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Blacksky Technology, Inc. (BKSY)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the BlackSky Fourth Quarter 2021 Earnings Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this call is being recorded.

I'd like to turn the conference over to your host, Aly Bonilla, Vice President of Investor Relations. Please go ahead.

Aly Bonilla

Vice President-Investor Relations, Blacksky Technology, Inc.

Good morning, and thank you for joining us. Today, I'm joined by our Chief Executive Officer, Brian O'Toole and our Chief Financial Officer, Johan Broekhuysen. On today's call, Brian will provide some highlights from last year and give a strategic update on the business. Johan will then review the company's quarterly and full year financial results and outlook for 2022. Following our prepared remarks, we will open the line for your questions. A replay of this conference call will be available from approximately 11:30 AM Eastern Time today through March 8. Information to access the replay can be found in today's press release. Additionally, a webcast of this earnings call will be available in the Investor Relations section of our website at www.blacksky.com.

Before we begin, let me remind you that today's conference call includes forward looking statements, including financial performance and guidance for our fiscal year 2022, and that actual results may differ from the expectations reflected in these statements due to factors such as long sales cycles, customer demand, and our ability to estimate expense, operational and liquidity needs. We encourage you to review our press release and most recent SEC filings for a full discussion of the risk and uncertainties that pertain to these statements and that may affect future results or the market price of our stock. BlackSky assumes no obligation to update forward-looking statements. In addition, during today's call, we will refer to certain non-GAAP financial measures, including adjusted EBITDA, a reconciliation of these non-GAAP measures to the most comparable GAAP

measures is included in today's earnings press release, which can be viewed and downloaded from our Investor Relations website. Please note that our net income for Q4 that is included in our earnings release is subject to the completion of our financial closing procedures and adjustments that may remain from the completion of the audit of our consolidated financial statements. As a result, our Q4 net income estimate – may differ from the actual net income reported in our 10-K.

At this point, I'll turn the call over to Brian O'Toole. Brian?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

Thanks, Aly, and good morning, everyone. Before I begin, I want to introduce and welcome Aly Bonilla to BlackSky. Aly joins us as our new Vice President of Investor Relations. He is a seasoned financial executive with extensive experience in public company Investor Relations. Aly has spent the last 25 years working in investor relations and broad financial management roles for large and established companies. We look forward to having him build a best-in-class investor relations program to elevate our profile among analysts and investors, and enhance BlackSky's commitment to delivering long-term shareholder value.

Turning to our business, I'm pleased with the progress we're making and the positive traction we're seeing with our customers. We're successfully executing across all aspects of our business and most importantly, providing our customers with real time global intelligence and analytics that they rely on every day. More than ever today, there's a growing need for real time global intelligence to support a wide range of industries and applications, from business optimization for supply chain intelligence to humanitarian efforts in crisis response operations.

Customers come to BlackSky because it is essential to their operations in business to have a first-to-know advantage. From the crisis currently taking place in the Ukraine to real-time intelligence needed for businesses around the world, the BlackSky Spectra AI software platform is an important and essential capability, helping government and commercial markets understand and respond to events happening in our world.

For example, just last week, one of our regional partners in Europe needed to rapidly respond to an emerging crisis related to a ferry that caught fire in Greece. A partner logged into our Spectra AI platform through a web browser and with a few clicks, was easily able [indiscernible] (00:19:19) satellites and receive imagery in just under three hours. By having this entire process fully automated, we believe this is a game changing experience for the market.

Through an excellent customer experience, disruptive economics and delivery of information and insights through a modern artificial intelligence or AI driven software platform, we are now making this capability widely available to a large commercial market. With our industry-leading platform in place and fully operational, we can now make great strides in building both our government and commercial businesses. In particular, we are focused on expanding our sales organization and growing our investments in cutting edge AI technology and software development, all of which will accelerate the analytics and insights we can provide to meet customer demand.

Now, let me highlight some of the major accomplishments we achieved in 2021 which sets the foundation for growth this year. First, we successfully completed the business combination transaction and became a new public company listed on the New York Stock Exchange. The transaction provides the company with sufficient capital to fund our current strategic growth plans.

Second, we achieved a baseline high revisit satellite service by doubling the number of high resolution imaging satellites in our constellation following the successful launch of six satellites in a 20-day period in the fourth

quarter of 2021. These new satellites were successfully placed into revenue generating operations within 48 hours of launch. This was a significant achievement in our industry and demonstrates our ability to rapidly deploy capacity as needed to meet demand. With the constellation now with 12 satellites, we're delivering imaging performance at an optimal peak rate of 15 visits per day. Based on our estimates, we now have sufficient on orbit capacity to support our growth objectives for the foreseeable future.

Third, we were awarded both multiyear contracts and extensions from customers such as the National Geospatial Intelligence Agency or NGA, the National Reconnaissance Office or NRO, the Intelligence Advanced Research Projects Activity or IARPA, and the National Aeronautics and Space Administration or NASA, just to name a few. We believe we are a partner of choice for some of the world's most demanding customers. And I'll touch on some of these in more detail in a few minutes.

Fourth, we signed a multi-year partnership agreement with Palantir Technologies to integrate BlackSky Spectra AI software platform with Palantir's Foundry platform to expand the delivery of high resolution imagery and deep analytics to customers worldwide. We are excited about this combined solution and encouraged by the initial demand we are seeing from customers, which we expect will grow as we continue to build on these strategic partnerships.

Fifth, we've strengthened the talent within the BlackSky organization by adding four new strategic members to our board of directors, five seasoned executives to our management team, and expanded our product and engineering teams. With the addition of these new executives and team members, we now believe our team has the right talent and experience to help drive and attain our aggressive growth plans.

And finally, we expanded our sales force, and increased the number of resellers in our global network, spanning the UK, Australia, Mexico, Central America, and Southeast Asia, just to name a few locations. We continue to focus on growing our global sales network to address strong market demand. 2021 was a critical year for BlackSky, and I'm pleased that we ended the year on a strong note, with growing momentum entering 2022.

Fourth quarter revenue grew to \$11.5 million, or a 79% increase from the prior year period. As a result of the strong quarterly performance, BlackSky's full year 2021 revenue came in at the high end of our guidance at \$34.1 million, a record for the company and a 61% increase over 2020 revenues. Johan will provide more details on the quarter and full year financial results later.

I would now like to highlight the progress we've made in our government and commercial business. Customer demand continues to be strong for a high revisit, imaging and analytic products and services. In the fourth quarter, we won several new opportunities, both in the US and abroad. I'll start with our defense and intelligence business, which continues to drive our near-term growth, providing strong revenue visibility into 2022 especially as many contracts transition into multi-year recurring subscriptions. We expanded our footprint with both US and international defense and intelligence agencies through both an increase in demand from these customers and through major progress integrating our imagery – imaging and analytic services into their day to day operations. BlackSky is increasingly relied upon by some of the most important and demanding customers around the world to support their mission critical operations. As a result, during the year, we were awarded multi-year contracts and extensions.

The NGA remains one of our largest customers with multiple programs that are delivering advanced geospatial intelligence services to hundreds of users within the agency and the organization based support across the Department of Defense. In Q4, we were awarded a follow on contract, extending the subscription of our Spectra AI software platform that is delivering multi source insights and analytics to a large user base. This is significant

as the NGA is transitioning to buy more analytic services from commercial companies. A key example of this is the five year \$30 million indefinite delivery, indefinite quantity or IDIQ contract we were awarded in Q3 for economic indicator monitoring that leverages our high revisit imagery and our AI driven analytics.

We are combining our imagery with other space data and analytics, such as synthetic aperture radar to provide new insights into global activity. In the fourth quarter, we were awarded multiple task orders under this program for subscription based modern services that we expect to grow in 2022. Another key customer is the NRO, which is the US agency that is responsible for acquiring commercial imagery for all US defense and intelligence agencies. BlackSky has been under contract with this customer for many years, and last summer we announced an award to expand this contract. So the NRO can access more of our high revisit imagery services. The demand for our capabilities continued to grow in Q3 and Q4, as we are now integrated into the day to day operations, which we believe positions us well for the upcoming electro optical commercial layer or EOCL contract.

As many of you know, the NRO released its final request for proposal or RFP for the EOCL contract back in Q4 of 2021. As a reminder, this EOCL contract is the largest US government contract we've seen to purchase commercial satellite imagery, and will be the vehicle through which the US government acquires these services over the next 10 years. BlackSky's submitted its proposal to this RFP in December. Government is now in the proposal evaluation phase, with the timing of the contract award announcement expected to be sometime this summer. We believe we are well-positioned to capture a portion of this contract award. We'll provide you with any updates on this procurement as they become available.

Another key focus areas around emerging opportunities with the Space Force as the US government expands the role of this agency with stated objectives of leveraging commercial companies with satellite constellations to support tactical reconnaissance missions from space. We identified this market opportunity several years ago and are now positioned with multiple contracts with key agencies. The continued strong execution of these programs, which are developing leading space capabilities for the Army, Air Force and other organizations, such as the Space Development Agency. These programs not only position us for emerging new programs, but are a great source of funded research and development, which is further advancing our space and software capabilities.

For example, we recently demonstrated an ability to deploy our AI algorithms on board satellites in space, to analyze imagery as it is collected and deliver insights on orbit. This demonstrates how our technical teams are pushing the limits on operational capabilities to reduce timelines and improve insights for our customers. We continue to make a major step forward in delivering real-time intelligence solutions. In addition, we were awarded a new contract in the fourth quarter with a major customer as the first phase in a multi-year program. We expect progress in this area to continue and grow in 2022.

Moving on to our international business; we are now supporting several major international ministries of defense. This business continued to expand in 2021, highlighted by a new contract award in the fourth quarter with a major customer. Under this contract, BlackSky will provide the customer with high resolution imagery, coupled with analytics from our Spectra AI platform. We continue to see large market opportunities internationally, where our high resolution imagery and analytics are in demand, particularly in regions like the Ukraine, Middle East, and Asia. To ensure we capitalize on this growing international market, we have, and are continuing to expand our international sales team and partner network to secure these potential opportunities and drive incremental sales.

Turning now to our commercial business; we continue to see increased interest and opportunities across several vertical markets. Just last quarter, we won commercial agreements with multiple global 2000 companies for applications that span supply chain and commodities intelligence. Our disruptive economics, excellent customer experience, and AI-delivered insights offered as a software based subscription service, are all driving a surge in

customer interest. We are finding that more and more companies are utilizing space-based data and analytics to run their business more efficiently, and our real-time global intelligence capabilities provide a competitive advantage.

Customers are discovering just how easy our Spectra AI SaaS test platform is to use. With custom analytics delivered quickly just by simply logging in through a web browser and tasking our satellite constellation. With an intuitive user interface and integrated analytics delivered fast, BlackSky is leading a new era in geospatial intelligence by providing customers with the best-in-class experience. We are proud to be supporting organizations that are using our platform for supply chain intelligence, construction monitoring, transportation hub monitoring, economic monitoring, just to name a few.

As we announced last November, we welcomed Amy Minnick onboard as our Chief Commercial Officer to spearhead the growth in our commercial business, and we're already seeing good progress on this front. As this business and the sales team gets built, we believe we will capitalize on a growing number of opportunities leading to greater customer wins, higher recurring revenues and margin growth.

Moving on to our satellite constellation, let me first start with a brief overview on our approach and strategy for our constellation. BlackSky has taken an innovative software-first approach to our space network. We have developed and are using proprietary real-time processing and AI to efficiently task our satellites to only collect locations that are of interest to our customers. Our satellites are deployed in orbit to optimize imaging over geographies primarily where greater than 90% of the world's economic activity occurs. You can image from dawn to dusk at high frequencies.

This approach means we can optimize the constellation to meet customer demand and address the largest and fastest growing part of the market in a capital efficient manner. In other words, we have right sized the constellation to only collect what we can sell while providing superior high revisit rates and all day collection and monitoring performance to power our next generation of business intelligence applications. Alternatively, the traditional industry has taken a hardware-first approach, requiring hundreds of satellites to collect and map the entire planet.

With this approach, a large percentage of this data collected by these systems is over locations that will never be seen, analyzed or monetized. These constellations were primarily designed for mapping, not business intelligence, which means they are deployed in polar orbits, which are limited to only collect locations at the same time every day typically at 10:30 AM or 01:30 PM. This is good for generating maps, but not for gaining insights into activities that happened throughout the day or when customers need immediate insights.

Our approach enables us to right size the constellation, collect imagery throughout the day at high frequencies, and responsibly grow the constellation over time to meet demand without the risk of over or underbuilding capacity. The result is better pricing and service for consumers, a more efficient deployment of capital spending, greater operating efficiencies, and a faster path to sustainable EBITDA and cash flow positive operations.

With three successful launches of six satellites that took place in the fourth quarter of 2021, we have now achieved a baseline constellation with on orbit capacity and revisit performance to meet customer demand and growth and our growth objectives. Each of our new six satellites began operations in under 48 hours after launch, the reflection of BlackSky's best-in-class engineering and operations. This now brings our total constellation count to 12 satellites at year end. For 2022, we have four additional satellites planned for launch in the first half of the year, two of which will replace certain satellites, which have reached the end of their design life.

This 14-satellite constellation provides more than enough capacity to satisfy anticipated customer demand for the next couple of years. We continue to make progress on our Gen-3 satellites with plans to begin launching those advanced satellites in 2023.

Overall, we had good execution across the business in 2021 and are excited about the strong fourth quarter performance, which I will now let Johan go through in more detail. Johan?

Johan G. Broekhuysen

Chief Financial Officer, Blacksky Technology, Inc.

Thank you, Brian, and good morning, everyone. I'm pleased to say that we made good progress across numerous aspects of the business in the fourth quarter and ended the year on a strong note positioning us well as we start the New Year. Today, I'll begin by giving you an update on our fourth quarter financial results, followed by a summary of the full year 2021 results, and then lastly, provide an outlook for 2022.

Total revenue for the fourth quarter was \$11.5 million, up \$5.1 million or 79% from the prior year period. Imagery and software analytical services revenue was \$7.4 million driven primarily by new and extended government contracts, and represented approximately two-thirds of total revenues. Also contributing to the increase in total revenues was the higher engineering systems integration revenue of \$4.1 million.

Turning to operating expenses for the quarter; I will use the term normalized here to exclude specific non-recurring items, including pre-merger stock-based comp related to business combination, satellite impairment costs, and non-recurring public company transaction costs. Normalized operating expenses in the fourth quarter of 2021 were \$16.7 million compared to \$11 million in the fourth quarter of 2020. Of the \$5.7 million year-over-year increase in normalized operating expenses, \$2.5 million were primarily from a 50% increase in head count, as we invested in sales, technology, and engineering hires across the organization.

Also contributing to the increase were \$2.4 million in additional costs to operate as a public company, such as directors and officers insurance and stocks compliance fees, as well as \$1.1 million from higher depreciation expense.

GAAP operating expenses were \$33.2 million in the fourth quarter of 2021. The GAAP amount includes \$12.1 million of non-cash stock-based compensation expense related to specific pre-merger equity awards to key employees as part of the company's business combination. In addition, there were \$4.4 million of non-recurring public company transaction costs.

Operating loss in the fourth quarter of 2021 was \$31.9 million compared to an operating loss of \$8.7 million in the prior year period. The increase was primarily due to higher non-recurring operating expenses, associated expenses from incremental head count and public company compliance fees, as I just mentioned.

Adjusted EBITDA for the fourth quarter of 2021 was a loss of \$14.4 million compared to a loss of \$5.1 million in the prior year period, with the decline primarily due to the investments made in sales, software and engineering hires, as well as fees to operate as a public company. Fourth quarter 2021 adjusted EBITDA improved sequentially from the third quarter, as we continue to make progress towards scaling the business to higher revenues.

Turning to our full year results for 2021. Total revenue in 2021 was \$34.1 million, including \$25 million from imagery and software analytical services and \$9 million from our engineering and system integration business. Total revenues for the year increased about \$13 million, or 61% compared to prior year and met the high-end of

the guidance range we communicated in our Q3 call. Of the \$13 million of incremental revenues year-over-year, the growth was approximately split equally between imagery and software analytical services and our engineering and system integration business. Our engineering and integration business seems and helps grow our long tail high margin imagery and software analytical revenue stream over time.

Turning to operating expenses for the year. Normalized operating expenses for the full year in 2021 were \$56.9 million compared to \$38.7 million in 2020. The \$18.2 million increase year-over-year in normalized operating expenses was primarily due to \$10.5 million from the investments made in sales software and engineering hires, \$4.5 million of recurring public company costs, and \$4.5 million in higher depreciation expense, driven by having more satellites in operation.

GAAP operating expenses for the full year in 2021 were a \$119.5 million, which included \$38.4 million of non-cash stock-based compensation expense, \$18.4 million in satellite impairment charges that were recorded in the second quarter of 2021 when two of our satellites were lost as the launch providers rocket failed to reach orbit, and \$5.8 million of non-recurring public company transaction costs.

Adjusted EBITDA for 2021 was a loss of \$44.4 million compared to a loss of \$29.2 million in the prior year. Again, here the increase was mainly driven by investment in people and cost to operate as a public company. The company entered 2021 with \$168.1 million of cash, which provides us with sufficient liquidity to fund our operations and achieve our growth plans. Capital expenditures in 2021 were \$63.9 million, primarily driven by the six satellites we launched in the year.

Let's move on to our 2022 outlook. We continue to see increased interest in demand for our geospatial intelligence platform and services because a large number of our contracts are multi-year arrangements. We have good visibility into recurring revenues we anticipate receiving this year. We expect full year revenues in 2022 to be between \$58 million and \$62 million. Assuming the middle of the revenue range, this would represent a 76% increase over 2021 revenues, and an acceleration from the 61% year-over-year growth we achieved last year. We expect capital expenditures for the full year of 2022 to be between \$52 million and \$56 million. This CapEx spend is lower compared to 2021 spend as we believe we have more than enough capacity to support growth and customer demand through the foreseeable future without needing additional satellites beyond the four already planned for this year. Going forward, customer demand for additional capacity will dictate the pace of our satellite deployments.

I would like to take a minute to put into context where we are in the execution of our plan. We are seeing strong revenue growth going into 2022. Our cost of goods sold and operating expenses have remained aligned with the expansion of the business and continue on a responsible trajectory. We've been delivered in our capital allocation to CapEx and in particular to the timing of the build of our satellite constellation, and we have seen reductions in launch costs and expect that favorable trend to continue. With prudent cost management and lower capital expenditures, we believe our cash position will remain strong with sufficient liquidity for the foreseeable future.

With that, I will now turn it back over to Brian for some closing remarks. Brian, over to you.

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

Thank you, Johan. In closing, we're pleased with all of the major milestones and accomplishments we achieved in 2021, putting us in a strong position for our next phase of growth as we lead a new era of real time global intelligence. For the successful public listing, we now have sufficient capital to fund our growth for the foreseeable future. We achieved this 12 satellite constellation with an industry leading revisit rate and diverse collection

performance. This gives us sufficient on orbit capacity to meet our growth objectives well into 2023. We grew our management team and expanded our talent base primarily in sales, software and marketing to drive our growth over the coming years. We won several new multi-year contracts driven by clear market demand for our high revisit imagery, and AI enabled analytics. And finally, we ended the year strong, with full year 2021 revenues growing 61% over the prior year and forecast higher revenue growth in 2020, fueled by strong visibility from existing customers. We're excited about all the momentum we're seeing across the business and looking forward to a great 2022. This concludes our remarks for the call, and now we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. At this time, we will be conducting a question-and-answer session. [Operator Instructions] We have first question from the line of Josh Sullivan with The Benchmark Company. Please go ahead.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Hey, good morning.

Q

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

Good morning, Josh.

A

Josh Sullivan

Analyst, The Benchmark Co. LLC

When you're looking at the guidance for 2022. How important or how much have you factored in the EOCL contract this year? And then just is the continuing resolution having any impact on timing, and any other thoughts around the total contract size or mechanisms at this point would be helpful?

Q

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

All right. Good morning, Josh. Yeah, our revenue guidance for the year factored in – it does include revenues from the NRO for ongoing contracts, and an expansion through the EOCL contract award. We have factored-in potential timing scenarios with respect to that award, and we feel confidence in our 2022 revenue guidance based on that.

A

Josh Sullivan

Analyst, The Benchmark Co. LLC

Got it. And then with the new constellation flexibility, has that altered your long-term view of the constellation needs? And just when you say foreseeable future, I think you mentioned 2023 for this size. But maybe what level of sales metrics would you need to add more satellites or just how are you measuring that growth at this point or growth needs?

Q

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Hey, Josh, I'll say fundamentally our strategy has not changed related to our constellation. I think what we're emphasizing here is we can responsibly manage the growth of our constellation aligned with demand. We have the flexibility and when we launch and expand to meet that demand. So that's always been part of our agile aerospace strategy. And of course, as you know, we've taken a software-first to approach the market. It's not just about the satellites, but it's about anybody in that data where a lot of other data and information to provide a customer experience that's very innovative in the market right now, and deliver that information and analytics as a subscription service.

So we think we've done a very well-managed balance of our capital investments in space, but we're accelerating our investments more in software and analytics, which is really positioning us to address the larger part of the TAM, and frankly the fastest growing part of the TAM.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Got it ...

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

Just a follow – sorry just to follow on that one second, I think the key takeaway is that there's plenty of capacity in the constellation to support our revenue stream going out into the future year.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Got it. And then just on the commercial sales side, the total number of commercial customers and maybe average deal size, where do some of those metrics stand at this point?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

So, Josh, we are working on getting those together, and obviously being thoughtful and deliberate about when we come out with them. Key, of course, is that we're able to measure those things accurately and timely internally, and we want to harden them for the public markets, so they are in the works. And we should – you should expect us to come out with them as soon as we believe we have them firmly under control.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Okay. And then kind of tying those two together, I mean, just as far as the flexibility, and the hardware, how are you thinking about the flexibility in the commercial sales force build out, as well as resellers, how are you approaching that go to the commercial market at this point?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

Yeah. We're – as we've stated, we expanded our sales force in 2021, and we're continuing to expand it in 2022. There is multiple approaches we're taking to going to market. One, as we outlined, is growing a reseller network globally that's allowing us to reach more customers, both in the government and across multiple vertical markets. We're also – we're also taking a strategy as we've announced with our relationship with Palantir, where by integrating our platform services into their platform, we can reach their customers with more advanced solutions.

And so we think we have a very robust go to market strategy here to accelerate capture and adoption of new customers.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

And then just one last one, I mean, what do you think the optimal revisit rate is at this point? You mentioned the example of the ferry, I think last quarter you talked about 90 minutes, but with the new constellation here, what do you think is the optimal revisit rate for your target customers like?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Our goal has always been to achieve about a one hour revisit, but not just revisit, but to have time diverse collection, so throughout the entire day so. It's not just revisit at a particular location, but it has to be revisit throughout the entire day with rapid timelines of delivering that insights within 90 minutes or less, and we've been able to achieve that through our AI and software driven approach to our operating platform.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Okay. Thank you for the time.

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Thank you, Josh.

Operator: Thank you. [Operator Instructions] We have next question from the line of Chris Quilty with Quilty Analytics. Please go ahead.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Thanks, guys. I wanted to follow-up on the constellation sizing question. Obviously, you provided very long-term forecasts back with the going public transaction. And I guess fundamentally with the reduction in the plan size of the constellation, is it reasonable to assume that, we're probably not going to be able to achieve that sort of a ramp, but with the increased capital efficiency, it's probably a net-net works out the same from a sort of return on invested capital?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Good morning, Chris. Thanks for the question. First I just want to emphasize we are not – we're not indicating that we have plans to build a smaller constellation, what we're emphasizing as we have; one, sufficient capacity over the next – this year and well into 2023 to meet our growth objectives; and two, we're taking a very measured approach to when we expand the constellation to align with demand. So, for example, our Gen 3 satellites, we're continuing to invest in those, those remain on track to be launched in 2023 to align with our plan. So we're not – we have not altered our – the fundamentals of our overall strategy.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Has anything changed with the intended design of Gen 3 given either end market demand requirements or competitive issues?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

No, Gen3 is, I think, as you're well aware, has been in development now for well over a year. That's starting to enter into production and the attributes – the advanced attributes of that satellite remain on track as was outlined before in terms of improved resolution and other features of those – of that spacecraft.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Great. And the two satellites that are being retired, presumably those were some of the first ones that were launched. Can you give us any kind of an assessment of perhaps what's the limiting factor on the life of these satellites? Is it fuel? Is it power or altitude? And what are the intentions for Gen3 in terms of some of the – the design life?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

So I think, Chris, to start out with the satellites that we're anticipating replacing are now beyond their expected life. So that's -- that's a positive development that those satellites were launched well over three years ago with an expected life of three years, so we're beyond that at this point. Those satellites continue to operate. So we're encouraged by what we're seeing with the design of the spacecraft and the health of the spacecraft that are up there. This means we can expect some of the other Gen-2 satellites to exhibit the same type of characteristics. Gen-3 is designed with an even longer mission life, which is also giving us encouraging insights into the potential of that design. So all-in-all, highly favorable in terms of expected design and mission life, which of course, has a very positive impact on CapEx as the time to replenish gets stretched out.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Got you. And one follow up question on Gen-3 is the initial design and production of those satellites being done internally or with LeoStella. And I guess as part of that, LeoStella, which is a separate company, separate entity had been ramping production to like 40 satellites a year. How does your plans for lower production quantities impact either, the pricing of the satellites or any contractual obligations?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Well, yeah. So, Josh, yes, we are partnered with the LeoStella through our joint venture for LeoStella to manufacture our satellites. We own the design of the satellites and they simply are the production facility for us. I will also say that we have very good insight into the cost of our satellites, that's all been proven in baseline as part of our Gen-2 system, and our Gen-3 capability is an extension of that. So, very good visibility into the cost, which ultimately is reflecting in disruptive economics that we're providing to the market through the data and analytics that we can get from those satellites.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Right. And I want to ask a question on the commercial side of the business and the growth you're seeing there, is the growth primarily from adding new customers or is it growth within your current customer base? And I guess there's a follow on to that, you've just added a lot of imaging capacity recently, do you see indication in capacity recently, do you see indications that existing customers are going to uptake that new capacity and generate higher revenues?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

So to your first question, the commercial growth is driven by new customers. So we've got a lot of strong interest coming in. There's several factors that we're seeing from those customers of why they're choosing BlackSky, and that's particularly around the ease of use and the customer experience. But – and then the economics related to delivering the analytics and insights they need for their businesses, most of these new customers are not interested in buying pure pixels or imagery. They're interested in the frequent – high frequency monitoring that can yield unique insights that impact their operations. So that's where we offer unique value proposition to the market through an easy to use experience. So – and then, as we've outlined before, we have a land and expand strategy with these customers.

So typically they will start working with us on monitoring certain locations and those locations numbers of locations can expand over time, as well as the depth and breadth of the analytics that we're delivering through the subscription contracts with those customers. So we're seeing strong interest and validation in the subscription based analytics model.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

And how much of that subscription base is related to Spectra AI versus other platforms.

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

It's – I think most of it is all going through Spectra AI.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

And actually there was a good demo you guys did the other day. Appreciated that, and I don't know whether it's posted on the website or something, but it's a very powerful platform. Is that same platform used for both the commercial and the government side or are there different versions of that that you offer to government customers?

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Yeah. Chris, thanks. We're really happy to provide that demo and give you some insights into where we're going as a business. Yeah. It's the same platform, we're leveraging both in the government and the commercial business. We can offer different – we can plug in different services for different customers, which make this thing massively scalable. As I outlined in my remarks, NGA is a subscriber to this platform, for example and that got renewed in the fourth quarter. And then we have several international ministries of defense that use it, but it is the sole platform in which we service our commercial providers – commercial customers as well. So massively scalable platform that we get extremely good margin, operating margin leverage from across all sectors of our business.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Great. And final question, I don't know if you guys have an opinion on this, but if we get stuck in another CR, have you seen any analysis of whether the EOCO program qualifies as a new start and may get frozen out or whether in fact that would be funded under a CR? And if that program is awarded later this summer, presumably it's on the same schedule that enhanced view was on which is I think September 1st sort of a start for the program.

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Well, I think as I – as we outlined we already have an existing contract with NRO, and that contract was expanded last year as there was an uptick in demand for our high revisit imaging capability. So that contract – we're operating under that contract today and well into this year. So there's multiple options for us and we factored in potential timing scenarios of the EOCL war.

Chris Quilty

Founder & Partner, Quilty Analytics LLC

Q

Great. Thank you.

Brian E. O'Toole

Chief Executive Officer, President & Director, Blacksky Technology, Inc.

A

Thank you, Chris.

Operator: Thank you. [Operator Instructions] Ladies and gentlemen, we have reached the end of the question-and-answer session. I'd like to turn the call back to Aly Bonilla for closing remarks. Over to you, sir.

Aly Bonilla

Vice President-Investor Relations, Blacksky Technology, Inc.

I want to thank you for participating on the call. I'd also like to let everybody know that we will be hosting demo days in the near future to provide a hands on demonstration of our BlackSky Spectra AI platform and share several ways our customers benefit from the analytical insights. Please reach out to me for further details and also check out our website for the latest news on the company at www.blacksky.com. We look forward to speaking to you again soon and have a good day.

Operator: Thank you. This concludes today's conference. You may now disconnect your lines. Thank you for your participation.

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