Redwire Corporation
First Quarter 2024 Earnings Conference Call
May 9, 2024

Presenters
Jeff Zeunik, SVP, Financial Planning and Analysis
Peter Cannito, CEO
Jonathan Baliff, CFO & Director

Q&A Participants
Greg Konrad - Jefferies
Griffin Boss - B. Riley Securities
Brian Kinstlinger - Alliance Global Partners
Suji DeSilva - ROTH MKM
Andres Sheppard - Cantor Fitzgerald

Operator
Greetings and welcome to the Redwire Space Corporation First Quarter 2024 Earnings 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 "*", "0" on your telephoned keypad.

I will now turn the conference over to your host, Jeff Zeunik, you may begin.

Jeff Zeunik
Thank you, Chemaly, and good morning, everyone. Welcome to Redwire's first-quarter 2024 earnings call. We hope that you've seen our earnings release, which we issued yesterday afternoon. It has also been posted in the Investor Relations section of our website at redwirespace.com.

Let me remind everyone that during the call, Redwire management may make forward-looking statements that reflect our beliefs, expectations, intentions, or predictions for the future. Our forward-looking statements are subject to risks and uncertainties that are described in more detail on Slide 2.

Additionally, to the extent that we discuss non-GAAP measures during the call, please see Slide 3, our earnings release or the investor presentation on our website for the calculation of these measures and their GAAP reconciliations.

I am Jeff Zeunik, Redwire's Senior Vice President of Financial Planning and Analysis and Investor Relations. Joining me on today's call are Peter Cannito, Chairman and Chief Executive Officer, and Jonathan Baliff, Chief Financial Officer. With that, I would like to turn the call over to Pete. Pete?

Peter Cannito
Thank you, Jeff. During today's call, I will take you through a discussion of our key accomplishments in the first quarter of 2024. Jonathan will then present the financial highlights for the same first quarter 2024 period, after which we will open the floor for Q&A.

Please turn to Slide 6. The first quarter of this year was another excellent quarter for Redwire, during which we continued our positive momentum from 2023. We have now delivered five consecutive quarters of positive Adjusted EBITDA and revenue growth and two consecutive quarters of positive cash from operations.

During the first quarter, we achieved $87.8 million in Q1 revenue, a 52.4% improvement over Q1 2023. It was a very strong quarter for revenue. Positive Adjusted EBITDA of $4.3 million and net loss of $8.1 million. Free Cash Flow of positive $0.4 million, a year-over-year improvement of $15.2 million. Cash from operations of positive $2.8 million, a year-over-year improvement of $16.8 million. And finally, we achieved a last twelve months or LTM book-to-bill ratio of 1.11 times during the quarter.

It's important to note that we achieved these positive financial results by developing and delivering reliable critical innovations for our valued customers throughout the first quarter. These results are directly attributable to the commitment and expertise of our workforce.

Please turn to Slide 7. During our previous earnings call, I introduced Redwire's growth strategy for 2024 that is centered around four key principles:

Protecting the core, which means continuing to deliver on our strong foundation of existing products with proven reliability and demonstrated flight heritage. It is about continuing the growth momentum of our successes in 2023

Scaling production, which means winning and delivering on increasingly larger orders by scaling our production to meet growing demand;

Moving up the value chain, which means leveraging our proven capabilities in developing and deploying space subsystems and components into next-generation spacecraft and integrated mission payloads;

And finally, venture optionality, which means continuing to pursue breakthrough developments on advanced technologies that could create new markets with game-changing potential.

On the next few slides, I will discuss examples of successes in each of these key growth areas for the first quarter of 2024.

Please turn to Slide 8. Starting with our protecting the core growth area. During the first quarter, Redwire's cameras were on board Intuitive Machines' IM-1 lunar landing mission. These cameras come from our avionics and sensors core offering, which includes spacecraft subsystems and components that are used for navigation, control, and imagery collection.

Also during the first quarter, NASA's Solar Sail, for which Redwire developed deployment mechanisms and 100-foot booms, cleared a key technology milestone with the successful deployment of one quadrant. Solar Sail falls into our Structures & Mechanisms core offering, which includes a variety of space infrastructure that provide critical mechanical functionality for on-orbit operations from launch release mechanisms and deployable booms to berthing and docking systems.

Please turn to Slide 9. Looking at our scaling production growth principle, we are excited to announce that we are under contract with Rocket Lab for 18 ship sets of antennas and radio frequency hardware for the SDA Transport Layer Tranche 2 Beta variant satellites, the third in a series of spacecraft that will make up the Proliferated Warfighter Space Architecture. Our radio frequency systems core offering includes the systems and payloads that enables space-to-space and space-to-earth communications.

Also in Q1, two ROSA wings were successfully deployed on Ovzon 3, which represents the first integration of ROSA technology with a commercial satellite. In addition, Redwire began executing on our $142 million contract award for power solutions to an undisclosed satellite manufacturer.

These operations fall within our power generation offering, which includes solar arrays and power distribution systems that generate the necessary power for space systems to operate, regardless of size or location.

Please turn to Slide 10. Turning to our moving up the value chain growth principle, I'd like to highlight Redwire's US and European operations in very low earth orbit, or VLEO. During the first quarter of 2024, Redwire was awarded a study related to our new US VLEO platform, SabreSat.

This is a very exciting indicator that the market recognizes SabreSat's potential as a critical capability. We are very encouraged with the reception SabreSat has received since our announcement and continue to pursue meaningful opportunities for this potentially groundbreaking VLEO spacecraft.

To continue to aggressively assert ourselves as a technology leader in VLEO, today we are announcing Phantom, our VLEO platform for Europe and the international market. Phantom is currently being developed in our Belgian office for the European Space Agency Skimsat program, and we will be marketing this platform to other potential customers as well.

Thales Alenia Space is the prime contractor for Skimsat, and Redwire EU is responsible for providing the VLEO spacecraft which we are now calling Phantom. Skimsat is the mission, Phantom is our platform. The Skimsat mission is a VLEO satellite mission that aims at reducing the cost of earth observation and telecommunication satellites, while increasing performance by operating at substantially lower altitudes. The potential for this transformational program is extraordinary.

Notably, SabreSat and Phantom do not share a common technological baseline. They are two different platforms with differing underlying technologies and performance parameters. This is important as missions in VLEO are as dynamic as all of the other earth orbits, such as LEO and GEO, and different approaches reduce risk and enable us to cover a broader set of customer requirements.

As Redwire moves up the value chain, we are very excited that SabreSat and Phantom expand Redwire's offering of full satellite system development and operations that includes the Redwire international PROBA satellite, as well as our proprietary, platform agnostic digital engineering and modeling and simulation solutions that enable rapid spacecraft development and deployment.

Please turn to Slide 11. Lastly, I would like to spend some time providing a deeper look into our fourth principle, venture optionality, by focusing on Redwire's in-space pharmaceutical development to benefit human health on earth.

Pharmaceutical companies are constantly looking to deliver new, optimized treatments for patients, and many of those treatments rely on crystals as their active ingredient. The form of the crystals will dictate a drug's properties and as a result, precision matters.

Historically, a significant proportion of drugs have not made it to the market, as a result of crystal formation challenges. Growing crystals in microgravity could be transformative, potentially yielding a more uniform product with fewer imperfections and improving the drug discovery and development process.

As pharmaceutical companies look to deliver new, optimized treatments to help patients on earth, microgravity could be a major differentiator. With the drug discovery market size having been estimated at approximately $80 billion in 2023, growing to approximately $180 billion by 2032, this represents a significant growth opportunity for Redwire.

Redwire has already demonstrated the ability to develop crystals in space using our PIL-BOX facility on the International Space Station. Redwire's proprietary PIL-BOX is a proven, cutting-edge in-space pharmaceutical manufacturing platform that builds on Redwire's extensive heritage in microgravity and offers pharmaceutical companies and biomedical researchers novel and flexible services to study small batch crystal growth of proteins.

Redwire is at the forefront with our microgravity technology built on decades of in-space manufacturing success. Our successful, inaugural PIL-01 mission demonstrated that insulin crystals grown on the ISS using PIL-BOX were larger and more highly ordered than terrestrial crystals. Our next step is to execute a production-level cadence of crystal manufacturing using a variety of compounds.

Our second PIL-BOX mission has already returned, and the results are promising. We are currently manifested for 16 additional PIL-BOX missions this year. The economic potential for this technology is high and gaining momentum.

Recent venture funding for related industry players has revealed a significant valuation premium for pharmaceutical microgravity development, validating that the venture optionality associated with this subset of Redwire's business has real value.

Turning to Slide 12. The inaugural PIL-BOX-01 mission launched in November 2023, and returned to earth in late December 2023, for delivery to Eli Lilly, our research partner. Following closely on the heels of the successful PIL-01 mission, PIL-02, again in partnership with Eli Lilly, and PIL-03 in partnership with Butler University, launched to the International Space Station this past March, just three months later.

The second PIL-BOX mission is focused on researching widespread chronic diseases, which have massive global demand for treatment. PIL-03 has now returned to earth in April 2024, and PIL-02 is anticipated to return in the coming months, demonstrating the rapid cadence Redwire can execute with this capability. This tempo is critical to demonstrate the industry model is viable for sustained development in orbit.

For the remainder of the year, we have 16 additional PIL-BOX missions manifested and a robust pipeline of interest from commercial entities. As launch costs decrease and commercial space station availability increases, the opportunity for on-orbit development and manufacturing at scale will expand. And Redwire is delivering tangible and useful results, not someday, but now.

Please turn to Slide 13. Now turning to our contract awards and backlog, our contract awards during the first quarter of 2024 were $35.1 million. Our last twelve months book-to-bill ratio was 1.11 times for the first quarter of 2024.

As we continuously reinforce, we often see lumpy contract awards growth from quarter to quarter, but we are continuing to maintain a positive growth rate on an annual basis. As you can see on the lower right-hand side of this slide, our contracted backlog has increased 10.9% year-over-year, to a total of $318 million.

The growth in contracted backlog is one of many factors that gives us confidence in our future growth.

Finally, we continue to have a healthy pipeline with an estimated $6.3 billion of identified opportunities, including approximately $610 million in proposals submitted year-to-date as of March 31st. As you can see on the upper right-hand side of this slide, this represents a 177.3% increase over the corresponding year-to-date period ended March 31, 2023. The momentum continues.

Please turn to Slide 14. With that, I'd now like to turn the call over to Jonathan Baliff, Redwire's Chief Financial Officer. Jonathan?

Jonathan Baliff
Thank you, Pete. Before I turn to the financial results, I'd like to highlight the photo on this slide which is of the PROBA-3 satellite from Redwire's Belgium facility, slated to launch later this year. The European Space Agency's PROBA-3 mission is composed of two spacecraft acting as one element and is the world's first precision formation flying mission in space.

Turn to Slide 15. Our first quarter 2024, was an excellent start to the year, as Pete spoke about, as we saw continued positive momentum driven by customer demand. Quarterly revenue was a record $87.8 million. Though we did see a slight decline in net loss for the same period year-over-year, our Adjusted EBITDA remained flat year-over-year at a positive $4.3 million. We will discuss the drivers of our Adjusted EBITDA on a subsequent slide.

The first quarter of 2024 also saw positive cash from operations of $2.8 million and Free Cash Flow of $0.4 million, a year-over-year improvement of $16.8 million and $15.2 million, respectively. And this is after making significant investments in growth capital expenditures and internal research and development to advance our path to profitability.

These impressive results were attributable to the capability and commitment of our global team members, satisfying our customers' growing demand for space infrastructure.

Please turn to Slide 16. Specifically for quarterly revenue, as you can see from the chart on the right, this quarter's record $87.8 million represented a 52.4% increase on a year-over-year basis and an increase of 38.3% on a sequential basis.

During the quarter, more than 90% of our revenue derived from funded government programs or from global marquee customers who are delivering in the areas of national security, satellite proliferation, and the exploration of space, to name just a few.

Finally, we'd like to note that after the completion of the full fiscal year post the Space NV acquisition, our fiscal year 2024 will no longer present year-over-year comparable revenues, which excluded the results of Space NV.

Please turn to Slide 17. For quarterly Adjusted EBITDA, Q1 2024 remained flat at positive $4.3 million, compared to the first quarter of 2023, while increasing 151.2% on a sequential basis from the fourth quarter of 2023.

Gross profit increased 4.3% from $14.2 million to $14.8 million. Quarterly gross margins over the same period declined to 16.9%. These results were primarily impacted by EAC adjustments during the first quarter, exacerbated by our record revenues.

The $3.9 million in EAC adjustments largely resulted from unplanned design and test cycles required to meet customer requirements, as we neared completion on discrete projects during the quarter.

Offsetting these gross margin declines, our sequential quarter Adjusted EBITDA improvement was also supported by excellent cost control and the continued operating leverage being driven by scale, as Redwire's SG&A expenses are now below 20% of revenue, a notable drop from the 27.8% in the first quarter of 2023.

We continue to drive tens of millions of dollars in revenue increases with single digit growth in yearly SG&A. That's the benefit of operating leverage and scale kicking in.

Please turn to Slide 18. As we have mentioned several times today, throughout the first quarter, we continue to make prudent investments to support growing customer demand, also, industry leading innovation. We're risk-reducing and we're also achieving global business scale.

During the first quarter of 2024, we made $2.4 million in capital expenditures, our highest first quarter capital investments since going public. Plus, we made $1.0 million in investments in internal research and development and $1.0 million in a variety of other corporate investments that mostly flow through the SG&A line.

We continue to demonstrate our ability to financially perform now, while also making investments for future growth, risk reduction, and profitability.

Please turn to Slide 19. Similar to last quarter, on the left-hand chart we show Free Cash Flow. As a reminder, Free Cash Flow provides a metric based on our US GAAP cash from operations minus capital expenditures. On a year-over-year basis, quarterly Free Cash Flow improved by $15.2 million to a positive $0.4 million for the first quarter, due to a $16.8 million improvement in cash from operations.

Credit goes to the revenue growth already discussed. But in addition, we had more efficient and effective working capital management over the first quarter, while continuing to invest at record rates as our cash generation now funds our growth. This is due to improving returns on our invested capital as compared to our cost of capital, creating a virtuous cycle that differentiates us in a very capital-intensive industry.

On a last twelve month basis, we recorded both positive cash from operations of $18 million and for the last 12 months, positive Free Cash Flow of $8.1 million, a significant first for Redwire. As you can see on the right-hand chart, this yields higher available cash and cash equivalents of $32.6 million, as of March 31, 2024, with $47.6 million in total available liquidity.

Please turn to Slide 20 for a brief discussion on the outlook for the remainder of 2024. Our first quarter was a strong start to the year and as a result, for 2024, we affirm full year revenue at $300 million, which represents a 23% year-over-year growth rate. This quarter's revenue achieved 29% of our $300 million annual revenue guidance forecast, and much of this outsized quarterly revenue was due to the timing of long-lead items associated with large contract wins in 2023.

We are not currently forecasting similar large, long-lead purchases during the remainder of 2024.

Finally, through our excellence in execution initiatives, we continue to focus on improving our program management to reduce EAC volatility, while we also create more operating leverage and cost efficiency to continue on our path to profitability.

I will now turn the presentation back over to Pete, to provide brief final remarks. Pete?

Peter Cannito
Thank you, Jonathan. Please turn to Slide 21. I want to thank all of Redwire's team for this quarter's excellent results, a total global effort that we will work to continue in the second quarter of 2024 and beyond. We will now open the floor for questions.

Operator
Thank you. 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.

We do ask all participants in the Q&A session to please limit themselves to only one question and one follow up. And if you would like to ask additional questions, you may rejoin the queue.

Our first question comes from the line of Greg Konrad with Jefferies. Please proceed with your question.

Greg Konrad
Good morning.

Jonathan Baliff
Good morning, Greg.

Peter Cannito
Hey, Greg.

Greg Konrad
You have a good quarter and then people ask why isn't the outlook better, which is kind of what I'm getting at, but I think you explained some of it on the long-lead items. But just thinking about the $610 million of submitted bids year-to-date, can you maybe talk about the dynamics around what type of win rates you see and how do you think about typical conversion of awards? And then just thinking about the walk for 2024 and the rest of the year, what's kind of in backlog versus assumption of yet to win, and just thinking about potential upside for the year?

Peter Cannito
So, that was like three questions in one. So congratulations on your efficiency.

Greg Konrad
I still get a follow-up.

Peter Cannito
Alright, good. So, the contracted backlog is printed, right? You can see--the best way I would think about that is you can see what our contracted backlog was at the beginning of 2023, what our forecast was 2023 was for, what the contract backlog is at the start 2024 and then evaluate whether what you think of our forecast result of what's in contracted backlog now. So that's essentially how we think about contracted backlog and what that means to us.

In terms of the bidding, you can see that bidding is accelerating, and that's a function of two dynamics. One is more aggressively going to market, but two, as part of the growth principles, is bidding those higher-level production contracts for higher quantities, as well as some larger contracts where we're the full systems integrator, right? So that's really the takeaway from, I think the key takeaway from the increase in the number of bids.

In terms of win rate, we're just dealing with too dynamic of a market and too small of numbers, quite frankly, and such a variety of different bid sizes that the win rate tends to bounce around, so we don't publish a win rate associated with that.

But the key is that when you look on an annual basis, which I always like to emphasize is the best time scale to measure an emerging growth company like Redwire's performance. When you look at that on an annual basis, you can see that there is--or you can make your own evaluation of whether the backlog plus the bid rate and size is enough to sustain our current year forecast. And we believe that it is, and that's how we came up with that number.

In terms of the lumpiness, I think Jonathan did a pretty good job explaining. This lumpiness cuts two ways. You have a nice lumpy quarter in the fourth quarter where you have really strong contract awards and then the first quarter is lower.

Same thing with like you can have a lower revenue quarter and then due to the timing of critical subcontracts or long-lead items, that number can go up. And it's just the first quarter; it's early in the year. So we're very pleased with the results for first quarter revenue. But at this point, we're going to hold to our $300 million revenue forecast for the year, as we see the remainder of these quarters play out.

Did I get every part of your question, Greg, or did I miss something?

Greg Konrad
Yeah, no, that was great and now for the follow up. EBITDA momentum, good SG&A rationalization, gross margins kind of bounced around. It was high 16% in the quarter, dating back to the first three quarters of last year, I think you were more in the mid-20s? You called out the EACs, which is probably one driver. But just a sense of any impact from mix and does the higher long lead items have anything to do with the gross margin, or is that generally booked at a pretty consistent gross margin?

Peter Cannito
Yes, no, I think you're onto it. And so hopefully, obviously, you've been following us for a while, so you're really getting to know the company. That's exactly right, right? Like EACs, they happen from quarter to quarter. The important thing is that we drive through our excellence in execution to have those puts and takes even out over the year. And also there's going to be ups and downs in terms of the contract mix of the revenue that's recognized by a quarter-by-quarter basis.

So when you tend to have more material purchases or really large subcontract, they can have lower gross margins, as opposed to where a lot of it's being driven by maybe labor utilization or some other dynamic; that all goes into the calculus. It also has to do with what are the products that are leading for that quarter.

The really large-scale products have really high operating income on an absolute value basis, but might on a percentage basis be lower whereas, and if those are the ones that are primarily driving revenue in a given quarter, that'll bring it down. And then in other quarters when we do maybe a delivery of a higher volume--or higher margin product set, that can have an effect on a quarter-by-quarter basis.

And that's why it's so critical that what we focus on as a management team is that overall annual balance in terms of either LTM looking backwards or what we look to be our future and that all goes into our forecast.

But I do want to add, and I've said this and tried to emphasize this in previous calls, that we're constantly trying to balance between top line and bottom line.

And we have a goal or an objective to always be EBITDA positive and to drive towards profitability. But that doesn't necessarily mean in certain instances where it's really important that we go out and take market share that we may make decisions at times to go out and win large revenue projects that might have lower than average operating margins.

So I think that's what I'm trying to articulate is in certain cases, we may optimize for the top line and the future growth because we know we'll be able to squeeze the operating margins out, longer term, and that can have near term or short-term fluctuations that have an impact, as well.

Greg Konrad
Thank you.

Jonathan Baliff
Thanks, Greg.

Operator
Thank you. Our next question comes from the line of Griffin Boss with B. Riley Securities. Please proceed with your question.

Griffin Boss
Hey, good morning. Thanks for taking my question. So I want to dig into the venture optionality. I'm glad you guys sort of honed in on it in this presentation. You cite this $80 to $180 billion drug discovery market size. In the past, you've talked about your specific internal projection for a five-year TAM of $5 billion to $10 billion for this explore, live, and work in space. So I guess my question is, are you seeing maybe a bigger near-term TAM for Redwire, given that market size for drug discovery and what seems to be a rapidly growing interest in microgravity research?

Peter Cannito
Hey, Griffin. How are you? Thank you for that question. So yes, we are trying to focus, I think, each quarter we'll focus on a different growth principle because, obviously, part of this call is to help educate investors on the Redwire operating model. And this is a critical part of our business that I think sometimes gets overlooked that has real tangible value, especially based on some of the things that are already going out on the marketplace there, right?

We do have a lot of venture funding and venture investing activity happening in this space that gives interesting comps in terms of trying to put a valuation on this venture optionality. So, we wanted to hone in to make sure that investors understand where we're positioned in that context. And where we're positioned on this context is the TAMs are pretty much the TAMs that you just articulated.

But what we want to do is start to educate investors just how far along we are in transitioning this from what I would call research or experimentation into an actual production level business. And that's why I tried to emphasize the cadence at which we're starting to do this.

Previously, you would spend a lot of time kind of researching and developing. It took, quite frankly, many years to come up with the ability for PIL-BOX to work, quite frankly. And now it works. And we're transitioning out of that period. That investment has been made. If you look at what we're achieving in terms of the PIL-BOX and the cadence and you compare that to the amount that we have to invest on the slides that Jonathan showed you on our CapEx, our IRAD, we're past the heavy investment phase in this capability.

Now we have to produce, or we have to demonstrate that we can reach a production level cadence. And we have started to do that now by showing that we had a launch, and we were able to do in a mere three months, turnaround another launch, and we have 16 additional launches for the remainder of the year manifested.

One of the key questions we get around this technology is, can you get to the production level to really turn this into the business that would satisfy or help you get a large enough share of those TAMs. And that's really what that venture optionality is all about.

We didn't deep dive too much into the tech, but just for some additional color, for these crystals, there's two interesting things about the production model here. For the crystals to be valuable to biopharma companies, you need a thimble size level of what are called seed crystals.

So you're not trying to develop in microgravity all of the crystals you'll need for production. You're delivering a seed crystal. It's actually the same way it's done on earth. They build the seed crystals on earth and then they use that in their production thing.

And each one of these, what we call investigations, PIL-01, PIL-02, PIL-03, are looking at as high as--I think we've done as high as 36 compounds in a single investigation. So you're looking at 36 different crystals that you can develop a seed crystal for.

When you start taking that and you say, okay, we have two that have gone up and down, a third that's still up there that should be back sometime this summer and then 16 additional manifested, you start to see that we can reach production level seed crystal development on the International Space Station, which has been a question for some, is this something that you have to do on a commercial space station in order to achieve the correct volumes or is this something that can be done on the ISS?

We believe we're demonstrating that this is something that can be done now on the ISS, and I believe our partnerships with Eli Lilly and Butler and everything like that, we're optimistic that these are going to be proved out over time.

So the TAMs are essentially the same. The critical, or what I think the critical milestones that we're achieving is that we're moving this from being a research project into actually developing these. We are getting smarter, and we're making the investments to really understand this industry. Making seed crystals for biopharma is not anything new, doing it in space is what's new.

We envision a day someday where we're in the marketplace and our customers don't even ask about where it was developed. They just want the best possible crystal there is and the fact that it was developed in space is really irrelevant to the execution of the business model.

So, but there has been some really interesting dynamics in the venture world that I think are worth noting in terms of when you start looking at what this venture optionality--how to value this venture optionality in Redwire that is critical to our longer-term growth plan. And I, in my mind, I think of venture optionality as something that's still five years away. That's how we differentiate between the space now that we deliver today, that is generating revenue and EBITDA.

I've talked about in the past, our heritage plus innovation strategy where we're generating the cash flow generating and the profit generating capabilities now on our infrastructure side. But those give us the ability, the optionality, if you will, to again use that word, to look forward and really position for some of these game-changing, yes, less defined, yes, still a few years out, but nevertheless very valuable breakthrough technologies in the future.

Griffin Boss
That was excellent color.

Jonathan Baliff
Yes. I just want to put a financial element to what Pete just talked about. We gave your $5 billion to $10 billion TAM on that, prior to PIL-BOX-02. Pete talked about the up tempo, to use the operational term. It's getting faster than we thought when we did the $5 billion to $10 billion. We will update the $5 billion to $10 billion. We will talk about it maybe being brought forward or again stay the same, but we are more confident in that $5 billion to $10 billion, and we'll be giving an update to that.

The second thing, and this is actually really important to demonstration of value. We are seeing tens of millions of dollars raised in the market, today, at hundreds of millions of dollars of valuation for companies that are very interested in doing this. And obviously, we're a competitor, so we don't give a lot of competitive information.

But the bottom line is that the rapidity, the quickening of the pace here to development means that we can demonstrate value in this a number of different ways. But most importantly, it's to do it for our customers, right? And Eli Lilly is that customer with Butler University, and that will accelerate.

Griffin Boss
Great. That was exactly what I was looking for. Appreciate all the color there. And then just for the quick follow-up, you talked about moving up the value chain. We've seen it, SabreSat, Phantom, great progress to see. Can you give some more color on this modified commercial earth imaging spacecraft that you're developing? I think it's a study contract for NASA's Mars exploration program?

Peter Cannito
So, we don't say which the study contract for the VLEO is oriented towards, right? Now, we did also win a study for the Mars investigation. Those are two totally different things, so unrelated, I just want to be clear about that. So but to give a little additional color, I mean, what we're looking at is when we look at moving up the value chain is picking and choosing where we're going to do the full systems integration and trying to avoid the mistake of being a follower and a me-too, in terms of that marketplace for spacecraft.

Of course, we already do full systems integration now in Europe with the PROBA satellite, and we've run a number of missions for decades doing that. But we see a leap-ahead opportunity in VLEO, and the potential of VLEO is really strong. You get--there has been already a number of experimental missions that have been operated in VLEO, that show that being closer to earth can reduce your power requirements, it can give you higher fidelity imagery. It can give you higher levels of communication.

So the VLEO moving up the value chain is not only about becoming a full systems integrator and expanding that part of our business, but also we see it as a leap-ahead technology.

And there's a lot of--the nice thing about getting the study, as well as wanting to emphasize that we're already a performer as a subcontractor to Thales Alenia on the Skimsat program, the European VLEO program, is that we're pretty far ahead now, in terms of relative to the overall industry development of spacecraft in VLEO.

And we're really excited about that validation from the market, especially on the SabreSat side, that this is something that customers are really interested in and specifically understanding more what the performance parameters are that we can achieve.

Griffin Boss
Got it. That's helpful. I guess what I was trying to get at was specifically for that Mars exploration program and the earth imaging spacecraft. Is that a new capability for you? As in is

that just another example of how you're showcasing rapid spacecraft development and deployment and just moving up the value chain in general?

Peter Cannito
Yes, it is. Well, anything that goes to Mars is going to be new. But that particular study is based on our decades of heritage providing PROBA, which is our traditional LEO platform.

Griffin Boss
Right, understood, okay. Okay, great, I'll pass it off. Thanks a lot for taking my questions.

Peter Cannito
Great, thank you.

Operator
Thank you. Our next question comes from the line of Brian Kinstlinger with Alliance Global Partners. Please proceed with your question.

Brian Kinstlinger
Great. Thanks for taking my questions. Impressive submissions for the first quarter. As you look at the RFPs out available for bidding, the $6.3 billion pipeline in the commentary on bidding larger programs, should we expect to see proposal submissions to remain at this elevated level, consistently, on a quarterly basis? And then did I hear you accurately you're bidding more as a prime than you have in the past?

Peter Cannito
So I'll take the last part first. Yes, we are bidding more as a prime than we have in the past. The other part, the number of bids, our goal is to continue to keep it at the level that it's at right now. We have to take into account, however, the RFPs come out on the timeline that they do, right? So, many of these are government, large government procurements, but the commercial customers have their own tempo, as well.

So what I say that--so the answer to your question, like I said, is we're bidding more prime and we want to keep our bid rate up. And it's really the bids under review that are really critical that we have that number up. But it will also fluctuate like anything else from a quarter-to-quarter basis based on if you turn something in, something's due the week before the end of the quarter and it's a really large procurement, that's going to affect the numbers.

Or likewise if something's--the RFP gets turned in and the bid gets submitted in the first week of the following quarter, that's going to--you can get some of these quarter-by-quarter deviations that look lumpy, but it has more to do with the timing of the submission than anything else. Does that answer your question?

Brian Kinstlinger

It does. Thanks. And my follow-up in regards to the EAC adjustments. What are the lessons learned for Redwire? And what can they glean from these as it prices future contracts and or accounts for flexibility in changes to program requirements in its contracting?

Peter Cannito
Yes, it's a great question. Well, first of all, it just underscores the fact that capability and the ability to deliver with operational excellence is key. And you have to also be able to be disciplined in the way that you bid. But -- it's a bit of a cliché now -- but many clichés start because it's true is that space is hard.

So you're going to--we bid a lot of firm fixed price contracts and sometimes, you're going to have an EAC. And although these things do have an impact on financial performance on a near-term quarter-by-quarter basis, if you're running a really good operation, you're going to see that that levels out over time.

So we focus on our long-term profitability, not the perturbations that happen on a project-by-project basis which, in some cases, can be high relative to a small base in the near term. However, these things also indicate that in this particular case, we found something in test, and we had to move out and fix it. So what may seem as a large EAC in the near term, also underscores the quality of our processes to know that we are testing these things and we're finding deviations and we're moving out.

As we get better and better at executing firm fixed prices, and some of these are just the result of growing pains in addition to space being really hard. As we get better and better to that, we hope that you see balances; firm fixed price contracts also offer the opportunity to over-perform where you may have a reserve, or you find that you can execute with more efficiency where the overall impact can move in the other direction.

And we've seen that in previous quarters where we've had a tailwind in terms of realizing a profit on particular programs greater than what we had expected.

So the critical thing is, that I'll just continue to emphasize, is that we look at our performance on an annual basis. We recognize that, sometimes, these metrics are going to move up and down on a quarter-by-quarter basis, depending on what's going on in that quarter.

Brian Kinstlinger
Great, thank you.

Operator
Thank you. Our next question comes from the line of Suji Desilva from ROTH MKM. Please proceed with your question.

Suji DeSilva

Good morning, Peter, Jonathan. Congrats on the revenue in the quarter. I just want to ask about--sure thing. I want to ask about the non-recurring, recurring seasonality of your--the bookings and the fact that it seems to come in at the end of the year. I'm just wondering if that's a trend you're observing, if there's any kind of explanation for that or whether it's just happenstance and it wouldn't necessarily recur?

Peter Cannito
It's strange, right? So I would say it's not a trend. It's a two data point trend. So it just happened to kind of fall out that way. If there is something associated with our underlying, maybe the flow of our RFPs or how quickly we respond from Christmas break and all of a sudden start ramping up for the rest of the year, we haven't been able to figure that out yet. So, I don't want to say that--two times has us looking at it, but I'm not ready to declare it some sort of seasonality or anything like that because I don't think we understand.

Jonathan Baliff
Definitely not due to the weather, Suji--or anything like that. I mean, we make light of it because we really do believe that the nature of this is to look at our company on an annual basis or set of annual. And if you look at the LTM, we're banging away. We're doing what we're saying what we're doing on the bidding strategy and the amount of contracts we're winning.

I think what's most notable is that, for this quarter, to see the number of bids move up almost 200% and also for us to then disclose that we're seeing more of that in the future is, I think, notable. How that then translates into quarterly contract wins is--just look at us on more an annual basis. And that's why we're starting to talk a little bit about LTM, last twelve months, as part of that, to give more education to you and the rest of the investor community.

Suji DeSilva
Got it. Sorry, I might have cut out there briefly. And then also my other question is following up on microgravity. With the 16 missions manifest, are those new customers or existing more Eli Lily type business? Or is it 100% commercial? Or is there some government mixed in there? And most importantly, can the customers move--customer readiness move at the cadence that you're trying to do in terms of production? Can they pull off being ready for those cadences you're trying to achieve? Thanks.

Peter Cannito
Yes. Well, so we obviously don't disclose who our customers are in every mission until we do. And there are a mix of customers that are interested in all of these. And in certain instances, if we don't, and we're looking harder at this, have a customer, there are compounds out there that are open that are not protected that Redwire can fly on its own behalf to generate its own intellectual property, and that's really exciting as well. So we will make, I guess, the takeaway is we will make each one of those 16 missions useful.

Jonathan Baliff

Yes. And it's important to note, these are partner-customers, right? And the nature of how we do this, we don't lose money on this. Largely funded through customer contracts, we've invested in excess of $70 million in microgravity, and this investment has been put in place.[1] We are now in the development phase. As part of that, the economics start to change and adjust and become more like a contract developer, a manufacturing office or organization which, in the biotech world, is a very know--Suji, you know this world.

It has economics that could create multiples of value for the invested capital that we put in already. And again, we are decades further ahead than many of our competitors. We've been doing this for a very, very long time, and it's starting to come to fruition with the intellectual property being Redwire intellectual property.

Suji DeSilva
Alright. Thanks, Pete. Thanks, Jonathan.

Peter Cannito
Thank you.

Operator
Thank you. Our next question comes from the line of Andres Sheppard with Cantor Fitzgerald. Please proceed with your question.

Andres Sheppard
Hey, Pete, hey, Jonathan, good morning. Congratulations on the quarter and thanks for taking our questions. Yeah, I think a lot of our questions have been asked by now, but maybe just to follow-up on an earlier question on margins. How should we think about gross margins throughout the rest of the year? And I guess how should we think about those EACs, as well, for 2024? Thank you.

Peter Cannito
So I'll start us off, and then I'll let Jonathan jump in. I think we've talked about all the different dynamics that play into gross margins and the strategic decision making that we have to make on a, really a bid by bid basis as to whether, say, the absolute value of margin contribution from a particular bid or maybe the strategic value of a large win, whether in that particular case, we're willing to sacrifice maybe an operating margin run rate, if you will.

As a result, so that's going to vary over time, as those opportunities present themselves. We very deliberately give revenue forecasts for the year and shy away from giving an EBITDA forecast although we are driving, as Jonathan has said multiple times towards profitability. And

[1] "Largely funded through customer contracts, we've invested in excess of $70 million in microgravity, and this investment" statement added for reader clarification.

that's because that leaves us the opportunity to make good strategic decisions around our operating margins.

So, I think our philosophy has exposed itself in terms of our 2023 performance, but we maintain the flexibility to not have that inhibit us from doing something really smart, throughout the year. And that's at the strategic level. I think Jonathan can maybe perhaps reaffirm this idea that product mix and many other dynamics such as EACs and such, go into that.

The only other thing that I'll add before I hand it over is, we look at--our goal is towards overall margins, although operating margins are important. Controlling our SG&A, making sure we're efficient there, plays into our overall profitability dynamics as well. Jonathan?

Jonathan Baliff
Well I want to answer your question directly and use a historic basis because again, number one, we do not give operating margin or gross profit forecast for 2024. That being said, what have we said before. In FY22, we had almost 18% gross margins. In FY23, we had almost 24% gross margins. We have said that we will not increase those gross margins as much in 2024 because of the significant revenue growth that we're seeing, 23% organic revenue growth is something that we believe is conservative, but also very achievable. And as we go through the year with our bids and our win rates, we'll be able to talk about that.

As far as the gross margins are concerned, on the EACs, we are driving towards low volatility. We don't want to see this level of EAC on an absolute basis, but it's really looked at on an LTM basis, not on a quarterly basis. You could see a movement up, but we are really trying to drive towards what great program management looks like, which is zero EACs. And what like Pete said, we can actually achieve higher through better performance, and some of our contracts allow for that.

So going from 18% to 24%, which we did last year, we're not going to see that, this year. But that doesn't mean, again, getting to the third point, which is really important, is that we are driving towards a much higher profitability margins, whether it be EBITDA margins because SG&A now is going below 20%, or importantly, because we haven't gotten this question but we're very focused on it at Redwire, which is cash flow.

We continue to be able to produce higher returns on invested capital which then yields better cash flow, then funds that growth that Pete's talking about, which creates that virtuous cycle. So, look more at the bottom line. Obviously, for us, it's cash flow. We are focused on EPS too guys. So just for all the analysts out there, we do want to talk to you guys, later.

Our EPS is eventually--we're on a path to profitability, which includes improving that, too, as we go forward. But again, look at the revenue, being conservative. Margins not going to increase as much in '24, but that doesn't mean that we can't achieve better bottom-line profitability margins, especially on the cash flow side.

Andres Sheppard
Got it. Thank you. That's a super helpful. Appreciate all of that context. Maybe just to end, can you remind us and maybe investors, what are some of the most important near-term catalysts that we should be highlighting or that we should be monitoring for this year? Thank you.

Peter Cannito
So, I would point everybody--if I understand correctly, catalysts in terms of executing our plan, the near-term catalysts are executing on our four principles of growth. So what we're going to try to do on a quarter-by-quarter basis is highlight our progress against that, hence, the structure of the presentation today. We want to continue to reassure everyone that we have a really strong foundation in our core business offerings. And that's going to continue.

There's strong demand for what we call protecting the core. And we need to continue to execute there, and it's actually--we've achieved really good growth just on our foundational technologies, but we also have a number of initiatives focused on the near term to continue to show that we can scale production.

And that will lead to higher revenues over the long term that we can move up the value chain, that will also lead to a nice pace of revenue growth. As well as to execute on this venture optionality and unlock what I think is some of the more hidden potential value in the enterprise, as well. So those are the things that I would track is, essentially, our progress.

In terms of near-term in the market, just for the space industry, writ large, I think we just have to keep watching the budgets and the continued growth and excitement around our real capabilities out there like participating in SDA programs, being selected as one of just a half a dozen of what I think are some of the best of the best in the industry for Mars exploration, for being looking at who's being selected for future lunar infrastructure programs and whether Redwire's portfolio of programs aligns really well with the strong trends in the industry.

I think if you were to line those up, quite frankly, we look pretty good. But I would point investors to those dynamics as well, because we're focused on the growth trends in the industry, and that's where we're moving to is where the puck is going.

Andres Sheppard
Wonderful, that's very helpful. Appreciate it. Congrats again on the quarter and I'll pass it on. Thank you.

Peter Cannito
Thank you.

Operator

Thank you. And we have reached the end of the question-and-answer session. I'll now turn the call back over to Peter Cannito for closing remarks.

Peter Cannito
Yes, some excellent questions. Thank you very much. I appreciate everybody participating in today's call and thank you for taking the time to listen. Go Redwire!

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