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Company: Blacksky Technology, Inc.

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✓ **Company Participants**

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

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

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

✓ **Other Participants**

Griffin Taylor Boss - Analyst

Josh Sullivan - Analyst

Caleb Henry - Analyst

Jaeson Allen Min Schmidt - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

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

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

Aly Bonilla

Good morning and thank you for joining us. Today, I'm joined by our Chief Executive Officer, Brian O'Toole; and our Chief Financial Officer, Henry Dubois. On today's call, Brian will provide some highlights on the quarter and give an update on the business. Henry will then review the company's first quarter, financial results and 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 May 24. 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 and unpredictable sales cycles, customer demand, and our ability to estimate resources for fixed price contracts expenses, and other 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 and adjusted imagery and software analytical services cost of sales. A reconciliation of these non-GAAP financial measures to their most comparable GAAP measures are included in today's accompanying presentation, which can be viewed and downloaded from our Investor Relations website.

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

Brian E. O'Toole

Thanks, Aly, and good morning, everyone. Thank you for joining us on today's call. Let's begin with slide 4. I'm pleased with the strong performance that we delivered in 2022 and how that momentum has carried over into 2023. We are making great progress across all aspects of our business as demand for our high frequency imagery and analytics remain strong and we continue to secure more new customers and expand the services that we are delivering to existing customers.

We continue to demonstrate strong operating leverage as revenue growth from our high margin imagery and analytics continues to deliver improving operating margins, which is putting us on a clear trajectory towards sustainable, long-term profitable growth.

I'm happy to report that Q1 was another strong quarter that included the following key highlights. First, we continue to deliver strong year-over-year revenue growth. Our imagery and analytics revenue, which represents our core service business, increased 114% over the prior year, as revenues ramped up from a number of new contracts signed throughout last year.

Second, we delivered a 97% incremental contribution margin as a result of increased revenues from our high margin imagery and analytics business. With our company's low fixed cost structure, we're continuing to accrue strong operating leverage with our existing assets, which is enabling our business to scale and deliver improving EBITDA outperformance.

Third, we won over a dozen new contracts and renewal agreements, supporting international and US government agencies. These contracts are in addition to the \$150-million contract when we announced in March, further demonstrating the strong global demand for BlackSky's high frequency imagery and advanced analytics.

Fourth, we successfully deployed two new Gen-2 satellites into orbit, providing BlackSky with additional imaging capacity and redundancy. This was a major milestone as we have now completed the deployment of our first-generation constellation.

And finally, today, we announced an amendment to our existing debt facility, which extends the maturity of the note until 2026 and reduces cash interest payments for the next two years. This amendment, combined with a \$29 million pipe transaction we announced in March, strengthens our balance sheet and provides us with additional capital to fuel our growth. Henry will go into more details on this transaction later.

These accomplishments, along with growing market demand worldwide, reinforces our confidence in achieving our full-year financial goals, including a key objective of delivering positive EBITDA in the fourth quarter. I would now like to share some operational highlights from the quarter.

Turning to slide 5. We continue to experience strong and growing demand in the international market that is evidenced by a growing sales pipeline, the signing of new customers, and the expansion of existing customers during the quarter. We successfully closed over a dozen contracts, many of which support international government agencies. Some of these contract wins are multiyear, multimillion-dollar awards, such as \$150-million contract we announced in March for a multiyear subscription to imagery and analytic services from our next-generation constellation.

We are now seeing customers looking for long-term subscription-based contracts to secure a shared priority access to our current and future constellation, particularly in supply constraint, high demand regions. Government agencies around the world are increasing their investments in space-based capabilities to meet their country's near and long-term intelligence and surveillance needs in response to a wide range of growing geopolitical, economic and security concerns. This trend is driving strong demand for BlackSky's products and services worldwide.

To capitalize on this opportunity, we are continuing to invest in the expansion of our international sales team. I'm happy to report that our recent investments in building a global sales network are now paying dividends as we are

successfully converting a strong pipeline of sales opportunities into meaningful long-term contracts. These contract wins demonstrate how BlackSky is increasingly relied upon by some of the most important customers in the world to support their current and future critical mission needs. We are proud to be providing these government agencies with a first of its kind intelligence capability delivered through a best-in-class customer experience.

Moving on to slide 6. In addition to the momentum we are gaining internationally, we also won new and follow-on contracts with a number of US defense and intelligence agencies. In Q1, we continue to expand the advanced monitoring services that we are providing to the NGA under the Economic Indicator Monitoring program.

During the quarter, the NGA awarded BlackSky additional task orders to provide dynamic monitoring and analysis of new strategic locations in critical regions of interest around the world. Since this five-year contract began in late 2021, we have provided the NGA with advanced AI-enabled monitoring solutions through multiple task orders that we won through a competitive bid process. We are pleased that our industry-leading AI algorithms are delivering high confidence detection and classification performance that NGA and their end users can rely on.

We believe our AI capabilities are a key competitive differentiator, especially when combined with our real-time space capabilities. As a result of the success of this program and the recent award of new task orders, we look forward to continuing to support the NGA as we compete for new additional contract task orders throughout 2023.

It's important to note that the subscription monitoring services that we are delivering under this program are provided as a commercial service and therefore can be offered to other customers around the world with almost no incremental cost. This is just another example that demonstrates the operating leverage of our platform and scalable AI infrastructure. We also continued to expand our relationship with several Department of Defense customers, including the US Air Force and the US Space Force who are seeking to apply our real-time capabilities toward meeting next-generation tactical mission requirements.

During the quarter, we won a multiyear contract renewal with AppWorx, a component of the Air Force Research Laboratory. AppWorx is looking to leverage BlackSky's existing space and ground architecture in the development of future space capabilities that leverage commercial technologies. This program is an example of how we use government-funded R&D to advance our technology and build strong relationships with long-term strategic customers. Also in the quarter, we're pleased to announce that we were awarded a multiyear contract by the NRO to explore commercial hyperspectral imaging capabilities.

During the initial stage of this contract, we will evaluate the extension of our constellation to include hyperspectral imaging in the application of these sensors to meet advanced real-time mission intelligence needs. These next-generation capabilities are a natural extension of BlackSky's agile space architecture. And with this contract, further expands our long-term relationship with the NRO.

Turning to slide 7. We also continue to make progress with new commercial customers that are looking to space-based imagery and analytic solutions to advance their real-time business intelligence capabilities. As an example, during the quarter, we signed a new subscription contract with a large multinational commercial customer for the dynamic monitoring and tracking of high value assets. We've been working with this customer over the last several months under a pilot program where they tested and evaluated the performance of our monitoring services.

After this successful pilot, we're pleased to report that we have transitioned into a six-figure annual subscription. Like the EIM contract with NGA, this is a prime example of how through our API-enabled software platform we're able software platform were able to quickly configure our core platform services to deliver subscription-based monitoring services that provide new information, insights and alerts to solve a wide range of real-time business intelligence problems.

Moving to slide 8. The need for high frequency imaging and analytics is expanding every day as international, US, and commercial organizations continue to place a high value on receiving real-time geospatial intelligence in response to emerging global events.

As an example, last week we released the first and only known public image, according to a third-party intelligence analyst, of an alleged airship on a runway at a veiled military base in Korla, China. Capturing this image was only made possible by the unique attributes of our constellation. It has been specifically designed to provide reliable, dynamic, hourly monitoring of the world's most important and strategic locations.

In contrast, most commercial imaging satellites that are in orbit today are in sun-synchronous polar orbits that are purposely constrained to take images at the same fixed time of day, such as at 10:30 in the morning. These satellites were designed and optimized to primarily support static mapping applications rather than deliver dynamic real-time monitoring solutions. Because of these constraints, these satellites are limited in their ability to see events that occur during the rest of the day and therefore are unable to capture an event such as an appearance of the airship, which was captured by BlackSky at 9:00 AM local time.

Our continuous monitoring, combined with our first of its kind Spectra AI software analytics platform, is a new and unique capability in the market that now enables customers to see and understand events that they could not have seen before now. This dynamic hourly monitoring is what sets BlackSky apart in our industry and why governments worldwide are tapping into our unique capabilities to see anomalies, capture rare events, and gain unprecedented insights about emerging events in areas that are critical to their national interest.

Another example is shown on slide 9 where our on-demand imagery captured the destruction that took place at the Khartoum Airport in Sudan following the recent military fighting taking place there. Powered by our Spectra AI software platform, which combines our high-resolution imagery with AI-enabled analytics, we were able to identify not only the number of aircraft stationed at the airport, but how many had been damaged or destroyed. The high-resolution imagery and the critical intelligence enabled by our software is what governments and allied partners around the world are using in their day-to-day mission operations to respond to key global events such as this.

Turning to slide 10 in an update on our constellation. We successfully deployed two new satellites into orbit on March 24. Within 18 hours of launch, these Gen-2 satellites entered into revenue-generating operations. This is an industry-leading ability to rapidly deploy space infrastructure and deliver immediate value to our customers. These two new satellites provide us with additional capacity for taking high-resolution imagery around the world and provide redundancy to our constellation. With our baseline constellation fully complete and delivering hourly dynamic monitoring solutions to customers, our focus can now fully turn to building our next generation of advanced satellites, which remain on track to begin deployment next year.

As a reminder, we already have contracts in hand for Gen-3 capacity and capability and are excited to bring these capabilities to market to meet the strong customer demand we're already experiencing.

In summary, we're pleased with the progress we made in the first quarter and the strong momentum we are building in the market. I'll now turn it over to Henry to go through the quarterly financial results in more detail. Henry?

Henry E. Dubois

Thank you, Brian, and good morning, everyone. I am pleased that our first quarter financial results continued the strong momentum we experienced last year. Beginning with slide 12, total revenue for the first quarter of 2023 was \$18.4 million, an increase of \$4.5 million or 32% over the prior year quarter. Imagery and analytics revenue grew to \$15.8 million, a 114% increase over the prior year period primarily driven by greater volumes of imagery delivered to new and existing US and international government customers.

The largest contributor to the year-over-year increase in imagery comes from the daily delivery of high volume imagery under the EOCL contract with the NRO. We've experienced significant growth in customer demand for our imagery and analytics over the past year, and as a result, this line of business contributed 86% of total revenues in Q1 this year compared to about 50% in Q1 last year.

Professional and engineering services revenue was \$2.6 million in the first quarter of 2023, compared to \$6.5 million in the prior year quarter, primarily due to a couple of R&D programs that are nearing completion this year, whereas these programs were in full swing back in Q1 last year.

Also, keep in mind, revenues recognized from these types of projects are largely milestone based, which means, they can introduce quarter-to-quarter variability. This is in contrast to our imagery and analytics services, which is typically subscription-based revenue.

As a reminder, these professional and engineering service projects provide us with government-funded R&D and

enable us to build long-term relationships with strategic customers. These programs are oftentimes precursors to securing long-term subscription contracts for imagery and analytics services with these customers.

Moving on to slide 13. Our imagery and analytics business continue to demonstrate strong operating leverage. Excluding stock-based compensation, depreciation, and amortization expenses, imagery and analytics cost of sales was \$3.6 million in the first quarter of 2023 compared to \$3.3 million in the prior-year quarter.

Year-over-year, the small increase in cost of sales, coupled with an \$8.4 million increase in revenue, equates to a very high incremental contribution margin of 97%. This performance once again demonstrates the strong margin leverage delivered by our imagery and analytics business on incremental revenues.

Turning to slide 14. For the first quarter of 2023, we reported an adjusted EBITDA loss of \$4.1 million, a 57% improvement over the \$9.5 million loss in the prior-year period. The year-over-year improvement was primarily driven by greater volumes of our high-margin imagery and analytics revenue while operating on a predominantly static cost base, as just discussed. We're pleased with the progress we've made in adjusted EBITDA and are on track with our goal of achieving positive EBITDA later this year.

Regarding our balance sheet, we ended the first quarter of 2023 with \$71.6 million of cash, restricted cash, and short-term investments. Our capital expenditures in the first quarter of 2023 increased to \$15.8 million, primarily due to final payments for the launch of two additional satellites in March, as well as expected milestone payments for our Gen-3 satellite production as certain milestones are reached. These expenses are in line with our full-year expectations. Overall, we believe our current cash position is in line with our expectations and remain strong.

On another note, this morning, we're pleased to announce an amendment to our existing debt facility. The new terms extend our debt maturity until October 2026 and also reduces the level of cash interest payments as 80% of the interest can be accrued and paid with the principal when it comes due in 2026. This amendment helps to improve our outgoing cash flow over the next two years.

Now let's move on to our 2023 outlook as shown on slide 15. As mentioned earlier, we are continuing to win new contracts and expand existing agreements with US, international, and commercial customers. With this traction and momentum, we maintain our full-year revenue guidance of between \$90 million to \$96 million. Coupled with the operating leverage we are experiencing and expect to continue, we remain on track to achieve positive adjusted EBITDA in Q4 of 2023. Finally, we anticipate our capital expenditures in 2023 to be between \$40 million and \$45 million, as we have stated.

In summary, we are pleased with our financial performance in the first quarter and the continued momentum we are seeing across our business. We look forward to continued progress throughout the year.

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

Brian E. O'Toole

Thank you, Henry. We're pleased to report another strong quarter driven by significant demand for our high-frequency imagery and analytics from customers around the world. We are continuing to build significant multiyear backlog by winning new customers and expanding the contracts we have with existing customers. We have built a foundation that puts us on a clear path to deliver another strong year of revenue growth while providing a clear line of sight toward sustainable long-term profitability.

Our team is laser-focused on executing against a growth plan that includes the following key imperatives. First, continuing to drive long-term, high-visibility revenue growth by winning new multiyear subscription contracts with a base of major government and industrial customers around the world. Second, expanding our sales pipeline and customer base through an aggressive go-to-market strategy as we continue to expand our sales force and global partner network. Third, continuing to deliver strong operating margins through the sale of high margin imagery and analytic services while controlling expenses through prudent cost and capital management. And finally, continuing to invest in our next-generation space and AI capabilities that extend our competitive advantage, meet the strong market demand for our Gen-3 capabilities, and capitalize on a large and rapidly growing market opportunity for space-based intelligence solutions.

In closing, we're pleased with the progress we've made this quarter and look forward to continuing this momentum as we advance our leadership and real-time geospatial intelligence. This concludes our remarks for the call, and we'll now take your questions.

QUESTION AND ANSWER SECTION

Operator

We will now begin the question-and-answer session. Thank you. Our first question is from Griffin Boss with B. Riley. Please proceed with your question.

Analyst:Griffin Taylor Boss

Question – Griffin Taylor Boss: Hi. Thanks for taking my question. Yeah. So, off the bat, I'm just curious if you could elaborate on the situation with your Global 7 and Global 8 satellites, saw that you requested for an STA with the FCC. So, curious if you can – if you're able to give us more color on that?

Answer – Brian E. O'Toole: Thanks, Griffin. Good morning. So, just as a reminder, we are coming at this a little differently than the rest of the market. We've built an integrated constellation of small satellites that unlike traditional architectures we're designed to deliver these high revisit imaging and analytic services without a dependency on any given satellite. And this agile approach enables us to deploy capacity where and when we need it to meet customer service levels, and systems design with significant reserve and redundant capacity, and eliminates the impacts of any individual satellites that, as we expect, will come in and out of service over time, especially when they reach the end of their expected service life. So we – as we said earlier, we successfully launched two additional satellites in March, which gives us additional capacity and redundancy, and that's consistent with our sustainment plan.

With respect to the FCC filing, we will occasionally raise our lower altitudes of individual satellites as part of our normal course of operations, which can extend our mission life or deliver increased performance or support our maintenance operations.

Question – Griffin Taylor Boss: Okay. Great. And just to confirm, those two satellites were launched in 2020, right? So their – I mean, you have a three to five-year lifespan, right? So there – I mean, that's within the three years, right?

Answer – Brian E. O'Toole: Yeah. They're approaching their anticipated end of life at three years.

Question – Griffin Taylor Boss: Okay. All right. Got it. Thanks for that. Appreciate it. And then, so, in terms of the Gen-3 capacity, I know you mentioned you have – and you mentioned in the past, you have contracts in hand and capacity locked down. Can you just tell us – or can you provide any more color on how much of that Gen-3 capacity is contracted right now? Is it all of it or substantial portion or just a nominal amount?

Answer – Brian E. O'Toole: We're just getting started on selling that capacity. The \$150-million contract we announced in March is for Gen-3 capability. And a number of the customers we are – that we have today that are subscribing to our Gen-2 capacity are looking forward to transitioning into Gen-3 as that comes online.

Question – Griffin Taylor Boss: Okay. Great. Thanks. Thanks, Brian. And then so just last one for me, too. Given the reaffirmed revenue guidance for the year, would we be correct in assuming that most of these new awards you're winning are more heavily weighted towards revenue generation in 2024 and beyond or are these contracts that you expected to win and were already perhaps incorporated in the 2023 guide?

Answer – Brian E. O'Toole: There's a mix. So the \$150-million award is a multiyear contract. The dozen or so contracts that we announced – we closed this quarter will contribute to 2023 revenues and some of that will contribute to 2024 revenues.

Question – Griffin Taylor Boss: Okay. Great. Thanks, Brian. Appreciate the color.

Brian E. O'Toole

Question – Brian E. O'Toole: Thank you, Griffin.

Operator

Thank you. Our next question is from Josh Sullivan with The Benchmark Company. Please proceed with your question.

Analyst:Josh Sullivan

Question – Josh Sullivan: Thank you (27:51). Good morning.

Answer – Brian E. O'Toole: Good morning, Josh.

Question – Josh Sullivan: As far as LeoStella, what opportunities do you see that potentially help fill the line, their size dynamics or technology inputs for the buses that maybe could open up new opportunities or what are you seeing out there?

Answer – Brian E. O'Toole: Obviously, there's a growing market for small satellite – for small satellites. And with LeoStella, we have invested in next-generation bus technology that we're applying to our Gen-3 and future satellites. And we see that there's an opportunity to take that capability to market for different applications beyond BlackSky.

Question – Josh Sullivan: And then just given the proliferation of language models here, BlackSky's AI backbone. I'd be curious to understand how you view the language models given you're the originator of the imagery data potentially feed new LLMs for the intelligence community. How do you plan to hold on to the value there?

Answer – Brian E. O'Toole: Josh. Could you maybe – oh, what do you mean by language models? Just so I'm clear.

Question – Josh Sullivan: Yeah. Just as we see new, obviously, AI-enabled solutions and using your data to create those solutions, and we're seeing a lot of those products proliferating at an early stage here. Just curious on BlackSky's approach to as the intelligence community accesses some of those AI technologies, how you're going to stay up in front and capture that value?

Answer – Brian E. O'Toole: Yeah. Definitely. So we've been employing AI technology across our platform now for several years. As an example, I think where you're going is we've been applying AI to natural language processing to monitor global activity from news in social media that can automatically tipping queue collections of our satellites. This is an important capability as we are reducing response times around emerging events and recognizing activities that are important to our customers, which is ultimately going to give them a first-to-know advantage. AI is also applied in our imagery interpretation and analysis. And so, we've been – we've made significant investments in our AI team over the years. And as I outlined in our remarks, we are winning contracts such as the EIM contract based on the performance of our AI algorithm. So this is a key part of our future and we've built a strong set of capabilities that we believe are a key part of our competitive differentiation.

Question – Josh Sullivan: Okay. Thank you for the time.

Operator

Thank you. Our next question is from Caleb Henry with Quilty Space (sic) [Analytics] (31:13). Please proceed your question.

Analyst:Caleb Henry

Question – Caleb Henry: Hi, guys. Three questions for me. First, can you give any more color on the Gen-3 silos in terms of their launch status and cadence?

Answer – Brian E. O'Toole: Morning, Caleb. As we have already commented that those Gen-3 satellites remain on track. We secured long lead item components and those satellites are now in production and we expect to begin launching those satellites in 2024.

Question – Caleb Henry: Okay. So regarding the, I guess, spending on those in general CapEx, is BlackSky planning on maintaining a yearly spend of around \$40 million with Gen-3 or does that change at all?

Answer – Henry E. Dubois: Caleb, this is Henry Dubois speaking. I mean, as we look at our CapEx, as you know, we're guiding this year to that \$40 million, \$45 million. We're not providing guidance beyond that at the moment. But you can kind of work through as we go through sending up our satellites that we will have CapEx associated with that.

Question – Caleb Henry: Okay. And then last question, which is related to the BlackSky Global 7 and 8 satellites that you're seeking to lower the altitude of. Lowering that altitude presumably means that they will have a shorter lifespan. So, are you anticipating that those will have their full three-year lifespan? Are you sacrificing some of that time to get a sharper resolution or some other advantage?

Answer – Brian E. O'Toole: As I mentioned earlier, those satellites are approaching the end of their three-year life and raising or lowering them for improving performance as part of our normal course of operations.

Question – Caleb Henry: Okay. Will they obtain a three-year life or no?

Answer – Brian E. O'Toole: We expect them to maintain their life expectancy.

Question – Caleb Henry: Okay. All right. Thank you.

Operator

Thank you. Our next question is from Jaeson Schmidt with Lake Street Capital Market. Proceed with your question.

Analyst:Jaeson Allen Min Schmidt

Question – Jaeson Allen Min Schmidt: Hi, guys. Thanks for taking my questions. Just curious if you could update us on the traction in the commercial market. Obviously, it sounds like some of these recent wins are still in the government space, but any additional color on the commercial space would be helpful.

Answer – Brian E. O'Toole: Yeah. Good morning, Jaeson. Yeah. As you know, commercial revenues are still a small part of our overall business right now. We are starting to see traction with major industrial opportunities, particularly in the monitoring of commodities and supply chain. So, as if those – that type of examples, what I just outlined, and we're seeing those opportunities with other customers. And so, we're still early days, but we're encouraged by what we're seeing in terms of interest and demand.

Question – Jaeson Allen Min Schmidt: Okay. That's helpful. And then just as a follow-up, when you look at sort of towards the end of this year, do you think the mix between sort of US versus international is going to remain fairly stable?

Answer – Brian E. O'Toole: Well, I think, generally, you're seeing a strong revenue diversification. So we – revenue – international revenues are now almost 25% of our overall revenues, which is up from last year. So we are seeing strong international demand and we expect to see this diversification trend continue.

Question – Jaeson Allen Min Schmidt: Okay. Thanks a lot, guys.

Answer – Brian E. O'Toole: Thank you.

Answer – Henry E. Dubois: Thank you.

Operator

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.

I want to thank everyone for joining us on the call today. We will be participating in several upcoming conferences over the coming weeks. So keep an eye out for those announcements. And we look forward to speaking to you again soon. Have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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