

07-Mar-2023

Blacksky Technology, Inc. (BKSY)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Aly Bonilla

Vice President-Investor Relations, Blacksky Technology, Inc.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

OTHER PARTICIPANTS

Josh Sullivan

Analyst, The Benchmark Co. LLC

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Austin Moeller

Analyst, Canaccord Genuity LLC

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Caleb Henry

Analyst, Quilty Analytics LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to BlackSky Technology's Fourth Quarter 2022 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 this conference call is being recorded.

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

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 accomplishments over the last year, and give a strategic update on the business. Henry will then review the company's fourth quarter, and full year financial results and provide an outlook for 2023. 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 21. 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 today's conference call includes forward-looking statements, including financial guidance for 2023, 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 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 under applicable securities laws.

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 adjusted selling general and administrative expenses. A reconciliation of these non-GAAP financial measures to their most comparable GAAP measures are included in today's earnings press release and 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. Let's begin with slide 4. 2022 was a foundational year that established BlackSky as a premier provider of real-time global intelligence. I'm pleased with the progress we've made across all aspects of our business, and I'm particularly proud that we are now a preferred and trusted long-term partner of some of the most important customers in the world.

BlackSky's platform is a first of its kind capability in the market, and is providing these customers with new and critical real-time intelligence that they never had before. Our world needs real-time intelligence now more than ever, and we continue to see strong demand for our high frequency imagery, monitoring and advanced analytics.

Now, let me highlight some of the accomplishments we've achieved in 2022, as well as some recent developments that we've announced today that will contribute to the strong momentum we have going into 2023. First, BlackSky has changed how space is used to deliver actionable intelligence. Last year, we achieved a baseline satellite constellation that now provides reliable hourly monitoring of the most important strategic location, economic assets and events in the world.

Through our Spectra AI software, we have transformed the customer experience by providing on-demand access to new users, and through the delivery of real-time geospatial information at unprecedented speeds, frequencies and economics. We are enabling users to gain new insights and see changes as they are happening on the ground, and access that information through mobile devices or directly in the software applications they use every day, such as Palantir or Esri.

Second, BlackSky's high frequency imagery and analytic services were validated, and are now relied upon by major US and international government agencies for their mission-critical operations. Due to the quality, speed and reliability of our services, these customers have made long-term commitments through multi-year contracts to secure capacity from our current and future constellations, and are growing their use of our AI enabled analytics.

Third, as a result, we booked multi-year contracts valued up to \$1.3 billion from these key customers, resulting in over \$250 million in recurring revenue backlog. This includes a new \$150 million plus contract that we announced today 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 analytics services for space-based tactical operations. This contract win was competitively bid and provides further validation of our vision, the differentiation that we have established in the market, the confidence these customers have in our long-term product strategy, and the alignment of our capabilities to meet their long-term needs. I'll share more details on this important contract win in a few minutes.

Fourth, these contract wins enable us to hit new revenue records both quarterly and annually, with full year revenue reaching over \$65 million, a 92% increase over 2021. These contracts also provide strong revenue visibility for 2023 and beyond, with over 65% of our forecasted 2023 revenues coming from contracted backlog.

Fifth, these revenues were predominantly from our high margin imagery, software and analytics services, which enabled us to demonstrate the operating [indiscernible] (00:07:15) business model. In 2022, we achieved a 92% incremental contribution margin from these services, which we believe puts us on a path to achieving SaaS type margins through a recurring revenue model and a high margin EBITDA business.

Sixth, we expanded our sales force and our position to capitalize on growing global demand for real time intelligence solutions, particularly in the government, defense and intelligence sector. This strategy is paying off as governments around the world are increasing their spend for space-based intelligence, and are now turning to BlackSky to meet their long-term mission needs. Further, as this market is traditionally non-cyclical, it has not been subject to the risks of other markets during times of economic uncertainty, providing a good visibility into future opportunities and a strong and growing sales pipeline.

Finally, today, we announced that we secured additional capital through a private placement that will strengthen our balance sheet. All of these achievements have set the stage for our next phase of growth and, most importantly, have put us on a path to achieve profitable growth in 2023.

Moving on to slide 5. As I mentioned earlier, I'm pleased that demand for BlackSky's products and services drove record revenue for the company. Revenues in 2022 grew to \$65.4 million, in line with the upper end of guidance we previously communicated, representing an increase of 92% over 2021 revenues. We experienced strong customer demand from new and existing US and international governments, and believe this favorable trend will continue. We saw significant revenue growth in our imagery and software analytical services, which is our core business serving customers, and is the highest margin element of our business. Henry will provide more details on the quarter and full year financial results later.

Turning to slide 6, now I would like to provide more detail on today's announcement of our new \$150 million-plus multi-year contract award with a major international defense customer. I'm pleased to announce that BlackSky was selected from a competitive bidding process to provide next generation, space-based tactical GEOINT services under a multi-year services agreement. The services will be providing under the contract are for next-generation high frequency monitoring and real-time delivery of AI-enabled intelligence. This multi-year subscription contract is valued at over \$150 million and includes significant options, whereby the scope of services may be extended or expanded over time. This project kicks off with an initial two-year development phase ahead of the start of the subscription service.

We expect to recognize a few million dollars of revenue this year as we ramp up the initial phase of the contract in the second quarter. This contract further validates our customers are embracing our vision and securing advanced access to our differentiated offering in the market for advanced dynamic monitoring and analytics services. We will be able to sell this type of service to any customer, whether government or commercial. We're

proud to be partnered with this major international government customer, and provide them with a tactical advantage to support their country's most critical intelligence needs.

Moving on to our platform as shown on slide 7. BlackSky's products and services give customers unique information and insights about our changing world. We've successfully scaled our operations and are now delivering thousands of high-resolution images reliable, each day with AI driven analytics to customers around the world. Our software-first strategy is now paying dividends is on demand access to our tasking, monitoring, and AI enabled analytics is accelerating adoption and go-to-market initiatives.

For example, our software-based approach that combines high frequency imaging and real-time analytics provides us with a competitive advantage, and was the key factor in our capture of the economic indicator monitoring contract with NGA. This win alone drove over \$14 million in bookings in 2022. We're excited this customer increased the value of the contract ceiling from \$30 million to \$60 million in less than 12 months.

Through our platform APIs, we are able to rapidly integrate with the machine to machine interfaces of third-party platform such as Palantir and Esri. This provides users with immediate access to BlackSky's on-demand services. Think of this as having an easy button right in these applications that enable a user to directly task BlackSky satellites, and receive imagery and analytics back in their software with a 90 minutes or less from collection. Our real time software platform, Spectra AI is how we are changing the customer experience.

Turning to slide 8, we also made significant advancements in our imaging constellation. In 2022, we achieved a baseline constellation that enables us to provide reliable and dynamic hourly monitoring of the most important and strategic locations, economic assets and events in the world. To put this in perspective, for most of you on this call, we now have a satellite passing over your location every hour and, through our Spectra AI software, from any mobile device or browser, you can test the constellation and imagery and analytics on demand. Our constellation enables us to collect high resolution imagery on most locations up to 15 times a day from dawn to dusk.

We augmented this unique modern capability last summer with the ability to image at night, delivering new insights to our customers. We also continued to integrate SAR monitoring and analytics from third parties in our platform to further enhance the services we are offering to customers. Being able to deliver 24x7 all-weather monitoring is a key strategic advantage and an important driver for the increased demand we're seeing globally.

Within the next month, we plan to launch two Gen-2 satellites to primarily replace the two initial satellites that were deployed in 2018 and are approaching their end of life. The satellites that are being replaced have been in operation for more than four years, well beyond their expected mission life. As the majority of our current constellation was launched within the past 18 months, we believe we have sufficient capacity on orbit today to meet existing customer requirements, and support our growth for the next couple of years.

Our vertically integrated approach to space has enabled us to develop a satellite production line where we are able to incorporate new technologies in our satellites over time to provide continuous improvement of our on-orbit capabilities. We continue to remain on track with the production of our new Gen-3 satellites, which will include several new capabilities, including improved resolution performance and shortwave infrared imaging. We're excited about the new capabilities that our Gen-3 satellites will bring to our customers. We expect to begin launching new satellites in 2024, and we'll provide more updates as they become available.

Turning to slide 9, from a customer win perspective, 2022 was a big year for BlackSky as we were relied upon more and more by some of the most important and demanding customers around the world to support their mission-critical operations. We've expanded our footprint with both US and international defense and intelligence

agencies, winning many multi-year agreements, as well as expanding existing ones with some of our key wins shown here. These long-term contracts totaling up to \$1.3 billion provide us with great revenue visibility into 2023 and beyond, and has built a strong backlog that we will recognize in future years.

Moving on to slide 10. Our focus on the government sector and, particularly, our investments in the growth of our international sales force has us well-positioned to capitalize on a growing defense and intelligence segment, which is traditionally non-cyclical and typically does not have the same level of exposure as certain commercial markets during times of economic downturn. Further, as a result of recent geopolitical events in the global environment, many governments around the world are significantly increasing their defense spend as a function of their GDP, with increased focus on space capabilities. This should provide BlackSky with an expanding total addressable market and strong growth opportunities over the coming years.

We have a long history supporting various US government agencies like the NRO, NGA, NASA and others with advanced imagery and analytics to deliver mission critical intelligence, and assist with their decision making capabilities. Just a few months ago, Congress raised the 2023 spending budget for the US Space Force over \$26 billion, an increase of 35% over 2022 funding levels with a large part of this increase geared to help accelerate use of commercial space technology. We believe the intelligence, surveillance and reconnaissance or ISR market is undergoing a paradigm shift, whereby billions of dollars that were once spent on airborne systems are now moving to space-based technology that leverages small satellite constellations to support new and emerging missions.

As this shift in the market is in its early stages, we believe BlackSky is well positioned to capitalize on a growing number of new programs that we expect will require our unique capabilities as these new programs are established over the next few years.

Moving on to slide 11. Never before has the need for real-time geospatial intelligence been so critical to identifying and tracking key events taking place around the world. Whether we're assisting allied partners with high frequency imagery related to ongoing military conflicts, keeping a watchful eye in the sky on geopolitical events in remote locations, or monitoring supply chain activity at ports worldwide, BlackSky is there. With our unique dynamic monitoring and AI driven analytics, we're providing mission critical insights, helping governments and enterprises globally make better decisions.

We believe BlackSky is well positioned to capitalize on a growing market for real-time geospatial intelligence in needed now more than ever. In summary, we're excited about where we are, the demand we are seeing in the market, and the strong momentum we have in our business.

I'll now turn it over to Henry to go through the quarterly and full year financial results in more detail. Henry?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

Thank you, Brian, and good morning, everyone. I'm pleased that our fourth quarter financial results were strong, ending the year on a high note, as momentum for our imagery and analytics continued.

Now, let's discuss our fourth quarter results beginning with slide 13. We continued to see strong demand in Q4 for our imagery and analytics, which drove revenue to \$19.4 million, another quarterly record for the company. The 69% year-over-year improvement in Q4 was primarily driven by increased demand from new and existing US and international government customers. Imagery and analytics revenue grew to \$16.2 million, a 196% increase over the prior-year period, primarily driven by greater volumes of imagery delivered to new and existing customers.

Professional and engineering services revenue contributed \$3.3 million in the fourth quarter of 2022, consistent with the third quarter of 2022. Keep in mind, revenue from these types of projects can vary from quarter-to-quarter, depending on the project's estimated cost and percentage of completion. So, you'll likely see some variability over time. As an example, a few of our existing projects are in fact coming to an end, but the development work for the new International Ministry of Defense customer will be realized in the professional and engineering services line in advance of when the subscription contract begins.

I'd like to point out, as we stated in our press release, we reclassified professional service revenues and costs out of the imagery and analytics category, and combined it with our engineering services as the project types, durations and cost structures are more aligned with engineering services. This is only a change in the geography on the income statement, and changes neither the top line nor bottom line numbers. We have included a recasting of prior quarters in the appendix of our presentation, for ease of comparison.

Now, turning to slide 14, you can see that our adjusted EBITDA performance continued to improve sequentially each quarter throughout last year. For the fourth quarter of 2022, we reported an adjusted EBITDA loss of \$4.6 million, an improvement over the \$14.4 million loss in the prior period, and sequentially better than the \$6.6 million loss reported in Q3 last year. The improvements are primarily driven by greater volumes of our high margin imagery and analytics revenue and strong operating leverage, enabled primarily by fixed operating costs and prudent expense management. In fact, our SG&A costs, excluding stock-based compensation expense, were only up 2% year-over-year on revenue growth of 69%. This demonstrates our strong inherent operating leverage in our business model and our focus on effective cost management.

Now, let me to provide some details on our full year financial results, starting with slide 16. Following the strong revenue performance in Q4, we ended 2022 with revenue of \$65.4 million, up 92% over the prior year. This result is in line with the upper end of guidance we previously communicated, and completes another record year of revenues for the company. Our significant revenue growth can be attributable to the growing number of new customer wins in 2022, and the expanding share of wallet we're experiencing with our existing customers. For 2022, imagery and analytics revenue, which represents our core service offering, grew 209% over 2021, and we anticipate demand will continue to be strong in 2023.

Moving on to cost, our total cost of sales as a percent of revenue continued to improve. But importantly we saw a strong improvement in our imagery and analytics cost of sales on a non-GAAP basis. As shown in slide 17, full year 2022 imagery and analytics cost of sales was \$13.9 million compared to \$11.2 million in the prior year, excluding stock-based compensation and depreciation and amortization expenses in both years. This is a small increase of \$2.7 million year-over-year, primarily due to the fixed cost structure of our business with limited marginal cost for incremental revenue deliveries.

On the other hand, revenues increased significantly year-over-year by \$32 million. This small increase in cost of sales on a large increase in revenue translates into high incremental contribution margins of 92% for the year. This high incremental contribution margin validates the high margin nature of our imagery and analytics business and is a prime driver for how BlackSky will scale its business and achieve long-term profitability.

Our full-year 2022 adjusted EBITDA loss was \$29.5 million, compared to a loss of \$44.4 million in the prior year. This \$14.9 million year-over-year improvement was primarily driven by three factors. First, demand for our products and services was very strong as revenues in 2022 jumped up 92% over the prior year. Second, a large part of our revenue growth came from high margin imagery and analytics, which, as I mentioned, represented a 92% incremental contribution margin in 2022, helping to drive improvements to our bottom line. And third, we

drove strong leverage through prudent cost management with operating investments primarily made to expand our sales team, software and AI technology. We're very happy with the progress we've made in adjusted EBITDA and look forward to further improvements in 2023.

I want to briefly mention that our fourth quarter capital expenditures were \$9.7 million, bringing the total CapEx spend for 2022 to \$44.1 million. This amount is less than what we previously guided to due to costs we expected in Q4 for the launch of two Gen-2 satellites that were shifted into 2023. In addition, we incurred less spend on certain aspects of our Gen-3 satellite production and in other corporate areas as well.

Looking at our balance sheet, we ended 2022 with \$75 million of cash – restricted cash and short-term investments.

Turning to slide 18, we announced this morning a private placement financing, raising approximately \$29.5 million from a syndicate of new and existing institutional investors. See our press release for specific details. The purchase price of each common share is \$1.79, and each investor will receive an equivalent number of warrants with a strike price of \$2.20, which represents a 14% premium over our last closing price. These funds will be geared towards general corporate purposes and investments in our space and software platforms. These additional cash proceeds strengthen our balance sheet and liquidity position to meet our needs for the foreseeable future. In addition, we filed an at-the-market or ATM facility in December that will allow us to take advantage of opportunities in the capital markets, if and when we decide to do so.

Now, let's move on to our 2023 outlook as shown on slide 19. In addition to having 65% of our forecasted revenue currently in backlog, we anticipate strong global customer demand for our products and services to continue, fueling greater revenues and delivering additional operating leverage. As a result, we expect our full year revenue to be between \$90 million to \$96 million, which represents a 42% year-over-year growth at the midpoint of this range. With strong revenue growth, high incremental contribution margins and prudent cost management, we anticipate achieving positive adjusted EBITDA in Q4 of 2023. This will be a major accomplishment for our company and continues to demonstrate the scalability of our business model.

In addition, we expect capital expenditures for 2023 to be between \$40 million and \$45 million, roughly in line with our 2022 spend. In summary, we're pleased with our financial performance in both the fourth quarter and full year 2022. We're seeing increased interest for BlackSky's imagery and analytic solutions worldwide and look forward to continuing this strong momentum into 2023.

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. Now, I would like to spend a few minutes on one of our most important objectives for 2023, which is to achieve positive adjusted EBITDA in Q4 of this year. As a new space company, we recognize that it's important to achieve cash flow positive operations and profitable growth. We don't believe that growth at any cost is a viable strategy for sustainable long-term success in this industry.

As such, we have a focused plan to achieve certain financial and business objectives that put us on this path, which are shown on slide 20 and include the following. First, continuing to deliver strong revenue growth with a focus on recurring revenues from our high margin imagery and analytics services. Second, improving margin performance by capitalizing on the operating leverage of our space and software platforms and achieving SaaS like margins in operating performance. Third, a focus on prudent cost management. We are planning for only a

marginal increase in overhead expenses this year with an incremental growth targeted towards sales and marketing to drive further revenue growth. And finally, aggressive cash management by aligning the timing of CapEx investments with market-driven need for capacity and pursuing other initiatives to obtain cash flow favorable terms on recurring multi-year subscription contracts. We believe our accomplishments in 2022 have set the stage for us to achieve these business milestones, and put us on a path for long-term, sustainable, profitable growth.

In closing, I want to thank our employees for their hard work, dedication and tenacity that have gotten us here. We've established BlackSky as a premier provider of real-time geospatial intelligence, and a trusted partner to some of the most important customers in the world. Building on the successes of 2022, we have strong momentum across all aspects of our business, and look forward to executing another strong year in 2023.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Josh Sullivan with The Benchmark Company. Please proceed with your questions.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Hey, good morning.

Q

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

Good morning, Josh.

A

Josh Sullivan

Analyst, The Benchmark Co. LLC

As far as the Gen-3 satellite, how is the timeline for deployment evolved? Has it been more customer demand, technology or resource allocation driven?

Q

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

You mean, how is the timeline for deployment or development?

A

Josh Sullivan

Analyst, The Benchmark Co. LLC

Deployment. I mean, did you say 2024 for the launch?

Q

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

Yeah. And as I mentioned, we have sufficient capacity on orbit with our current constellation to support our growth for the next couple of years. Those Gen-3 satellites, we'll begin deploying them as replenishment – replacement satellites for the current constellation aligned – and aligning them with market demand. So, but in parallel, we're

A

seeing – we're building a strong backlog of interest in that capability in the out years through things like EOCL and our recently announced Ministry of Defense contract.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Yeah. And I guess on that point, the \$150 million win this morning, you talked about the long-term product strategy was attractive. Can you just outline some of those long-term capabilities that they were attracted to?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. Josh, the main thing is, we've built a differentiated capability in the market with high frequency monitoring with integrated AI and analytics. And our roadmap over time will continue to improve the frequency and the latency, and the breadth of AI enabled intelligence that we deliver. And this is what attracted the customer and ultimately led to us winning that contract.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

All right. And then just one last one. As far as the sales force expansion, you talked a bit about controlling cost and having an eye on profitability. Do you feel you have the scale on the sales force at this point?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, we made significant progress last year. We're continuing to invest in sales and marketing this year. We're also – some of the achievements in integrating with third-party platforms through our software APIs such as Esri and Palantir give us a salesforce multiplier. And as we just really realized some of those integrations mid to late last year, we'll start seeing traction – expect to start seeing traction on that this year.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Great. Thank you for the time.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Thanks, Josh.

Operator: Thank you. Our next question comes from the line of Jaeson Schmidt with Lake Street. Please proceed with your questions.

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Q

Hey, guys. Thanks for taking my questions. Just curious, I know you mentioned in your prepared remarks sort of the non-cyclical of this industry, but just given the macro, have you seen engagements with customers sort of get pushed to the right or have timelines remain relatively intact?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

The timelines we're seeing are remaining intact. In fact, as I mentioned in our remarks, the demand, particularly in the defense and intelligence sector, is growing very significantly. We're seeing a lot of these organizations committing more dollars sooner, particularly around space-based capabilities. And then, on the commercial side, we're also seeing some pretty significant interest, particularly in commodities and supply chain intelligence. So, we're not seeing a slowdown in demand.

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Q

Okay. And then just as a follow-up, how should we think about gross margin trending this year?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Henry, do you want to take that one?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Sure. Thanks, Brian. On gross margins, as you see, when we take a look at the slide we have that shows the incremental gross margin, as we've always talked when you kind of normalize for just kind of the period costs associated with delivering revenues, every incremental dollar yields a very high gross margin. So, when you take a look, we had about \$47 million or so of imagery and analytics revenue this past year against somewhere in the neighborhood of about \$13 million or so of actual operating costs in period for the year. So, you're generating that – kind of that 92% incremental gross margin. You had about a 71% in total gross margin for the imagery and analytics. But as you add more dollars, you're almost getting about kind of around that 90% in incremental. So, as we grow that business, that's what's going to help drive us towards the EBIDTA positive in the fourth quarter as we're forecasting.

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Q

Okay. That's helpful. Thanks a lot, guys.

Operator: Thank you. Our next question comes from the line of Scott Deuschle with Credit Suisse. Please proceed with your question.

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Good morning. Brian, you said that, I think, 65% of your 2023 revenue is from contracted backlog. Just wanted to check on the confidence interval in getting the other 35%, and the line of sight you have to that.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, we've got a – or as I mentioned, we're seeing really strong and growing demand worldwide. So, we've got the \$65 million contracted, and we've got very strong visibility in the 2023 revenue forecast. It includes a very strong pipeline of follow-on and new opportunities. Some of the – a good portion of the gap between the \$65

million and our forecast is also follow-on contracts from existing customers. So, we are very confident in our forecast this year.

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Great. And then you mentioned there's a development phase on the \$150 million contract you won. Can you just talk about what that entails and how long that development period will last before it moves into the subscription period?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, it will commence, as we said, in the second quarter. And there'll be over a period of a couple of years activities to develop and integrate certain capabilities with the customer. And so, that will continue. And then there will be a commencement of the subscription service that starts in a few years.

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Q

Are you basically building a bespoke constellation for them?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

No. This is 100% aligned with our commercial strategy. So, it's fully aligned with...

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Q

Why can't they just use the app or the SaaS model? Like, why does it take two year [indiscernible] (00:38:35)...

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Well, they're already...

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Q

With the SaaS model, [indiscernible] (00:38:37)?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. These customers already getting capacity from our existing constellation and the subscription increases significantly with our Gen-3 capability combined with the level of AI intelligence that we're going to be delivering under the contract as we're expanding the AI analytics of our platform over the coming years. So, this is a long-term strategy for this customer that's aligned with our commercial platform, and the timing of our investments in both space and software.

Scott Deuschle

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Great. And then, last question for Henry. Maybe just kind of wanted to get your sense for how you approach guidance in general now that you've been public for, I guess, over a year now. Just, it seems like there's oftentimes three kinds of guidance you get from companies, one – in one case, it can be an aspirational plan; for other companies, it's going to be an operational plan. And then for other companies, it's more of a promise and not an actual promise, but it's something that they hope shareholders can heavily rely on. I guess I'd just be curious, as you think about guidance this year and going forward and as a public company CFO kind of which of those do you think you'll align toward?

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

A

Well, thanks. I mean, that's a good question. The way we look at kind of providing guidance is we obviously pull together our budget and get worked out with our board to get it approved prior to the end of the prior year. And as we look at that, that would maybe more the – I'm not going to call that one aspirational, but that was a little bit stretch. What we want to provide to the Street are the things that we feel very confident that we will hit.

As you know, when we went through this year, this past year, we provided guidance of one set of numbers. And then we, in August, we were able to kind of look at kind of how things were performing and provide an update. And we will continue to always update our guidance as appropriate. So, we want to look at as – this is something that we feel that we can make solid plans against. Obviously, they're not promises per se. They're what we're expecting to do. But unfortunately, there are no guarantees in life. But we're working to make sure that we're giving everyone the best information that we can.

Scott Deuschle*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Great. Thank you, guys.

Operator: Thank you. 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. Good morning, guys, and thanks for taking our questions. First on the cap raise, how are you thinking about the cash needs going forward? I know you mentioned the ATM is still there. Do we feel confident about after the private placement that this is enough or do you think there's still a bit left that we need to put on the balance sheet?

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

A

Edison, this is Henry. Thanks for the question. The way we look at it is we're very pleased with the pipe raise that we just completed. We've got gross proceeds of about \$29.5 million from both the long-term investors and institutional investors, all US based. We felt that kind of topping up the tanks a little bit made some sense, because we had the opportunity to. We do have the ATM out there. We have not tapped it at this point, and don't foresee tapping that in the near future. But what we're looking at is, we'll always look at our cap table and our capital structure and make sure that we're appropriately positioned.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.



Understood. Higher level question on the industry, obviously, there's been quite a few things going on, you've got Maxar going private, I think Airbus lost a few very important satellites on the Vega launch. Do you have an updated view on how you see kind of the competitive landscape now? Is it tighter than you would have thought, which is driving some incremental pricing, such demand? Just curious on the latest thoughts there.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.



Edison, I – we believe we're still in a supply constrained market and will remain so for a while. If you think about it, there's just a few companies like BlackSky and Maxar that are delivering reliable operational performance and are considered trusted suppliers. The Airbus incident was unfortunate. But one thing to keep in mind is that, most of the new capacity that is coming online, particularly from legacy players is replacing existing capacity that's aging out. And in many cases, satellite – the new satellites are being deployed, have less capacity than the ones they're replacing. And so, in a sense, BlackSky is one of the only trusted providers that's putting meaningful new capacity into a market at a time when there's growing demand.

And, as for new entrants, it takes years to prove both performance and scalability, and takes just as long to capture meaningful contracts with these types of government and large enterprise customers. So, we feel like – we're well positioned in a growing market that's supply constrained. Our new capacity and unique hourly monitoring capability, combined with strong and reliable operating performance, puts us in a really strong position.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.



Great. And then one follow-up on that. On the \$150 million, you mentioned it was a competitive bid. Should we think about the others as sort of the legacy guys or more sort of kind of emerging players?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.



I think the way to think about it is, we won because we have a differentiated capability that's aligned with where the market's going for high frequency monitoring and real-time analytics. That's how we differentiate it in the market. Our customers are understanding that and committing to long-term contracts, because of our – because of that strategy. And as we outlined in our remarks today, we're closing and building a backlog of significant multiyear agreements with these customers. So, I would say it's really the differentiation we've established and the confidence the customers have, and the vision and our long-term product strategy.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.



Thank you, guys.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.



Thanks, Edison.

Operator: Thank you. Thank you. Our next question has come from the line of Austin Moeller with Canaccord Genuity. Please proceed with your questions.

Austin Moeller

Analyst, Canaccord Genuity LLC

Q

Hi. Good morning, Brian. My first question is just on the \$150 million GEOINT contract with the International Ministry of Defense. How on this contract, just given the incorporation of AI capabilities, does this compare from a margin perspective to like EOCL, for example?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Well, I think a couple of things there, Austin. First off, EOCL contract is for imagery only. So – and as Henry has outlined, the imagery and analytics element of our business is the high margin element of our business plan. The analytics that we deliver provide additional – analytics, off of the top of our imagery, provide additional margin performance. So, that's the power of our business model, and the operating leverage we get out of our constellation combined with our software platform. So, in both cases, we're seeing very high margin revenue, analytics improve that.

Austin Moeller

Analyst, Canaccord Genuity LLC

Q

Okay. And then, just the private placement you announced this morning, does that provide you with sufficient capital to get through full deployment of the next generation constellation?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Sure. Let me take that question, as we just were discussing, I mean, the \$29.5 million of gross proceeds does strengthen our balance sheet. It gives us sufficient capital for the foreseeable future. We believe that we would be in a position where we'd be EBITDA positive in the fourth quarter, which would be well before that capital would be running out by any stretch. So, we believe that we're in good shape to get our Gen-3s up.

Austin Moeller

Analyst, Canaccord Genuity LLC

Q

Okay. And then just one more, if I may. Just back to the GEOINT contract, to what degree did the shortwave infrared instruments on the future constellation play a role in helping to win this contract?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Well, I think, Austin, it was the breadth of requirements that we were able to meet, not just what we're putting in space, but a number of performance attributes such as frequency and latency and the accuracy of our analytics. So, it's a broad set of requirements that we were able to meet in our bid and that's what contributed and drove our win.

Austin Moeller

Analyst, Canaccord Genuity LLC

Q

Okay. Fantastic. Thanks for the color.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Thanks, Austin.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Griffin Boss with B. Riley Securities. Please proceed with your question.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Hi. Good morning. Thank you for taking my questions. You spoke about having ample capacity. Is there a utilization percentage you could give us for the current constellation?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

That's not a metric that we traditionally publish. But, as I mentioned, we deployed most of our constellation within the last 12 to 18 months. So, we've got significant capacity available. The other thing I'll note is, we've taken a software-first approach, so we can collect once and sell many times. And there's also upside as we offer analytics as an upsell with our collection capability. So, we've got a very strong operating model and capacity we need to hit our growth plans.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Got it. Okay. Thanks, Brian. And are you still expecting the same economics for your Gen-3 satellites that you've talked about in the past, which I think are between \$10 million to \$12 million all-in cost per satellite? I know you were talking before about purchasing long lead items well in advance. So, I just want to – I wonder if you could give an update on that.

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. We're – yeah, you can assume the economics that we achieved in the first gen are aligned and in that range is consistent with what we're seeing. And we've got a very good handle on the cost of these satellites.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Got it. Great. Okay. And then sort of along the same lines, related to the CapEx guide, is any of that \$40 million to \$45 million for the year, any of that R&D that could potentially be funded by government agencies?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Well, we already have a significant amount of R&D that's funded by the government. You'll see that in our both professional services – the engineering services, engineering integration line in our financials. And that's where we've been very successful in capturing meaningful contracts that offset R&D. And so, that's both done in satellites and a good amount in software and analytics. So, it also enables us to establish long-term close relationships with some of these important customers. So, that's been a strategy of ours for many years and it's continuing to pay off.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Great. Really helpful. Thanks for that, Brian. And then last one for me. Can you just help me understand the strategic rationale for your expo investments? I believe you own 13.5 million shares or something like that. Is that an asset that you aim to monetize at some point in the future? Or just – any sort of color you can give about how you think about that business would be great.

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

A

Yeah. That was an investment we made several years ago. We always believe that access to space is an important aspect of our strategy in the market. And so, we're involved in the early days with that company. And that's a small element of our balance sheet right now.

Griffin Taylor Boss*Analyst, B. Riley Securities, Inc.*

Q

Got it. Okay. All right. Well, thanks for all my questions. Appreciate it, guys. And have a great day.

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

A

Thank you.

Operator: Thank you. Our next question has come from the line of Caleb Henry with Quilty Analytics. Please proceed with your questions.

Caleb Henry*Analyst, Quilty Analytics LLC*

Q

Hey, guys. A couple of questions. First about EOCL. You've previously forecast revenues of \$18 million for 2022, and \$36 million for 2023. Are those forecasts still on track?

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

A

Yeah, I think [indiscernible] (00:52:27) on EOCL, we're – just as a reminder, right, we just started that contract last July. So, it's been just about nine months. And we're operating really well. We're delivering thousands of images a day. And we ramped up within 30 days of the start of that contract to deliver that volume of inventory. We're meeting all of our performance requirements. So yeah, we were – as we've said publicly, when we awarded the contract, we were awarded two initial services for two years that reach – that are up to \$36 million. So that's our assumption for this year.

Caleb Henry*Analyst, Quilty Analytics LLC*

Q

Okay. And then, just a question on launches. You said, you have an upcoming Gen-2 launch. Is that the last Gen-2 satellite launch? And are there any other spacecraft launching this year or is it nothing until Gen-3 starts in 2024?

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

A

Those, we expect, will be our last two Gen-2s. We have some spares. We're not – we haven't decided we're going to launch them or not. And then, as I mentioned, we'll begin launching Gen-3s in 2024. And we'll – as we progress with that, we'll provide some more details.

Caleb Henry*Analyst, Quilty Analytics LLC*

Q

Okay. You guys that a nice bump in Q4 margins. Can you comment on where you expect imagery margins to trend in 2023? And kind of is it reasonable to assume like 80% margins this year?

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

A

Caleb, this is Henry. And as we've been discussing on margins, it really comes down to the fact that we've got a very fix – the nature of the fixed cost structure that we have when we're delivering imagery and analytics, given the fact that those are all pretty much automated processes. So, we've got very small incremental costs.

And when you take a look at that slide that I was referencing earlier, we see the \$47 million of revenue against the \$13 million of cost relative to – as compared to \$15 million of revenue and \$11 million of costs last year. You can kind of – I would be looking at it from the perspective of, yes, our incremental revenue will continue at that kind of that high-80s, maybe 90s. I mean, \$92 million for the full year could be could be extremely high. But we're kind of in that high-80s, 90-ish, sort of range on incremental once we get past that fixed cost.

So overall, when you start blending that together, I believe that we would be able to get kind of overall margins for imagery and analytics into that 75% plus. I mean, in 2022, we had about 71%, 70.7% margins on imagery and analytics, when you take out stock comp and depreciation, et cetera.

Caleb Henry*Analyst, Quilty Analytics LLC*

Q

Okay. And then just last question, I think international government is contributing a 15% overall revenue. Given some of the new awards you've gotten and boost in the sales team, what kind of percentage do you expect that to be going forward?

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

A

We don't necessarily guide on the – kind of by those reasons. But you're right, when you take a look at kind of what we did in 2022, our international governments contributed about 17.5% of our overall revenue. You can imagine as we start winning these big international and [indiscernible] (00:55:55) type contracts, et cetera, that that percentage will go up. But we're not guiding to a specific split here.

Caleb Henry*Analyst, Quilty Analytics LLC*

Q

Okay, great. Thanks, guys.

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

A

Thank you.

Operator: Thank you. At this time, there are no further questions. I'll turn it back over to Aly Bonilla, BlackSky's Vice President of Investor Relations. Go ahead, Aly.

Aly Bonilla

Vice President-Investor Relations, Blacksky Technology, Inc.

Thank you, everybody. I want to thank you for joining the call this morning. We will be talking with you shortly in the future and appearing at certain conferences upcoming. Thank you very much.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.