas are areas that the customer has identified simply because they want to learn about quantum, maybe not to eventually move into production, but just something simple to get started.

Sometimes those are applications where the customer actually has a serious problem that they're trying to solve, and sometimes the former case actually turns into something that actually can create value to them, even though they didn't think that initially it would. Frankly, we talked a little bit about VINCI Energies, they're an excellent case of that. We've been working with them on building construction application. It was initially simply an exploration, but the results were so powerful that they're now looking much more seriously at that application as something that could potentially benefit their business.

Again, these proofs of concept can take on some different forms. They are always applications of interest to the customer. Sometimes things that are just experimental for them, sometimes actual business problems that need to be solved and sometimes the experimental things turn into actual business problems that need to be solved. However, once the proof of concept has been developed and the customer understands the benefit and the value, it's then a matter of moving it into production.

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That can take time, because that then requires the company to rework, in some cases their application and IT infrastructure to be able to leverage the quantum capability and sometimes modifications to internal processes. For example, one of our earliest customers now moving into production application deployment, the proof of concept was completed over a year ago, but it took time to get to the point where they could actually deploy within their environment.

The good news is, with the broad array of successful proofs of concept that we've been working on over the last roughly 18 months, we are now at the point where applications are starting to move into production. Several of them within the last few months, and a number more over the next couple of quarters, and we just expect that to continue to grow as time goes on. Yes, it's creating a new market, and yes, it takes time to do that, but what's exciting for us is that we are now at the point where we're seeing the transition, and that's where we start creating the real value.

David Williams
Great. Thanks for all that color. Very, very helpful. I guess if you can talk maybe just a little bit about the restructuring and maybe the pivot to manufacturing, logistics, and markets, and really what's driving that. Do you see this as being a big driver of your success over the next 12 months? Thank you.

Alan Baratz
Yes. I'm not sure I'd call it a pivot, although I think we actually did use that term in the script but maybe just kind of doubling down on those areas. Essentially what we want to do now is accelerate the timeframe from initial engagement through to production. We've now demonstrated, proven to ourselves and some key customers, that there are a set of use cases where we can reliably demonstrate value. We've also been able to see what it is taken to transition to production.

Looking back at all of that, what we have concluded is that the two industries I mentioned, manufacturing and logistics, and the four use cases that I mentioned, represent the area where we've got the most positive experience in moving through this process. Which means that by doubling down on those areas, basically putting a concerted go-to-market effort in place to pursue customers in those industries and use cases, that we know we can be successful with and will resonate with those customers and really focusing our go-to-market efforts on that.

In addition, streamlining our proofs of concept to move more quickly because we're repeating now work that we've done in the past, ultimately even creating application templates out of those use cases, our goal is to really reduce the time from engagement to production. Then as we put that in place and other use cases, either in the same verticals or other verticals start to mature, we'll start to grow beyond that.

Now, it doesn't mean that if a customer comes to us with a use case or an application in a different area, the customer is from a different industry, we won't work with them, it's just that our focus is going to be on the area where we believe we can actually accelerate the time to production.

Operator
Our next question comes from Suji DeSilva with Roth MKM, please proceed.

Suji DeSilva
Morning, Alan. Good morning, John. Congrats on the progress here. I think I've asked this question before, but Alan, the larger deal size as you're seeing, just remind me what's driving that and if that's sustainable going forward in terms of a way you're approaching the customers.

Alan Baratz
It's absolutely sustainable. There are two things that are driving that. One is the fact that we're now starting to move into production, and those production agreements are larger per year and multi-year agreements. That makes those agreements much larger and more valuable to us. The second is that on the professional services engagements, it is signing agreements that include not just a single application

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proof of concept, but multiple, simultaneously, because there's starting to become an increased awareness of an understanding of the value that we can bring to the table.

Suji DeSilva
Okay, that's very helpful. Then also on the focus, I'll just pivot on manufacturing logistics, what are some of the key partnerships we should watch for your success driving there? Maybe it's the same as the other end markets, maybe it's specific partners. Be helpful to know that.

Alan Baratz
Yes, we've talked about some of the work that we've done in the manufacturing and logistics arena in the past. We've talked about, for example, the Patterson Food Group, we even mentioned them again today. Their applications are logistics. We've also talked about work we've done on airport employee scheduling, which is also logistics. The IPG tour planning that we mentioned, routing is logistics. We've talked about work we've done with Volkswagen on optimizing some manufacturing applications and our (inaudible). We've done some work with a very large oil company on logistics associated with drilling. The number of manufacturing and logistics customers is significant compared to our total set of customers and the use cases all fall into the four categories that we described.

Operator
Our next question comes from Richard Shannon with Craig-Hallum, please proceed.

Richard Shannon
Thanks Alan, John, for taking my questions. Alan, I think I want to follow up on one of your comments and prepared remarks about broadening your reach within these vertical, focusing more on resellers and ISVs. Maybe you can talk through what you should expect to see over the next few quarters. Is there any change in the business model and kind of margin structure going forward as you make this change?

Alan Baratz
Yes, two things, first of all we believe that SI, systems integration partners can be a part of accelerating the time to production because if you think for a minute about what I said previously. Relative to what it takes to get into production, and especially the part about once the proof of concept is complete, the work that needs to be done to actually move into production, that's something that we are helping our customers with, but a larger SI organization we believe could be even more effective in that portion of the process. We think there's a real opportunity for the partners as well as for us to reduce the time to production.

The second one is one that's relatively new for us, although not brand new, and that's ISVs. We've talked in the past about (inaudible) and scheduling the movement of cargo containers at shipping ports that really was (inaudible) building us into their application, at which point they become an ISV and pay us for access to our system, calling our system roughly every 15 seconds.

We now have two other ISVs that we're working with that are building us into our solution that they will take to market. They also happen to be in these areas that we're focused on manufacturing and logistics, the use cases that we talked about. But we think that those two things can be solid accelerators for us as we kind of try to break breakthrough on the drive to production.

Richard Shannon
Okay. I appreciate that detail, Alan. Maybe just more of a technical question for the fourth quarter here, if I'm doing my math right looks like you're expecting implicitly revenues about 4.1 to 5.5 or something like that for the quarter. Obviously, a nice pick up here after a nice strong acceleration in the third quarter as well here. I guess probably the key question for me is what do you anticipate would take you to the low end versus the high end of that range?

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Alan Baratz
It's all about revenue recognition. We've talked about this in the last two conference calls. The QCaaS revenue is quite predictable. The professional services revenue, which as John pointed out, has been significant for us. We see a lot of growth there, is much lumpier and less predictable because it's based not just on the work that we are doing, but also on the work that our customers are doing, because we're working together on the professional services engagements and the proofs of concepts and the moves into production. It's all about revenue recognition.

John, I don't know if there's anything you like to add.

John Markovich
You've identified it Alan, it's RevRec. All in the professional services area.

Operator
Our next question is from Kevin Garrigan with WestPark Capital. Please proceed.

Kevin Garrigan
Yes. Hey, Alan and John, thanks for taking my question. Alan, you've talked about customers learning about how Quantum and D-Wave can benefit them. Is there still a big teaching component when you're talking to new customers, or have you noticed that a lot of customers have seen how D-Wave has helped their peers? They kind of know exactly the use case they're looking for and how quantum can kind of benefit them?

Alan Baratz
It's getting better, but there's still a lot of teaching that goes on. I would say probably maybe just 25% of the time the customer says, Hey, I saw what you did with Volkswagen, or I saw what you've done with IPG, I saw what you did with (inaudible), and I think maybe I have an application that could benefit. But still, 75% of the time it is education. We're not there yet, but obviously as these applications move into production, it's going to become easier and easier for us.

Look, I really do believe that we are right now at the turning point. I will tell you the last three to four months, we really have seen a breakthrough in the move to production, both customers moving to production and buying our QCaaS production offering, as well as customers that are close to production and that we expect we'll be buying within the next, I think I said a quarter to two quarters. I really do think we are at the turning point right now.

Kevin Garrigan
Yes, I know that that makes a ton of sense. Okay. Perfect. Then just as a quick follow up on the SOC type two compliance, you noted in your press release that you're entering the final stages, and I think on a previous call, you're looking to be compliant by the end of the year. Can you just remind us of the benefits of being type two compliant, and have you gotten positive feedback from customers and prospective customers regarding your decision to secure type two compliance?

Alan Baratz
Yes, our timeline has not changed. We're still tracking to that timeline. The answer is yes, in the sense that, I think I've talked in the past about the fact that as customers start getting ready to move into production, there's a whole different discussion relative to security and privacy and reliability, availability, long 200 question questionnaires that we need to fill out. We are starting to see now that as we're getting close to type two certification, just the certification addresses much of what's in those questionnaires. It just simplifies our onboarding process.

Operator
Dr. Baratz, I will turn the call back to you for closing remarks.

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Alan Baratz
Okay, great. Thank you. Again, thanks to all of you for taking the time to be here today. Look, the era of quantum computing is here, and we are leading the way at D-Wave. No other quantum computing company is at the same point of commercial adoption and momentum. We've made the pivot from exploratory R&D to real world customer deployments of proven quantum applications built with our technology. It's a remarkable moment and one that we are incredibly proud of.

As we look ahead, our efforts across every facet of the business from process of development to qubit coherence, hybrid solver advancement to production deployment support, remain squarely focused on helping customers succeed and derive ROI from quantum computing. The road ahead is full of opportunity. We remain uniquely positioned to capitalize on it. Again, thank you all for taking the time to be here.

Operator
That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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