BlackBerry Limited

Second Quarter Fiscal Year 2023 Results Conference Call

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PRESENTATION

Operator

Good afternoon and welcome to the BlackBerry Second Quarter Fiscal Year 2023 Results Conference Call. My name is Brent, and I will be your conference moderator for today's call. During the presentation, all participants will be in a listen-only mode. We will be facilitating a brief question-and-answer session towards the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn today's call over to Mr. Tim Foote, Vice President of BlackBerry Investor Relations. Sir, please go ahead.

Tim Foote

Thank you, Brent. Good afternoon and welcome to BlackBerry's second quarter fiscal 2023 earnings conference call. With me on the call today are Executive Chair and Chief Executive Officer, John Chen, and Chief Financial Officer, Steve Rai. After I read our cautionary note regarding forward-looking statements, John will provide a business update and Steve will review the financial results. We will then open the call for a brief Q&A session. This call is available to the general public via call-in numbers and via webcast in the Investor Information section at blackberry.com. A replay will also be available on the blackberry.com website.

Some of the statements we'll be making today constitute forward-looking statements and are made pursuant to the Safe Harbor provisions of applicable US and Canadian securities laws. We'll indicate forward-looking statements by using words such as expect, will, should, model, intend, believe, and similar expressions. Forward-looking statements are based on estimates and assumptions made by the company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the company believes are relevant.

Many factors could cause the company's actual results or performance to differ materially from those expressed or implied by the forward-looking statements. These factors include the risk factors that are discussed in the company's annual filings and MD&A. You should not place undue reliance on the company's forward-looking statements. Any forward-looking statements are made only as of today, and the company has no intention and undertakes no obligation to update or revise any of them, except as required by law.

As is customary, during the call, John and Steve will reference non-GAAP numbers in their summary of our quarterly results. For a reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release published earlier today, which is available on the EDGAR, SEDAR and blackberry.com websites.

And with that, I'll turn the call over to John.

John Chen

Thanks, Tim. Good afternoon everyone and thanks for joining today's call. This was a solid quarter for BlackBerry, delivering revenue in line with expectations, and beat on earnings.

I'll start today's review with our IoT business unit. This quarter IoT delivered strong 28% year-over-year revenue growth. QNX "design phase" revenue remains the top performer, that is, revenue from development seats and professional services. Q1 was the third consecutive quarter that we set an all-time record in this category, and this quarter we almost set another. When we win a new design, this revenue is the first to be recognized, with royalties coming later when the vehicle enters into production. This strength in "design phase" revenue is expected to continue, given the significant amount of professional services we already have lined up, and the pipeline of potential new design wins in the next few quarters. On the production front, we saw an uptick in royalty revenue, but it remains below the pre-pandemic level, mainly due to supply chain headwinds. Gross margin came in at 82%.

The strength in design wins was clearly illustrated by Volkswagen, one of the world's largest automakers, selecting BlackBerry QNX for its new VW.OS platform. This platform will be deployed in all brands across the Volkswagen Group, with BlackBerry being trusted to power the safety critical ADAS and Autonomous Drive applications, where QNX is the market leader. This builds on design wins in recent quarters with BMW, Volvo and a long list of electric vehicle players in China. BlackBerry continues to win market share in core safety-critical domains. A couple of examples include an ADAS design with Hyundai and a digital cockpit design with one of the world's largest tier 1 suppliers that utilizes the QNX hypervisor. The hypervisor will host the safety-critical instrument cluster alongside non-safety critical infotainment applications, all on the same chip.

On the EV front, we won another ADAS design with a Chinese automaker, and BlackBerry QNX is now embedded in 7 of China's 10 largest EV OEMs.

In addition to our strong position in Auto, we have significant opportunities in other verticals too. This quarter we announced additional support for the Aerospace & Defense market, with QNX achieving the latest technical standard known as "Future Airborne Capability Environment", or FACE. FACE is a software standard, jointly developed by Government and Industry, that establishes a common operating environment. It enables the reuse of software components across different hardware, reducing developer friction and cost.

In addition to Aerospace & Defense, we saw progress in the Medical and Industrial markets, with wins that included surgical robotics, a retail distribution pick and pack robot as well as controls for a nuclear power plant.

Overall, in the quarter we won 19 new designs, with 9 in Auto and 10 in the General Embedded Market.

We successfully added talent to our IoT team this quarter, despite the tight labor market. This investment is supported by the large and growing schedule of professional services secured through recent design wins, and by adding headcount, we'll enable additional revenue.

The macro environment for Auto remains a mixed picture, with varying dynamics across regions & OEMs. The Chinese market, where BlackBerry has won a number of designs recently, appears to be bouncing back due to the end of some Covid-related shutdowns and the impact of robust stimulus measures. In North America and Europe, however, there appears to be a short-term contraction in silicon chip supplies, constraining the ability of OEMs to build inventory and meet demand. Going forward, the impact of rising interest rates on consumer financing, together with economic uncertainty creates the possibility of future choppiness. Despite these ongoing challenges, we're delivering strong year-over-year growth and have a solid pipeline of potential new designs in the upcoming quarters. Normally, given the strength of the QNX business, we would adjust our revenue outlook upwards. However, given the macro headwinds, we're being prudent and holding our outlook as is. We expect fiscal year 23 revenue for the IoT business unit to still be in the range of $200 - $210 million, as previously stated.

On the IVY front we made good progress. Our product development roadmap remains firmly on track, with another new release in August that enables support for a greater range of in-vehicle hardware and software. This new release incorporates not only roadmap features, but also valuable real-time feedback that we are getting from the ongoing proof of concept trials. You may recall that we are currently running a limited number of these trials, including with top OEMs and Tier 1's, and these are progressing well. We continue to receive requests for additional trials and this ongoing demand remains a positive sign of the customer receptivity of IVY.

On the ecosystem side we were excited to close another investment by the IVY fund this quarter in a German start-up named Compredict. Compredict uses AI to enable automakers and fleet providers to utilize predictive maintenance, i.e., using vehicle sensor data to get ahead of maintenance issues. The predictive maintenance use-case is added to many others that IVY is enabling, including usage-based insurance, intelligent EV battery management, in-vehicle payments and next-generation 911 emergency response, just to name a few.

Looking ahead we expect our next product release in December, and we remain focused on IVY design wins, which we currently expect to secure in calendar year 2023. We're also planning to showcase more of IVY's exciting capabilities and use cases at CES in January, so please stay tuned for more details on that in the coming months.

Moving onto the Cybersecurity business unit, revenue for the quarter was in line with expectations at $111 million. The business also delivered sequential billings growth of 15%, to $102 million. Cyber billings for the first half of this fiscal year grew 6% year over year. Gross margin was 55%. ARR came in at $321 million. Dollar-based net retention rate was 85%.

In the quarter we closed business with a wide range of customers but saw particular strength in our core verticals of government and financial services. In North America we secured business with the Department of the Treasury, the Federal Trade Commission, Department of Energy, the IRS, the New York Stock Exchange and the US Mint. We also won business with leading military agencies, such as the US Army Corp of Engineers, US Central Command, the US Marine Corps and other branches of the Department of Defense. Internationally we secured business with the UK's HM Treasury, the UAE Ministry of Presidential Affairs, the New Zealand Parliamentary Service, the Australian Electoral Commission and the Polish Ministry of Foreign Affairs, to name a few. In financial services we won new logos as well as renewals and upsells with leading banks in the US, UK, Switzerland, Japan, Israel, Italy and more.

In addition to these core verticals, we recorded a strong quarter for new business in the middle market. This is a large segment of the market, dominated by legacy players, offering legacy solutions, and one where our Cylance product portfolio is resonating well. BlackBerry is very well-placed to grow in this market for a number of reasons. The level of cyber risk for mid-market customers is high, with our threat research team identifying that SMBs face upwards of eleven cyberattacks per device, per day. SMBs are also often those with the lowest levels of insurance against ransomware demands, as our study with Corvus Insurance showed, meaning they can often ill afford a breach. Customers in this segment particularly like our lightweight agent and how effective our products are at detecting threats. Our AI engine, the most mature in the market, has seen billions of data points, both malicious and non-malicious, and used machine learning over several years to effectively distinguish between the two. Further, mid-market customers are among those with the fewest resources and expertise to staff a 24x7 security operations center, and customers like how our managed services offering, Cylance Guard, helps solve that issue for them.

As we've described in previous quarters, there have been some headwinds for Cyber ARR. However, we expect ARR to return to growth early next fiscal year. A lot of the decisions and investments made in the past few quarters are starting to bear fruit, and we see some data points that give us confidence in this outlook. First, we saw the total pipeline of potential opportunities for our Cylance products at the end of Q2 increase by 23% year-over-year, and for new logos specifically, the increase was 73%. Second, significant progress has already been made with the product portfolio in recent quarters and is continuing. For example, recent enhancements to our Protect EPP product have positively impacted our false positive rates, as evidenced by trusted third party, Virus Total. Third, on the Go-to-market front, we're working to replicate the success we've already had, particularly with mid-market customers. We've added a lot of Cybersecurity industry experience this year and we expect to see more traction as these new hires fully ramp up. Fourth, this coming quarter we're commencing a program to rebuild strong relationships with key Channel partners and distributors that are well-established players in the cybersecurity market. We've also received a lot of positive feedback following the Cylance product rebrand, including a significant increase in both website traffic and new leads.

Turning to the overall demand environment for cybersecurity, the rest of FY23 looks fairly solid. As I mentioned earlier, BlackBerry has a strong government footprint, and demand in this vertical appears to still be robust. Overall, we're not seeing customers cutting back on their cybersecurity budgets, even in the middle market, given how critical it is to maintain their cyber defense. Therefore, there are no changes to the outlook that we have provided previously. We continue to expect the Cybersecurity business unit's revenue to be broadly in line with fiscal year 22.

Let me now turn to Licensing. Revenue in the quarter came in at $6 million. The sale process for the non-core patent portfolio continues. We understand that the length of time that this is taking is frustrating for shareholders, and we're equally as frustrated, if not more, as we work on it every day. However, we firmly believe that divesting the portfolio remains the best option for shareholder value. While the portfolio is still relatively fresh, the IP that's part of the deal, and the business of monetizing it, is not related to our core business. At the time we were required to announce the deal, we understood that getting approval could take up to 210 days, if not longer, but we were pleased that the process was completed much sooner.

Catapult were working to conclude their financing in parallel to getting government approval. Unfortunately, we believe the turmoil in the financial markets created unexpected challenges for their original financing syndicate. However, there has been much interest from other parties wanting to step in to take their place, and Catapult are currently working to lock down their final syndicate.

In parallel to this, we're actively working on alternates where financing is not a contingency, as well as finalizing a plan to restart the monetization engine ourself, should that be necessary. We will, of course, keep shareholders posted until a final outcome is achieved.

Let me now hand over the call to Steve, who'll provide additional colour on our financial results for the quarter.

Steve Rai

Thank you, John. As usual, my comments on our financial performance for the second quarter will be in non-GAAP terms, unless otherwise noted. Total company revenue for the quarter was $168 million. Total company gross margin was 64%. Our non-GAAP gross margin excludes stock compensation expense of $1 million. Operating expenses for the second quarter were $129 million, and these non-GAAP operating expenses exclude: $22 million in amortization of acquired intangibles, a $10 million fair value gain on the convertible debentures, $5 million in stock compensation expense, $4 million from the impairment of long-term real estate lease assets, and $3 million of restructuring expenses.

BlackBerry continues to make carefully considered investments for top line growth, such as adding additional headcount to the IoT team in response to a strong schedule of professional services from design wins, as well as expanding our reach in the Cyber market, as John outlined earlier. The non-GAAP operating loss for the second quarter was $22 million and non-GAAP net loss was $29 million. The GAAP basic loss per share was $0.09 and the non-GAAP loss per share was $0.05. Adjusted EBITDA, excluding the non-GAAP adjustments previously mentioned, was negative $16 million.

Now breaking down revenue in the quarter, IoT revenue was $51 million and Cybersecurity revenue was $111 million. Software product revenue remained in the range of 80% to 85% of total revenue, and professional services formed the balance. As before, approximately 80% of software product revenue was recurring. Licensing and Other revenue was $6 million. Now, turning to the balance sheet and cash flow. Total cash, cash equivalents and investments were $699 million at August 31, 2022. Free cash flow was negative $26 million with cash used by operations of $23 million and capital expenditures of $3 million.

That concludes my comments, and I'll now turn the call back to John.

John Chen

Thank you, Steve.

Before we open the lines up for Q&A, let me summarize the key points from the quarter. Our IoT business unit delivered strong year-over-year revenue growth, in large part driven by ongoing strength from design phase revenue. IVY remains firmly on-track, with Proof-of-Concept trials progressing well and the team executing on the product development roadmap as planned.

Our Cybersecurity business unit met revenue expectations, delivering strong sequential billings growth, and continues to implement the strategy to grow the business, with ARR expected to return to growth early next fiscal year. Despite the volatility in the macro market, we are maintaining our revenue outlook for both business units and continue to execute against our plan.

That concludes my remarks. Operator, can you please open the line for Q&A?

Operator

We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Mike Walkley with Canaccord Genuity. Your line is open.

John Chen

Hey, Mike.

Mike Walkley – Canaccord Genuity

Hey, guys. Thanks – hey, John. Thanks for...

John Chen

Hey.

Mike Walkley – Canaccord Genuity

...taking my questions.

John Chen

Sure.

Mike Walkley – Canaccord Genuity

I just want to delve in a little bit more to the Cybersecurity business. The billings commentary sounds promising. Can you just update us maybe on the UEM side, kind of where we are in that falling off and the confidence that gives you that ARR will start to grow next year?

John Chen

Yeah. So, the UEM, as you know, is a very price-sensitive market on the mid and low-end and in particular it's dominated by one major player in the market including in site licenses and so forth. For the higher end markets, where they absolutely need better security, we tend to hold on to those businesses well, and in some cases, expand on it. We also have, in addition to just the UEM, secure communication and also an opportunity to upsell our UES products too – the Cylance products. So, on the whole for the UEM, we kind of expected ourselves to be holding it pretty flat, and then we'll have a way to grow the business next year by bundling some more of this stuff and new products that come out and features.

The final point I'd like to make is that Microsoft, for example, their Intune is really a mobile application manager. This is really not a UEM. So, customers are beginning to recognize that the security side of the equation, they're not fulfilling their requirements. So, I think there might be a good strong argument for us to either overcome the attack from Microsoft Intune or actually coexist with them in an account that absolutely need mission-critical security. So, that's kind of our game plan and our current thinking, and we feel reasonably good about what I just said in terms of what the market validation has been especially with big customers.

Mike Walkley – Canaccord Genuity

Okay, excellent. And as a follow-up question, how is pricing in the endpoint security market as you go head-to-head with both legacy and some of the other next-generation vendors? And then also with progress on your platform, are you sharing any metrics or give any rough color on how upsell is going and how maybe some of your new customers are landing with more than just one product from Cylance?

John Chen

I get the first part about the legacy, and what is the second part?

Tim Foote

It was about platform and the ability to upsell. Is that right, Mike?

Mike Walkley – Canaccord Genuity

Yeah. The second one was just how you're upselling, any metrics on customers taking more than one Cylance module.

John Chen

Oh, I see. I don't have that information handy with me. So, either we're going to have to follow up with you...

Mike Walkley – Canaccord Genuity

Okay.

John Chen

...and I have to check with John G on that information. And the legacy product lines, that's interesting. We see actually the most progress we made is against a legacy player, particularly in the mid-market, where the mid-market doesn't really have a CISO, doesn't have a SOC. What we offer and particularly Guard, which is the managed service, that's very well – resonates extremely well, and we're seeing a pretty big strong growth. The numbers are not huge in terms of the actual amount of dollars, but the number of accounts that we're winning are pretty reasonably sizable.

Mike Walkley – Canaccord Genuity

Great. Thanks for taking my questions. I'll pass the line.

John Chen

Yeah. Thank you.

Operator

Your next question is from the line of Luke Junk with Baird. Your line is open.

Luke Junk – RW Baird & Co

Good afternoon...

John Chen

Hello there.

Luke Junk – RW Baird & Co

...and thank you for taking the questions. My first question maybe a little bit of a bigger picture question. John, I'd be curious to get your updated perspective on the auto software competitive landscape in regards to the IoT business. In the last few months here, we've seen both companies that haven't traditionally played in auto looking to make inroads here, and in some cases, announcements with customers, and some of the chip companies as well talking a bigger game about auto software. I'd love your thoughts on both of those, especially any comments that you'd be able to offer on your direct engagement with the chip companies and how that's evolved or incrementally grown recently. Thank you.

John Chen

Okay. That's a good question. So, QNX is probably the biggest player in the auto embedded software space, particularly in the area of operating systems. And so, we by far, touch wood, win most of the big deals. I will refer you to the last two, three quarters of big wins with BMW and Volvo and Volkswagen and a lot of the electric vehicle players. And because we occupy a pretty unique position in the stack, most people, when you talk about big companies wanting to get into auto software, they tend to be more on the UI side, user interfaces, more on the infotainment side, but seldom in the core side of the stack.

A case in point is the announcement that we won VW.OS. Volkswagen intended to build their own software stack. They intend to work with just a few players from the chip level up. And so, we are one of the players they picked because of our operating system. So, as far as your question – so, we feel pretty good about where we focus and the more mission-critical and safety certified components of our product, and there'll be more that will come out. And we have – just in case you don't remember this, but we have the highest level of ISO certification in safety. So, we feel pretty good about our position.

As far as the question on chipsets, probably the two or three biggest chip players that we work with and have been very committed to each other for a very long time are – particularly two of them are Qualcomm and NVIDIA. As you know, Qualcomm and NVIDIA are quite dominant in the auto space. So, we feel very comfortable in both our partnership and their position in the market and our position in the market that doesn't overlap. So, I don't want to jinx it obviously, but we feel pretty good. And in addition to that, even players like Google, I think a quarter ago or two quarters ago, has adopted our hypervisor for their Google Android auto play. So, that will tell you something about the unique position we occupy. We're not really in contradiction to what they offer.

Luke Junk – RW Baird & Co

Okay. Thank you for that. A lot of great color there. And staying within IoT for my follow-up, you recently announced that you've gained certification in the aerospace market, and I was just hoping you can expand on the strategic approach to that market. Are there any parts of the market that you're focusing on initially? How are you investing and resourcing that initiative and anything similar that would be worth adding? Thank you.

John Chen

Yeah. This is a little early for us, but we do have the intent. So, when we look at the success in our auto market, it's really all rely on the highest level of safety certification. So, we then – and we have a new product that comes out that focuses on high level of scalability. And so, if you think about this – and then we think about it, who else – which vertical exhibits the same requirements, or need the same requirements. So, medical is one, industrial is one, and we've been doing reasonably well in what we call the GEM or general embedded market, which medical and industrial is in there. But we are very interested in the cycle of replacing some of the legacy software in the aerospace, particularly aircraft, area. And so, this is why we want to make sure that we're certified, so that developers can reuse the code, and we likely will work through large system integrators like the Raytheons of the world but that's to the extent that I could share at this point.

Luke Junk – RW Baird & Co

That's – yeah, understand and helpful color to just understand where you're headed. Thank you.

John Chen

All right, thank you.

Operator

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

John Chen

Hey, Paul.

Paul Treiber – RBC Capital Markets

Hi, John. Good afternoon. I just want to follow up on your previous comments about auto software. What's changed in your mind in terms of the mentality of these auto OEMs, and even Google, to adopt QNX as the foundational layer?

John Chen

We'll, so, first of all, QNX, the operating system, has been in the business for over 30 years. And you all remember that, well some of us are not old enough to remember, but way-back-when QNX was an infotainment company. It actually belonged to Harman. And BlackBerry bought it – before my time, they bought it and were trying to create an operating system with it. So, safety certification has always been the claim to fame and they won a lot of infotainment. So, what we have done in a – since the time I arrived, what we have done is to expand from infotainment into areas of more safety-oriented and security-oriented applications as they relate to a car. And of course, then in parallel, the world started to move towards the software-defined vehicle.

So, therefore, the OEMs are taking more control of the design of the stack – the software stack, okay, and – but they also know that they can't just sit there and replicate an operating system and get it certified. Now, some people try to use Auto Grade Linux, AGL, but AGL couldn't get it certified, and it's an open source also with a – has its own business challenges to it. So, they gradually all came back to QNX – the QNX, and that's the reason why. And then, being a – having over 200 million cars that uses our software today actively, it represents a pretty sizable market for a lot of other players to ignore, so – or a player to be ignored. So, this is why Google works with us and Qualcomm works with us and NVIDIA works with us and TI works with us and ARM works with us and it's a long list of players that all use us as a foundational piece. And then, we'll continue to expand applications with different type of features in that foundation piece.

Paul Treiber – RBC Capital Markets

That's helpful and it segues into my next question like how do we think about the economics within the foundational layer and what's the strategy to try to maximize economics over the long-term?

John Chen

It's – well, our strategy is always to use more of our foundational modules in the stack, and so that's the basic strategy. And then, if you have multiple copies and then as we get deeper into the engine and deeper into the safety side of the equation of a car operation, it will – QNX will be able to demand – or command a little bit more ARPU. So, you have more copies and higher value copies like hypervisor. It has a higher value than infotainment for example. That's kind of our move up the stack in ARPU and broaden it to have multiple copies in a car is our strategy in general, for the business strategy side. And then, don't forget IVY, because IVY is our next generation push into edge-to-cloud, and it not only provides security and privacy. It also provides economics because a cloud-only solution is too expensive and there's too much data being generated along the operation of a car. So, don't forget about that. So, we feel that we have a pretty good one, two, three punches on the auto space or at least on the IoT side. And we're going to expand it beyond auto, as I said. But today, we're very focused on auto.

Paul Treiber – RBC Capital Markets

And then, just if I can just squeeze in one more just in regards to the patent portfolio. I know it's – you're limited in terms of what you can say. But how should we think about the timeframe, like the clock is ticking in terms of the ability to monetize the patents? As the time goes on, does the value of the patents decrease to you or to a potential buyer or is there way to get back damages per se or back royalties in so that...

John Chen

Yeah.

Paul Treiber – RBC Capital Markets

...the time is less critical?

John Chen

Yes. So, there are two data points. You already answered one, which is those that need our license will have to address the past deployment. So, it's not just time ticking away and therefore – so, that's one of the answers to your question. The other one is that there is a list out there about the time. There was an article published, it's factually incorrect. And it's factually incorrect throughout the – almost throughout the entire article about the number of years left on our portfolio and then the value of that. That is absolutely not true. Because if it had been true, then you wouldn't have the syndicate still wanting to make this thing happen. So, I will just leave it at that. I don't want to do a public debate with the writer. But I'm sorry, the writer is absolutely wrong, even though this article has been around for a little while and this was reprinted by a newspaper that would like to, I guess, sensationalize something that is not true. Anyway, I'll leave it at that. So, yes, we could capture the past deployment, and no, it's not that short a life.

Paul Treiber – RBC Capital Markets

Okay. Thank you for clarifying.

John Chen

Absolutely.

Operator

Your next question is from the line of Todd Coupland with CIBC. Your line is open.

John Chen

Hey, Todd.

Todd Coupland – CIBC Capital Markets

Hey there, John. Good evening.

I wanted to ask you about the Cyber unit. You indicated you still expect revenue to be roughly flat year-on-year, but implied in that comment is a seasonal uptick in the fourth quarter. And I'm just wondering, is that also still expected in line with prior expectations? And I just wanted you to close the logic on that point with growth expected early in fiscal 2024.

John Chen

Earlier in fiscal 2024.

Todd Coupland – CIBC Capital Markets

Where you commented on ARR growth expected over the next – early next year.

John Chen

Oh, yeah. Of course, of course. Yes, yes, yes. Yes, of course, of course. So, it's a little bit of a complicated set of math, but I'll focus on the – kind of the high-level stuff. Yes, our Q4 pipeline is a lot bigger than Q3. And so, we believe that therefore my statement about the revenue being relatively flat, in line with the last fiscal year is the proper statement, and then there will be some billings growth because of that. And then, we also take a look at where the headwind is at, and you look at all the headwinds from all the deals that we expected to either get or renew and ones that are being attacked, especially the mid-market stake. We believe that the major part of our headwind is behind us – will be behind us after Q4, sorry. I should say that because we kind of look through it on a quarterly basis. So, therefore, next fiscal year, I don't know whether it's Q1 or definitely Q2 that we expect ARR to have a year-over-year increase and we should continue that trend going forward.

Todd Coupland – CIBC Capital Markets

And on that point...

John Chen

Does that answer your question?

Todd Coupland – CIBC Capital Markets

Oh, yeah. That's clear. And on that point, just remind us what you think the potential growth in Cyber is once you start to benefit from improved product bundling and go-to-market.

John Chen

You saw the three-year plan that we put out – three and five-year plan that we put out a release on. In fact, I had recently presented to the board. We have not deviated from that – we're not deviating from that at all. So, you could see that from a John G group – the Cyber Security Group, the compounded annual growth should be roughly about 10%. So, that will be what we will focus on getting.

Todd Coupland – CIBC Capital Markets

Okay. Thank you very much for the clarification.

John Chen

Sure. Of course.

Operator

Your final question comes from the line of Trip Chowdhry with Global Equities Research. Your line is open.

John Chen

Hi, Trip.

Trip Chowdhry – Global Equities Research

Thank you. A very solid execution in a brutal environment. Two questions. First, I had this regarding your Volkswagen deal, which is very significant. Can you give me some directional guidance in the sense that or some metrics like you won the design – it's a design win. How should we be thinking in terms of production or revenues once these vehicles go into production? How should we think – is it 1x, 2x, 3x the design win revenues? Is production usually more than design wins? Any color on that will be helpful, and then I have a follow-up question.

John Chen

Okay, okay. So, in general – I'll speak to auto, because our background number are based on auto. So, in general, if you look at a cycle of an auto win, it's somewhere between 7 to 10 years. So, what we will see upfront is that probably on an overall basis – let's say a deal bring us $1 million. I'm making this up, okay, of total lifetime revenue. Obviously, it's a lot bigger than that, but let's just start with $1 million. So, I would say the 10% upfront probably is something that we should expect and could expect on Development Seats and then probably there's some Professional Services revenue. So, I would put it again in a range of 5% to 10%.

Now, the bulk of the production will come in year normally four, five, six, seven, eight. However, we see that compressing because of all the – because we're going electrified, right, the electrification. The electric vehicle market turns the product cycle a lot faster, particularly with the Chinese. The Chinese are turning at around a cycle of 3 to 5 years instead of 7 to 10. So, everybody else will probably have to keep up. Now, whether they will get to 3 to 5 years, who knows. But it will shorten the 7 to 10 years. So, we get a little bit of upfront, which is always nice, and then we get some Professional Services and then we will get a production royalty.

Trip Chowdhry – Global Equities Research

Excellent. Now, I was also wondering, you have a very solid offering in terms of IVY, and today, you mentioned the hybrid approach that is in cloud and on device, which is a vehicle, which is I think a very novelty – very novel, because you don't want the OEM to be penalized for success. So, the success means more data. And if the whole objective is to put the data into the cloud, you, that is BlackBerry, shouldn't – or the OEM shouldn't be like a reseller of AWS. So, I like that strategy big time. But I was wondering if you – that is if there is a customer who is like Volkswagen which has already standardized on OS, aren't there any plans you may have to make migration or at least experimentation with IVY like just a mouse-click away? Do we have anything like that in plans? And that's all for me. Thank you very much.

John Chen

Yes. That's a good question. I don't want to turn this into an announcement, but let me just say that it is logical – it will be – let me put it differently. It will be illogical for BlackBerry not to take advantage of all the assets, and there is a good reason why both IVY and QNX is in this same IoT Group.

Trip Chowdhry – Global Equities Research

Very good.

John Chen

Thanks. Thank you.

Operator

I would now like to turn the call back over to John Chen, Executive Chair and CEO of BlackBerry, for closing remarks.

John Chen

Thank you, operator.

Before we conclude today's call, I'd like to remind everyone of our upcoming BlackBerry Security Summit. On October 27th investors can access keynote addresses with BlackBerry executives, customer-led case studies, interactive talks on cybersecurity innovations and best practices from BlackBerry's Research & Intelligence team and more, all virtual and on-demand. Investors can register for the event on the investor page of our BlackBerry.com website.

I want to thank you all for joining our call. I'm sorry it's always late for the East Coast, and I surely appreciate it. Thank you and see you next time.

Operator

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