06-Nov-2024

IonQ, Inc. (IONQ)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to IonQ's Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Jordan Shapiro. Thank you. You may begin.

Jordan Shapiro
Vice President-Financial Planning and Analysis & Head-Investor Relations and Corporate Development, IonQ, Inc.

Good afternoon everyone and welcome to IonQ's third quarter 2024 earnings call. My name is Jordan Shapiro and I'm the Vice President of Financial Planning and Analysis and Head of Investor Relations here at IonQ. I'm pleased to be joined on today's call by Peter Chapman, IonQ's President and Chief Executive Officer; Thomas Kramer, our Chief Financial Officer; and Dr. Dean Kassmann, our Senior Vice President of Engineering and Technology.

By now, everyone should have access to the company's third quarter 2024 earnings press release issued this afternoon, which is available on the Investor Relations section of our website at investors.ionq.com. Please note that on today's call, management will refer to adjusted EBITDA, which is a non-GAAP financial measure. While the company believes this non-GAAP financial measure provides useful information for investors, the presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. You are directed to our press release for a reconciliation of adjusted EBITDA to its closest comparable GAAP measure.

During the call, we will discuss our business outlook and make forward-looking statements. These comments are based on our beliefs as of today. Actual events or results could differ materially from the outlook and other forward-looking statements due to a number of risks and uncertainties, including those mentioned in our Form 10-

Q filing with the SEC this week. We undertake no obligation to revise any statements to reflect changes that occur after this call except as required by law.

Now I will turn it over to Peter Chapman, President and CEO of IonQ. Peter?

Peter Chapman

Chief Executive Officer, President & Chairman, IonQ, Inc.

Thanks, Jordan, and thank you to everyone for joining today's earnings call. We have a lot to talk about, so let's dive in. On the financial front, we are leading the industry with our commercial trajectory. In the third quarter, we exceeded our expected range on revenue, raising our annual revenue guidance and brought in $63.5 million of new contract bookings.

We are making game changing announcements on the development of quantum applications with AstraZeneca and Ansys. We have solidified our push into quantum networking via our recent contracts less than a year after announcing our networking initiative. And we are sharing the news of our acquisition of Qubitekk, a leader in the quantum networking industry. What's more? We will share some details of our rapidly developing technical progress and the manufacturing partnerships that are driving it.

So in more detail, we once again exceeded the high end of our revenue range for the quarter, delivering $12.4 million in recognized revenue compared to our range of $9 million to $12 million for the quarter. This also represents, IonQ, more than doubling our third quarter revenue year over year.

With that in mind, we are raising our revenue guidance for the full year 2024 and fourth quarter to a range of $38.5 million and $42.5 million. We announced a new $54.5 million contract with our existing customer, the United States Air Force Research Lab, as well as a $9 million renewal with the University of Maryland. This brings IonQ year-to-date bookings for 2024 to $72.8 million within close range of our target guidance for the year of $75 million to $95 million. Given our sales progress to date, we now believe that we will come in closer to the high-end of the bookings guidance range. And, of course, our bookings success will set us up for continued success next year in growing our revenue.

IonQ has exceeded its original bookings targets for each of the past three years since we have been publicly traded, raising or beating our bookings or revenue expectations 12 times out of our 13 earnings calls, including today. Meanwhile, we are on track to roughly double the company's recognized revenue for the third year in a row.

Our annual revenue has exceeded the high end of our guidance range every year. In short, one can no longer ignore the scale of IonQ's commercial success. The investment thesis for IonQ is our potential for high growth and we keep delivering on that promise. Thomas will discuss our financials in more depth.

Everyone, investors and customers alike, want to know when previously impossible tasks can be addressed by quantum applications. The answer is that the convergence of powerful enough quantum computers, a matching application and ability to manufacture the hardware at scale. In the quantum world there are two camps or schools of thought on this topic. One camp believes you need near perfection before value can be unlocked. If they are correct, sadly, quantum is still a long way off. The naysayers belong to this camp, but their numbers are dwindling every day.

The other camp, which IonQ and others belong to, believe today's early, noisy quantum computers can provide value even before they are perfected. And if we are right, it gives us a significant advantage by generating early,

meaningful cash collection, as we work towards perfection. About 18 months ago, I challenged our teams to answer a critical question. I told them, I don't care about theoretical algorithms with limited, practical applicability. I don't care about the academic argument about quantum supremacy. Instead, I asked them, what are the applications that have the potential to disrupt multibillion dollar industries?

The team has since identified several application areas where we believe commercial value will be first realized and aligned with our next generation hardware and IonQ's production capability. We then reached out to industry partners to understand the value of these applications to their respective industries. Today marks a seminal moment in the quantum industry as we announce the first two application areas. Biopharmaceutical drug discovery and computer-aided simulations for the engineering and manufacturing industries.

In the global biopharmaceutical industry, I am excited to announce the creation of a new quantum application development center in collaboration with AstraZeneca. IonQ will be leveraging the power of our quantum experts and AstraZeneca's world class scientists to develop applications in their innovation BioVentureHub in Gothenburg, Sweden. In the computer-aided engineering industry, IonQ has joined forces with Ansys to accelerate simulation, expand high-fidelity design exploration and reduce product development timelines, enabling faster market entry for more innovative products. The partnership is aimed at making simulation accessible to both quantum experts and non-experts by allowing seamless integration between Ansys software and IonQ computers.

To reach our aggressive sales goals we have always planned on growing application revenue. We expect these applications to drive demand for new systems in production, but also for us to share in the up to $2 trillion economic value that McKinsey projects will be unlocked by 2035.

We've reached an incredibly impactful point and we could not be more excited to partner with AstraZeneca and Ansys to bring production grade quantum applications to their respective industries. I can't tell you how much personally, I am excited about these applications.

Now switching our focus to quantum networking. We believe that IonQ is the only quantum computing company that has an inherent advantage in the quantum networking market, contributing to our early leadership. Specifically, we have always relied upon networking as part of our architecture to scale our quantum computers. Quantum networking and quantum computing for IonQ are highly synergistic.

Our recent wins of a $54.5 million contract with AFRL and our $5.7 million contract with the Applied Research Laboratory for Intelligence and Security or ARLIS, are examples of our quantum networking investments paying off. At more than $60 million, we believe these two sales alone have catapulted IonQ to become a leading player in the quantum networking industry.

To expand on that leadership, today, we are excited to announce that we have signed a definitive agreement to acquire Qubitekk, a leading Vista, California based quantum networking company. The combination of Qubitekk and IonQ will allow us to continue our momentum in quantum networking by the addition of Qubitekk's 118 US and international granted patents. I expect that the quantum networking products will continue to strongly drive sales and to be the first product group that is cash flow positive.

Quantum networking is a large and rapidly growing opportunity with McKinsey estimating that quantum communication will become a $36 billion market by 2040. Quantum networking like classical networking hardware, is also expected to require several orders of magnitude more physical hardware than quantum computing, to build the infrastructure for the quantum Internet. This is another element of the networking market

where IonQ is particularly well-suited given the investments we have made over the past years to scale up our production manufacturing capabilities.

The IonQ technical team also demonstrated ion to ion entanglement, the second of four significant milestones required to develop photonic interconnects and significantly scale our system capacity. While we are thrilled with our technical progress in quantum networking, we're even more thrilled to join forces with Qubitekk and leverage their quantum networking expertise.

Lastly, on the technology front, we are happy to announce two new agreements for critical components of future systems, starting with IonQ Tempo. Number one, we announced a partnership with NKT Photonics, a subsidiary of Hamamatsu Photonics, to develop next generation laser systems for our trapped ion computers and networking equipment. The arrangement will begin with NKT Photonics developing and delivering three innovative prototype optical subsystems to us in 2025, designed to improve the performance, size, weight and power of our upcoming data center ready quantum computers.

Number two, today, I am also pleased to announce a new partnership with imec, a world renowned innovation hub in nano-electronics and digital technologies, to develop photonic integrated circuits and chip-scale ion trap technology. With these groundbreaking technology, IonQ aims to reduce overall hardware system size and cost, increase cubic count and improve system performance and scale. The developments of this quarter are nothing short of groundbreaking. And position IonQ to be the preeminent player in the quantum industry in the near-term and for many years to come.

Many of you already know IonQ as a leading quantum computing company. With today's announcements, we believe that we are now the leading company at the intersection of quantum computing and networking. And in the future you will likely also know us as a software application company. Our commercial track record has launched IonQ towards the rarefied echelon of rapidly growing young technology companies by achieving nine figures in bookings in record time.

And with that, I'd like to turn the call over to Thomas.

Thomas G. Kramer

Chief Financial Officer, IonQ, Inc.

Thank you, Peter. It has truly been an exciting quarter on the applications and commercial front and our financials are no exception. Let's walk through this quarter's financial results in more detail. As Peter mentioned, we had a strong revenue quarter recognizing $12.4 million, which is above the high end of the range we previously provided. This over performance was primarily due to our ability to make more progress than previously anticipated on some of our contracts that used percentage of completion revenue recognition.

We also booked $63.5 million of sales in the third quarter. As we have mentioned in prior earnings calls, we anticipate lumpiness in our bookings since it is difficult to predict quarter to quarter or even in some cases year to year exactly when a particular sale will materialize. We remain confident in our bookings target for the year.

Moving down the income statement, our total operating costs and expenses for the third quarter were $65.5 million, up 36% from $48.3 million in the prior year period, but within our plan for the year. To break this down further, our research and development costs for the third quarter were $33.2 million, up 35% from $24.6 million in the prior year period. Recall that we are investing heavily in R&D and growing our R&D head count to support our roadmap and customer commitments.

Our sales and marketing costs in the third quarter were $6.6 million, up 31% from $5 million in the prior year period. This increase was due to our growing both our marketing and our sales teams, as we continue investing into our commercial efforts. Our general and administrative costs in the third quarter were $14.3 million, up 3% from $13.9 million in the prior year period. These increases were primarily driven by an increase in payroll-related expenses. All of this resulted in a net loss of $52.5 million in the third quarter, compared to $44.8 million in the prior year period.

Accounting for warrants can be confusing, so we've always pointed out the impact they have on our results. This Q3 loss includes a non-cash loss of $3.9 million for the third quarter related to the fair value of our warrant liabilities. These results also include growth in stock-based compensation expense related to our head count growth, which was $24.6 million for the third quarter compared to $17 million for the prior year period. We saw an adjusted EBITDA loss for the third quarter of $23.7 million compared to the $22.4 million loss in the prior year period. We continue to project an adjusted EBITDA loss for the year of $110.5 million.

Turning now to our balance sheet. Cash, cash equivalents and investment as of September 30, 2024, were $382.8 million. We continue to believe this cash position is the strongest of any publicly traded company focused on full stack computing. Importantly, while we have increased IonQ's run rate in recent years, we are offsetting this by beginning to collect large payments from IonQ's customers, including those who have purchased systems.

Our run rate increases are largely related to employee costs, as we have worked rapidly to bring the best quantum talent to IonQ. It is also worth mentioning that a significant portion of our investment in setting up manufacturing is now behind us. IonQ's board and management team are focused on being the leading business in both the rapidly expanding quantum computing and quantum networking segments. Our corporate goals in the coming years are profitable growth, positive free cash flow and commercial quantum market leadership.

Now turning to our financial outlook. We are pleased to announce that we will be raising our revenue guidance for the full year 2024 to a range of $38.5 million to $42.5 million, reflecting our confidence in our progress on our percentage of completion-based contracts. We currently expect revenue for the fourth quarter of between $7.1 million and $11.1 million. We remain confident in our 2024 bookings guidance of between $75 million and $95 million.

Back to you, Peter.

Peter Chapman

Chief Executive Officer, President & Chairman, IonQ, Inc.

Thank you, Thomas. As we have evidenced since IPO, via our customer wins and our fantastic third quarter, IonQ is demonstrably leading the commercialization of quantum computing and quantum networking worldwide. The quarter's bookings were on par with our entire last year of bookings combined. We are making great strides with our collaborations with AstraZeneca and Ansys to break new ground in applications.

And we furthered our leadership position in quantum networking, demonstrated by our $54.5 million cornerstone deal with AFRL, as well as our achievement of the second milestone on our path to implementing photonic interconnects. We look forward to a strong close of the year and to updating you all again on our fourth quarter call in February.

With that, I'd like to turn it over to the operator for our question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from David Williams with The Benchmark Company. Please proceed with your question.

David Williams
Analyst, The Benchmark Co. LLC

Q

Hey, good afternoon, everyone, and thanks for taking my question. Lots of really interesting, exciting things going on. It's hard to find a place to start, but maybe first, Peter, can you speak to just the Qubitekk acquisition, what that technology brings and how does that kind of merge synergistically with what you've been doing internally?

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Yeah, I'd be happy, David. Several things here. One is that as we've kind of talked about in the past, the way that IonQ will get to scale is by photonically networking our quantum computers together. And Qubitekk is doing something similar, not exactly the same, but they have the same kind of rough skill sets in terms of people.

The other side is it gives us another product line as well to go after in – it's a new market for us. So, it's both complementary and also expands the TAM that we can go after.

David Williams
Analyst, The Benchmark Co. LLC

Q

Okay. Fantastic. And just kind of thinking about you have the networking efforts now and you also have the computing side. How do you think about the sensing pillar in terms of quantum and is that an area we should anticipate that you might be looking to enter at some point?

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Yeah. So one of the nice things is that often sensing requires quantum networking to be able to transport the quantum information. So again, it enables and another piece of infrastructure in the three different markets that kind of makes up quantum, it's quantum sensing, quantum networking and quantum computing.

David Williams
Analyst, The Benchmark Co. LLC

Q

Sure. Okay. And then just one last one, if I may. You've talked about applications this quarter and before. You alluded to it. And we've seen it before, other applications or other areas where you partnered with manufacturers or different industries to work on a specific problem. Can you just talk maybe about how this application develops over time and how you think about that relative to maybe the one-off things you've done in the past?

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Yeah. You've kind of expressed actually the core of it. A lot of times we've worked with companies sometimes for a one-off or maybe an R&D kind of project. We could largely put an end to those about 18 months ago. And so we

said, okay, it's time to get down really to focus on the applications. That will be the first applications that we put into production.

And so we didn't want to get started on the application software, when we had the hardware done. We want the software to come along at exactly the same time as when the hardware is ready to run those applications. So we're timing those two things together.

What the two announcements that are today with both Ansys and AstraZeneca is the beginnings of working on those applications. We've been working on the prototypes for these applications for the rest, I don't know, six or eight months or so. So it's not – we're not starting at square one, but it's not completed either. So that's kind of the major difference.

I would put Hyundai maybe into the third camp as well, which is our engagements there are now moving into what can we do that actually helps them in a production sense as well.

David Williams
Analyst, The Benchmark Co. LLC

Q

Thanks so much for the color. Certainly appreciate it.

Operator: Our next question comes from Richard Shannon with Craig-Hallum. Please proceed with your question.

Tyler Anderson
Analyst, Craig-Hallum Capital Group

Q

Hi, guys. This is Tyler Anderson on for Richard Shannon. Congratulations on the quarter and M&A. I'm very surprised, it's amazing. And thank you for taking my questions. I was wondering, does the hardware from Qubitekk require distillation or node to node swap operations? And then also will the chip-scale ion trap from the imec partnership be used within the AFRL contract? And could you describe the price of the Qubitekk acquisition and the expected incremental OpEx?

Dean Kassmann
Senior Vice President-Engineering & Technology, IonQ, Inc.

A

Okay. I'll start. This is Dean. There's a lot to unpack in your question. The first piece is with regards to the technology, in regards to the swap and other things that we expect to need to use to basically generate two trap entanglement or two QPU entanglement. That is not part of the fundamental technology stack that we have with the Qubitekk and the QKD work that they have.

There is a similarity, though, associated with the milestone that we just actually announced with our photonic interconnects in terms of like the Bell state analyzer and the photon entanglement. And so there is analogies between the work that we're doing with the photonic interconnect as well as what's being done in those quantum network.

And so there's a parallel technology, some of it in the component technology is one and the same. But right now they are operating at different frequencies. And so what we need to do for our photonic interconnects is fundamentally different than what you would need is currently being done is state of the art in many of the QKD solutions.

Your second question was associated with imec and some of the PIC development and its relationship to our AFRL work. The overall AFRL work is focused on development of are and particularly, the most recent large item was first associated with frequency conversion. So this goes back actually early to the Qubitekk acquisition where we're looking at conversion of wavelengths from barium and other computing frequencies down to telecom frequencies to be able to push the entanglement over long distances.

The second piece of that is the – I would say photonic switching, that work there, the prototypes there. And then the third is really component ruggedization. The imec work has the potential to play in all of those areas, but not in the near term, but instead in the far term. So as we think about our technology stack, as we think about putting optics down on to chip scale devices, that is where we expect to see that. None of the activities right now within the [indiscernible] (00:27:17) performance of our current AFRL contract.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.
A

And then there was one other question, which was price?

Thomas G. Kramer
Chief Financial Officer, IonQ, Inc.
A

Oh, yeah. So the consideration for the acquisition is $22 million, which we have funded in cash from our balance sheet. Yeah. The details are laid out in the quarterly disclosures. We evaluated the size and determined that the cash commitment was manageable relative to the size of our cash position and we plan to close the transaction in the next six months.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.
A

And I'll just add one other little piece, which is that the Qubitekk purchase also, given their existing contracts, they have a relationship with real-world telcos. And so it kind of moves our efforts out of the laboratory and now starting – allows us to start to test in the field, so to speak. Great questions, by the way.

Tyler Anderson
Analyst, Craig-Hallum Capital Group
Q

Awesome. Thank you, guys. And then one more for me. Could you quantitatively frame the near-term government spending opportunity on a national and an international level? And then where is your strength across the different types of opportunities as far as application, computation and networking? And what are the size of those different buckets?

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.
A

We might need another whole meeting, I think, to get through that question.

Tyler Anderson
Analyst, Craig-Hallum Capital Group
Q

Sorry.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.
A

I think maybe what we could probably best point you to is to some of the work that the BCGs and the McKinseys of the world in terms of what the expected markets are for those things. Clearly, we have – one of the things that I think most proud of at IonQ is we've kind of told the market even from the day, first day of the IPO, what it is we're going to do and we just do it. We keep on doing it and exceeding it. So, it's actually not much of a secret. We've been saying it since the first day of the IPO.

Tyler Anderson
Analyst, Craig-Hallum Capital Group

Q

Okay. Then maybe just a little bit shorter. How would you weigh your focus between government and commercial monies moving forward with all of these acquisitions and the telco involvement?

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Well in, in the near term, it's been a good portion, which is towards government. But the beginnings now of these application projects, now it's starting to switch over to enterprise. And that's always been the plan. Again, if you go back to the very beginning of the IPO, you'll see that we said, hey, it's really going to start to take off as soon as we can start to bring these applications online.

Tyler Anderson
Analyst, Craig-Hallum Capital Group

Q

Awesome. Thank you, guys and congratulations again.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Thank you.

Thomas G. Kramer
Chief Financial Officer, IonQ, Inc.

A

Thank you.

Operator: [Operator Instructions] One moment, please, while we poll for questions. Our next question comes from Shadi Mitwalli with Needham &Company. Please proceed with your question.

Shadi Mitwalli
Analyst, Needham & Co. LLC

Q

This is Shadi Mitwalli, dialing it for Quinn Bolton. First off, congrats on an exciting quarter, lots to unpack here. Earlier in the year, you got to knock the major milestone in photonic interconnects. And now with the partnership with NKT Photonics, it's clear IonQ is making solid work on the photonics front. I just want to touch on how NKT Photonics systems will support the commercialization of IonQ's quantum computers.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Do you want it Dean?

Dean Kassmann
Senior Vice President-Engineering & Technology, IonQ, Inc.

A

I'll take it first from the technology perspective and Peter can take it from a business perspective. On the technology side, NKT has a different kind of different sets of different lasers and there's different laser technology, diode lasers, pulsed lasers, fiber-based lasers. And so what we're looking for from a technology perspective in our laser vendors and suppliers are robust lasers that operate at the frequencies and the wavelengths that we're interested in and lasers that simply just work, right. And so part of this represents us both trying to put in place larger scale manufacturing and larger scale kind of supplier agreements, as well as trying to down select to technology partners that can provide the wavelengths that we need, the cost points that we need, and the robustness and stability that we need to really 24/7 operation of the systems.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

And I'll just add little bit on the business which Dean kind of hinted at, which is it's the question of the cost of these systems. Lasers are a significant portion of our overall costs. So when we sat down and said, look, we're going to be moving to production, one of the pieces to be able to reduce the cost, also reduced the size. So this is investments that you see in both of these announcements today, both with imec and also with NKT of us actually working towards that promise.

Shadi Mitwalli
Analyst, Needham & Co. LLC

Q

Great. Great. Thanks for all that. And then maybe on OpEx, you guys announced a number of new partnerships and awards this quarter. And earlier in the prepared remarks, you guys talked about expanding the team to support all this growth. So just curious on how we should think about OpEx going forward and then maybe talk about how much the team needs to expand to support all this growth.

Thomas G. Kramer
Chief Financial Officer, IonQ, Inc.

A

Well, I think that where we are on OpEx for the rest of the year is already laid out in what we have discussed earlier. We're not making any change to OpEx right now. And we will be discussing the OpEx for next year on the Q4 call which I look forward to seeing everybody call into as well. What we are focusing is we've gone through rapid growth and it's time for us to think about growth, where it really matters and start making sure that we are always investing in only the places that matter and that we re-funnel capital to areas where they can be the most and best to use.

Shadi Mitwalli
Analyst, Needham & Co. LLC

Q

Awesome. Yeah. Thanks for all the color and congrats on the exciting quarter.

Peter Chapman
Chief Executive Officer, President & Chairman, IonQ, Inc.

A

Thank you.

Operator: We have reached the end of the question-and-answer session. I'd now like to turn the call back over to Peter Chapman for closing comments.

Peter Chapman

Chief Executive Officer, President & Chairman, IonQ, Inc.

Thank you. I want to thank everyone for joining us today for your support and for all the questions. Finally, I want to thank the entire IonQ team for the continued diligent work that contributed to such a meaningful quarter for us technically and commercially, and that continues to fuel everything we look forward to in the future. Thanks, everyone.

Operator: This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.