

Sidus Space

Third Quarter 2022 Earnings Update

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CORPORATE PARTICIPANTS

Carol Craig – *Chief Executive Officer*

Teresa Burchfield – *Chief Financial Officer*

PRESENTATION

Operator

Good day, and welcome to the Sidus Space Third Quarter 2022 Results and Business Update call. I would now like to turn the conference over to Carol Craig. Please go ahead.

Carol Craig

Good morning. Thank you for joining us. My name is Carol Craig and I am the Chief Executive Officer of Sidus Space. With me today is Teresa Burchfield, our Chief Financial Officer. On this call, I'll provide highlights on the quarter and give a strategic update on the business. Teresa will review the company's third quarter financial results for 2022.

Before we begin, let me refer you to slide 2 of the presentation, which contains our Safe Harbor disclaimer. During today's call, we may make certain forward-looking statements. These statements are based on current expectations and assumptions, and as a result, are subject to risks and uncertainties. Many factors could cause actual results to differ materially from the forward-looking statements made on this call. These factors include our ability to estimate operational expenses and liquidity needs, customer demand, supply chain delays, including launch providers, and extended sales cycles. For more information about these risks and uncertainties, please refer to the risk factors in the company's filings with the Securities and Exchange Commission, each of which can be found on our website, www.sidusspace.com. Listeners are cautioned not to put any undue reliance on forward-looking statements, and the company specifically disclaims any obligation to update the forward-looking statements that may be discussed during this call.

So, welcome to our second earnings call. On this call, Teresa and I will cover our overall strategy, along with an overview of Q3 and year-to-date key business accomplishments and results, having had another quarter of strong revenue growth. As a public company for less than one year, we recognize many of you are still new to our story and the space economy generally, so we will continue to provide background on who we are and what our goals are, as we rapidly scale up our business.

While new to the public market, Sidus Space offers deep space heritage with the outsized growth of a startup. In fact, we've been in business for over 10 years, supporting both government and commercial space with manufacturing and engineering solutions. As a spinoff from Craig Technologies, an industry-recognized government engineering and technical services provider, Sidus began operations in 2012. Craig Technologies remains the majority shareholder of Sidus Space, and is a valued partner on several government and commercial contracts.

In just a few short weeks, we will celebrate our first year as a public company, when we became the first female founded space company to go public. Our mission, as shown on Slide 3, is bringing space down to earth. More simply put, our goal is to democratize the space ecosystem to help unlock the opportunity space data holds for industries, government agencies, and consumers across the globe.

With operations in Cape Canaveral and Merritt Island, Florida, and a 35,000 square foot manufacturing assembly, integration, and testing facility, we are a vertically integrated provider of space-as-a-service solutions, including end-to-end satellite support. We focus on mission-critical hardware manufacturing, multi-disciplinary engineering services; satellite design, manufacturer, launch planning, mission operations, and in-orbit support; on-orbit testing of space ecosystem technologies and hardware; and data and customer-driven analytics derived from satellite space-based data.

Currently, our primary source of revenue is manufacturing space and defense hardware. As we look ahead at launching satellites, though, the makeup of our revenue mix is expected to shift to include more incremental revenue tied to payload and technology integration on our satellites and data and analytics subscriptions from a variety of end users.

Moving to slide 4 in the presentation, we want to highlight the key differentiators of Sidus. First, our company is set up for a period of sustained growth, as we ready our satellite constellation, in addition to our growing manufacturing and engineering business lines. The space domain is simply massive on its way to over \$1 trillion in opportunity, and more specifically, the small sat manufacturing market is expected to grow 258% in the next decade; over \$55 billion. We have a diversified revenue model that isn't tethered to one specific line of business, and we serve customers at every/or any stage of the space business cycle.

We are developing proprietary, cost-effective, partially 3D printed satellites preparing for launch in 2023. We'll discuss this in detail later, but what's important is that we have received approval by the ITU for RF spectrum license back in 2021, and have critical components and technology partners in place for our initial launch.

The unique size of our satellite allows for redundancy and propulsion, along with space-rated subsystems. And while many of our peers may focus on government contracts, we've positioned ourselves to also capitalize on the multitude of private sector and customer needs that are not yet widely understood by industries.

Lastly, we have an amazing leadership team with over 150 years of experience. Collectively, our executive team, depicted in slide 5, have a broad range of experience in the space industry, and provides the perfect combination of traditional and new space expertise and leadership. Jamie Adams, our Chief Technology Officer, has over 30 years of experience with industry leaders, including Lockheed Martin, Boeing, and NASA. John Curry, our Chief Missions Officer, offers decades of experience with NASA and Blue Origin. And finally, Teresa Burchfield, our Chief Financial Officer, has over 30 years of finance and accounting experience in both small and large corporations.

We take a broad view of space-as-a-service, and are building an end-to-end full stack solution, which can service an entire space journey or a portion of a client's needs. With our decade plus of organic heritage and experience, we believe we're well positioned to be a leader in this area. Recent significant investments in peer companies from larger, well-known and established aerospace and defense players, as well as private equity investors, demonstrates the growing appeal of our burgeoning sector.

On slide 6, we highlight the diverse revenue streams we have and are pursuing as part of our strategic plan. As a new space entrant with a seasoned space hardware and services heritage, Sidus Space is leading the space-as-a-service model. We're focused on bringing customized, cost effective, timely solutions to customers that would otherwise lack the opportunity to achieve their space aspirations. While we recognize the stability and importance of contracting with the government, a key differentiator for Sidus is that we are more aggressively targeting commercial applications of LEO [ph] satellites.

Currently, as mentioned, our primary source of revenue is manufacturing space and defense hardware. However, in addition to our growing manufacturing and engineering lines of business, 2022 revenue today includes revenue related to our multi-mission constellation and our partially 3D printed LizzieSat satellite. Over time, we expect revenue from satellite technology integration and data subscriptions to exceed other revenue streams. These verticals are expected to generate improved margins, and combined with our extensive experienced growing businesses, set us on a path to profitability that we believe will be accelerated relative to newer market entrants.

We're confident we can deliver on customer needs in months, rather than years, by leveraging our existing manufacturing operations, flight hardware manufacturing experience, and commercial off-the-shelf subsystem hardware. As the next phase in our growth, we intend to monetize high impact data for insights on virtually every commercial sector.

Historically, our business has centered on the design and manufacturing of space hardware, but our expansion into spacecraft manufacturing, as well as on-orbit constellation management services and space data applications, has resulted in multiple space-specific innovations. We continue to patent our products, including our satellites, external platforms, and other disruptive technologies.

In light of our strong position, we believe we are at the forefront of seeking new opportunities to invest in our future to position us to capture more share of the massive market opportunity over a longer term in this high barrier to entry sector. In August, we entered into a \$30 million equity line of credit with B. Riley Principal Capital, to enable our growth strategy and accelerate our path toward profitability. To date, we've raised \$3.5 million since executing our ELOC, to support acceleration of operations and growth. We view this as the optimal capital-raising mechanism at this stage, as it provides the ability to use our discretion to raise additional capital when market conditions are favorable, while limiting dilution for our existing shareholders, all of which is very important to our long-term mission and vision.

As described, Sidus Space is building a multi-mission satellite constellation, shown on slide 7, using our hybrid 3D printed multi-purpose satellite to provide continuous near real-time earth observation and internet of things data for the global space economy. These satellite operations tend to be higher margin, and we're looking forward to liftoff. Since our last call, we made meaningful progress along these lines. But before we cover these highlights, we'll share some detail on our advanced stage satellite constellation.

We have designed and are in advanced stages of development of LizzieSat, our proprietary small satellite depicted on the slide, for its LEO satellite constellation, operating in diverse orbits, 28-to-98-degree inclination, 300-to-650-kilometer altitude, as approved by the International Telecommunication Union in February 2021. LizzieSat is manifested to begin operations in 2023. Each LizzieSat is 100 kilograms, with approximately 20 kilograms dedicated to multiple technologies, including remote sensing instruments.

Our technology, Sidus or customer-owned, can collect data over multiple earth-based locations, recorded on board and then downlink via ground passes, utilizing our ground station operations partner, KSAT, and backhaul services partner, AWS, to Sidus Missions Control Center in Merritt Island, Florida.

LizzieSat offers many novel selling propositions for our customers. First, it's a multi-mission satellite that supports integration of custom technologies and multiple customer needs, leveraging space flight proven communications, power, navigation and computing subsystems, to provide both domestic and international customers with valuable data from low earth orbit. It is partially 3D printed, which allows us to maximize technologies and revenue-generating space due to the lighter weight of materials. The unique size of our satellite allows for redundancy and the option of including propulsion to provide precision pointing and maneuvering, otherwise not available to smaller CubeSats. Propulsion also provides a longer life on orbit, which means continued data transfer and revenue opportunity. The larger mass allows us to design redundancy and reliability into our spacecraft.

Moving to slide 8, you can see that it's been a busy period making progress toward actualizing a cadence of launches and the associated revenue, but before we cover the recent highlights, it's important to note that we have spent the last year obtaining mission-specific licenses and developing

necessary partnerships to execute a successful launch. That said, much has been accomplished in this past quarter. First, we've established multiple paths to orbit, with multi launch agreements, including with SpaceX. We signed an MOU with Momentous to explore launching our LizzieSat satellites, utilizing Momentous's Vigoride orbital service vehicle. The Momentous OSV will allow us to offer mission versatility for customers based on Vigoride's service capabilities in orbit.

We executed an agreement with Dawn Aerospace to implement its propulsion into LizzieSat, which is a key step in extending the revenue-generating opportunity while in orbit. And we executed agreements with Exo-Space for integration and launch of its artificial intelligence software technology, and with Mission Space for space weather intelligence and data collection.

As we move ahead, a key endeavor of ours is helping customers understand how space-based data can be impactful to day-to-day business. Our strategy includes increasing the demand downstream by starting with the end user in mind. While others are focused on data verticalization strategies specializing on a key sector or problem set, we believe that flexibility in production, low-cost bespoke design, and bringing space down to earth for consumers will provide a scalable model for growth in all sectors.

As we execute on our launch capabilities, our revenue prospects multiply through not only additional technology and payload integration, but through the associated data points we'll be able to collect and commercialize. Over time, we expect our technologies will support the design and development of our satellites and our data and analytics revenue will flow to the bottom line.

On the manufacturing side, during the quarter, we received over \$1.9 million in new purchase orders for space and defense hardware and services, indicating sustained growth in this revenue stream. And we also further established our position as a supplier to continue producing hardware to support Parsons Corporation's Tranche 1 launch. As part of this arrangement, Sidus Space will fabricate flight cables for Parsons evolved secondary payload adapter ring on Tranche 1.

So, before I turn it over to Teresa to cover our financial results, we thought we would cover our environmental, social, and governance principles, reflected on slide 9. While ESG reporting is not mandatory, we are developing an ESG policy that will implement the tracking of several indicators we believe are critical to ensure we are doing our part to continued sustainable growth and maximize shareholder value. A diverse, inclusive, and supportive environment for all of our stakeholders is a top priority, along with harnessing our space technology for the benefit of the environment.

And with that, I will turn it over to Teresa to discuss our financial results.

Teresa Burchfield

Thanks, Carol. We continue to move forward through the year with another quarter of triple digit revenue growth. The trajectory of our business and the progress towards launching our satellite is in line with our expectations. Over time, we expect this to result in increased revenues and margins, despite the challenging supply chain and cost environment we are currently navigating through.

Looking at our results, as of the end of September, on slide 11, you can see our third quarter sales at \$1.3 million, increased 164%, up over \$800,000 versus third quarter 2021. We continue to see an increase in contracts as a result of expanded sales staff driving our market penetration, coupled with increasing demand across the sector.

Sales this quarter were primarily driven through the space hardware manufacturing side of the business. As we progress with our satellite launch plans, we expect this mix will change, which is also expected to improve margins.

Gross margin for the quarter was negative 7%, a reflection of both the mix of contracts in the quarter, and the mix of labor versus materials in each contract, as well as continued supply chain impacts. Our margins will evolve as revenue continues to grow. Gross margin will remain choppy when looking at it quarter-to-quarter, depending on the mix of revenue, but will smooth out when looked at over a longer period of time, as you will see in our year-to-date results on slide 12.

Our operating expense for the quarter was \$2.9 million higher than last year. This increase is primarily to support the growth of our business through expansion of our staff and facilities, as well as increased insurance, investor relations, legal, and accounting fees that are associated with being a publicly traded company, and include a one-time banking advisory fee of \$600,000. For additional details, please reference our third quarter 10-Q, which was filed with the SEC this morning.

We ended the quarter with a net loss of approximately \$3.9 million, as compared to a net loss of approximately \$600,000 in Q3 2021, a function of increased operating expenses associated with being a public company, and our expanded sales and engineering operations. This was in line with our internal expectations.

Looking at year-to-date numbers on slide 12, on a year-to-date basis, we generated \$5 million of sales, a significant increase of \$4.1 million, or 461% versus last year. This was driven by variation in types and length of contracts, the diversity of revenue streams, as well as previous sales and business development efforts. Revenue is currently driven largely by our space hardware manufacturing side of the business, as well as satellite-related revenue to a slightly lesser degree.

As I mentioned earlier, margins will continue to be choppy as we build out our various revenue streams. Our year to-date gross margin at 25% is a meaningful improvement over last year's negative 19% gross margin. As mentioned earlier, our gross margin is mix-driven, and is more accurate when looked at over a longer period of time.

Our operating expenses year-to-date were almost \$9.8 million. They included a one-time non-cash related charge of \$1.2 million in stock-based consulting fees for investor relations incurred in the first quarter, a one-time cash expense of \$600,000 for banking advisory fees in the third quarter, as well as increased investment in infrastructure to support company growth, and incremental costs associated with being a public company, such as increased insurance, legal, accounting, and investor relations expense.

Year-to-date, other income and expense for 2022, we had net interest expense of \$175,000, compared with net other income last year of \$570,000. Last year included one-time income of \$634,000 for forgiveness of the Paycheck Protection Program loan.

Now looking at our balance sheet on slide 13, you can see we ended the quarter with cash balance of \$4.4 million. It is important to note, as Carol mentioned, in August, we entered into a common stock purchase agreement with B. Riley. Subject to the satisfaction of conditions set forth in the purchase agreement, it provides the company the opportunity to sell to B. Riley up to \$30 million in newly issued Class A common stock from time to time. During the third quarter, as Carol mentioned, we began to execute against this agreement to raise additional funds, and will continue to do so as needed. For additional details, please reference our third quarter 10-Q filed with the SEC this morning.

The use of cash continues to support the growth and expansion of the business and revenue streams through increased general operating expenses, such as increased staffing to build out the management team, as well as personnel to support satellite development, and the expansion of our facilities to support the manufacture of our satellites. As we navigate the supply chain challenges in the market, we are also encountering more vendors that are requiring prepayments in order to secure components and materials. In addition, we have strategically chosen to purchase multiple sets of subsystems, which results in cost savings and mitigation of risk of supply chain delays impacting production and launch schedules of our satellites. Additionally, costs were incurred to reserve our launch services and licenses.

In our property and equipment, you will note an increase versus last year, as we continue to ramp up purchases related to our satellite side of our business.

Moving on to slide 14, looking at our liabilities and shareholders' equity, most notably we show a decrease in both our notes payable related party current and notes payable related party non-current balances. This is the result of the debt forgiveness agreement we entered into with Craig Technical Consulting, our majority shareholder, whereby they agreed to forgive the entire unpaid principle of the notes payable and accrued interest of \$1.6 million as of June 3, 2022.

Sidus Space is seeing strong market demand for its products and services across various revenue streams. We have invested and are continuing to invest heavily in public company infrastructure, business development, and R&D to drive growth and position us to drive operational efficiencies and leverage profitability as our revenue growth. We are also in the process of executing on other actions that will ensure that the company has sufficient resources to accomplish our initiatives and fuel ongoing growth.

With that, I'll turn it back over to Carol for closing.

Carol Craig

Thank you, Teresa, and thank you for joining us on this call and for being an important partner in our mission of bringing space down to earth.

On slide 16, we recap some of our key accomplishments for this quarter. As we look ahead, we're excited about what lies ahead for Sidus and the space ecosystem as we continue to expand our hardware manufacturing relationships and take key steps towards serving more customers through our vertically integrated satellite production as we prepare to launch LizzieSat. We are confident we're taking the necessary steps on our path towards profitability, and look forward to keeping you updated as we make additional progress.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.