

Spire Global
First Quarter 2022 Conference Call
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Presenters

Ben Hackman, Head of Investor Relations
Peter Platzer, CEO
Tom Krywe, CFO

Q&A Participants

Stefanos Crist – CJS Securities
Erik Rasmussen – Stifel
Ric Prentiss – Raymond James
Steve Pawlak – Baird
Elizabeth Grenfell – Bank of America
Scott Deuschle – Credit Suisse
Josh Sullivan – Benchmark Company

Operator

Greetings. And welcome to Spire Global first quarter 2022 conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn to conference over to your host, Mr. Ben Hackman, head of investor relations. Please go ahead, sir.

Benjamin Hackman

Thank you. Hello, everyone. And thanks for joining us on our first quarter 2022 earnings conference call. Our results press release and SEC filings can be found on our IR website at ir.spire.com. A replay of today's call will also be made available. With me on the call today is Peter Platzer, CEO and Tom Krywe, CFO.

As a reminder, our commentary today will include non-GAAP items. Reconciliations between our GAAP and non-GAAP results, as well as our guidance, can be found in our earnings press release.

Some of our comments today may contain forward-looking statements that are subject to risks, uncertainties, and assumptions. In particular, our expectations around integration of our

acquisition, results of operations, and financial conditions are uncertain and subject to change. Should any of these fail to materialize or should our assumptions prove to be incorrect, actual company results could differ materially from those forward-looking statements. A description of these risks, uncertainties and assumptions, and other factors that could affect our financial results as included in our SEC filings.

With that, let me hand the call over to Peter.

Peter Platzer

Thank you, Ben. Spire posted first quarter results that beat our Q1 guidance on the top and bottom-line. As market volatility, inflationary pressures, and supply chain constraints continue to make headlines, Spire is bringing insights to help our customers drive stability and operational efficiencies during these dynamic times.

Tracking of high value assets and locations and geolocating targets have demonstrated the power of space-based data and insights. Customers recognize that value of Spire data, and we have seen them expand across our data products and up the value chain. We look for continued growth as more use cases for Spire's data become apparent.

Tom will get into the details in a bit, but as a result of our Q1 performance, we are raising the low end of our full-year guidance range of ARR, as our pipeline of new business opportunities continues to grow. We now see full-year ARR in the range of 101 to 105 million. On the bottom line, we are continuing our relentless pursuit of profitability and our goal of being cash flow positive in 22 to 28 months.

Spire's first quarter results are a reflection of the strong talent and immense effort put forth by everyone at the company. We are privileged to have a world-class team of professionals that redefine what is possible every day. With an air of humble, calm, and collected confidence, we are continuing to push the limits of technology and enable solutions that benefit humanity.

Our team of about 400 global employees stand proud as we watch our LEMUR satellites being propelled into orbit from which they serve our customers with mission critical information day-in and stay-out.

What was once thought impossible now seems like an everyday occurrence at Spire. Without the dedication, professionalism, and creativity of our engineers, our sales leaders, our teammates building and operating our satellites, our genial data analysts, our collaborative customer success professionals, and all those that keep our business running reliably and smoothly, we would not be here today. And for that, I want to say a heartfelt thank you.

During Q1, our team successfully launched six satellites with two different launch providers. The January launch included our 150th satellite, which boasts 100 times the processing power of our first-generation spacecraft, a great reflection of Spire's rapid innovation capability.

These satellites support a diverse array of customer use cases, including the Austrian Space Forum study of the space debris environment in low earth orbit, and OroraTechs' identification and monitoring of wildfire risk areas along with early hotspot detection.

The team showcased our values of speed, reliability, and collaboration as we worked to change launch providers shortly before a scheduled launch to ensure mission success for our customers despite some problems that a particular launch provider had. Being launch provider agnostic, we were able to go from initial call to onsite satellite integration in just 21 days. As launch provider options continue to expand, Spire stands ready to seek the best value of reliability, schedule, and cost to support our customers' needs.

While Spire has just recently become a public company, we've been building, launching, and operating satellites for nearly a decade. We have always been vertically integrated, building our own satellites in our state-of-the-art manufacturing and testing facility. Spire has the fourth largest satellite constellation overall and the largest multipurpose constellation on orbit. We have spent years building out our large global ground station network and obtaining licensees from numerous jurisdictions.

We excel in data that is only available from space. As 95 percent of humanity lives on only about 3 percent of the world's footprint, there are large areas of the planet where data collection via terrestrial means is impractical or simply impossible. Our hundred plus satellite constellation allows us to track ships and airplanes as they traverse the oceans and poles. And we have the ability to collect weather data anywhere, be that Mount Everest or the middle of the Amazon, the Saharan Desert or the Arctic long before that weather hits near your home. Or Geolocate RF signals in access denied areas to support national and global security.

Spire's proprietary radio frequency technology was built on the premise of being software defined, which means we can upgrade it while operating in space. Our fully deployed constellation continues to be enhanced through the software updates, as well as deployment of refreshed hardware capabilities that are continuing to improve at the rate of about 10x every five years, faster than Moore's law.

These updates allow for the continued expansion of the size, power, capacity, data processing, and data volume available to our customers. We capture data once and sell it many times, creating operational leverage and driving margin expansion.

Our subscription-based model for our data and analytics solutions creates a low friction pathway to capture incremental value as we offer and provide enhanced services to our customers.

Every day, we collect hundreds of millions of new data points and process terabytes of data. Day or night, rain or shine, Spire satellites collect data, covering all of earth about every 15

minutes or about a hundred times every day. This massive data haul augments our large data vault of unique proprietary data from space that we have been building for almost a decade and recently augmented further through the acquisition of exactEarth.

With these valuable data sets, our teams utilize both machine learning and AI to create products that solve customer problems. We offer different levels of data and analytics, depending on our customer's needs. From clean data to smart data, to predictive analytics and full-fledge solutions, we help our customers answer what is happening, what will happen, and what should I do.

There are four core strategies that we continue to execute against to drive our business growth. These four growth pillars are, number one, invest in sales, marketing, and product. Number two, expand into new geographies and use cases. Number three, expand the capabilities of our data and our analytics. And number four, execute strategic acquisitions to strengthen our market position.

Regarding the first of our growth pillars, invest in sales, marketing, and product. Spire was designed from the very beginning to be a global company with world-class facilities and offices in the U.S., UK, Singapore, Luxembourg, and Canada. The dedicated professionals at Spire are literally working around the clock for our customers. This global footprint allows us to attract the best talent from a global pool.

So, as we continue to build out our sales and marketing team, we look for individuals that have experience listening to customers to solve their specific problems. For example, we are targeting individuals with domain experience related to certain industry verticals like maritime, financial services, supply chain, aviation, or renewable energy.

Likewise, we look for individuals with specific geographic experience who know how to best navigate the nuances of selling in a specific cultural and economic context. We also attract individuals from the global pool of professionals with deep experience in enterprise subscription services.

At Spire, we offer our teammates the opportunity to work with space data, and analytics solutions that make a true difference in the world, enabling our customers to grow their business more sustainably, faster, and more profitably.

Our sales and marketing hires this quarter have enabled us to expand our geographic reach and begin focusing on sales in Central America and the Middle East. Not only does this fit with our first pillar of investing in sales and marketing, but it also touches on our second pillar of expanding into new geographies.

And beyond expanding into new geographies, we have also focused on expanding our use cases. To share just a few examples of new use cases, earlier this year, we announced to deal

with NorthStar. This is a new space-as-a-service relationship to deliver and operate a constellation of satellites focused on space situational awareness and debris monitoring. The initial award spanning four years is for three satellites with pre-agreed options to expand both the time and value of the contract as NorthStar scales to a full constellation of dozens of satellites.

With this advanced constellation, NorthStar will be able to monitor space from space, delivering timely and precise, orbit determination, collision avoidance navigation services and proximity warnings to the global satellite community.

During the quarter, we also announced the expansion of an existing partnership with Slingshot Aerospace in which we will provide GPS telemetry data that will help with identifying and mitigating ground-based radio frequency and GPS interferences. This is one of the increasing number of examples where Spire is supporting the United States Department of Defense.

Approximately \$21 trillion of global trade is expected to occur this year and the ports for which it passes have different restrictions due to COVID. As some areas are opening up, others are closing down.

As the world economy continues to deal with supply chain challenges, we are providing data and insights to intelligence companies like FreightWaves in Tennessee to help them optimize their solutions for the cargo industry. Weather data provided to Zeus Agrotech in Brazil allows them to better process and analyze agroclimatological and water data and in turn help its customers make better decisions with respect to their agricultural activities.

And our ability to provide hyperlocal weather data enables our race car customers to be more competitive in the Formula 1. These are just a few of the variety of ways in which our data is used every day to provide truth, transparency, and insights on a truly global basis.

We thank our over 600 customers for putting their trust in us to deliver results that enhance their business and missions. We look forward to working with many more from our estimated 200,000 customer total addressable market.

All our investments to-date, technology, people, licensees, and data means that we are in a position to scale the company and grow from 1 million of annual recurring revenue in 2016 to approximately 100 million of ARR in 2022 in just six years. And we're looking forward to our continued momentum along this growth path.

And with that, I'll turn it over to Tom.

Tom Krywe

Thanks, Peter. The first quarter was another outstanding quarter of execution that carried forward our momentum from the end of the last year. Q1 revenue increased 86 percent year-

over-year to \$18.1 million, which topped the high end of our guidance of \$17.5 million and was driven by increased adoption of our solutions by existing customers and recent new customer additions.

ARR at quarter end was \$81.6 million, up 134 percent year-over-year, which also exceeded the top end of our guidance and was driven by key wins in weather and space services. This resulted in adding \$10.9 million of sequential quarter-over-quarter growth, a 15 percent increase.

We ended the quarter on the upper end of our guidance range with 627 ARR solution customers, a 271 percent increase year-over-year. Our organic Q1 ARR net retention rate and 12-month net retention rate were both 106 percent. We continue to see overall growth from our existing customers as they expand across and up the value stack from clean data to smart data, to predictive analytics.

We also see the dollar amount that existing customers are spending with us from buying multiple solutions increasing as they leverage our solution diversity and our ability to solve numerous use cases.

Next, I will be discussing non-GAAP financial measures unless otherwise stated. We provided a reconciliation of GAAP to non-GAAP financials in our earnings release that should be reviewed in conjunction with the earnings call.

Our operating loss for the first quarter was \$12.8 million or negative 71 percent operating margin, which was \$2 million better than our Q1 guidance range. This compares to negative 86 percent last quarter and negative 84 percent in the year ago quarter.

The outperformance in the quarter was the result of strong revenue flowing through to margin and also lower headcount related spending. While we continue to make investments in our future growth, we remain focused on driving efficiencies in the business to reach profitability.

Total adjusted EBITDA for the first quarter was negative \$9.7 million, which was \$1.8 million better than our guidance. We ended the quarter with cash, cash equivalents, and restricted cash of \$91.6 million. As we discussed before, this balance provides us with sufficient cash to run the business and support our four growth pillars as we pursue profitability.

Nonetheless, we continue to evaluate options presented to us to expand or replace our credit facility. This will add incremental cash and provide us enhanced flexibility to efficiently and strategically run the business.

Now, turning to our outlook for the second quarter and full-year 2022. For the second quarter, we expect total revenue to range between \$18.2 million and \$19.2 million, which represents a year-over-year growth of a 105 percent at the midpoint. Sequential increase in our Q2 2022

revenue reflects the incremental ARR added during Q1 and takes in account exchange rate headwinds. We expect Q2 ending ARR to range between \$88 million and \$89 million, which represents a year-over-year growth of 142 percent at the midpoint.

ARR solution customers for Q2 is expected to range between 655 and 665. We expect non-GAAP operating loss for Q2 to range between \$13 million to \$12 million. Our non-GAAP operating loss guidance reflects increased hiring to support our rapid growth and investments in our growth pillars.

Adjusted EBITDA for Q2 is expected to range from negative \$9.9 million to negative \$8.9 million. And we expect our non-GAAP loss per share for Q2 to range from negative 12 cents to negative 11 cents, which assumes a basic weighted average share count of approximately 139.8 million shares.

For the full fiscal year, we expect total revenue to range between \$85 million and \$90 million, representing a 102 percent year-over-year growth at the midpoint. Despite potential headwinds from exchange rates, we are maintaining our guidance range. We are raising the low end of our ARR range by \$1 million, and now expect year ending ARR to range between \$101 million and \$105 million. ARR solution customers is expected to range between 720 and 740.

We expect non-GAAP operating loss for the full fiscal year-to-range between \$47.5 million to \$42.5 million, representing a \$800,000 improvement from our previous guidance due to our strong results in Q1 and efficiencies within the business.

The guidance continues to reflect our ongoing focus on investments in our growth pillars and striving to drive operating leverage and improved margins in our pursuit of profitability. We expect adjusted EBITDA for the full year to range from negative \$34 million to negative \$29 million.

Non-GAAP loss per share for the full fiscal year is expected to range from between negative 43 cents to negative 39 cents and assumes a basic weighted average share count of approximately 140 million shares. We continue our progression towards being cash flow positive now in 22 to 28 months, reiterating our previous projections.

In closing, we are very pleased with the Q1 execution across all areas of the business, along with a strong growth trajectory that we see for the remainder of the year.

Thanks for joining us today. And with that, I would like to open the call up for questions.

Operator

Thank you. At this time we'll be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will

indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Your first question comes from the line of Stefanos Crist with CJS Securities. Please proceed with your question.

Stefanos Crist

Thanks for taking my questions. On the six new satellites you launched, did all of those have the inter-satellite link technology? And can you maybe update us on what percentage of the fleet has that currently equipped?

Peter Platzer

They did not all have the inter-satellite links. And I actually don't have top of my head how many of them did have it. They are our most modern and upgraded technologies and they served a pretty wide variety of use cases for customers.

And we had the debris monitoring in orbit from Austrian Space Forum there. We had use cases for Spire replenishment data there. So, it was a very, very varied set of satellites. But I don't know on top of my head how many had inter-satellite links, but we can--we'd be happy to get back to you with the exact number there.

Stefanos Crist

Perfect. Thanks so much.

Operator

Your next question comes from line of Erik Rasmussen with Stifel. Please proceed with your question.

Erik Rasmussen

Yes. Thanks. And congratulations on the results and execution in the first quarter.

Maybe just my question on the better-than-expected non-GAAP loss, how much of that two million was--of outperformance was from scale or stronger revenue versus the headcount spending? And maybe just on the inflationary concerns, what sort of headwinds are you expecting in this year? And can you just sort of quantify that and how that's baked into the years? Thank you.

Tom Krywe

Yeah, that is a great question. I'll do the interest everything for the--I mean, the coverage on the revenue and how well we did, so we were \$600,000 better than the guidance on the top

end of our range on the revenue. That flowed right down to the margin side. So, we got that gain from that out of the \$2 million that we exceeded on the non-GAAP operating loss.

The rest of it came from efficiencies that we had in the business and some headcount related expenses being less than expected. So, we did really well on both fronts that the top-line and the bottom-line, both those avenues exceeded our guidance.

And then as far as the rates and--our current credit facility has interest rates that are fixed. So, we're a solid on that front. And then as we look to expand or increase in our credit facility, we're going to look at interest rates, we're going to watch the market. We're looking at statistics over the course of time. We're going to build that all into our analysis and then make the proper decisions accordingly.

Erik Rasmussen

Great. Thank you.

Operator

Your next question comes from Ric Prentiss with Raymond James. Please proceed with your question.

Ric Prentiss

Thanks. Good afternoon, everybody. A couple of questions on my side. One is easy. Tom, you mentioned, obviously, some potential FX headwinds out there, some within the second quarter, but also potential for the year. What is your kind of baseline assumption for FX rates from here that's baked into the guidance?

And then the deeper one, probably for Peter, a lot of concerns about recession rearing its head globally. Talk to us a little about how you're, probably pun intended, your business can weather recessions. Obviously, recurring revenue is good. But what are you hearing from your customer base or potential customer base on them wanting to sign up for new contracts given there could be a recessionary environment?

Tom Krywe

Yeah, I'll take the first one. Thanks. On the headwinds and the interest rates, yeah, they--we did build that into our guidance. So, we actually are maintaining our revenue guidance for the full year. And that is assuming also that built into that--projections in our guidance.

So, despite having that and--cause we do have a large amount of business that's outside the United States. We are maintaining our guidance for the revenue. And then we actually tightened our range for ARR dollars.

So we moved up the low end of the range to 101 million to 105 million. So, we're really confident in our ARR, as you can see from our results. We also had in the first quarter of \$11

million a sequential growth quarter-over-quarter, and the confidence and the results we had in Q1 and that lending itself to the guidance that we got for the full year.

Peter Platzer

And Ric, to your other question, it certainly is a very, very dynamic situation on the global scale. What we have found though is that the stuff that we do for our customers is very, very core to them.

I mean, we've seen this during the COVID period, and we have seen this now, customers just really rely on us to run their business. And as such, we've continued to see very, very high net retention rates, above 100 percent.

And then also when you look at what are some of those challenges that we see on a global scale, one of them is understanding the global supply chain where Spire has one of the most unique and insightful views that one can have through our ability to track all of trade on the oceans and all of trade in the air by tracking all the aircraft and ocean vessels. And I think that is potentially even a tailwind for us.

And the other reason that we have concerned on a global scale, when you read the media, is the geopolitical situation. And I think we've seen how commercial space companies can bring truth and transparency to such a geopolitical situation.

And we've seen quite a bit of momentum from that area as well. I mean, as you know, we now own and operate one of the largest commercial RF Geolocation enabled fleets in the world with 40 satellites, RF Geolocation enabled on orbit right now.

So, as the Chinese say, may you live in interesting times because there are always opportunities to be found. And the very diverse nature of Spire's business affords us opportunities even in very dynamic and difficult global situations.

Ric Prentiss

Great. That helps. Thanks, guys.

Ben Hackman

Operator, before our next analyst question, I would like to ask a question from the Say Technologies platform. Last earnings call, Peter said it's harder to convey Spire services to the public since it is not a physical product like rocket lab or space mobile. With a new head of investor relations, how much progress has been made to bring more public attention to Spire?

Peter Platzer

So, first of all, I really appreciate the great engagement that we have seen on the Say platform. Thank you for sharing your questions. It's fascinating for us to know what you are concerned about, and I'm delighted to answer them.

What we've done is we've deployed a two-pronged approach here. On one hand, increasing resources that we bring to bear; and on the other hand increased the engagement that we have with the investment community.

I hope you've seen that we were able to land a new and highly experienced director of investor relation with Ben Hackman, and he has over 20 years of experience in the aerospace and defense industry. But on top of that, he was the number two in the investor relations department of Boeing, one of most celebrated investor relations department in the industry.

But he also has experience in financial analysis and forecasting, including in his role as a CFO. So, in short, he really understands the industry, the numbers, and the value proposition of Spire.

On the engagement side, to give you a few stats there. We had three initiations this year already, all of which were buy ratings. We presented at six conferences and have three scheduled just in the next two months. And we participated in five non-deal road shows, and we had at least 30 investor conversations already.

So, quite an active calendar. The good news is that I really enjoy those conversations. And so, we look forward to keeping that pace up and actually indeed increasing that pace of engagement and bring in additional resources to bear.

Operator

Our next question comes from Jeff Meuler with Baird. Please proceed with your question.

Steve Pawlak

Hi. Thank you. It is Steve on for Jeff. I guess my first question was as you move up the data value stack from clean data to predictive solutions, what percentage or mix of your customers are currently at some of those higher-level offerings? And then how quickly, I guess, are you seeing customers adopt once they have the initial purchase?

Peter Platzer

So, because it is a subscription, we really have this low friction pathway for customers to increase the types of services that they procure from us to help them solve further business problems. And that, of course, then results in a retention rate that is quite attractive at substantially over 100 percent.

So, we see an increasing number of customers take advantage of that. And we see that as one of the growth paths for Spire over many years to come to offer additional solutions up that value chain to our customers.

Tom Krywe

Yeah, and we've seen the improvement, obviously, in the first quarter with our net retention rate increasing from 104 percent to 106. And as we had said previous calls, the back half of the year, we really spent on adding new logos and new ARR customers. And now we're starting to see the benefits of having those to now do the expand part of the land and expand.

And as Peter mentioned, we have four solutions so that we can cross sell or--in so many industries. We could sell both the government commercial and all these different avenues. We have the chance to go sideways and then also up the stack.

So, really great opportunity for us to keep driving that net retention rate up as we're laying on the customer, because we give them so many different options and new cases that we can solve.

Steve Pawlak

Great. And then let me just expand on an earlier question. The additional on orbit services you referenced as part of the January launch, just help us understand sort of what those additional capabilities are. And then sort of how quickly, I guess that--how many more satellites are necessary in order for the constellation to be able to leverage those new capabilities?

Peter Platzer

So, there are capabilities which we've developed on almost weekly basis and upload to our satellites through software upgrades, Jeff, as you know. The RF Geolocation being a classic example of that.

Other capabilities that are immediately available to customers upon launch and have been on numerous spacecraft is the computing at the edge, which brings AI and machine learning capabilities on a supercomputer type level to on orbit data collection and analysis, something that we have rolled out both internally for Spire, but also for our customers.

And then geolocation--sorry, the RFG into satellite links, they provide benefit not just on a full constellation basis, but also as we give customers access to it on small clusters, where they then can do things like geolocation using a small cluster based on the RF Geolocation.

And the exceptional knowledge that Spire satellites have about the time on orbit, their location on orbit, and their relative speed on orbit, which is an outcome of our particular data products where we had to develop exceptional knowledge and precise orbit determination, all of which now flows into the products that we offer to customers. So, those capabilities, by and large, are available at launch immediately and then increase in value over time.

Steve Pawlak

Great. Thanks.

Operator

Your next question comes from Elizabeth Grenfell with Bank of America. Please proceed with your question.

Elizabeth Grenfell

Hi. Good evening. I had a couple of questions for you. The first one is if we look at the revenue growth for the quarter, how much of it came from exactEarth and how much was contributed from the legacy business?

Peter Platzer

So we don't break out in a maritime business because we simply can't. Think of it this way. You take a pitcher of water from Lake of Michigan, and you take a pitcher of water from the Lake Ontario. Once you mix them and use them to water your plants, it's very, very hard to know which water is increasing the growth of your plant.

The teams are fully integrate--operating as one team side by side without any distinction. And so, it really is revenue from the maritime business that flows into that fuller revenue picture without any separation of does it come out of the lake of Ontario, or does it come out of the lake of Michigan?

Elizabeth Grenfell

Okay. So can you break out for us what percentage of the revenue came from the maritime business?

Peter Platzer

We don't separate our business out by maritime or aviation or space services, as you know, because it is all from one shared infrastructure. And so, that leverage that sits on that infrastructure really makes it impossible and actually not very helpful to understand how our business operates, and it doesn't reflect the cross selling that also happens as customers use multiple solutions from us using that one integrated infrastructure.

Tom Krywe

Yes, because we'll embed the pricing when we're doing the multi solutions into one price and one fee, and it just gets mingled together. So it's unable to be broken out. The one thing, too, to note, though, on the revenue is that we did exceed the guidance for the first quarter. So, as a combined force, we put the guidance force as a combined company, and then we exceeded that guidance at the top end of the range.

Elizabeth Grenfell

Okay. And then what exactly do you think you will need to raise additional capital? I mean, I know you've mentioned in the last couple quarterly calls that you're looking at options, but I mean, when specifically are you thinking about it? And what kind of order of magnitude are you thinking about?

Tom Krywe

Yeah. As I--we mentioned, we are looking in all these different options, we're weighing out how the interest rates are bearing. We will--we have our current situation. So, we do have \$92 million of cash and cash equivalents. So, we like where the balance sheet is right now, and we are looking at it to augment and make it even better than it is today with looking at these options.

So, we're continually evaluating, we're watching things carefully, and obviously when we're ready to post the information, we'll do so.

Elizabeth Grenfell

And do you think it will be within a year? I mean, if you've burned through what 20 million in cash this quarter, is it fair to think that within the year that should happen?

Peter Platzer

I mean, Elizabeth, we feel very comfortable with the balance sheet to drive the guidance that we have given. We feel very comfortable with the stake in the ground that we have made in terms of turning cash flow positive within 22 to 28 months, which means that we will turn adjusted EBITDA positive and an operating margin positive before that as it flows through the waterfall.

And we evaluate situation as if and when something makes sense. But I think the momentum that we have carried from the fourth quarter of last year through this first quarter this year, beating our top-line, raising our ARR guidance on the top end, we feel actually quite good about the progression and execution of the business and the support that we have from our balance sheet to continue on that pathway.

Peter Platzer

Yeah, and especially with having the less of a loss in the first quarter, and then improving the guidance for the full year on our non-GAAP operating loss guidance. We're actually spending less than originally even targeted.

Elizabeth Grenfell

Okay. And then the final question I have is, what's the landscape looking like for you in terms of hiring? Is it--do you think it's been tougher than you expected? And is that potentially why the headcount expenses were a tailwind to the quarter? Is it just because the hiring environment is so difficult? Or what was the driver behind that?

Peter Platzer

Certainly, there is evidence of a very tight labor market, but Spire benefits from being a mission-driven company in a highly attractive industry, the new space sector. And as such, we were fortunate of having one of our most successful hiring quarters in the history of Spire. We

do constantly look for efficiencies and scale in the business, and we certainly see that and benefit from that.

And we have been able to pick up a few things here and there extra than what we originally planned, which led to improvements not just on the top-line, but also on the bottom-line, but absolutely, Elizabeth. It is a very tight labor market.

But at Spire, we get to work on mission critical products for our customers that drive to it is a more sustainable and equitable future. And we're nearing the hurricane and wildfire season, and we expect that the world will again turn more and more to like the impact of climate change and look even more dynamically for data and solutions that help companies and governments alike manage that impact of climate change.

Now, that's a very attractive area to be spending your time on, right? Our data and solutions for tackling global supply chain or the geopolitical hotspots, they're topical and on a global scale, right? And that's really helpful for us in attracting the best talent from a global pool even in a very, very tight labor market that absolutely exists.

We are a mission driven company that offers people to work with data from space and AI and machine learning data analysis on data from space in a truly global organization. And I think that afford us some advantages.

Elizabeth Grenfell

Okay. Thank you very much.

Peter Platzer

Of course.

Operator

Your next question comes from Scott Deuschle with Credit Suisse. Please proceed with your question.

Scott Deuschle

Hey, good evening. Thanks for taking my questions. And congrats on the momentum.

Peter, I appreciate your comments on the prior question about how difficult it is to segment the business from a revenue standpoint. But I guess, can you even just roughly comment or give us a sense for how big this space services business is as a percentage of ARR? And I'm only really asking because it does seem to be a fairly different flavor of revenue with different kind of unit economics and marginal cost dynamics. So, I would love to get a sense for how much--how big that is in the sense of the overall business at this point.

Peter Platzer

So, we certainly are excited about this type of business. It allows us to leverage one of the largest scale operations in the industry, Spire, with 350-years of space heritage, 150 satellites launched, tens of thousands of contacts a month between our satellites and ground stations, terabytes of data process shipped to hundreds of customers, and making it as easy as accessing an API for companies to leverage space to solve their problems.

It is a very, very large TAM. And if you look at TAM analysis that we've done a little while ago, you see that it is a very, very meaningful portion of our TAM. And just as Amazon, AWS is a very meaningful portion of especially the profitability and the cash flow production for Amazon. We really like this business.

Unfortunately, at this point in time, we can't really break it out, because it is a shared infrastructure. So, we are not yet at that massive scale, which will allow us to easily break out because it's maybe a little bit more dedicated infrastructure. It is shared across customers. So, we don't really have a good number that we can share at this point in time.

Scott Deuschle

Okay. I mean, I appreciate its shared infrastructure, but aren't these distinct contracts? NorthStar contracts (inaudible), right?

Peter Platzer

We do have existing--yes. We do have existing contracts, a large number of them. They are subscription-based contracts. But when you want to talk about a separate business, you don't want to talk about it just from one side of your income statement. You want to have a sense of the full side of it, right. And we can't do this easily because it is the shared infrastructure that cross virtualizes the various solutions here.

So, at this point, unfortunately I can't really give you anything much additional. But I'm happy to continue the conversation, see if there's maybe other ways of answering what you're truly trying to understand here.

It is a highly profitable high growth business, just as our other businesses. It is a subscription business, just like our other businesses that is focused on delivering our customers' data, just like our other businesses.

So, there is some differences to it, but there might be substantially less than one would think, especially from a business perspective. And maybe it's worthwhile spending some extra time from us to explain that even in more detail.

Scott Deuschle

Okay. That's helpful. And then Tom, I think the incremental gross margins were--hopefully my math's right--22 percent on a year-over-year basis. I know you had a full quarter of exactEarth. That probably drove a lot of that dilution.

But was there anything else at play in the quarter that drove that, that we should be aware of? Then any comments you can make about incremental gross margins through the remainder of the year.

Tom Krywe

Yeah. And you're exactly right. There are quite a few metrics and numbers that we've got. Now, it's kind of setting a new baseline with having exactEarth. So, it was a full quarter of having them on board.

In the gross margins, they have a little--they had a different dynamic of their business. They had a much higher cost of revenue, but a significantly lower OPEX as a percentage of revenue.

So, organic Spire was kind of different opposite in that regards. And that was one of the reasons why we said we weren't going to give guidance in the gross margin, gross profit area, but to really focus on the non-GAAP operating loss because then it balanced those two things out with a different dynamic of the business.

And again, we did really well on that front with exceeding our guidance, the two million on the first quarter, and then actually improving the guidance in the full year on the non-GAAP operating loss.

But to answer your question, though, I would say this is starting like a new baseline with having them on board. We do expect just like we did before that those numbers will improve over time because we have that leverage infrastructure that still exists and we're still going to have certain parts of the cost structure that are very maintained and stable, while the revenue keeps increasing.

So, it did drop because of the acquisition and having the new profile, but we do expect the same thing to happen as we were doing organically, which was growing it over the course of time with the leverage infrastructure.

Scott Deuschle

Got it. So, as we go to Q2 and Q3, if--just on a sequential incremental gross margin--that's a mouthful--sequential incremental gross margin basis we should be looking back into like the 60 percent plus range? (Inaudible). It should be back in a healthy range.

Tom Krywe

We do expect it to be increasing as we go through time, but this is setting a new baseline for us. It is a new point in time and now we have to kind of move ourselves forward from that having that different dynamic.

But in the same token, if you look at our operating expenses, a percentage of revenue, we saw the lowest levels we ever had in years. And that was mainly due to their dynamic was different, getting all that revenue without the operating expenses as much as we had it organically before.

Scott Deuschle

Right. Yeah, that was impressive. All right. Thanks, guys. I appreciate it. I'll leave it there.

Operator

Your final question comes from Josh Sullivan with the Benchmark Company. Please proceed with your question.

Josh Sullivan

Good evening.

Tom Krywe

Hi, Josh.

Josh Sullivan

Can you make some comments just on third-party costs? Launch, insurance. How are those trending? As that layer of the stack matures, are costs coming down? Or are inflationary headwinds masking that?

Peter Platzer

On the launch side, you saw that we were able to switch from one launch provider, which had a wee bit of difficulties to a new launch provider and go from first call to integration of our satellites in 21 days. So, we definitely see an increase in launch providers that are helping us solve our customers' problems with greater reliability and more attractive cost.

So, overall, I would say generally when you have increasing supply, that is a deflationary pressure in those markets. So, net, we are not seeing a huge thing here from an inflationary perspective from third-party providers.

There's also the balance of some of those providers being not in U.S. dollars. And so, then you get a benefit from that as well from the FX exchange rate. So, it's not been actually a big story for us to be honest.

Josh Sullivan

Got it. And then just broadly speaking on the sales cycle, one of my favorite topics, any changes with the macro uncertainties you guys are educating your customers? And they're getting faster. But any noticeable change with the macro uncertainties?

Peter Platzer

So, when the world gets more uncertain, people are looking for things that are reliable and they can lean on. And that's exactly the strength of Spire. We run a massive scale operation, proven with experience for many years serving some of the world's most demanding customers.

And so, it's a little bit like when in doubt, buy IBM. And in more-and-more instances, Spire is the IBM solution here that is tried, proven, operational, at scale that customers can and are trusting. So, I think that's probably how we experience it mostly right now.

Tom Krywe

Yeah. And just to add onto that--on the time, we're actually seeing some customers shorten and our sales cycles actually shorten in the near-term. And that is because with these tough times, our use cases solve problems for them.

When say, for example, petrol or gas prices are going up, we give them solutions for better tracking for whether it's their airplane, their vessel, wrapping weather around it that has a much more accurate forecast, they're able to then to lower their cost structure.

So, they're coming to us actually during these times sometimes faster, and then asking to close the sales cycle quicker because of the use cases that we're solving for them since they're facing some inflation issues and cost increases. And then we can actually negate that through our solutions.

Josh Sullivan

Got it. Okay. Thank you for the time.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would like to turn a call back to Mr. Peter Platzer for closing comments.

Peter Platzer

Really, really appreciate the questions and engagement. In closing, we are immensely positive about the momentum we see in the business as showcased by our results in the first quarter exceeding our guidance, both on the top line and the bottom line.

And we recognize the fortunate position we occupy at this very crest of a massive transformational wave of leveraging space to solve problems on earth, be that climate change or geopolitical tensions.

We're off to very good start for the year, and the team and I are really encouraged by this progress we continue to make against our four core growth pillars. We executed with a typical sense of urgency and relentlessly drive to its profitable growth.

Leveraging our cutting-edge technology and innovation, we really endeavor to help our customers and humanity solve truly global challenges and strive for a more sustainable and equitable future. And with that, thank you for listening.

Operator

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