

**BigBear.ai Fourth Quarter and Full Year 2022  
Earnings Call Transcript  
March 13, 2023**

---

**Presenters**

**Shane Karp, Vice President, Marketing and Communications**  
**Mandy Long, Chief Executive Officer**  
**Julie Pepper, Chief Financial Officer**

**Q&A Participants**

**Louie DiPalma – William Blair**  
**Param Singh – Oppenheimer & Co. Inc.**  
**Vivek Palani – Northland Capital Markets**

**Operator**

Thank you for joining the BigBear.ai Fourth Quarter and Full Year 2022 Conference Call. This call is being recorded. At this time, all participants are in a listen-only mode, and a question-and-answer session will follow the presentation. If anyone should require operator assistance during the conference, please press “\*”, “0” on your telephone keypad.

I will now turn the call over to Shane Karp, Vice President, Marketing and Communications. Please go ahead, Mr. Karp.

**Shane Karp**

Good afternoon, everyone, and welcome to BigBear.ai's 2022 Fourth Quarter and Full Year Earnings Conference Call.

I'm joined by Mandy Long, our Chief Executive Officer and Julie Pepper, our Chief Financial Officer.

During the call today, we may make certain forward-looking statements. Listeners are cautioned not to put undue reliance on the forward-looking statements, and BigBear.ai specifically disclaims any obligation to update the forward-looking statements that may be discussed during the call.

Many factors could cause actual events to differ, materially, from the forward-looking statements made on the call. These statements are based on current expectations and assumptions and, as a result, are subject to risks and uncertainties. For more information about these risks and uncertainties, please refer to the forward-looking statements section on the earnings press release issued today and our SEC filings.

We will also discuss some non-GAAP financial measures during the call today. These non-GAAP financial measures should not be considered a replacement for and should be read together with GAAP results. You can find the GAAP and non-GAAP reconciliations within our earnings release.

Now I'd like to turn the call over to Mandy.

**Mandy Long**

Thank you, Shane, and thank you all for joining today's call. In the fourth quarter, we achieved our 2022 financial outlook and took significant steps to bolster our fundamentals and set the stage for long-term growth.

As discussed in previous calls, we have continued to take material steps forward in reducing our recurring operating expenses and improving our liquidity position.

Less than six months into my role as CEO, we are much healthier. We've cleaned up our operating structure, funded the company in a very tough market and completed a comprehensive technology assessment to baseline our portfolio.

We now have a clearer understanding of our capabilities and how they can be applied to the markets that we service.

I see 2023 as a critical, foundational year for us, as we support some of the challenging things that are happening in the world right now and strive to deliver clarity for the world's most complex decisions.

We are in the midst of an unprecedented wave of excitement around artificial intelligence. Key decision-makers and leaders across governments and industry are recognizing the necessity of at scale production grade adoption of AI powered decision support.

BigBear's capabilities and decades long heritage in this field gives us a competitive advantage in delivering a higher form of reliable, scalable decision intelligence solutions.

We're seeing an explosion of interest in what we provide, and we are continuing to foster our innovation pipeline to adapt and extend our capabilities to serve our markets.

We will continue to focus on delivering solutions in three core markets: complex global supply chains and logistics, autonomous systems, and cyber.

We anticipate the government investment in AI solutions will continue to grow. In November 2022, the U.S. Department of Defense released its National Defense Strategy, which stated that the government would continue to invest in AI and aggressively seek to fill technology gaps in its AI specialization.

In December 2022, the U.S. National Defense Spending Bill was passed, allotting over \$800 billion in funding to our national security and recommending boosted spending on AI solutions to protect our nation from increasingly sophisticated cyber threats.

And just last week, President Biden put forward his 2024 defense budget proposal, which included a record amount of \$145 billion for research and development.

At BigBear.ai, we are uniquely positioned and view the unfolding global market dynamics as an opportunity for us to be a catalyst.

There will be millions of models that might play a role in the orchestra of how we'll achieve true augmented decision intelligence in high-stakes environments, and there will not be a single company that provides all of these models.

An organization needs to step up for production grade AI adoption to happen at scale. In other words, this orchestra will need a conductor. That is the role that we will play. We will be the conductor.

We have been a trusted partner to critical government agencies for decades. Throughout 2022, we deepened these relationships and see examples of this in selections, such as the \$900 million 10-year multiple award Air Force IDIQ contract vehicle, where we will have the opportunity to compete for task orders.

With the integration of our legacy companies, we have the capabilities to compete in a more substantial contracting space and have a seat at the table as an established prime contractor for innovative government and defense work.

We are showcasing our strengths in complex global supply chains and logistics, through our Global Force Information Management, or GFIM Phase 2 work, where our solutions are empowering senior leaders and combatant commanders to man, equip, train, ready and resource the Army more effectively by transitioning 14 legacy systems into a single solution to provide real-time holistic data for 160,000 users.

This Phase 2 work is significant in that it builds on our successful GFIM prototype efforts during Phase 1 and accelerated what was supposed to be a \$2 million award for a second prototype into a \$14.8 million award to deliver a minimum viable product.

Additionally, the Phase 2 award accelerates the program timeline, while naming BigBear as the sole prime contractor to deliver this critical capability and puts us in a strong position to receive the Phase 3 production award.

We are continuing to demonstrate our expertise in autonomous systems, through our participation in the Digital Horizon event series, which supports the Navy's efforts to integrate AI technologies in unmanned surface vessels.

We look forward to showcasing our threat intelligence and situational awareness capabilities at IMX-23, the largest maritime exercise in the Middle East.

Our experience and lessons learned through these events sets us up to be a premier partner with the Department of Defense, as they tackle their broader JADC2 strategy, a multi-billion-dollar effort to use AI, ML, and predictive analytics to better sense, make sense and act at the speed of relevance.

We are also providing cyber solutions across sectors. Our SpaceCREST partnership with Redwire is delivering a suite of space cybersecurity solutions to Mynaric in the development of an advanced satellite communications program, sponsored by DARPA.

Our specialized reverse engineering capabilities provide critical insights to our customers, as they look to manage the increasingly complex and threat heavy environment of cybersecurity.

We are continuing to build our pipeline in the complex manufacturing, shipping and shipbuilding industries, and we are making significant progress.

Our process simulation and modeling solutions help companies manage massive and complex physical and information environments, delivering clarity on facility equipment and personnel systems, forecasting requirements and simulating real-world situations.

Another focus area for us in the back half of 2022 was the implementation of the cost savings initiatives we discussed on our last two calls and began implementing in the third quarter.

The fourth quarter was our first full quarter to benefit from our restructuring, and we are pleased to have delivered on our revenue and adjusted EBITDA target, despite a continued challenging macroenvironment.

We continued our cost reduction actions in Q4 and Q123, taking additional steps to reduce our overhead spend and improve our financial position.

Additionally, in the first quarter of 2023, we closed a private placement for \$25 million in a very challenging market, bolstering our balance sheet and providing us with sufficient liquidity to execute on our strategy in 2023.

We are in a solid position and will continue to keep an open eye towards opportunities to grow our portfolio inorganically in the coming quarters, as well.

With that, I will turn the call to Julie for a detailed review of our financials.

**Julie Peffer**

Thank you, Mandy. Now, let's turn to our fourth quarter and full year results. Revenue for the quarter was \$40.4 million, compared to \$33.5 million in the fourth quarter of 2021, which was 21% year over year growth, primarily driven by our Analytics segment at \$23.1 million in the quarter, an increase of \$6.5 million, or 39%, compared to the same period in 2021.

This growth was driven by key program wins in 2022, including the Phase 2 award for the Global Force Information Management, or GFIM Program, with the U.S. Army that Mandy walked through earlier.

Revenue in our C&E segment was \$17.2 million in the quarter, compared to \$16.8 million in Q4 2021. For full year revenue, we achieved our guidance target with revenue of \$155 million, representing 6% year over year growth versus 2021.

The gross margin was 29% in the quarter, an increase from 11% in Q4 2021, driven by the growth in our Analytics segment.

Turning to segment adjusted gross margins, we are continuing to see growth in our higher-margin Analytics segment, which included our commercial business outpace our C&E segment.

We anticipate that this trend will contribute to increasing segment adjusted margins going forward. The segment adjusted gross margin was 35% in Q4 2022, compared to 31% in Q4 2021.

Segment adjusted gross margin in Analytics was 47% in Q4 2022, compared to 34% for Q4 2021, driven by prior adjustments that were successful in winning and executing higher margin follow-on awards.

Segment adjusted margins for C&E was 20%, compared to 28% in Q4 2021, primarily driven by a one-time year to date fringe rate true-up adjustment that was recorded in fourth quarter of 2021, resulting in a higher than typical segment adjusted gross margin in that period.

Now turning to backlog. Backlog was \$222 million at year end, which is down 23%, or \$66 million, compared to the third quarter. This was largely driven by contracts converting into Q4 revenue of \$40 million, as well as a couple of contracts with expired period of performance in the quarter.

For those time and material contracts, the customer did not spend to their contractual limit, so our backlog was reduced for any remaining funds when the period of performance was completed. In most cases, we simply roll into the next option year on the contract, and we

continue to work with these customers to extend these contracts at the end of their option years to recapture these funds.

In addition, backlog was impacted by one government contract where we switched to a subcontractor role. This change in the contract vehicle type does not impact the revenue associated with this work but impacts when we receive funding from the prime.

As a reminder, when comparing our backlog in prior quarters, we made a change in our methodology of measuring backlog to take a more conservative approach that does not include anticipated follow-on awards and also updated estimates, as it related to unpriced, unexercised backlog.

Now, turning to expenses. For Q4, operating expenses were \$38.2 million, or \$19.9 million, excluding the non-cash goodwill impairment charge.

Q4 operating expenses included R&D expenses of \$1.2 million and SG&A expenses of \$15.6 million, or \$16.8 million in total. This represents a 43% reduction from R&D and SG&A expenses in Q2 of \$29.4 million, prior to initiating our cost reduction action plan.

Excluding the impact of stock-based compensation and nonrecurring integration expenses in both periods, Q4 expense still reflects a 27% decrease in spending, compared to Q2, driven by a full quarter benefit of cost savings initiatives we implemented in the back half of the year.

While we believe the actions we took in the third and fourth quarters of 2022 and the first quarter of 2023 have positioned us to operate efficiently going forward, we will continue to be disciplined in our expense management as we grow, and we will be focused on implementing scalable processes, operating rigor and driving overall efficiency across our business.

Looking ahead, we are also focused on ways to improve efficiency of contracting processes and timeliness of payments.

Net loss was \$29.9 million in the quarter versus \$114.8 million in Q4 of last year, when we had \$60.5 million stock-based compensation expense related to the merger transaction.

The net loss in the fourth quarter of 2022 was impacted by a non-cash goodwill impairment charge of \$18.3 million in our Analytics segment.

We reviewed goodwill for impairment in the fourth quarter and while we saw improved financial results in our Analytics segment this quarter, relative to fourth quarter of 2021, we concluded that our goodwill was impaired, due to several factors, including current macroeconomic headwinds and previously anticipated growth rate.

Adjusted EBITDA was a loss of \$2.5 million in Q4, compared to Adjusted EBITDA loss of \$3.9 million in the third quarter and \$7.7 million in the second quarter.

Our total Adjusted EBITDA loss for the second half of 2022 was \$6.5 million, as we forecasted, compared to the \$10.6 million in the first half of 2022.

With our cost-saving actions in the second half of the year, we now have a foundational baseline for future profitable growth.

In review of the balance sheet, at the end of the fourth quarter, we had cash and cash equivalents of approximately \$12.6 million.

Of the \$9 million operational cash usage in Q4, \$6 million was our bi-annual interest payment. The remaining operational cash burn of \$3 million was significantly less than previous quarters, as a result of the cost initiatives we executed, beginning in the third quarter.

In January, we took steps to address liquidity with a \$25 million private placement, which provides us with sufficient liquidity to execute our 2023 strategy.

Following the actions we took to right size our operational cost structure in the second half of 2022 and early 2023, we expect to continue the trend toward a much lower cash burn in 2023.

We are focused on achieving positive operational cash flow in the second half of 2023, which excludes non-recurring and non-operational items, including interest payments, transaction fees, tax payments for stock vesting and severance costs associated with our reduction in force.

And finally, I wanted to provide additional context of the material weakness that we described in our earnings release, related to our internal IT control.

While we have completed a thorough review of our financial statement and have not identified any material errors in our financial results or our consolidated financial statements, we have discovered gaps in our internal control processes and IT related controls that, in aggregate, resulted in a material weakness in our internal control.

We are addressing the issue, including enhancing segregation of duties, implementing additional IT general controls and increased monitoring and oversight activities.

We are implementing a comprehensive remediation plan in coordination with our auditors and expect the remediation work to be completed this year.

Turning to outlook. We are expecting 2023 revenue to be in the range of \$155 million-\$170 million. We are projecting single digit negative adjusted EBITDA in millions for 2023.

We have several significant expected contract awards in our pipeline which, given their size and timing of award, could have a significant impact on our FY '23 revenue.

Additionally, as Mandy said in her opening remarks, it's clear that the race for AI dominance will continue into 2023. As we execute our strategy this year we will, undoubtedly, have to make certain investments that we believe will be catalyst in accelerating our success as an industry leader in AI.

Looking ahead, we remain disciplined on managing costs and focused on areas to drive operational efficiency.

Following cost reduction initiatives, we anticipate substantially lower cash burn, particularly, in the second half of 2023, as we saw in the fourth quarter of 2022.

After improving our near-term liquidity position, we will make targeted investments to efficiently drive sustainable growth. We are well positioned to deliver increasing gross margins and steady revenue growth, driven by increasing demand for our offerings in federal markets and our ramp up in commercial go to market efforts, as well as a continued shift in our business mix in favor of higher margin Analytics segment.

I'll turn it over to Mandy for final remarks, before we turn to Q&A.

**Mandy Long**

Thank you, Julie. I am proud of the BigBear.ai team and the work that we have done to deliver on our commitments and begin to capitalize on the evolving market opportunities we discussed. That is the pattern that you will always see here.

We will say what we are going to do and then we will do it. We know what we are capable of. We aren't afraid to learn fast and work hard, and we see the long game.

2023 will be an important year of growth and stability for BigBear.ai, as we deliver clarity for the world's most complex decisions.

We're very excited about the year ahead.

Operator, we're ready for questions. Thank you.

**Operator**

Thank you. And at this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press "\*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "\*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary

to pick up your handset, before pressing the star keys. One moment please, while we poll for questions.

And our first question comes from the line of Louie DiPalma with William Blair. Please proceed with your question.

**Louie DiPalma**

Mandy and Julie, good evening.

**Mandy Long**

Hello, Louie.

**Julie Pfeffer**

Hello, Louie.

**Louie DiPalma**

Hi there. There has been a great deal of investor excitement associated with ChatGPT and its impact on AI innovation. Can you provide a quick overview of how your solutions may differ from ChatGPT and your use of Tensor completion as part of your AI solution? And also, related to this, will ChatGPT developments translate into contracts for BigBear.ai over the long term, or how should we, in general, think about the recent excitement for AI solutions? Thanks.

**Mandy Long**

Thank you, Louie. It is an incredibly fair question and I think one that many wonder about. So, ChatGPT as a whole, I think there's been a lot of coverage on, is derived off of LLMs or large language models, which is a capability that has actually existed for a very, very long time, and has been applied.

BigBear uses LLMs. A lot of companies do. I think that this particular instance is the first time we've seen a degree of democratization and consumer facing access to the capabilities that exist within training on such a large spectrum of data.

Now, in terms of kind of how that pulls forward for us, I think what's important to note about BigBear is that we have more than a couple of decades of experience in working in, even in the early days of machine learning and now, as deep learning has progressed, we leverage a wide variety of training schools and methodologies to meet customer need.

Sometimes, that, to your point, may require different types of artificial intelligence, whether it's the work that we do in predictive analytics, whether it's computer vision or then the underlying tools that we use to accomplish those things, we have skill sets that tap into each of them.

But what I would note in terms of, so you mentioned Tensor, right, I think the big thing that I always say about AI in general is that it is a tool. It is a spectacular tool, and it can be applied in

a way that, even five years ago, we really couldn't tap into because of the limitations around compute.

But at the end of the day, as a technology provider and as a solution provider, our job is to use the right tools to solve the customer problem. And we're going to lean into things, like Tensor as an example, it does a pretty spectacular job and we've been working in that for quite a while around weak link correlation, so dirty data sets.

And we do use that in some of our solutions that are deployed with the federal government. As we look forward into 2023, as well as beyond, unquestionably, we are seeing an unbelievable amount of interest in the application of artificial intelligence in both the federal sector, as well as the commercial sector.

What's putting us apart in those conversations and what gets us excited about the future is that we're not new to the table. We've been doing this for a very long time, and we have a lot of production examples of the types of tools that I just talked about.

And so, I would expect, when we look at our pipeline, I see a lot of promise associated with where we're headed, and it's really on us to do what we said, go execute and then keep sharing it, as we go.

Does that answer your question, Louie?

**Louie DiPalma**

Yes, definitely. Thanks, Mandy. And you were just talking about production examples and, last quarter, you discussed how your MedModel and FutureFlow Rx platforms have been gaining some traction with hospital customers. And I'm wondering how has that platform progressed since last quarter in terms of customer adoption? And what does the pipeline look like?

**Mandy Long**

So it's a great question. And I do want to note, right, the commercial side of our business, which does include the FutureFlow RX solution, we don't break out separately in terms of recording.

But the pediatric care crisis continues. There is an unbelievable challenge happening in the world – and I spent many years in across hospitals and health systems – associated with staffing shortages, associated with incredible upticks in particular types of illnesses that we just haven't seen in this kind of volume for a very long time.

And our tools are incredibly well situated to be able to help with how to design patient flow solutions and optimization solutions for how to get patients to the right place at the right time and do prioritization. We are continuing to see interest in that and our pipeline is reflective. Does that answer your question?

**Louie DiPalma**

Yes. And one more on your business prospects. The U.S. Army, at an industry conference in January, announced that it is looking to multisource its Vantage data analytics dashboard program. And in your prepared remarks and over the past year, you've discussed the success that you've had with the GFIM program, which is also with the U.S. Army data analytics office.

And I was wondering if this Vantage multi-sourcing represents an opportunity for BigBear given its strong relationship with the U.S. Army, and what other potential defense prospects you may have in your pipeline? Thanks.

**Mandy Long**

Sure. I think probably the best way to answer it, Louie, is to maybe talk about some of the things we're seeing as it relates to consolidation of federal contracts, because that, I think, is absolutely happening. We are seeing multiple contracts consolidated into larger contract infrastructures, in certain cases, which allows the government to manage properties more efficiently and streamline the work. And we are definitely having those conversations.

Now, we've seen that in other instances as it relates to kind of the general, federal market, and how we position ourselves and what we're seeing in terms of opportunity. I think, in all three of the vectors that we have strengthened, whether it's complex global supply chain logistics, whether it's autonomous systems like our work at IMX-23, whether it's cyber, particularly with a focus on cybersecurity and risk and reverse engineering, I see our pipeline growing.

I guess this is the short summary and I think it has, in no small part, to do with the fact that there is a level of geopolitical unrest that is pretty unprecedented right now and leadership that is in the seats and we are doing our best to help.

**Louie DiPalma**

Great. And for Julie, following the cost reduction initiatives, what should we expect for the ballpark cash burn for 2023 when taking into account the interest payments and different tax payments that you mentioned and also, what is the total company liquidity pro forma for the \$25 million raise?

**Julie Pfeffer**

Well, specifically to your first question, Louie, we feel like we have done a really good job of getting the PIPE, which has really helped significantly on that liquidity profile, obviously. But when we look at our cash burn with the cost reductions that we've taken out, starting in Q3, again in Q4 and Q1, we do expect the cash burn to be significantly lower.

Now, you're already aware of our interest payments that do happen in second quarter and fourth quarter. And so, you kind of already know where those are placed.

I would tell you that our targeting, we are targeting to be operationally cash flow positive in the second half of the year. Again, to be clear on what we mean by operational cash flow positive, we're focused on the ongoing day-to-day business.

So that includes everything that would be normal operating expenses that you would see in the business as well as inflow of customer payments. It doesn't include, as I said, the interest payments, which you know where those are, or transaction fees for severance costs and things like that.

We're going to be much more positive, we believe, in the second half of the year. In the first half of the year just to be clear, we, I think we noted this in our earnings release, we had some start-up costs in fourth quarter and early Q1 in advance of a contract that was awarded in late Q1. And so, the timing of those customer payments is probably going to flow into Q2.

And so, we do think that early in the year cash is going to look a little bit worse than it will be in the back half of the year. But we still think that we're comfortable with our liquidity position where we are, that we have plenty of liquidity to support our growth strategy and deliver on the promises we've made.

**Louie DiPalma**

Great. Thanks Julie and thanks Mandy. That's it for me.

**Julie Peffer**

Thank you, Louie.

**Mandy Long**

Thank you, Louie.

**Operator**

And our next question comes from the line of Param Singh with Oppenheimer. Please proceed with your question.

**Param Singh**

Hi, thank you. Yes, this is Param Singh on for Ittai Kidron from Oppenheimer. So first of all, I just want to get a better sense of your overall revenue guide. Obviously, you have some really good successes with multiple contracts that you've talked about GFIM today, and, of course, IDIQ.

I want to kind of parse that against your guide for \$155-\$170 million, I mean, it doesn't seem you're embedding much growth in there. Maybe you could help me understand why is that not growing at a much faster pace? Or is there incremental conservatism baked into your guidance?

**Mandy Long**

So hello, first of all, hi, thanks for joining. Second, so I can, I'll make a couple of comments and then I'll hand it to Julie to add some color. I think when we looked at kind of the year we had in 2022, and then we looked forward into 2023 and kind of what we see, the way that we're approaching guidance is really to be balanced, right, and really establishing and sharing what we have line of sight to, what we see, what we think is reasonable, given certainly a continued challenging macroeconomic environment.

But to reinforce what Julie shared, as well as what I shared earlier, I think for many companies, ourselves included, January opened up a lot of conversations that I think we are seeing accelerate.

And I'll continue to be optimistic about how those conversations will progress. But as you also know, the federal contracting process can be a long one. And while we are pushing and being extremely responsive and adapting and extending our solutions to meet those needs, our guidance reflects what I think is a very appropriate and measured approach for 2023. Julie, anything to add on your side?

**Julie Peffer**

Yeah, I would say yes, Mandy said most of everything that I would have said. The only thing I would add is – there's a couple of things that I would add to that in the sense of we are trying to ensure that we don't get ahead of ourselves.

We saw some challenges last year, as we experienced some shifting and funding from various different contracts that we had in terms of timing of how those were going to be funded, or specifically some of the funding that was reprioritized to be associated with the war in Ukraine. And so, we want to make sure that what we have in our guidance is what we believe is in front of us and that we can deliver.

And the only other thing I was going to just remind you guys of and I think Mandy said this but just to reemphasize, it's important to understand that in the government world, even with this really heightened awareness and excitement around AI and the capabilities, there's typically three major stages that we have to go through in order to get these contracts awarded. And there's a prototype phase, which is small and typically breakeven. There's an MVP stage, which has to prove things out. And then we get into production; that takes a long time.

And so, even with the excitement around everything that we're seeing, and we're excited about what we're seeing, it's just going to take a while for people to move through that process and through that curve. And so, I think that's why our guidance is where it is. We want to make sure that we're measured about how we're communicating and what we're committing to and how fast we can get there.

**Param Singh**

That's really helpful. Thank you so much for the color, Mandy and Julie. Maybe if I could, on the GFIM part, you obviously did much better on Phase 2. Phase 3, what do you expect, what's embedded in your guidance in terms of the dollar portion of the contract? Obviously, the revenue piece was much higher than you had previously anticipated. Is there now a higher output for Phase 3, as well?

**Mandy Long**

So, it's a fair question. And I'll kind of do the same as the last which is, as Julie walked through in terms of thinking about phases, as we move from where we are in Phase 2 and compete for Phase 3, which we continue to believe we're very well positioned for because of our execution and delivery in the Phase 2 process.

Ultimately, the shift to production in, I think all example cases that we can look at means that it's larger, right, because you're talking about putting it into the real world, doing it at scale.

Now, in terms of price and scope, I think, ultimately, it's up to the customer to make that determination and to make the award as appropriate. But, I mean, Julie, definitely weigh in because we are certainly spending a lot of time talking about it.

**Julie Pfeffer**

Yeah, for sure. Yeah, I mean, everything's going very well on the program. It was announced back in September of last year for Phase 2. We're still working toward the next phase. And again, I think the government is still looking to accelerate the deployment of the overall solution. And so, we're excited about where it's going.

But as we've said, they continue to refine their contracting processes and decide how fast they're going to move down the curve and whether they need some more prove out during this process before they land in a production mode.

And so, I think everything's going exactly as we hoped, and maybe even better than we hoped. And I can't--I think right now though we just don't want to over-commit to how quickly they're going to move into production, although we do believe it is palmed as part of the 2024 budget.

**Param Singh**

No, that's really helpful. Thank you so much. Maybe we could talk a little bit more about the cybersecurity opportunity. I don't think that's been discussed as much. So want to really understand what you're doing there and what are the new avenues of revenue that could potentially haul BigBear in the upcoming years.

**Mandy Long**

Sure, so I can talk a little bit about that. So we have a, and I think it's important to note first, this is actually not a new capability for us, we have a pretty mature and long-standing cyber competency.

But the area that I was referring to, that I talked about at the beginning of the call, is really in and around part of our business that we're seeing mature pretty quickly, which is SpaceCREST solution, so not only being able to do soup-to-nuts holistic reverse engineering work and vulnerability analysis on componentry, but also to be able to do simulation and modeling associated with potential, whether it be offensive or defensive security postures and monitor that.

Now on an ongoing basis, some of the things that we're seeing as well is that, as we all know, cybersecurity continues to be one of the great challenges for a wide variety of industries, as we go through the fourth industrial revolution. A lot of these systems and sets of hardware were just not set up with the level of rigor that is going to be needed as the threat landscape continues to mature.

And so, we're doing more and more work in what I would describe as kind of vulnerability assessments as a service. There is a large platform manufacturer that we've worked with on that, and we're seeing additional chances.

But the area where I guess I want to kind of focus and educate around is that we have a pretty unique competency in being able to do end-to-end reverse engineering and full scope vulnerability work.

That is not something I have seen in a lot of other companies – all the way through the process of being able to actually work with physical hardware, do extraction analysis. So I hope that's helpful. But that is where we have some superpowers.

### **Param Singh**

Would you compete with traditional defense contractors there or would cybersecurity companies offer displacement for you in this vertical?

### **Mandy Long**

It's a good question. I think, in the space that we work in, so particularly focused, if I focus first on the SpaceCREST solution, that's a pretty distinct solution that we have a partner, Redwire, around that we're doing that work in. As it relates to some of the kind of broader vulnerability work that I mentioned, and the reverse engineering work, I would say we do see a level of competition from both sides.

Most of the--this is pretty kind of special superpower services work, too. It requires pretty highly talented and skilled individuals who live along the technology pipeline that we're using for it. So, we do see some competition in the kind of more traditional contractor world, too. Does that answer your question?

### **Param Singh**

Yes, absolutely. That's really helpful. Thank you. Maybe one last one on commercial revenue, if I may. The commercial revenue, I know you haven't broken down, but previously, BigBear used to somehow outline the percentage of revenue that would come from commercial, and then that would increase over time. Is there some sort of guideline or number embedded in your 2023 guide? Now, do you think you can hit 10% would be coming from commercial, is there a better number? I just want to understand your trajectory for that piece of the business.

**Mandy Long**

Yes, it's a great question. So we continue to see the commercial business show promise. Our pipeline is great, we're continuing to see that grow. We have not broken it out specifically because we're still below that 10% threshold for us. But I think 2023 is going to be a great year for it.

**Param Singh**

And then, just on the margin front. I'm looking at a number that seems like your C&E margins, gross margins was lower. Maybe you can give me some clarity why that's taking a little bit of pressure here?

**Julie Pfeffer**

Yeah, actually, let me take that one for you, Mandy. I would say, on the C&E, what you saw in Q4 was pretty close to what we've been running, slightly below what we've run all year. The anomaly is the year-over-year comparison.

And last year, there was a one-time year-to-date catch up that happened in Q4 that caused the C&E margins to look a little bit out of sync with everything else in the fourth quarter of last year. So, when you look at the comparison, it looks odd. But I think what you see in Q4, although right at that 2021 level, is what we consistently run for the C&E segments.

**Param Singh**

Got it. Okay, that's really helpful. Thank you so much. And then at what level of revenue do you think you could probably get an EBITDA breakeven on an adjusted basis.

**Julie Pfeffer**

It's a great question. But I mean, our guidance is that we're going to, basically, our target is between \$155 and \$170 [million] on revenue. And we think that that will be really aligned with our guidance of negative, single digit negative in millions of EBITDA.

We're going to do everything we can to continue to focus on our cost structure and be very diligent in how we can take costs out and focus on that where we can, but we're not going to, we're not going to do the wrong thing. We're going to make sure we have enough investment opportunities so we can take advantage of this really unique opportunity in our lifecycle where we can make those investments, as necessary. So, I think that's where we need to be right now. And that's our guidance for the year.

**Param Singh**

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

**Julie Peffer**

Thank you.

**Mandy Long**

Thank you.

**Operator**

And as a reminder, if anyone has any questions, you may press “\*”, “1” on your telephone keypad to join the question-and-answer queue.

Our next question comes from the line of Vivek Palani with Northland Capital. Please proceed with your question.

**Vivek Palani**

Hi, I'm Vivek on for Mike Latimore. I have three questions.

**Mandy Long**

Hi, Vivek.

**Vivek Palani**

The first one is -- hi. Yeah, my first question is how many salespeople do you have? And do you expect them to grow this year?

**Mandy Long**

Julie, do you want to go ahead and take that one?

**Julie Peffer**

Yeah, I was going to say I just I want to make sure I heard the question right. Are you asking about how many salespeople we have?

**Vivek Palani**

Yes.

**Julie Peffer**

We don't specifically give guidance out on headcount, and specifically not within one area. But I would say we are really focused on where we think we need to invest, both on the C&E side, as well as on the Analytics, in terms of opportunities within the best customer sets. And we're looking to do two things.

One is to pursue opportunities into adjacent customers that we haven't had a position in. So our business development resources are critically important to that growth opportunity. But we're also looking to continue to grow within customers that we already have. And so, that often falls on the program manager side of the house, as well. So I think the way we handle that growth is a two-part answer, but it's not something that we typically give guidance on.

**Mandy Long**

Yeah, I think the only other note that I would make, in addition to just the comments that everybody sells, is that we have a strong partner channel, as well. And it's a space that we're growing. So when we think about sales, I would also encourage you to kind of also think about it from an indirect standpoint and channel, we have a growing degree of interest in some established relationships already there. So for us, it's not just about direct sales. I hope that helps.

**Vivek Palani**

Yes, thank you. And my second question is, should we assume first quarter to be the lowest revenue for the whole of the year, and then it builds from there?

**Mandy Long**

Julie, do you want to go ahead and take that one?

**Julie Peffer**

I can take that. I would not make that assumption. But again, we don't give quarterly guidance. The nature of our business is that sometimes it is lumpy. And so, when we give guidance for the year, there is a reason why we don't give that quarterly guidance, we want to make sure that, we're offering the best perspective we have on the year, but it can be lumpy, and it can move around.

I mean, as I mentioned, we had contracts that got delayed at the end of fourth quarter that came in in Q1. And so, that's going to cause some lumpiness in our cash flow. But bottom line is, it's just not something we're comfortable yet. We may get to a point where we get there, where we start to give quarterly guidance, but we're just not quite to that level yet.

**Vivek Palani**

All right. My last question is about I mean, do you see Analytics or Cyber & Engineering both growing faster this year?

**Mandy Long**

So just to make sure that I understand. Are you talking about comparison between the two which will grow more significantly?

**Vivek Palani**

Yes.

**Mandy Long**

So, this is something that, and Julie you can add on after me – we've been talking about this for the past several quarters. Our Analytics business, which is a higher margin business for us, is an area where we're seeing a lot of growth, continues to be a part of our business that we expect to drive a lot of growth for us overall. That being said, I would say C&E is projected to have a good year as well. But I guess, Julie, I don't know if you'd add anything on that.

**Julie Pfeffer**

Yeah, I would just say, I would point to our performance, which you've seen recently, which is, we've clearly been focusing on a shift of our revenue mix toward that higher margin Analytics segment, technology-led services. And so we're pleased to see that in Q4 we had 39% growth in that Analytics segment. And we expect that that that helps us drive better profitability in the quarter and in the back half of the year, as well. And we expect that to continue into 2023. So yes, we do expect the Analytics segment to grow faster.

**Vivek Palani**

Thanks a lot, guys. Thank you.

**Julie Pfeffer**

Thank you.

**Mandy Long**

You bet.

**Operator**

And we have reached the end of the question-and-answer session. I will now turn the call back over to Mandy Long for closing remarks.

**Mandy Long**

Thank you all so much for joining today. Appreciate the questions and the discussion. As I shared, I continue to be genuinely excited about BigBear.ai, our potential, our future. I think we are doing all of the right things and have a very clear focus on long-term and sustainable growth for the business. We appreciate all of your time, and we look forward to speaking with you again next quarter.

**Operator**

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