

**BigBear.ai First Quarter 2022 Earnings
Call Transcript
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Presenters

Dr. Reggie Brothers, CEO

Josh Kinley, CFO

Brian Frutchey, Chief Technology Officer

Sam Gordy, Chief Operating Officer and President of Federal

Jeff Dyer, President of Commercial

Q&A Participants

Param Singh – Oppenheimer & Co. Inc.

Mike Latimore – Northland Capital Markets

Operator

Thank you for joining the BigBear.ai First Quarter 2022 Conference Call. This call is being recorded. And at this time, all participants are in a listen-only mode and a question-and-answer session will follow the presentation. If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad.

I would now like to turn the call over to Josh Kinley of BigBear.ai. Please go ahead, Mr. Kinley.

Josh Kinley

Good afternoon, everyone, and welcome to BigBear.ai's 2022 First Quarter Earnings Conference Call. I'm Josh Kinley, Chief Financial Officer, and I'm here with our CEO, Dr. Reggie Brothers, and other members of the BigBear.ai leadership team who will participate in the Q&A session afterwards.

During the call today, we may make certain forward-looking statements. Listeners are cautioned not to put undue reliance on the forward-looking statements, and BigBear.ai specifically disclaims any obligation to update the forward-looking statements that may be discussed during the call. Many factors could cause actual events to differ materially from the forward-looking statements made on the call. These statements are based on current expectations and assumptions, and as such – I'm sorry – as a result, are subject to risks and uncertainties. For more information about these risks and uncertainties, please refer to the forward-looking statements section of the earnings press release issued today and our SEC filings.

We will also discuss some non-GAAP financial measures during the call today. These non-GAAP measures should not be considered a replacement for GAAP measures--and should be read

together with the GAAP results. You can find the GAAP to non-GAAP reconciliations within our earnings release.

With that said, I will turn the call over to Dr. Reggie Brothers.

Reggie Brothers

Thank you, Josh. And thank you all for joining our first quarter 2022 earnings call.

As I described in our last call, our mission at BigBear.ai is to guide our customers to realize their best possible future by delivering transformative technologies and expert, actionable advice. Our AI-powered analytics software and cyber engineering solutions are cornerstones within the defense and intelligence agencies of our federal government, and we are now bringing these advanced capabilities to the commercial market.

During the first quarter of 2022, BigBear.ai took several important steps on our journey from a steady and profitable services-first company to a high growth, high margin technology-first company. We made good progress in our land-and-expand strategy in the federal government, federal market, while establishing a strong foothold in the commercial side of our business through a strategic, accretive acquisition. We also continued to position the company for rapid scale by adding outstanding talent to the team, and by gaining operational efficiencies through automation and reorganization. With these developments, we are on track to achieve expected revenue for 2022 in the range of \$175 million to \$205 million, and to end the year with positive Adjusted EBITDA, as stated during our last call.

I'd like to share some details on our progress.

On the federal side, we were pleased to see the appropriations bill signed into law on March 15. For those of you unfamiliar with the Federal contracting process, it takes some time for budget authority to flow down to individual agencies and then to distinct projects, so this event happened too late in the quarter to positively affect Q1 revenue. However, we anticipate the new bill – coupled with the conclusion of the Continuing Resolution – will generate momentum for BigBear.ai throughout the rest of the year and into 2023. We added 11 new contracts in the quarter and have added several significant new opportunities to the pipeline.

The increased focus on artificial intelligence and machine learning at the federal level was already underway, and the current geopolitical situation has heightened the need to enhance their intelligence and cyber capabilities through advanced AI tools. Notably, the 2022 defense budget includes \$200 million specifically earmarked for the adoption of AI, and the 2023 budget is projected to be considerably higher. The March 2022 GAO report on AI in the DOD noted that the Department has made organizational changes and is investing billions of dollars to incorporate AI technology into its operations.

For example:

The Joint Artificial Intelligence Center, the JAIC, which was established in 2018 to accelerate the Department's adoption of AI, saw its budget increased from \$89 million in fiscal year 2019 to \$278.2 million for fiscal year 2021.

DOD requested \$14.7 billion for science and technology programs for fiscal year 2022, including \$874 million for the development of AI, compared with \$841 million for fiscal year 2021. This reflects the rapidly growing importance of AI in DOD's operations. The report also noted that fiscal years 2021 and 2022 requests do not reflect the total of DOD's AI investments. The appointment of the Pentagon's new Chief Digital and Artificial Intelligence Officer further underscores the government's focus on ramping up their AI and machine learning capabilities.

We know from more than 20 years as a trusted advisor to the government that they will need an experienced partner like BigBear.ai to help them deploy these capabilities as quickly as possible. With strong relationships and an outstanding track record of success, we are in the right place at the right time with the right solutions to meet this need.

Now, I'd like to turn to our commercial business. You may recall the market penetration strategy we outlined last quarter included both organic and inorganic growth. In early 2022, we made progress on both fronts. First, our commercial revenue for the first quarter exceeded our commercial revenue for all of 2021. Second, we established a solid market presence across several key industries with the acquisition of ProModel Corporation, which we closed on April 7th.

ProModel adds industry-leading modeling applications to the BigBear.ai portfolio, extending our reach into the Fortune 500, and giving us a foothold in manufacturing, healthcare, shipbuilding, and other vertical markets where our logistics management capabilities are highly transferrable. This accretive acquisition significantly expands our customer base, adding hundreds of commercial customers in more than 30 countries worldwide, and providing a solid foundation to accelerate commercial market penetration.

We know from our history with ProModel Government Solutions that our products are complementary, and the synergies between our technology, expertise, and market focus enhance each company's ability to deliver scalable decision support solutions to our customers.

For example, ProModel customers in the shipbuilding industry, such as Ingalls Shipbuilding and Newport News, use the Shipyard AI tool to streamline production scheduling and capacity planning. With ProModel, processes that took weeks can now happen in days, and tasks that took days now take only hours to complete. These results are already impressive, but we can further increase our value and stickiness with these customers by adding the data curation and AI-powered analytics capabilities BigBear.ai has developed for the maritime industry. Using our rich data sources and pre-built analytics modules, Shipyard customers will be able to see and

mitigate the impact of global supply chain factors, such as the pricing and availability of iron and steel, allowing them to decrease production risk while achieving better business outcomes.

In the healthcare field, ProModel serves dozens of hospitals across the country, including Children's Hospital Colorado. ProModel's FutureFlow RX product provides a simulation platform for patient flow and hospital capacity, including scenario analysis for staffing, bed counts, arrival and discharge patterns, and case mix. The hospital reported significant ROI from their deployment, which allowed them to optimize staffing levels and operations over the past two years through COVID-19. And with BigBear.ai, Children's Hospital Colorado can benefit from augmented data, such as national and regional COVID infection rates and real-time emergency calls and ambulance traffic, to ensure that beds and medical professionals are available to provide care for children who need the specific specialization and expertise of the Children's Hospital. They are excited about working with us to incorporate external data and predictive insights to optimize their specific beds for, in their words, "children who only have a chance if they are at one of the Children's specialty hospitals."

These are just a few of the many ways in which BigBear.ai's data enrichment and AI/ML capabilities will enhance ProModel solutions to help our customers reach new levels of predictability, efficiency, and profitability.

As I mentioned in our last earnings call, channel partnerships will be important to our growth strategy. The addition of ProModel also brings very strong co-marketing and distribution partnerships with industry leaders like Autodesk and Datech Solutions, which is a global reseller of Autodesk products. ProModel AutoCAD Edition works seamlessly with the Autodesk Product Design and Manufacturing Collection, which includes AutoCAD, Inventor, and Factory Design Utilities. According to analyst firm HG Insights, AutoCAD alone is used by more than 500,000 companies worldwide, so our ability to leverage these strategic channels will accelerate the adoption of both ProModel and BigBear.ai solutions on a global scale.

To support our federal and commercial growth, we continue to bolster the BigBear.ai leadership team with top talent. Recently we announced the appointment of Carolyn Blankenship as our General Counsel. Carolyn brings deep experience with artificial intelligence and data ethics throughout her 25-year legal career, most recently as General Counsel for the Innovation and Product group at Thomson Reuters. Her unique expertise in artificial intelligence, intellectual property, and business strategy will be critically important as we expand our portfolio and global reach.

Key hires were also made in product, marketing, sales, and sales operations, giving us the commercial experience we need to rapidly bring new products to market, fill the sales pipeline, and convert opportunities into loyal customers.

On the federal side of our business, we appointed Tony Barrett as our new President of Cyber and Engineering. Tony will lead our integrated defense solutions, security efforts, and the

creation of new strategies that allow us to evolve services customers into software customers.

We continue to invest in research and development to drive innovation and new products for our federal and commercial customers. With an eye toward more strategic acquisitions, our product team has been reorganized to ensure rapid integration and enhancement of acquired technology, while concurrently packaging our unique AI capabilities for the commercial SaaS market. We anticipate increasing our product, sales, and marketing investments in future periods to help us achieve our commercial goals and drive sustainable growth.

In summary, we made great progress in the first quarter of 2022 on our growth strategy, despite the ongoing impact of government contracting delays. With the Continuing Resolution lifted and the new appropriations bill signed, we are in an excellent position to build on our robust backlog of federal business while we expand into the commercial market. The addition of ProModel Corporation gives us a solid customer base and strong channel partnerships from which we will accelerate our commercial market penetration. And we have experienced executives and technical talent in place to lead our strategy, operations, and innovation programs to success.

Now, I will turn it over to Josh go over the Q1 financials in detail.

Josh Kinley

Thanks Reggie. In the first quarter, we continued to execute on our growth strategy and are in a strong financial position to capture opportunities that will ramp up throughout the year.

Revenue for the quarter was \$36.4 million, compared to \$35.6 million in the first quarter of 2021. This revenue was in-line with our projections due to the Federal Government operating under a continuing resolution for almost the entire quarter and does not change our year-end projections.

About \$19.1 million of our revenue was from our Analytics segment, compared to \$17 million in the prior year period. The \$2.1 million increase is largely attributable to our growing Commercial Analytics business that, as Reggie mentioned, saw more revenue in Q1 of 2022 than the entirety of 2021.

Approximately \$17.3 million of our revenue came from our Cyber and Engineering (or C&E) business, compared to \$18.6 million in the prior year period. The minor drop in revenue reflects the impact of the Continuing Resolution on certain programs that were unable to execute funding while the Government was operating under a temporary budget. We still expect all of the projected revenue to come in during 2022, and it does not change our year-end projections.

Overall, we were pleased with the quarterly revenue, given we were operating under the Continuing Resolution. This is actually a direct benefit of our large, contracted backlog that allowed us to continue delivering our products and services while the Government was

finalizing the 2022 budget. Now that the appropriations bill has been signed into law, we expect contracting activity to pick up at the end of the second quarter, as funds flow down to individual government agencies, thus allowing them to award new contracts and allocate spending to individual programs and projects. As Reggie mentioned previously, the Government has specifically earmarked spending for the purposes of AI and ML research and thought leadership, and we expect to benefit from the increased focus on the areas that represent BigBear.ai's core competencies.

On the topic of backlog, we ended the quarter at \$459 million, a small, or roughly 1%, decrease from the end of 2021. Given the Federal Government's inability to award new contracts during the period, we were very happy to report strong revenue for the quarter without seeing a meaningful change to overall backlog. A considerable portion of this can be attributed to new commercial analytics orders booked in the period. We expect to see backlog continue to grow in future periods with federal contract awards on the horizon.

For the first quarter, our gross margin was 27% on a GAAP basis. Our segment adjusted gross margin in Analytics was 47%, a full 2 percentage points above where we ended in 2021, and this is a direct impact of increasing sales to commercial customers in the quarter.

Our segment adjusted gross margin in Cyber and Engineering was 22% for the quarter, roughly in line with prior periods.

On a consolidated basis, the Company's total adjusted gross margin was 35%, which is once again an improvement on where we ended the prior fiscal year. As we continue to see growth in our Analytics business, especially with commercial customers, we'll see continued expansion of the margins, which is consistent with the strategy we've communicated in the past.

While we're discussing revenue and gross margin, Reggie talked about how we closed the acquisition of ProModel Corporation early in the 2nd quarter. We will start to see this revenue in our Q2 report, and this will also contribute to our gross margin expansion.

Operating expenses were \$26.2 million in the first quarter, including interest expense of about \$3.6 million and SG&A expenses of approximately \$22.0 million. The growth over the prior year period is primarily driven by equity-based compensation costs, as well as increased payroll, IT, recruiting expenses and public company requirements. We're closely monitoring operating expenses and are confident we can continue investing in our long-term growth while remaining positive on an adjusted EBITDA basis.

For the first quarter, we had a net loss of \$18.8 million, primarily driven by non-cash, equity-based compensation, in addition to non-recurring integration costs, and investments in our commercial software products.

Adjusted EBITDA was negative \$2.9 million for the first quarter. This was in line with our expectations for Q1, as a considerable amount of our revenue growth was pending contract awards and the passage of the federal budget.

Turning now to our balance sheet, we had cash and cash equivalents of approximately \$60 million at the end of the quarter, \$9 million less than our position at year-end. We expect cash usage to peak in Q2, and then improve thereafter. We maintain a strong cash position and have an additional \$50 million available through our credit facility.

Also on the balance sheet, we had roughly \$101 million of restricted cash at year-end that was used in Q1 to re-purchase shares held under Forward Share Purchase Agreements with certain investors. I can confirm all these agreements were wrapped up in Q1 through share repurchases, and this restricted cash is no longer on our balance sheet.

Now turning to outlook. We expect to see increased government activity in the coming quarters as the spending appropriations make their way down to various agencies and projects, allowing them to fund existing programs and award new contracts. We've already seen progress on several programs and expect this to continue through Q2 and Q3.

As Reggie mentioned, the current geopolitical environment is driving a renewed focus on AI/ML tools and capabilities within the government, generating relevant new opportunities for the company. In light of these factors, we expect budget requests to be even higher in 2023 and expect to continue to build our growth pipeline with new and existing Government customers.

We remain on track to reach our previously announced revenue range between \$175 million and \$205 million for the full year 2022 and are confident we will see the gross margin expansion from increased sales of our Analytics products and solutions. We also expect the company to be EBITDA positive on an adjusted basis for the year.

Now to quickly discuss our recent M&A activity, the acquisition of ProModel Corporation will add to our commercial analytics revenue for 2022 and further support gross margin on the Analytics side of the business. More importantly, ProModel brings an entirely new customer set and market opportunity with regard to medical, manufacturing, and overall supply chain management. The early integration of our analytics into ProModel's software strengthens our conviction around our ability to attack this market that has been a focus of economic discussions for the last several years. Demand forecasting, cost controls, operational efficiency, and margin expansion are critically important for participants throughout the global supply chain, and these are precisely what BigBear will provide to customers as they work through the challenges they've experienced over the last several years. And to reiterate our prior projection, we expect our commercial sales to approach 10% of our total revenue for the year, a tremendous jump from the prior year when it was just 1% of total revenues.

In summary, BigBear is executing on all aspects of our 2022 growth strategy.

The recent passage of the 2022 federal budget helps de-risk our full-year revenue and gives us confidence in prior projections. We are on schedule for revenue growth of nearly 30% for the year. We have already seen the growth margin expansion we projected – a direct result of increased Analytics sales. We expect to be EBITDA-positive for the year. And our pipeline of new opportunities continues to grow in both the federal and commercial markets, further cementing our long-term growth strategy.

Now I will turn it over to the operator for our Q&A, where Reggie and I will be joined by Brian Frutche, Chief Technology Officer; Sam Gordy, Chief Operating Officer and President of Federal; and Jeff Dyer, President of Commercial.

Operator

Thank you. Ladies and gentlemen, at this time we will be conducting a question-and-answer session. If you would like to ask your question, please press star one on your telephone keypad and a confirmation tone will indicate your line is in the queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Our first question is from Param Singh with Oppenheimer, please proceed.

Param Singh, Oppenheimer

Hi, thank you. This is Param Singh on for Ittai Kidron. So just a few questions here. You know, firstly, you talked about, you know, 11 contract wins on the federal side. Can you help me reconcile that with the backlog decline you've been seeing? Why would that happen if you've got some wins? Why is it not recognized?

Josh Kinley

I think I can address. So, yeah, thank you for the question. So, the 11 contract wins were initial funding that came through for some new projects in the quarter. So, on a net-net basis it did add some initial funding, but given that those, the government customers, were still operating under a Continuing Resolution, those 11 contracts, there weren't any large awards in there. Those are essentially pending awards in Q2 and Q3, in all likelihood.

Param Singh

Thank you. And then, you know, on the commercial side you mentioned you know your revenue in the quarter was higher than the entire past year, so is it in the one to two million range, is it about two million? Any clarity there would be really helpful.

Josh Kinley

Yeah, I think the best way to think about that is, you kind of see our year end projections and we're projecting 10% of the revenue coming from commercial sources. We're not at this time reporting specifically on commercial revenues for the quarter, but you can definitely think of as we build up to that mark, which you know, year-end projections of, you know, let's say roughly

200 million, that that leaves you with \$20 million of projected revenue. We're going to see that ramping up throughout the year so, you know, I think it's fair to say that somewhere in the range of 15 to 20% might have come in in Q1 and that's going to ramp up throughout the year to that overall 10% of our projected commercial revenue. Hopefully that helps out.

Param Singh

No, yeah, definitely. Thank you very much for that. Maybe talking about ProModel then. You know how much of commercial revenue does ProModel add? What're the margins like? And do you expect to keep ProModel as a separate product or integrated into your three, you know, Observe, Orient and Dominate products.

Josh Kinley

So, I will discuss the revenue very quickly and then I'll ask Brian to weigh in on the technical integration. So, we're not disclosing their revenue to date. We expect to be able to considerably capitalize on the opportunities they have and the existing customer sets. At this point, it's not a substantial amount or a substantial add to our projected commercial revenue. The most important thing is the pipeline opportunities for us moving forward, on the technical integration side.

Brian Frutchey

Yes, again, this is Brian Frutchey, CTO. Appreciate the question. On the technical integration side, the discrete event simulation capabilities that ProModel offers will continue to exist as standalone tools and capabilities, but we are going to repackage that capability, again the discrete event simulation that they provide, and merge that with our Orient and Dominate products. So that integration will be happening. It likely won't be completed until the first parts of '23, but that is in the cards for us.

Param Singh

Thank you. And then maybe one last one. How many commercial sales heads are you getting from this acquisition, and do you expect to add more commercial salespeople through the year, and you know what number could we expect given your projected commercial?

Jeff Dyer

Sure. Thanks for the question. This is Jeff Dyer. We inherited six sellers, both direct and indirect from ProModel, and we do expect that we will add on a ramped basis throughout the year as we continue to grow that pipeline, and further to Brian's point, integrate our product offerings to leverage the best of both companies' technologies together.

Param Singh

Thank you so much, I'll get back in line.

Operator

Our next question is from Mike Latimore with Northland Capital Markets, please proceed.

Mike Latimore, Northland Capital Markets

Thanks, and congratulations on the results here. In terms of, just I guess, just following up with the last question, you know, if you were to include the six adds here, as well as the organic adds planned, how many new salespeople or how fast will you grow the sales and marketing group this year relative to 2021 in total?

Jeff Dyer

Hey Mike, thanks for the question. Yeah, hey Mike this is Jeff. Thanks for the question. We anticipated this in our guidance for the year and so, while it wasn't done, we knew that we would be hopefully executing this acquisition. So, it was contemplated in our original plan.

A lot of emphasis right now on accelerating demand plan, as I have a plan to add sales headcount in each quarter as we ramp through the year and into 2023. I need to test that over the next quarter with obviously, the demand cycle and lead generation as it relates to the conversion ratios that we see now. And what we anticipate we can do moving forward, but it certainly strengthens the ability for me to fund the sales offensive the right way. But we need to still ingest and learn a few things as we get closer to our new friends and family members that we inherited with the ProModel acquisition.

Mike Latimore

Yeah, OK, great. And then just thinking about the revenue flow throughout the year, obviously, the third quarter is the fiscal year end for the Fed, should we think about third quarter of being the peak revenue quarter for the year? Or does it grow? You know, do we have just a little sequential growth each quarter to hit your numbers?

Josh Kinley

Yeah, thanks for the question Mike. And good to hear from you, this is Josh.

That's a good way to think about it. We actually expect things to continue ramping up even through Q4. We do have some insight into some later calendar year awards that are going to be out up there. So, I wouldn't necessarily think of Q3 as the peak. I think it'll continue to climb even through Q4. Part of that is because some of the government or federal awards that we expect in Q4 but also between the ramp up of the commercial revenue, which isn't necessarily bound by the government budgeting and contracting cycle. So, I think of it as a steady ramp as we see the commercial revenue making up a bigger and bigger portion of our overall revenue, I think that that's something we'll continue to see in future years as well, that steady ramp up through the year and less dependence on the federal contracting cycle, if you will.

Mike Latimore

And then just last on commercial. Can you talk a little bit about just the, you know, maybe the main customers that are driving this 20 million or the use cases that are kind of driving the 20

million this year? And also, do you have sort of a win rate number you know like, what percentage of the time are you kind of winning these deals?

Jeff Dyer

Sure, thanks for the question. Again, this is Jeff Dyer. On the last part of your question, with respect to win rate, I need to, you know, learn a bit more on that. Not just to best understand the win rate against the legacy pattern that we inherited with the acquisition, but to really understand that with the sales offensive that we'll put in place moving forward.

But Reggie gave an example of the story in healthcare, whereby the Children's Hospital of Colorado, which is one of many of the children's hospitals that use ProModel today for optimizing hospital efficiency and their direct request to incorporate AI and ML models to best understand how to care for the children that can only be impacted at a children's hospital - different than a different medical facility. We think that there's huge opportunity. These are seven and eight figure annualized ROIs type of impact studies for the hospitals that we've been able to talk to and learn from. These are large, six figure sales. Anytime you sell to a hospital as an example, six figure type of offerings, even though there's value, there's a cycle that takes time.

We need to best understand how we can leverage partners to accelerate certain buy cycles, but also get our own motions in place to accelerate what we think is a really exciting growth opportunity for us in the back half of the year and certainly in the next year. There is an incumbent pipeline around manufacturers, shipbuilders, hospitals. We're excited to help execute at a higher rate of conversion in the second half of the year, but certainly need to test some of our theories and establish those patterns for ourselves as we head into 2023.

Mike Latimore

I guess just last on the federal side. I know you've been doing some investments in anticipation of winning contract awards. I guess, can you just give an update on that dynamic and are you getting more encouraged that, you know, these kind of initial investments are going to lead to contracts this year and wins?

Sam Gordy

Yeah, absolutely. And this is Sam Gordy, over on the federal side. So, the contracts you're talking about are OTAs, right? Other Transactional Authority contracts within the US government which require that that you invest on a prototype side of the house, you know, and but the advantage is it allows the government to very quickly move from prototype to production without having to go through a further round of competition. And so it's a great vehicle for the government. It's a great vehicle for us. We have two major efforts underway today. One is AIMMS, the ATEC modernization management system and then the other is GFIM OE with the Army G3 and PEO. Both of those are in the prototyping stage right now. From our perspective we're extremely happy with the with the progress. We're through phase one and in both cases moving into phase two.

You're probably aware we've talked about on the GFIM OE side that we're now teaming with Palantir in putting together a joint project and that's receiving a lot of attention and we're certainly looking forward to the progress and encouraged with what we're doing there.

Mike Latimore

Thanks, good luck this year.

Operator

Thank you. This concludes the question-and-answer session. I would like to turn the call back to Dr. Reggie Brothers for any closing remarks.

Reggie Brothers

Thank you for joining us in this first quarter 2022 earnings call. We look forward to talking with you the next time to update you on our progress. Thank you very much.

Operator

This concludes today's conference. Thank you very much for your participation, you may now disconnect.