XTI Aerospace Inc – Q3 2026 Earnings Call

Operator

Ladies and gentlemen, thank you for standing by, and welcome to XTI Aerospace's Third Quarter 2026 Conference Call and Webcast. All participants are in a listen-only mode, and this call is being recorded. Following the prepared remarks, we will hold a question-and-answer session. To ask a question, please use the raise-hand icon, which can be found at the bottom of your webinar application, and be prepared to unmute your line when prompted. I'd now like to turn the call over to Alison Ziegler, Investor Relations for XTI. Alison, please go ahead.

Alison Ziegler
Investor Relations

Thank you, Michael. Good afternoon, everyone. Joining me today are Jeremy Schneiderman, our Interim Chief Executive Officer, and Brooke Turk, Chief Financial Officer. Earlier today, we issued a press release announcing our Third Quarter 2026 Results. The release is available in the Investors section of our website at xtiaerospace.com. A replay of today's call will also be available on our website. Before we begin, please note that today's discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements about our 2026 outlook, our expected cash flow, our liquidity and financing arrangements, the restructuring of certain promissory notes, our credit facility, our business strategy, and market conditions. These statements are based on management's current expectations. They are subject to risks and uncertainties that could cause actual results to differ materially.

These risks include those described in our most recent Form 10-K and Form 10-Q, and in other filings we make with the SEC. We undertake no obligation to update any forward-looking statement except as required by law. During this call, we will also refer to certain non-GAAP financial measures, including adjusted EBITDA. A reconciliation of these measures to the most direct comparable GAAP measures is included in today's press release and in our Investor Relations website. Please note, XTI Aerospace uses its website, company blog, corporate Twitter account, Facebook page, and LinkedIn page as channels of distribution of information about its business. Such information may be deemed material information, and XTI may use these channels to comply with its disclosure obligations under Regulation FD. A copy of the prepared remarks made on today's call will be posted on XTI's IR webpage after the conclusion of today's earnings.

With that, I'll turn the call over to Jeremy. Go ahead, Jeremy.

Jeremy Schneiderman
Interim CEO

Thank you, Alison, and good afternoon, everyone. This being my first earnings call as Interim CEO, I want to start by thanking our customers, our suppliers and lenders, and the Drone Nerds and XTI teams for their efforts and commitment through a demanding few months. Together, we have turned the corner on the historical XTI business and are focused on our core business of selling into the commercial and enterprise drone space. During today's call, I will cover four things.

First, where the company stands after the strategic pivot and leadership changes this summer. Second, what drove the business in the quarter. Third, our progress against the commitments we have made to you. And fourth, the market opportunities we are seeing. Today, XTI operates as a focused unmanned systems company. In addition to the Board appointing me as Interim CEO in August, in October, the Board appointed Dr. Allan Evans as Chairman.

As most of you know, Allan is CEO of Unusual Machines, and he brings direct operating experience in the U.S. drone supply chain. We are all excited to have him on board. The company also concluded the internal review conducted by a special committee of Independent Directors and Independent Outside Counsel, from which we have plans to strengthen certain aspects of our corporate governance. With no financial misstatements identified, we filed our second-quarter Form 10-Q on October 20 and have resumed quarterly reporting on a normal schedule, regaining Nasdaq compliance. Now to the business. During the third quarter, we delivered revenue of $35.3 million, approximately 9% higher than the second quarter and up 46% from pro forma revenue in Q3 2025.

Today, all of our revenue comes from our unmanned aircraft systems segment, which is Drone Nerds, with growth coming from continued demand for enterprise drone solutions and the expanded product offerings added this year. Drone Nerds provides hardware distribution, training, service, repair, and lifecycle support to enterprise, public safety, and government customers. During the quarter and over the last several weeks, we have continued to build out the portfolio with a focus on public safety and enterprise.

In August, we added the DBOX autonomous drone docking system to our public safety offering. This gives agencies a remotely managed automated option for incident response and perimeter monitoring. In October, our Evolver DFR offering debuted a complete drone-as-first-responder program for public safety agencies. We also added the ABZ Innovation C30 high-pressure cleaning drone to our enterprise portfolio. And on November 2, Drone Nerds announced a partnership with AirSight to expand our drone detection portfolio.

We have also made key hires to go deeper into our target verticals, including a head of public safety and a head of GIS and mapping, and we will continue to hire industry experts for the key verticals we sell into. Our goal is to have the most robust product offering available. These initiatives are designed to move the revenue mix more towards direct B2B solutions, which today represents approximately 22% of our business. Our direct B2B business is where we can leverage our strong customer relationships and, over time, will lead to expanded margins, as margins in this segment are higher than our wholesale distribution margins. While we continue to invest in Drone Nerds, we cut spending outside the core drone business sharply and significantly cut our burn rate, which Brooke will discuss in more detail. Let me now turn to our financial targets.

Earlier this year, we had anticipated higher gross margins on stronger sales growth. Several weeks ago, with our second quarter results, we reset that outlook. With third-quarter results reported today, we remain on track to meet our revised full-year outlook of $125 million-$130 million revenue for 2026, and a gross margin of 17%-19%. On the cost front, we did what we said we would do. In our first quarter, we began our cost realignment. We reduced corporate and development division headcount, consolidated our office footprint, and ended non-core consulting, vendor, and software contracts. Excluding Drone Nerds, average monthly operating cash outflow at the corporate and development level was approximately $1.1 million in the third quarter. That is down about 42% from the second quarter and 62% from the first quarter.

We continue to lower and optimize our corporate cost structure in the fourth quarter and expect our average monthly operating cash outflows will be significantly lower than the $1.1 million realized during the third quarter. We have also completed the portfolio decisions we started earlier in the year. We sold the Inpixon real-time location systems business in February. We paused the TriFan 600 program, and in the second quarter, we stopped investing in it and in our other development programs. We wound down our autonomous defense systems division, which would have required substantial additional time and capital before generating revenue. While these were difficult decisions, it means our resources now go to the business that generates our revenue, Drone Nerds.

During the fourth quarter, we expect to complete substantially all of our corporate restructuring activities to unburden our leadership team and restore our focus on building value for our shareholders. To emphasize our shift in focus, we also have a corporate rebranding in the works to better align our name and business identity with our core competencies. Stay tuned. Finally, I want to touch on the market opportunities ahead of us. Despite near-term regulatory challenges, we continue to see growing demand in the U.S. commercial and enterprise drone market. Federal policy on foreign-made drones and components is changing what customers can buy. Despite

these challenges, we are extremely well-positioned to capitalize on these opportunities now that we are focused and fiscally efficient.

We are incredibly well-positioned to both be the partner of choice for leading foreign OEMs and the vendor of choice, particularly for our B2B customers in the enterprise space, who increasingly are seeking comprehensive and use case-specific solutions. Personally, I am thrilled to lead our team to deliver on this promise to our customers and shareholders. With that, I'll hand it to Brooke to take you through the numbers.

Brooke Turk
CFO

Thank you, Jeremy, and good afternoon, everyone. The third quarter showcases the significant progress we have made right-sizing the business, cutting costs, and focusing on growing our core Drone Nerds business. Starting with revenue, third-quarter revenue was $35.3 million, up approximately 9% from $32.4 million in the second quarter. Revenue has now grown in each quarter this year, from $27.7 million in the first quarter. Because Drone Nerds was acquired back in November 2025, our reported results for the prior-year quarter are not comparable. On a supplemental pro forma basis, third-quarter revenue compares with Q3 2025 pro forma revenue of $24.2 million, an increase of 46%. Looking at the channel split for UAS, wholesale distribution was $22.8 million, direct B2B was $7.9 million, and retail was $4.5 million.

Turning to gross profit. Third-quarter gross profit was $7.7 million, or 21.7%, including a non-recurring benefit of $2 million due primarily to tariff refunds, offset in part by one-time vendor-related charges. Backing that out, we came in at $5.6 million, or 16%, which was primarily due to channel mix. This compares with $5.6 million, or 17.4%, for the second quarter. This margin reflects the product mix and operating model of our UAS distribution and services business, which includes hardware sales, accessories, and related support services. As the enterprise services component (including training, maintenance, and fleet sustainment) grows over time, we expect margin improvement as these services carry higher margins than our hardware distribution operations.

Consolidated operating expenses in the quarter were $12.7 million, compared with $14.7 million in the second quarter and $13.8 million a year ago.

General and administrative expense was $10.3 million versus $11.9 million in the second quarter and $9.9 million in the third quarter last year. On a percentage of revenue basis, general and administrative expense was 29.2%, compared to 39.2% in the first six months of 2026, reflecting the benefits from our cost realignment initiatives this year. The year-over-year increase reflects higher personnel-related

costs, including stock-based compensation and operating expenses attributable to the Drone Nerds acquisition. Sales and marketing was $1.8 million versus $2 million in the second quarter, as we continue to invest in enterprise direct sales.

Loss from operations was $5 million compared to $13.8 million in the year-ago period and $9.1 million in the second quarter. Other income net was $31.7 million in the third quarter of 2026, compared to $1.4 million in 2025. The change between periods was primarily due to a $32 million gain related to the change in fair value of the warrants in 2026. This resulted in net income for the third quarter of $26.6 million, compared to a net loss of $2.5 million in the second quarter.

Adjusted EBITDA was $1.6 million compared to negative $4.9 million in Q2. A reconciliation is included in today's release.

Now to cash and liquidity. We ended the quarter with unrestricted cash of $5.7 million. That compares with $7.2 million at June 30. As Jeremy noted, operating cash outflows at the corporate and development level averaged approximately $1.1 million a month in the third quarter, down 42% from the second quarter, with additional significant reductions expected again in the fourth quarter.

Our working capital line is a $20 million asset-based revolving facility with JPMorgan Chase Bank, with availability set by a borrowing base of eligible receivables and inventory. At September 30, we had $5.9 million drawn and $11.9 million available. As we announced on October 16, approximately $8.4 million was outstanding.

The company has also recently restructured $4.7 million of promissory notes, which had previously been in default, and also secured a cross-default waiver from JPMorgan Chase Bank on our revolving credit facility.

Turning to our outlook, for full year 2026, we continue to expect revenue of $125 million-$130 million and a gross margin of 17%-19%. We expect to achieve ongoing positive cash flows from operations during the fourth quarter of 2026 as we continue to focus on cost optimization and deliver on Drone Nerds' operating results.

I will now turn it back over to Jeremy.

Jeremy Schneiderman
Interim CEO

Thank you, Brooke. Before we open it up for questions, I just want to reiterate how

excited I am to lead this organization at such an exciting period of growth in the industry. The regulatory environment over the past 24 months has continued to strengthen our position in the market. Looking ahead, FAA Part 108, Beyond Visual Line of Sight, should be a major boost to the industry and our business. This is another reason why we expect to enhance our position as the number one solution seller to the B2B and enterprise market in the U.S.

We have repositioned the company to focus on our core business, and we grew quarterly revenue sequentially again to $35.3 million, while taking corporate and development spending down sharply and continuing to work through the balance sheet and liquidity matters with our creditors and warrant holders. We have a new chairman with deep experience in the U.S. drone supply chain.

Our priorities for the rest of the year are simple: grow Drone Nerds, improve margins through optimizing channel mix, achieve positive cash flows, and put the balance sheet on a more stable footing. We know we have to build credibility through execution, and we intend to do that every day. Operator, we are ready for questions.