28-Feb-2024

Blacksky Technology, Inc. (BKSY)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to BlackSky Technology's Fourth Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Please note that this conference call is being recorded.

I would now like to turn the call over to Aly Bonilla, BlackSky's Vice President of Investor Relations. Please go ahead, Aly.

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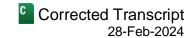
Aly Bonilla
Vice President-Investor Relations, Blacksky Technology, Inc.

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, Henry Dubois. On today's call, Brian will provide some highlights on the quarter and give a strategic update on the business. Henry will then review the company's fourth quarter and full year financial results and outlook for 2024. Following our prepared remarks, we will open the line for your questions.

A replay of this conference call will be available from approximately 12:30 PM Eastern Time today through March 13. 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. In conjunction with today's call, we have posted a quarterly earnings presentation on the Investor Relations website that you may use to follow along with our prepared remarks.

Before we begin, let me remind you that certain statements made during today's conference call regarding our future plans, objectives and expected performance, including our financial guidance for 2024, are forward-looking

statements. Actual results may differ materially as these statements are based on our current expectations as of today and are subject to risks and uncertainties, including those stated in our Form 10-K. We encourage you to review our press release Form 10-K and other recent SEC filings for a full discussion of the risks 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 except as may be required by applicable law. In addition, during today's call, we will refer to certain non-GAAP financial measures, including adjusted EBITDA, adjusted imagery and software, analytical services, cost of sales and cash operating expenses. A reconciliation of these non-GAAP financial measures to their most comparable GAAP measures are included in today's accompanying presentation, which can be viewed and downloaded from our Investor Relations website.

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

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

Thanks, Aly. And good morning, everyone. Thank you for joining us on today's call. Beginning with slide 3. I'm pleased to report that 2023 was an exceptional year for BlackSky. With strong and growing demand for our space-based intelligence solutions, we executed across all aspects of our business and delivered strong operating results against our major goals for 2023.

Here are some of the highlights. First, for the full year 2023, we achieved record revenues of over $94 million, a 45% growth over 2022. We had an exceptionally strong fourth quarter that delivered revenues over $35 million, an 83% increase over the prior year quarter. This was driven by strong quarter-over-quarter growth in our imagery and analytics revenues and progress toward deliverables on the recently awarded contract for the Government of Indonesia.

Second, in 2023 we closed over $265 million in contracted bookings, including over $55 million of new contracts and renewal agreements in Q4. The majority of these bookings came from international customers, reflecting the growing demand from customers around the world for our current and future space-based intelligence solutions. Third, with these key wins, we increased our year end contracted backlog to over $260 million, providing strong outyear revenue visibility from an expanding anchor customer base that has signed long term multiyear commitments. Fourth, we successfully delivered positive adjusted EBITDA of over $9 million in Q4, achieving one of our major objectives for 2023.

In fact, for the full year, we were nearly adjusted EBITDA breakeven. This significant operating achievement is attributed to the combination of strong revenue growth of our high margin imagery and analytics services, our focus on disciplined cost management, continued streamlining of our operations and the strong operating leverage of our business model. This strong execution is anchored by the hard work and dedication of our team, who work tirelessly to meet our customer commitments through the delivery of timely and reliable intelligence that our customers rely on every day for critical decision making. BlackSky's dynamic hourly monitoring capabilities are becoming an essential capability for customers around the world, as evidenced by a strong and growing sales pipeline and the continued growth of our customer base, which increased by over 50% last year. Demand remains high for our current high frequency imagery and analytic services as new customers adopt these capabilities as part of their day-to-day operations and existing customers expand their commitments through long term multi-year subscription contracts.

We are seeing strong demand for our Gen-3 capabilities as these advanced satellites are now in production and on track for launch this year. The unique combination of high frequency hourly monitoring with very high

resolution imagery and advanced AI-enabled analytics offers customers with unprecedented real-time space-based intelligence. The ability to see, understand and act first is critical to strategic advantage and the rapid advancements of BlackSky's commercial space technology now offers solutions to support growing national security and economic development imperatives of governments around the world.

2023 was another strong year of focused execution and another major step forward in the growth of our business, which has us well-positioned to address this large and growing market opportunity. The operational achievements of 2023 have us on a path toward long term, profitable growth and demonstrate our commitment to building shareholder value.

I would now like to share some operational highlights from the quarter. Turning to slide 4. We're continuing to see global demand for BlackSky's products and services remain very strong around the world, especially in markets where governments are increasing their investments and accelerating programs to acquire space-based intelligence capabilities. This increased demand is driven by geopolitical, economic and national security concerns that governments around the world are facing now more than ever. Our decision to focus and invest on this growing market opportunity is now paying off, as is evidenced by the capture of large multi-year contracts with long-term anchor customers in 2023. These wins totaled over $240 million.
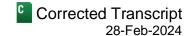
In fact, during the past year, the revenue contribution from our international business grew from 17% in 2022 to now over 37% this past year as we are successfully building out a diverse global customer base. Earlier in the year, we won a contract valued at over $150 million with a major international Ministry of Defense. This multi-year subscription contract is a long-term commitment for our next-generation of real time monitoring and AI-enabled analytic services for space-based tactical operations. We are currently underway in the development phase of this contract and look forward to entering into the subscription phase of the contract as our Gen-3 satellites come online. This customer is already under a multi-year subscription contract for imagery and analytic services from our current Gen-2 constellation.

In Q2 of last year, we were awarded a $30 million contract renewal with another major international defense customer. This multi-year renewal agreement expanded our existing contract three-fold over the prior year contract and demonstrates the customer's long-term commitment to secure assured access to our high frequency monitoring and analytics capabilities. This is another validation that our land and expand strategy is working. In the fourth quarter, we signed multi-year contracts valued at about $50 million to deliver subscription-based imagery and analytics and advanced Gen-3 space and ground capabilities to the Indonesian government in support of their long term plans to build sovereign space capabilities. I'll share more details on this contract win in a few minutes.

Also in 2023, we've secured a number of new customers that are now in the initial phases of using our high frequency monitoring and analytics services. As these customers integrate our services into their day to day operations, we expect these services will expand over time, growing these relationships into long term anchor customers. In 2023, we successfully grew our international customer base by 50% and are proud to be providing them with advanced intelligence solutions now and in the future.

Moving to slide 5. Our international success illustrates that space is now and will be an essential element of national defense and long-term economic development for governments around the world. We are in an era today where speed to insight matters. Key government decision makers require up to the minute information to secure their homelands and protect their economic interests. The ability to see, understand and act first provides a strategic advantage. An advantage that can now be achieved through the rapid advancements of commercial space technology. We are delivering these advanced capabilities through a new adoption and acquisition model

whereby customers no longer need to invest billions of dollars or wait 5 to 10 years to establish and build operational space capabilities.

Through our software-first strategy, we've lowered the barrier to entry for customers looking to immediately access and rapidly expand their space-based intelligence capabilities. An example of this strategy in action is our recently announced contracts for approximately $50 million supporting the Indonesian Ministry of Defense with their efforts to develop and accelerate sovereign based space capabilities. The Indonesian Government is looking to modernize their satellite infrastructure, to address defense, national security and other economic needs. This holistic approach enables sovereign nations to easily take advantage of and receive real-time intelligence using our software first AI approach while also providing a platform they can use to build their sovereign capabilities over time.

Through these recently won contracts, the Indonesian Government will receive immediate and guaranteed access to our high frequency imagery and real-time AI-driven analytics, utilizing our Gen-2 satellite constellation and our Spectra software platform. These subscription based services will provide them with early intelligence, surveillance and reconnaissance capabilities over their area of interest. In fact, in less than 30 days from signing the contracts, we had a BlackSky team in Indonesia who are actively training personnel and teaching them how to task our constellation and access our AI-enabled services and are now actively using our platform.

In addition to providing the Indonesian MoD with assured subscription based services, our contracts provide for the delivery of Gen-3 satellites advanced ground station capabilities and flight operations support over the next few years. These Gen-3 commercial satellites, which will provide very high resolution 35 centimeter imagery, will be integrated into the customer's environment and are expected to be part of Indonesia's Defense Satellite System as the government develops its capabilities over time.

Moving on to slide 6. During 2023, we continue to see strong growth from the US government driven by the government's adoption of BlackSky's high frequency imagery monitoring and advanced AI government, winning many new contracts and expanding existing agreements with a number of defense and intelligence agencies. Many of these contracts are for access to our advanced AI capabilities. As these customers are not just looking for static satellite imagery over certain locations, but have a need for information intelligence derived from BlackSky's dynamic monitoring, object detection and other AI-driven capabilities.

Let me touch on a few of these wins and highlights during the year. First, we continue strong execution on our EOCL contract with the NRO as we continue to meet daily service requirements. And we're the first company to achieve integration with the government's commercial integration platform. This strong operating performance led to the expansion of our base subscription contract and the award of multiple studies for our advanced Gen-3 capabilities.

Second, we continue to receive multiple orders under the Economic Indicator Monitoring or EIM program with NGA. Throughout the course of this program, BlackSky has delivered against a range of advanced AI-enabled monitoring task orders, which has us well-positioned to compete for the Luno contract, which is a $290 million multi-year follow-on program, which is expected to be awarded later this year. Third, we captured multiple contracts with various Department of Defense customers, leveraging our AI capabilities to demonstrate advanced tactical intelligence solutions in support of emerging mission requirements. A recent example is a new contract we won in the fourth quarter that will leverage our satellites multi-frame collection capabilities and when combined with advanced AI processing techniques, enable users to track moving target objects on the ground and discern activity patterns. And fourth, we continue to win additional contract awards with the Intelligence Advanced

Research Projects Activity or IARPA to deliver AI based broad area search capability, which I will discuss in more detail if you turn to slide 7.

A major contract win in the fourth quarter was for the next phase of the IARPA SMART program. This award is another example of how the US government is leveraging BlackSky's advanced AI capabilities in support of emerging mission needs and demonstrates how we're expanding our services within the US government [indiscernible] (00:17:15) imagery. This latest award brings total contracts awarded to BlackSky under this program to over $10 million. We've been able to leverage this research and development funding to build a proprietary AI based performance platform that can power applications for searching the world for critical economic activities. Under this effort, BlackSky was selected as the leading space-based AI system for bringing speed and scalability to the broad area search mission.

For those who may not know broad area search techniques, which scan large areas of the Earth's surface help intelligence organization, see dynamic changes and gain early insights into important activities where a first to act advantage essential. With our fully automated and scalable approach to AI processing and analytics, customers can run data intensive, broad area search queries more frequently and faster as compared to traditional solutions. The AI tools we've built under the Smart program are now being leveraged by other US government programs, helping them to minimize the burden placed on geospatial analysts that traditionally had to manually monitor large areas of interest. This technology enables users to increase their operational capabilities while reducing the need for additional resources.

For example, the analysis of a regional multi-year imagery dataset would have taken an analyst months to process and analyze. The BlackSky's broad area research platform, the analysis of imagery from any satellite provider can be accomplished in just a few hours at a fraction of the cost and time. This is another example demonstrating how BlackSky's AI-driven analytics are driving greater insights and intelligence to a diverse group of government agencies.

Moving to slide 8. We continue to make significant progress on our Gen-3 satellites program. Our first Gen-3 satellites are currently in the integration phase and are being assembled on the production line. We are now ramping production and remain on track to begin launching Gen-3 satellites later this year. We will provide more details on the timing of upcoming launches as we get closer to those dates. As a reminder to support our Gen-3 deployment plan, we entered into an agreement last year with Rocket Lab to secure a number of dedicated launches. This agreement secured the near-term capacity we need to begin to support our Gen-3 constellation deployment plan. Many of our new contract wins include access to Gen-3 capacity and capabilities, demonstrating the strong demand we are experiencing for this next evolution of our constellation. We are excited about our progress and the capabilities these new satellites will bring to market.

In summary, we're pleased with the strong operational and financial performance that we delivered in 2023, highlighted by record revenues in both Q4 and the full year, strong operating leverage, significant backlog and positive adjusted EBITDA in the fourth quarter.
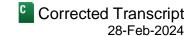
I'll now turn it over to Henry to go through the quarterly and full year financial results in more detail. Henry?

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Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

Thank you, Brian. And good morning, everyone. I, too, am pleased with our fourth quarter financial results ending the year on a high note as momentum for our space-based capabilities continues. Beginning with slide 10, in Q4, our revenues were $35.5 million, driven by growth across the entire business and a new quarterly record for the

company. This was an increase of $16.1 million or 83% over the prior year quarter. Imagery and analytics revenue grew to $19 million in the quarter, an 18% increase over the prior year period, primarily driven by greater volumes of imagery delivered to new and existing US and international government customers. Professional and engineering services revenues increased to $16.5 million in the fourth quarter of 2023, compared to $3.3 million in Q4 of 2022. We recognized $7 million more revenue in Q4 than we had anticipated, when we're making our final forecast due to the final terms and conditions of our Indonesian contract.

Turning to slide 11. I'm happy to report that we successfully met our company's goal of reaching positive adjusted EBITDA in Q4, an accomplishment very few space companies have done on their first constellation. For the fourth quarter of 2023, we reported an adjusted EBITDA of $9.3 million, an improvement of $13.9 million from the prior year quarter. This year-over-year increase was primarily driven by strong revenue growth, margin improvement across our business and disciplined cost management.

In fact, our Q4 SG&A cost excluding stock-based compensation expense were down 17% year-over-year on revenue growth of 83%. This result demonstrates our focus on managing cost effectively and streamlining operations while we grow our business. Of the $9.3 million reported for adjusted EBITDA in Q4, approximately $6.5 million came from specific progress based revenue and operating expense savings, while the remainder came from our steady state operations.

Now, let me provide some details on our full year financial results, starting with slide 13. Following the strong revenue performance in Q4, we ended 2023 with revenue of $94.5 million, up 45% over 2022 and achieving another record year for the company. Our significant revenue growth can be attributed to increased ordering from existing customers, as well as services delivered to a number of new customers in 2023. The full year revenue increase demonstrates the growing demand we're seeing from customers around the world who are taking advantage of our unique and differentiated solutions.

Turning to cost of sales, we continue to demonstrate strong operating leverage in our imagery and analytics business, as shown on slide 14. Excluding stock-based compensation, depreciation and amortization expenses, imagery and analytics cost of sales for the full 2023 was $13.6 million, compared to $13.9 million in 2022. The decrease of $300,000 or 3% was primarily driven by cost savings in our satellite and software operations. As a result of these cost savings, the revenue increase of our imagery and analytics products in 2023 of $18 million was able to have a direct impact to the bottom line, contributing significantly to our adjusted EBITDA performance.

Let's move to slide 15 and talk about cash operating expenses, which exclude stock-based compensation and depreciation and amortization expenses. For the full year, 2023, cash operating expenses were $63.2 million, essentially in line with cash operating expenses in 2022 of $62.3 million. We continuously streamline our corporate expenses, for example, generate savings in insurance premiums, professional fees and rental expenses so we can increase our investments in our go-to-market initiatives while keeping total costs roughly the same as the prior year. This performance demonstrates our disciplined approach to cost management, while continuing to make key strategic investments across many areas of our business to support our growth objectives. Our responsible cost management is another key contributor driving our improving adjusted EBITDA performance.

Turning to slide 16. Our full year 2023 adjusted EBITDA loss was $1.1 million compared to a loss of $29.5 million in 2022. This significant year-over-year, improvement of $28.4 million was primarily driven by a few key factors. First, strong revenue growth. Second, improving margin performance across the entire business. And third, disciplined cost management that essentially held our annual cash expenses flat year-over-year. We're very

pleased with the progress we've made in adjusted EBITDA last year and look forward to building on this strong performance in 2024.

Moving on to our balance sheet. We ended 2023 with $53.1 million of cash, restricted cash and short-term investments. The increase in cash from the end of Q3 was primarily driven by the sale of our investment in X-Bow for $9.5 million and the strong adjusted EBITDA performance in Q4, which helped to offset general cash uses. With $53 million of cash on our books, routine collection of our outstanding receivables, vendor financing and continued adjusted EBITDA improvements as expected, we believe we have sufficient cash and liquidity to meet our needs for the foreseeable future. Capital expenditures for the full year 2023 were $43.7 million, primarily associated with our Gen-3 satellites program and Spectra AI software development.

Now let's move on to our 2024 outlook as shown on slide 17. We expect to continue the strong momentum of 2023 into 2024 as global demand for our space-based intelligence solutions continues to attract new customers, while contracts with existing customers continue to expand. We are forecasting another strong year of execution across all aspects of our business, driven by first, continued revenue growth from new and existing customers; second, growing operating margins from continued growth in our high margin imagery and analytics services; third, continued disciplined cost management and streamlining of our operations; and fourth, sustaining and improving positive adjusted EBITDA throughout the year.

For 2024, we're forecasting full year revenues between $102 million to $118 million. As in 2023, we are actively working on a significant number of qualified sales opportunities for major multi-year new and expansion contracts, which we expect will continue to build backlog of outyear revenue to support our sustained long-term growth trajectory. We remain conscious of the uncertainty of the timing of these awards and the ramp of services to recognize revenue, particularly related to the award of new large government contracts such as what we experienced with Indonesia.

If we were to normalize our 2023 revenue to account for the final terms and conditions on the Indonesian contract, as previously discussed, our 2024 revenue guidance would represent a more than 25% year-over-year growth on our business to the midpoint of our 2024 guidance range. We are also mindful of potential impacts of a continuing resolution of US defense budgets. These factors are reflected in our guidance range. With continuing revenue growth and disciplined cost management, we anticipate full year adjusted EBITDA in 2024 to be between $8 million to $16 million. In addition, we expect capital expenditures for 2024 to be between $55 million to $65 million, primarily driven by investments in our Gen-3 satellites and AI software capabilities.

In summary, we're pleased with our financial performance in both the fourth quarter and full year 2023. We are proud to have delivered on our goal of positive adjusted EBITDA as this reflects a new level of operational performance and illustrates the leverage of our long-term business model. We look forward to carrying this strong momentum into 2024.

With that, I'll now turn it back over to Brian for some closing remarks. Brian?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

Thank you, Henry. In closing, 2023 was an exceptional year for BlackSky. We're pleased with the strong execution and finish to the year leading to record revenues in both the quarter and full year and achieving a major company milestone of positive adjusted EBITDA in Q4. We won over $0.25 billion in new awards and expansion agreements and increased our contracted backlog, laying a solid foundation for recognizing future revenues. Demand for BlackSky's space-based capabilities continues to increase, and we look forward to continuing to grow

our global customer base in 2024 and beyond. 2024 is expected to be another strong year of performance as we continue to expand our leadership in space-based intelligence. We are set to deliver long term profitable growth and drive value for our shareholders, building on the key attributes of our business.

We now have a first of its kind real-time space and AI platform that is delivering a first to act advantage in support of critical national security and economic development imperatives around the world. This capability has been validated through long-term contracts with the most important defense and intelligence agencies, both here and abroad, for demonstrating and delivering a high growth revenue profile, building on a track record of greater than 50% compound annual growth rate over the past few years. Our industry leading technology and credentials have us well-positioned to serve a large and expanding global market for space-based intelligence solutions.

Our investments in advanced space and AI capabilities have us on track to launch next generation satellites in 2024, serving a large contract backlog and addressing significant customer demand. The strong operating leverage of our business model is delivering an attractive financial profile that is transitioning towards long-term profitable growth and attractive adjusted EBITDA margin performance.

And finally, our vertically integrated and fully operational space and software platforms are providing differentiated solutions in the market while enabling a long-term competitive advantage. We believe our accomplishments in 2023 have set the stage for us to deliver another year of strong performance in 2024 and sets us on a path for a long-term leadership in space-based intelligence. We look forward to another exceptional year.

This concludes our remarks for the call, and we'll now take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] At this time we will pause momentarily to assemble our roster. Thank you. Our first question comes from the line of Jaeson Schmidt with Lake Street. Please proceed with your question.

Jaeson Allen Min Schmidt
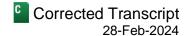*Analyst, Lake Street Capital Markets LLC*

Q

Hey, guys. Thanks for taking my questions. I just want to start with the Indonesia contract. You noted that the terms and conditions of the contract really drove the Q4 outperformance. Was this primarily related to the timing or was it more related to the overall size of the contract?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Hi. Good morning, Jaeson. Thanks for the question. Yes, it was related more toward the timing, the scope of the contract and the nature of the contract we've been working on for quite a while. I will say that this contract does illustrate it is a milestone contract and it really illustrates the shift that we're seeing in the market from customers taking a hardware first approach toward a solutions model. And we see this as a pretty significant accomplishment last year. But as you know, these large contracts tend to – that quarter-over-quarter timing tends to be variable.

Jaeson Allen Min Schmidt
Analyst, Lake Street Capital Markets LLC

Q

That makes sense. And I guess following up on that, how long have you guys been in discussions with Indonesia before signing? And I guess, relatedly, are you seeing any change in the late, the sales cycles?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

No, I think it's safe to say, Jaeson, that these types of large multi-year contracts take a significant amount of time, and that's consistent with what we've seen with this customer and across other opportunities we're seeing around the world. And we've factored that timing into our forecast.

Jaeson Allen Min Schmidt
Analyst, Lake Street Capital Markets LLC

Q

Got you. All right. Thanks a lot, guys.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Thanks, Jaeson.

Operator: Our next question comes from the line of Edison Yu with Deutsche Bank. Please proceed with your question.

Edison Yu
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, thanks for taking our questions. I wanted to ask, in terms of the backlog, can you maybe break down how much of that is related to unlocking in Gen-3? And then when Gen-3 goes up, do you need all of them up, do you need just some satellites up to unlock that piece?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, I think Edison first, I'll say that this $0.25 billion in wins this year, as we mentioned, was driven significantly by the international market, where the majority of that backlog being tied to long-term subscription contracts for our imagery and analytic services from both our Gen-2 constellation and our Gen-3 constellation. And as you can imagine, I'll refer you back to our EOCL contract. These things, these subscriptions will evolve over time, transitioning from Gen-2 into Gen-3. And so we feel really good about how the ramp of those contracts will tie to the deployment of our constellation.

Edison Yu
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. And then I know you briefly mentioned Luno. Any sense on the kind of competitive dynamics there and how many vendors ultimately get a piece of that?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

It's – I'll say it this way, Edison. You know, the predecessor contract EIM that went to just a handful of companies, I think less than six, six or less. BlackSky won the lion's share of that business through our advanced monitoring and AI capabilities. So we are extremely well-positioned to go compete for the $290 million of work orders that will come through the Luno contract. Obviously, a contract of that size is drawing a lot of attention. We feel that we're bringing the technology and the credentials that have us well-positioned.

Edison Yu
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Our next question comes from the line of Josh Sullivan with Benchmark Company. Please proceed with your question.

Josh Sullivan
Analyst, The Benchmark Co. LLC

Q

Hey, good morning.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Good morning, Josh.

Josh Sullivan
Analyst, The Benchmark Co. LLC

Q

As far as the structure of the Indonesian contract and potentially becoming a model what's been the inbound interest from other international intelligence agencies? Has it been immediate or there maybe milestones within the contract which might eventually unlock little more inbound demand signal?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Right. The demand signal that we're seeing globally is really strong. In fact, it's accelerating. I think the we're seeing generally in the market that having a space-based capability is now essential to most governments, almost all governments around the world. I think what's interesting about this Indonesian deal is now you're seeing how these governments can leverage not only commercial imaging and analytics capabilities, but also commercial space software and AI technologies that are going to accelerate their aspirations to advance their space-based intelligence solutions. And so this is a extremely positive signal. And for us it really represents how we're expanding our product and services offerings to address this growing market opportunity.

Josh Sullivan
Analyst, The Benchmark Co. LLC

Q

And then just as far as the SMART program in the balance of kind of the higher usage of AI and I think you reported, you can scan over 20% of the Earth's surface in pretty short amount of time. But how do we think about that balance between the market need for satellite time, while AI makes those assets ever more efficient? [ph] Is that playing out (00:40:05) the marketplace, does it make your higher re-visit rates that much more valuable?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

It does. I think you're seeing two – a couple of aspects of our of our offerings that are really driving the adoption of our capabilities by customers. It's the high frequency monitoring, which is giving them hourly ability to see what's happening on the ground. And when you apply AI to that, you're now able to get patterns and insights that they weren't able to get before. But when you look at what we're doing on the SMART program, it's not just our satellite imagery, but it's satellite imagery and data from a whole host of sensors and capabilities. And that ability over time to process, analyze and turn that information into actionable intelligence that used to take months and now can be hours and minutes is really an exciting development and what we see driving a lot more growth and adoption over the coming years.

Josh Sullivan
Analyst, The Benchmark Co. LLC

Q

Got it. Thank you for the time.

Operator: Our next question comes from the line of Greg Burns with Sidoti. Please proceed with your question.

Gregory Burns
Analyst, Sidoti & Co. LLC

Q

Good morning. With your guidance, revenue guidance for next year, what level of imagery and analytics growth are you baking into that projection?

Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

A

Greg, this is Henry talking. As you know, we're targeting between $102 million to $118 million. When we look at the overall growth in the marketplace or from this prior year, as I said in my remarks, and you kind of normalize what we were expecting for full year this past year absent the final Ts and Cs on the Indonesian contract. Overall it's about a 25% growth rate. We would expect kind of the professional and engineering services to kind of be kind of chug along at the current level. So most of that growth would be showing up in the imagery and analytics.

Gregory Burns
Analyst, Sidoti & Co. LLC

Q

Okay. And with the EOCL contract, I think the first two year funded portion is coming to an end in the next couple months. What's your view on then maybe funding additional packages or do you see them just extending, how do you see that playing out this year and what's baked into your guidance for next year in terms of the EOCL contract? Thank you.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. So we've been performing extremely well on that contract for the past two years. It does renew in June. Last year we saw an expansion of that contract and we were also the first commercial company to complete integration with the government's commercial platform, which has driven more usage within the government just through that interface. So we're in great shape with that customer and we're anticipating a renewal of that subscription agreement sometime in the second quarter.

Gregory Burns
Analyst, Sidoti & Co. LLC

Q

Okay. Do you have a view on maybe beyond the renewal like increase and or in funding for other packages under that program?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

We're looking at it kind of in two aspects renewal of what they're currently getting from our Gen-2 capability. And then as Gen-3 comes online, we expect it to increase from there.

Gregory Burns
Analyst, Sidoti & Co. LLC

Q

Okay. All right. Thank you.

Operator: Our next question comes from the line of Jeff Van Rhee with Craig-Hallum Capital Group. Please proceed with your question.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Great. Thanks for taking the questions. Congrats on the positive EBITDA. A lot of progress here. Maybe if you could touch on the CapEx last several quarters, we've gone from I think a guide midpoint of $43 million to $51 million, it's now $60 million. Can you put a little finer point on the expansion from $43 million a few quarters ago to $60 million now? What exactly the incremental call it $17 million gets you? What are you pulling forward? Are you seeing more expensive units? Just talk about what you're doing there.

Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

A

Sure, Jeff. This is Henry. I mean, what you're looking at on that CapEx is we're kind of ramping up. And you're right, over the last two years, we've been roughly around that $44 million a year or so. As we start ramping up and start getting our Gen-3 satellites closer to launch and then getting them up there, you're going to have timing as you get into that launch time period, final payments, et cetera. So it's more about getting closer to when we start getting our Gen-3 satellites up.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. I mean, I get you're getting close. I just I guess you've changed your expectations of Gen-3 in the last several quarters. Are you pulling forward the quantity, the timing within the year or are you seeing expense increases per unit? Maybe just a little more color there.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. Jeff, it's Brian. No, we're not seeing any increase in the costs for these satellites. What you're seeing is the timing of payments against the production contracts. And we have a well-defined, as I outlined in my comments, deployment schedule to begin deploying these satellites later this year. So no change at all to our plan.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. All right. And a few others. Then just on the interesting comments on the broad area scanning, maybe a little more emphasis there than I've heard in the past. Talk about maybe what's changed there and specific on broad area scan, maybe on a couple of the recent wins? There's others out there with broad area scan. Why did you win and why are you winning? Maybe increasingly, it sounds like.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

We're winning because of technology and AI capabilities. And as I've said in the past, we've been developing a multi-source software first platform now for almost 10 years. So this strategy is not new to BlackSky. What you're seeing happen now is this to come to fruition with some pretty significant technical capabilities that are now being adopted by the government. And so we think this is – there's a lot more of this to come, but it reflects our long-term software-first approach using AI and advanced scalable processing techniques to take raw data and turn it into actionable intelligence.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

If there's a primary reason you win those, is it the AI? Is it the higher resolution? Is the higher revisit rate? I'm not sure they all play a role. I'm curious if there's kind of one defining difference.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

In the case of the SMART program, it is 100% our AI and software capabilities. We are not providing software or I'm sorry, imagery as part of that contract. It's using imagery from lots of other providers. So it's primarily driven by two aspects. One is our AI processing techniques, and two is our AI infrastructure that is able to cost effectively, process scale and deliver results at a massive scale.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. Maybe last for me then. There's long been lots of discussion in particularly US government about the shift to commercial providers. Obviously, in most cases been a lot of talk, but it's been much, much slower, I think, than everybody, including maybe yourselves. You're expected. Is there any change in the momentum that you've seen there or are we kind of still on the trajectory, maybe we were on the last two quarters of gradual improvement as opposed to I don't know if it's exponential, what may be a steeper curve?

Brian E. O'Toole
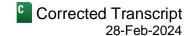*Chief Executive Officer & Director, Blacksky Technology, Inc.*

A

I think you're seeing us continue to grow our footprint as we outlined in our remarks. Keep in mind, organizations like the Space Force are still in early days and they are expected to come out with their – publish their commercial strategy here shortly. So we're looking toward all that in the long term. But as you know, we've been heavily focused on the international markets as we're seeing significant demand there. And the demand, the trends transitioning that demand into revenue and bookings, as evidenced by what we did in Indonesia and the other large contracts we won this year.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Yeah, got it. Got it. Congrats.

Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from the line of Chris Quilty with Quilty Space. Please proceed with your question.

Chris Quilty
Analyst, Quilty Space

Q

Thank you. Just a quick couple of housecleaning items. One with the Indonesia contract, can you remind us of how you book backlog? Is that the entire contract or a portion of it?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

That's the entire contract.

Chris Quilty
Analyst, Quilty Space

Q

Got it. And...

Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

A

That's what we've recognized.

Chris Quilty
Analyst, Quilty Space

Q

Right. And Henry, it sounds like I mean, you had $7 million that you've booked early on that contract that wasn't expected. If it had landed in 2024, you've got 25% growth rate. What was it about it that caused that and I don't get too much into accounting, though. What caused that, that chunk of revenue to get booked? What activity? And can you give us a sense of what the mix might be between the imagery and ground? Because there's obviously have different margin potential.

Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

A

Chris, yeah, when you take a look at the Indonesian contract, it really is based on the final terms and conditions and the progress we had already made into kind of getting to that point, and we were able to recognize – we had to recognize the progress to-date on work we've been doing that we're able to transfer over to that contract. And margins are similar across the contract because it's one of these things where we look at the total value-add to the customer.

Chris Quilty
Analyst, Quilty Space

Q

Great. And you mentioned that Indonesia is looking to kind of build their own organic capability, or at least that's what I implied from the language. Does that mean that possibility of doing a constellation as a service or satellite

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as a service? And if so, would that qualify as vendor financing? You've talked – you've mentioned vendor financing...

[indiscernible] (00:51:05)

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, I think it's a good question, Chris. I think, yes, what we're seeing is the demand in the market to accelerate the build out of sovereign capability. What we have offered here is a solution model that enables them to leverage our current and future [indiscernible] (00:51:33) subscription services off of our constellation and integrate Gen-3 space ground and software technologies into their long term space platforms. So we see this as an exciting development and we're seeing really the interest in this type of model accelerate around the world.

Chris Quilty
Analyst, Quilty Space

Q

Got you. And just a clarification on EOCL, should we expect that to be sort of flattish with what was done in 2023 or is it contingent on what the renewal looks like? Because it sounds it's mostly...

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yes.

Chris Quilty
Analyst, Quilty Space

Q

Any uptick is tied to Gen-3 coming online?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Well, I think as I said, we're expecting renewal in the second quarter on the products, on the services we're providing today. And then we do expect a further expansion as Gen-3 comes online.

Chris Quilty
Analyst, Quilty Space

Q

Great. And Henry, can you remind us what – I mean as you take in multi and imagery and other EO data sources from other partners into the platform, how is that accounted for from a revenue and margin impact? And can you give us a sense of are you seeing growth in that sort of multi and capability either at or faster or slower than the core imagery?

Henry E. Dubois
Chief Financial Officer, Blacksky Technology, Inc.

A

Well, Chris as Brian said, our capabilities allow us to take multi-source and we do get that from certain customers that's usually delivered to us by the customer. So our margins on our AI deliveries, our imagery and analytics are very similar to the imageries. So I mean, incremental contribution margins are in the 90-plus percent.

Chris Quilty
Analyst, Quilty Space

Q

Good. And also, can you give us a sense of, I think you said the customer base increased by over 50% last year. Is that the number of customers that you had or revenue contribution [ph] to (00:53:51) new customers?

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

That's a number of new customer contracts and customers.

Chris Quilty
Analyst, Quilty Space

Q

All right. Very good. That answers my questions.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. Chris. That's an important – just to...

Chris Quilty
Analyst, Quilty Space

Q

Yeah.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

...put stop that, right. What you're seeing in these announcements of these larger deals is the building of a long term anchor customer base. These new customers we're winning are in their initial phases, and we expect to transition into these long term multi-year subscription agreements over time. So that's a another strong development coming out of 2023 as we expected.

Chris Quilty
Analyst, Quilty Space

Q

Great. Congrats on the quarter and the win.

Brian E. O'Toole
Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Thanks, Chris.

Operator: Thank you. At this time, there are no further questions. With that, this concludes BlackSky's Fourth Quarter 2023 Earnings Conference Call. Thank you for joining the call today.