

Redwire Corporation
Third Quarter 2024 Earnings Call
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Presenters

Jeff Zeunik, Senior VP of Financial Planning & Analysis
Peter Cannito, President, CEO & Chairman
Jonathan Baliff, CFO & Director

Q&A Participants

Suji Desilva - ROTH MKM Partners
Greg Konrad - Jefferies
Brian Kinstlinger - Alliances Global Partners
Griffin Boss - B. Riley Securities

Operator

Thank you for standing by. My name is Janine, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Redwire Space Third Quarter 2024 Earnings Call.

All lines have been placed on mute to prevent any background noise. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", followed by the number "1" on your touchtone phone. To withdraw your question, please press "*", followed by the number "1", again.

I would now like to turn the conference over to Jeff Zeunik. Please go ahead.

Jeff Zeunik

Thank you, Janine, and good morning, everyone. Welcome to Redwire's third 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 of 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 we discuss non-GAAP measures during the call, please see Slide 3, our earnings release or the investor presentation on our website for the calculations of these measures and their reconciliations to U.S. GAAP measures.

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 third quarter of 2024. Jonathan will then present the financial highlights for the same period, after which we will open the floor for Q&A.

Please turn to Slide 6. During the third quarter, Redwire continued to effectively execute on our 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 throughout the year.

Scaling production, referring to winning and delivering on increasingly larger orders to meet growing demand and delivering production capacity to fill critical gaps in the space industry supply chain.

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, as we continue pursuing breakthrough developments on advanced technologies that could create new markets with game-changing potential.

As I have done on previous calls, over the next few slides, I will discuss examples of successes in each of these key growth areas from the third quarter of 2024 to demonstrate our extraordinary progress against these objectives.

Please turn to Slide 7. M&A has always been a core strength of Redwire's. With nine integrated acquisitions through the first half of 2024, our team has the demonstrated expertise and performance to effectively scale, both through organic and inorganic strategies. This is a competitive advantage and enables us to rapidly scale as a public platform.

In the most recent quarter, I am very pleased to introduce Redwire's 10th acquisition as part of our platform development strategy, Hera Systems.

Hera Systems is an agile and differentiated spacecraft development company. They have expertise in specialized missions for national security space customers and unique technical

achievements with a path to transformative capabilities in the emerging area of dynamic space operations. The acquisition of Hera is right on strategy for Redwire. On the following slides, I will specifically highlight how the purchase of Hera accelerates our third growth principle, moving up the value chain.

Please turn to Slide 8. The Hera Systems acquisition complements our existing suite of national security space solutions and moves Redwire up the value chain as an integrated spacecraft platform provider. Hera Systems has developed a new class of high-performance spacecraft to support the evolving requirements for national security missions in contested space, and their acquisition broadens Redwire's product technology portfolio and extends our spacecraft platform capabilities with two additional spacecraft that we have recently rebranded as Mako and Thresher. Renderings of Mako and Thresher are shown on the right-hand side of this slide.

Mako is a Rad-hard GEO and MEO platform that is currently under contract on the U.S. Space Force's Tetra-5 program. While Thresher is a LEO spacecraft currently on contract with an undisclosed customer, designed and built in the United States for operating in contested environments.

As the national security space architecture evolves, Mako and Thresher are bringing unique capabilities to the warfighter in LEO, MEO and GEO, with plans for autonomy, edge processing and maneuverability that will enable emerging concepts in dynamic space operations and rendezvous and proximity operations.

Turning to Slide 9. The addition of Mako and Thresher, through the acquisition of Hera, significantly enhances Redwire's full platform spacecraft portfolio, as we now have five unique spacecraft platforms for missions in every orbit, from VLEO to LEO, GEO, and beyond.

Redwire's advanced spacecraft designs incorporate cybersecure communications, resilient power systems, highly accurate pointing, extensive maneuverability and expanded onboard computing power that can support mission- and payload-specific machine learning.

On the next few slides, I will provide a detailed outline of our complementary spacecraft platforms to emphasize how well we are now positioned to scale.

Please turn to Slide 10. Hopefully, by now, everyone is familiar with our two VLEO spacecraft, SabreSat and Phantom. SabreSat, depicted on the upper right, is a U.S.-built platform designed for performance, endurance and cost effectiveness with a modular design, and optional air-breathing engine. SabreSat is currently being leveraged on DARPA's Otter flight program. This is a new market opportunity for spacecraft, and Redwire is well-positioned as a first mover in this emerging area of operations.

In fact, from a VLEO perspective, we are not only well-positioned in the U.S. national security market segment, but we are also a leader in Europe VLEO development with Phantom, depicted

on the lower right. Phantom is a European VLEO platform that is designed to carry out a wide array of intelligence, earth science and communications missions.

Redwire is advancing Phantom's design and development through the European Space Agency's Skimsat mission. It is important to emphasize that both SabreSat and Phantom are supporting funded contracts with premier customers and are on a path to flight operations.

Turning to Slide 11, now turning to Low Earth Orbit, or LEO, I am pleased to announce for the first time, Redwire's rebranding of our European P200 LEO satellite platform that has been supporting generations of ESA Proba missions as Hammerhead, shown on the upper right. Hammerhead is a European LEO platform developed at Redwire's facility in Belgium.

Much like how Phantom is the Redwire platform that supports ESA's Skimsat, Hammerhead is the new name for our platform that has been supporting ESA Proba missions for more than 40 years in orbit without failure on ESA's Proba 1, 2, 3 and V missions.

As previously mentioned, with the acquisition of Hera, we have now added a U.S. LEO platform called Thresher, which is depicted on the lower right of this slide. Thresher is a LEO platform designed and built in the U.S. for U.S.-centric missions, and can support a wide variety of surveillance, space domain awareness and tactically responsive space missions. Thresher is currently targeted for delivery in 2025 on a contract with an undisclosed customer.

Please turn to Slide 12. Also added as part of our Hera acquisition, we now have a GEO and MEO spacecraft in our portfolio, Mako. Mako is a high agility rad-hard platform designed for the harsh environments of GEO and MEO and built in the U.S. for precision rendezvous and proximity operations. Mako is currently being developed on the U.S. Space Force's Tetra-5 program with a targeted launch in 2025. On this inaugural mission, Mako is being developed to demonstrate the feasibility of on-orbit refueling.

As with all of our products, flight heritage is key to Redwire's differentiation, and all these platforms are currently under contract with a customer and have a pathway to flight.

Please turn to Slide 13. So why does this matter? What are we achieving by building out this differentiated portfolio of spacecraft and moving up the value chain? The answer is simple.

By moving up the value chain, Redwire is able to access increasingly larger opportunities and supercharge our growth. This portfolio of platforms significantly increases our TAM in order to scale. We are seeing early signs of success with this strategy, as evidenced by the substantial year-over-year increases in pipeline and year-to-date bids submitted.

We are focused on satisfying market needs, scaling rapidly and leveraging our classified and global reach, particularly in Europe. As Redwire moves forward, we will continue building on

our heritage as a spacecraft platform provider with innovative solutions to meet the challenges of our customers around the globe.

Please turn to Slide 14. Of course, we continue protecting the core of our existing product portfolio in order to build on our successes. As example, Redwire is proud to have provided the onboard computer system for the European Space Agency's Hera mission. Not to be confused with Hera the company, our most recent acquisition, Hera the mission is Europe's inaugural flagship planetary defense mission.

On Hera, Redwire's Advanced Data and Power Management System leverages 25 years of flight heritage and is designed to meet the challenges of operating in deep space. The system will control all vital spacecraft operations, including power, navigation and key mission milestones, such as the deployment and monitoring of ESA's two deep-space CubeSats.

On board computers fall within our avionics and sensors core offering, which includes spacecraft subsystems and components that are used for navigation, control and imagery collection.

Also during the third quarter, Redwire's expertise was critical for X-Bow's latest Commercial Mission-1 launch, which took place on September 12, 2024. Redwire developed and delivered the launch vehicle structures and launcher interfaces for the flight test mission.

This is the third in a series of X-Bow launches supported by Redwire technology in our structures and mechanisms core offering, which includes a variety of space infrastructure that provides critical mechanical functionality for on-orbit operations from launch release mechanisms and deployable booms to berthing and docking systems.

Please turn to Slide 15. Looking at our scaling production growth principle, this quarter, Redwire announced that we have signed a strategic cooperation agreement with in-space propulsion leader, Phase Four, to build and deliver an advanced thruster technology called Valkyrie that is designed for reliable, high-volume production to fill a gap in the supply chain.

Redwire will leverage its scaled business operations, marketing resources and extensive heritage as a trusted space systems supplier to bring this in-space propulsion system to market, and the Valkyrie thrusters are anticipated to go into full rate production in 2025. These thrusters fall within the avionics and sensors core offering, which I described earlier.

Turning to the right-hand side of the slide, we have also recently shipped IROSA wings 7 and 8 to Boeing. These wings are a follow-on to the six IROSA wings that have already been deployed

on the International Space Station. Furthermore, as of September 2024, we had 25 ROSA wings contracted, a 127%¹ increase when compared to September of 2023.

Roll Out Solar Arrays fall within our power generation core 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 16. Finally, turning to our venture optionality growth principle, I would like to take this opportunity to highlight the exciting progress we've made this year with our innovative space pharmaceutical platform, PIL-BOX.

Redwire is proud of the launch cadence we have achieved for PIL-BOX since its first launch a year ago. At the beginning of this year, we stated that our goal was to launch 16 additional PIL-BOX systems to the ISS. I am very pleased to report that the 12 new PIL-BOXes launched earlier this week on SpaceX-31 Commercial Resupply, or CRS mission, bring us to 28 PIL-BOXes launched in total, clearly demonstrating the sustained operational tempo required to turn this into a viable business model.

In addition, customer demand is building, and we are proud to have worked with a number of notable commercial customers this year, including our newest commercial partners, Bristol Myers Squibb and ExesaLibero Pharma who launched investigations this week, on the CRS mission.

The objective of our PIL-BOX strategy is to accelerate small molecule drug discovery to treat a variety of conditions and diseases on Earth. Since small molecule drugs comprise a majority of all marketed drugs, pharma companies are continually investigating the crystal structure of new and existing drugs to meet specific therapeutic goals.

PIL-BOX is poised to be a game-changing innovation, and I'm excited to report that in addition to our launch objectives, Redwire has achieved 2 critical milestones that further distinguish it as the premier space pharmaceutical development platform.

As we have previously discussed, the first milestone is that Redwire has successfully and repeatedly demonstrated that small molecule drug crystals grown on orbit using our proprietary PIL-BOX system are larger and more highly ordered than terrestrially grown crystals.

Today, I am excited to announce a second key milestone in what we believe to be a first of its kind achievement here on Earth. Redwire successfully replicated space-grown crystal forms, using crystals returned from space as seeds or templates. Not only that, but we successfully replicated them through five generations of copies from copies.

¹ This figure was corrected later in the call; including the corrected percentage increase of 127% for reader clarification.

To detail this achievement, using Redwire's PIL-BOX system, we successfully formed two different small molecule drug seed crystals in space, preserved the space-flown crystal structures and safely returned the crystals to Earth. The returned crystals retain their microgravity-induced attributes, and once on the ground, we used these “seeds” to grow new crystals with the same structure, successfully demonstrating that seed crystals formed in space can be used as a template to generate those same crystals on Earth.

This pivotal step is required for future commercial expansion, and Redwire has now taken it. To our knowledge, this result is the first of its kind, and nothing close to it has been achieved previously. It is not only a technical achievement, but also an important step towards taking one of our space-enhanced crystals to commercial production at scale on the ground.

Please turn to Slide 17. Going forward, we see two different avenues for the ongoing commercial application of our PIL-BOX platform. First, we will continue flying crystals on behalf of our partners, as we have done this past year.

Second, Redwire has developed a list of more than 80 promising small molecule targets for experimentation. Redwire will continue to fly experiments on our own behalf, to generate a library of valuable space developed crystal forms that will be protected as our owned IP.

We have already seen interest in licensing this information from commercial customers and see this as a viable means to realizing a business model based on back-end royalty revenue in the future.

Ultimately, pharmaceutical manufacturers want new and better crystal forms, regardless of whether they are produced on Earth or in space, as these new forms can provide new properties and unique approaches towards the treatment of human diseases. We believe in the value that those created in space will provide, and through PIL-BOX, Redwire is proud of our efforts to harness the power of space to support human health here on Earth.

Please turn to Slide 18. Now turning to our contract awards and backlog. Our contract awards during the third quarter of 2024 were \$44.5 million. Our last 12 months book-to-bill ratio was 1.25x for the third 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 healthy growth rate on an LTM basis.

As you can see on the lower right-hand side of this slide, our contracted backlog has increased 30.2% year-over-year, to a total of \$330.1 million. The growth in contracted backlog is one of many factors that give us confidence in our growth as we look towards 2025 and beyond.

Finally, as I mentioned earlier, we continue to expand our pipeline with an estimated \$6.9 billion of identified opportunities, including approximately \$2.9 billion in proposals submitted year-to-date, as of September 30, 2024. This is a result of our moving up the value chain and scaling production growth principles leading to larger bids. As you can see on the upper right-hand side of the slide, this represents a significant increase of 306.2% over the corresponding year-to-date period ended September 30, 2023.

The growth in bids submitted is a result of our efforts to increase the average size of the individual opportunities we are pursuing. As previously mentioned, we are now bidding on individual programs in the \$100 million-plus award value on a more regular cadence.

Of course, there is no guarantee we will win these opportunities, but we now have a pipeline of bids that could result in a substantial increase in backlog, if we land some of these larger opportunities. We are able to pursue these opportunities because of the critical investments we have made in building the Redwire platform. The foundation we have laid is yielding results.

Please turn to Slide 19. 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 four spacecraft for ESA missions that have been undergoing integration and testing at Redwire's state-of-the-art clean room facility in Antwerp, Belgium.

Redwire is preparing to deliver two satellites for the European Space Agency's PROBA-3 mission that Pete talked about in the fourth quarter of 2024. As international customer demand increases, Redwire is proud to support critical innovation around the globe, as part of our successful growth strategy.

Please turn to Slide 20. Our third quarter and year-to-date results illustrate the positive momentum that Redwire has demonstrated during the last 12 months, as of the third quarter 2024.

Revenues in the third quarter grew 9.6% year-over-year, to \$68.6 million, as we once again achieved positive Adjusted EBITDA of \$2.4 million, a sequential increase over the second quarter of 2024. We will discuss the drivers of this quarter's revenue and Adjusted EBITDA on subsequent slides.

On this page, as you can see, we experienced a year-over-year growth in bids submitted with \$1 billion in total bids submitted during the third quarter of 2024 alone. This is an \$800 million increase from last year's third quarter 2023.

Finally, as you can see, we had a use of cash from operations of \$17.7 million during the third quarter with record levels of last twelve months' investments in these growth initiatives, many of which Pete already has expanded upon.

When viewed on the last twelve months, or LTM basis, as shown on the lower right-hand box, we actually improved our usage of cash from operations by \$10.6 million on a year-over-year basis, achieving third quarter LTM use of cash from operations of \$8.7 million.

These bids that Pete spoke about and the investments and improvements in our third quarter results are attributable to the capability and commitment and demand from our clients that our global team is satisfying and the confidence in Redwire, as we continue to satisfy this demand as our space infrastructure is in this third quarter and into 2025.

Please turn to Slide 21. Specifically for quarterly revenue, as you can see from the chart on the right, this quarter's revenue is \$68.6 million, again, a 9.6% increase on a year-over-year basis.

On a year-to-date basis, 2024 revenue was \$234.5 million as of September 30, 2024, which represents a 30.1% increase over the corresponding period in 2023. Our excellent growth was driven by our 47.5% year-to-date growth in national security revenue and an 83.6% year-to-date growth in commercial revenue, year-over-year.

Finally, during the quarter and similar to past years, our backlog has a solid foundation with more than 85% of our revenue derived from funded government programs or from global marquee customers, who are delivering in the areas of national security, commercial satellite proliferation, and the exploration of space and the moon, to name just a few areas.

Please turn to Slide 22. On a quarterly basis, Redwire achieved positive quarterly Adjusted EBITDA of \$2.4 million in Q3 2024. That's a sequential increase of 50.2%, an almost \$1 million increase over the second quarter of 2024.

Gross profit was \$12.0 million in the third quarter of 2024 with quarterly gross margins of 17.5%, an improvement over previous sequential quarters. These results were negatively impacted by a net \$1.6 million EAC adjustment during this third quarter, or 2.3% of third quarter revenue.

Our team is very focused on reducing our net unfavorable EACs, and these third quarter results were the lowest in the last 12 months, almost 60% less than the average of the previous three quarters.

Our quarterly Adjusted EBITDA performance was also improved by excellent cost control and continued operating leverage being driven by the scale as Redwire's SG&A expenses were 25.5% of revenue, a year-over-year decrease from 29.2% in last year's third quarter.

We continue to drive revenue increases without growth in SG&A on a quarterly year-over-year basis, and that's the benefit of our operating leverage and scale improving, mostly from organic growth.

Please turn to Slide 23. Throughout the third quarter, we made significant investments to drive the revenue growth we've seen in the last 12 months, while also funding industry-leading innovation and global business scale.

During the year-to-date period through September 30, 2024, we made \$6.9 million in capital expenditures, including \$2.8 million in capital expenditures in the third quarter alone, our highest quarterly CapEx spend in 2024, plus \$4.7 million investments in internal research and development and \$3.1 million in a variety of important corporate investments that flow through SG&A. We also obviously had an acquisition in Hera in the third quarter.

We continue to demonstrate our ability to financially perform now, while also making these significant investments for growth, risk reduction and profitability in 2025 and beyond.

Please turn to Slide 24. Similar to previous quarters, and on the left-hand chart, we show operating and free cash flow. As a reminder, free cash flow provides a metric based on our U.S. GAAP cash from operations, minus capital expenditures.

For the third quarter of 2024, net cash used in operating activities was \$17.7 million, and free cash flow was also a use of \$20.5 million. These quarterly results were due to the deliberate organic and M&A investments we've made following quarters of free cash flow generation, as you can see on this left-hand chart.

On a 12-month basis, we've actually achieved a year-over-year improvement in cash from operations of \$10.6 million. We do expect these investments to yield better revenue growth, scale and returns on invested capital in FY '25, and beyond.

On the right-hand chart, you see our significant and record total liquidity for this year as of the end of third quarter of \$61.1 million, and that comprises of \$45.8 million in available liquidity and \$15.3 million in restricted cash, which consists of a short-term cash collateralized standby letter of credit for a large, submitted proposal.

Please turn to Slide 25 for a brief discussion of the outlook for the remainder of 2024. We delivered another quarter of strong performance with significant investment and as a result, for 2024, we affirm full year forecast revenue at \$310 million, which represents a 27% year-over-year growth rate. On a year-to-date basis, we have achieved 76% of our \$310 million annual revenue guidance forecast.

Finally, through our excellence in execution initiatives, we continue to focus on improving our program management to reduce EAC volatility, while also creating more operating leverage and

cost efficiency to continue on our path to profitability. We enter the final quarter of 2024 and full year 2025 with great momentum.

I will now turn the presentation back over to Pete to provide brief final remarks before Q&A. Pete.

Peter Cannito

Thank you, Jonathan. Please turn to Slide 26. And with that, I want to thank the entire Redwire team for their contribution to our results this quarter, a total global effort.

We'll now open the floor for questions.

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. I would like to remind everyone for one question, one follow-up. Should you have a question, please press “*”, followed by the number “1” on your touchtone phone and you will hear a prompt that your hand has been raised. Should you wish to withdraw, please press the “*”, followed by the number “1”, again. If you are using a speaker phone, please lift the handset before pressing any keys.

Our first question comes from the line of Suji Desilva from ROTH Capital. Please go ahead.

Suji Desilva

Hi, Pete; hi, Jonathan. Congratulations on the progress here.

Jonathan Baliff

Thanks very much.

Suji Desilva

Sure. I want to start with a high-level question. Obviously, the elections are red sweep here. Curious to your thoughts on the impact, potentially, on space spend and government national security launch, and satellite broadband was featured prominently in victory speeches. So just curious to your thoughts there.

Peter Cannito

Interesting question. Certainly, we're watching closely. The interesting and exciting thing about space is the infrastructure is so critical that I think, regardless of any administration, that there's going to be continued investment there.

Usually, I don't try to comment or predict these things, but we do have four years of precedent from a previous Trump administration where they pushed the Artemis program and a number of--created the Space Force and really invested heavily in space. So--we're not making any predictions, certainly, but from what we are hearing and what I think everybody who's followed

it heard and have seen since the last time this administration was in place that they are space investors.

Suji Desilva

Sounds great. And then you mentioned in the prepared remarks, you're seeing larger bid sizes, \$100-plus million bid programs. Can you talk about as that competitive process narrows down, how many competitors you're seeing typically in the last round? And what do you think your win rate is at some of these as these become more prominent elements of your revenue opportunity?

Peter Cannito

It's highly variable, right? In some areas, there is more competition than others. In areas that are more emerging capability sets, there's less competition. I don't think we're focused as much on the quantity of competition, although I will say that space being still relatively a new market, you have a lot of opportunity with fewer companies to perform.

But regardless whether the competition is higher or more moderated, we focus on our differentiation, and that's basically our go-to-market strategy is to leverage technical capability or unique infrastructure like our classified infrastructure that we've invested heavily in to differentiate ourselves. In terms of what win rate, I think on the \$100 million-plus contracts that we have too small a sample size to give you any meaningful data there.

Suji Desilva

Okay, Pete, appreciate that. And then last question, I'll pass it along. Curious in the microgravity PIL-BOX area, I heard, you guys maybe talk for the first time that I've heard of developing your own IP with molecules. I'm curious if you have the in-house assets to determine which molecules to experiment on or if that's a partnership or what you have in-house to support that?

Peter Cannito

Good question. So, we do have in-house scientists, very senior scientists, actually, PhDs that are a part of the community. They are often out there publishing papers. We participate in the conferences. And through the experimentation phase of this, what we've been active on for many years now, we've made key relationships with the right organizations to help us identify those compounds.

In fact, we have a little scientific group, if you will, of both internal and external partners that put that list together for us of the high-value opportunities. So yes, we definitely have the expertise in order to select the ones that we think have the most potential. Jonathan, did you want to add something?

Jonathan Baliff

As CFO, I'll only add, we have been very explicit that we've invested over \$65 million, both obviously, client investment funds which, obviously, we've deployed quite effectively and our own funds, but mostly client investment funds. So we've invested a significant amount of money to gain all of the relationships, the capability internally, and obviously, the results are starting to show.

You don't go from an expectation that was pretty high dealing with 16 PIL-BOXes to now 28 and then beyond in these partnerships now, the new one with Bristol Myers, that doesn't happen by accident.

And we're very measured when we talk about it, Suji, to you in the market because we are creating something that is both unique and can also significantly scale from a revenue and return on invested capital standpoint. We're very measured how we talk about it, but we're very excited about the results, which were significantly higher than expectations.

Peter Cannito

And I would go out to our social media sites, and you can see some talks and interviews given by Dr. Ken Savin that I think you could get a lot of additional data on that.

But I think is the part that we're particularly starting to emphasize now is that I think you mentioned we hadn't previously talked heavily about was the fact that we are building our own IP here. As we've spent a lot of time studying the drug development process and leveraging our expertise to take a look at where we're going to fit in and what are the opportunities for potential business models.

And as we tried to articulate, it's developing the seed crystals in space that can operate as a seed that can then be replicated on earth. So you don't have to do it all in space. You just bring down that critical intellectual property, that seed crystal down, which is very small.

And because we've demonstrated that we can replicate it on earth, we can now take those seed crystals as IP and partner with the next chain in the value chain of drug development. And that's where we're focused on taking this IP we're developing as part of flying the small molecules on our own is to have our own IP that we can partner with biopharma companies that are in the business of the full development life cycle, partner with them providing this unique IP in exchange for some sort of royalty structure.

Early days, no doubt, but this is super exciting to us because we get a lot of questions from people about where is all of this heading. And I think we have a clear path to a real potential business model here to leverage this now.

Jonathan Baliff

With not a lot of more investment. I have to emphasize, not a lot more investment, right, That's key. It's really about now harvesting.

Suji Desilva

Thanks, Pete. I'll pass it along.

Operator

Our next question comes from the line of Greg Konrad from Jefferies. Please go ahead.

Greg Konrad

Good morning. Maybe it's a little bit too early to talk about next year. But just thinking about the 2024 growth strategy that you've laid out, how do you think about the changes into next year, just thinking about the weight of those four levers? And how do you think about venture optionality levers playing into next year?

Peter Cannito

So for the first part of it, I believe, and one of the reasons we focus on bids submitted in pipeline in our presentation here is that is probably one of the best leading indicators for Redwire, right? So that's how we think about it, anyways. When we go to look at 2025, we have to look at how many opportunities do we have in the pipeline.

These things have a relatively longer, meaning not measured in weeks and days, but in months, sales cycle. So what's in the pipeline now, in order to achieve bookings in 2025, you have to have a fair amount in the pipeline now. Based on that quantitative metric, I think we're really well-positioned for 2025.

Now we have to win. So win rate is the other, as you all have pointed out repeatedly, other side of that calculation. And although, because of the size of the sample set, we don't really have a meaningful win rate to provide based on statistically significant track record of historicals here. We do win, and we have demonstrated that we win over the last couple of years, and that's how we've achieved this--the remarkable growth that we've achieved, today.

So we're pretty confident in our ability to bid and win. So if you take that and you combine it with the fact that we have a lot of really good, qualified opportunities in the pipeline, and we've invested in not only the capacity, the production capacity, but also the ability to--the technologies like full spacecraft systems to go after bigger programs, I expect that trend to continue into 2025, which is very positive.

Jonathan Baliff

There's historical precedence for this, Greg. If you remember, we spoke two years ago about ROSAs because we were just starting to win a number of contracts. We're seeing a 127% increase in those ROSAs contracted, compared to last year. That was much higher than what we

thought two, three years ago. But it was based on pretty significant CapEx investments that we made in the '21 and '22 periods to increase their production capacity.

Many of you have been out to that facility in Goleta. We're continuing to use that embedded capital for higher returns on capital and just growth, right, in those ROSAs. So that's--it gives us confidence that what we're doing now leads to fruition in '25.

Greg Konrad

And then at the time of the Hera acquisition, I think you guys had disclosed that 2023 revenues were \$15 million. Can you maybe clarify how much of that's included in this year's guidance? And then just--you mentioned the acquisition in your cash comments, but it's a little bit unclear from the cash flow statement. Any color on the price of that deal?

Jonathan Baliff

So, now that we've actually been able to put some disclosure out, if you look carefully at the cash flow statement in the earnings release and it will be expounded upon in the 10-Q, you actually see this is a recycling of capital. We actually ended up doing a disposition that created cash of more than \$4 million, of which, as you can see in the cash flow statement, there was a use of cash for acquisitions.

Again, we haven't disclosed the full price. That's actually obviously net of cash that we received in that acquisition also. But you can see it's an efficient use of that capital, as we move forward. If you look also in the earnings release, you'll see how we actually acquired some pipeline with Hera because you can actually see--we haven't done another acquisition in almost 20 months. You can see that revenue for the quarter, which was only one month of third quarter, was about \$1.8 million.

When we spoke about guidance and the increase in guidance last quarter from \$300 million to \$310 million, we actually said that that increase was partially due to Hera, but also due to organic growth that we're seeing, and we're sticking to that disclosure.

Greg Konrad

Thank you. I'll leave it at that.

Jonathan Baliff

Thanks, Greg.

Operator

Our next question comes from the line of Brian Kinstlinger from Alliance Global Partners. Please go ahead.

Brian Kinstlinger

Great, thanks so much. Congrats on the Hera acquisition.

Jonathan Baliff

Thank you.

Peter Cannito

Thanks Brian.

Brian Kinstlinger

As it relates to proposals outstanding, I'm wondering if you can touch on the sales cycle. How long does it generally take for proposals to get adjudicated, especially on these larger deals? And then last year, Redwire bid on less than \$1 billion of contracts. This year, in each of the last two quarters, you've bid on more than \$1 billion, or at least \$1 billion. Has anything changed then in the market outside of management is focused on larger deal sizes?

Peter Cannito

I'll take the last part first. No, I don't think so. I think it's been us putting the systems and foundation and capability in place to go after larger and larger programs as part of our 2024 growth strategy. In terms of--what was the first question?

Jonathan Baliff

Sales cycle.

Peter Cannito

Sales cycle, it varies on some of the smaller subsystems and components, especially if they're commercial, you can turn it around really quickly. We can just get an order in. They can ask for something that is really mature.

On other ones that are large government procurements in particular, they tend to take a little bit longer. There's a lot of information out there on how typically the average length of a large government procurement based on size tends to take.

So, I think the important aspect is because we have that portfolio effect of subsystems and component as well as large, now larger bids, increasingly larger bids, we have a nice blend of revenues that can be achieved in fairly short order all the way up to some much larger opportunities that we chase that take months to play out.

Jonathan Baliff

The only thing I would add to Pete is, again, these larger bids, generally, you can look up online and we don't give specifics because we don't give specifics, but they do take, as Pete said, measured in months and longer sales cycle.

The other thing I would say is that many of these bids are longer from a contractual standpoint. Like they would extend--we've always said our average life of a contract is about two years, and

that's been getting higher over time. Many of these bids would increase that, also. So there's actually more multiyear contracts as opposed to a bit shorter term.

Brian Kinstlinger

Great. Thanks. My second question, maybe one for Jonathan. During the first nine months, your gross margin is down significantly from last year. I believe, and correct me if I'm wrong, the primary reason is there's a high percentage of low-margin hardware and material purchases for some of your large contracts that have begun.

My question is, is it reasonable to assume that gross margin from last year is still achievable in the long-term or medium-term? And when do you expect, if so, we begin to see a shift in the mix and ,therefore, the margins begin to recover from the gross side?

Jonathan Baliff

Look, you're asking a direct question; I'm going to give you a direct answer. We believe that the margins will increase, and we've shown that from second quarter to third quarter. It's marginally increased about 90 basis points, almost 100 basis points from the two quarters.

Some of this is mix, right, because we're actually investing as part of some of these programs. Some of it's EACs. We've talked about that before with you, Brian, too. So don't forget that there is some EAC growth there, but it's also--we're starting to manage that a bit better.

But the answer is we are very focused on improving those margins and getting back up into the 20% plus margins. We don't give specific guidance on that. But the answer is any business that's trying to achieve scale but is also getting spec'd in on some of these programs, should see increasing margins as we go forward.

It's not going to be linear. It's going to take steps forward and steps back. But as we start to achieve scale, it's really the EBITDA margins also that really start to step up, which we're also quite focused on, which is why we mention operating leverage so much.

Peter Cannito

Yes. Although it's early days, we'll reverse it here. And Jonathan, you got to go first, I get to add.

Jonathan Baliff

Yes.

Peter Cannito

This is fun. It's early days. In the last earnings call, if anybody was paying attention, I articulated a key concept that we rally around called strategic balance. I believe in that context, I was talking about balancing between profitability today and the investment that's required to achieve extraordinary growth, over time.

But strategic balance also comes into many of our conversations internally, when we look at opportunities to say, all right, are we focused on gross margin improvement here or are we focused on the absolute value of free cash flow generation? And I think at this stage in our company, as we look at achieving operating leverage, we will bid higher programs with low margins that can have an outsized effect on our blended margin but create more absolute value from a free cash flow generation perspective. And that's just, I think, healthy for the company.

So everything Jonathan said is correct. But I do want to highlight so that I'm not back on this call later and we win a much larger opportunity that has a large material purchase associated with it, that dilutes our margins on a blended basis, but generates a lot of additional free cash flow because we're getting all the operating leverage, and that's why Jonathan brought up EBITDA. But we will do that, and that is a possibility.

Brian Kinstlinger

Great, that's helpful. Thank you.

Operator

Thank you. Again, if you have any questions, please press "*", "1". Our next question comes from the line of Griffin Boss from B. Riley Securities. Please go ahead.

Griffin Boss

Hi, good morning. Thanks for taking my questions. So a lot of good progress here. I'll start with the ROSAs. Obviously, you mentioned the strong growth there year-over-year. But you didn't talk about the Thales contract program you're working on. I wonder if you could provide some more details on how that's progressing and any potential investments you're making to ramp up on that program?

Peter Cannito

Yes, so it's progressing well, and we're making the investments that we envisioned at the beginning of the program. So, I wouldn't take our not speaking on the topic as anything other than we had a lot of new other stuff to talk about. But yes, the program is progressing well and those investments are playing out.

Jonathan Baliff

Absolutely. And what I would say, Griffin, is take a look at that growth in the commercial revenue, right? When we look at our year-over-year commercial growth, a lot of that is because now we've been able to disclose more about Thales and what those ROSAs are going on. And we're very excited about continuing to move forward with that, but really other clients because of our differentiated power generation.

Griffin Boss

Great, thanks for that color. And next for me, it does look like you paid quite a low multiple for Hera. So just if you could provide more details on sort of M&A going forward and what you're

seeing in the marketplace in terms of options for M&A and maybe valuations you're seeing in the market, as well?

Peter Cannito

Yes, so the valuations have come down. Without getting too much into our strategy because, obviously, it's a competitive process for these, is we believe there are companies out there that have invested millions of dollars in capital in creating some really extraordinary technological capabilities and just ran out of capital.

And as a result, there are opportunities to find complementary opportunities where they can join the Redwire platform, and we can take advantage of all the capital that went into the tech development part of their evolution, right? So we're excited about that.

I've said previously in earlier calls, although I'm not sure everybody had labeled us as one of those that come out the other side of this early stage of space. But the winners do get to--and those that move forward and maintain fiscal discipline get the opportunity to, strategically, look at those companies that have some really great tech, but need to be part of a longer-term platform in order to realize the full potential of that tech. And so that's exciting to us.

More broadly, we do think that valuations have come down. And as a result, I think you'll see that we've never stopped being active. As I tried to highlight on this call, inorganic growth and M&A is a core competency of Redwire.

We have a team here who has done it many times now and has--I hope people look at where we are sitting today after our nine, now 10 acquisitions and see that we have the ability to integrate and capitalize on that. So, that's going to be kind of part of our game plan going forward. It would be strange for it not to be.

So I think as you see us going forward, we're highly selective. We don't like to overpay, and we look for technological differentiation. That's always the way we've been, and that's the way we're going to be, going forward.

Griffin Boss

Excellent, very helpful. Thank you, Pete, and thank you, Jonathan.

Peter Cannito

Thank you.

Jonathan Baliff

Appreciate it. Thank you, Griffin.

Operator

Thank you. That concludes our Q&A session. I would now like to turn the call over back to Jeff Zeunik for closing comments.

Jeff Zeunik

Pete?

Peter Cannito

Great. Thank you for your questions and for participating in today's call. We appreciate everyone taking the time to listen to us today and "Go Redwire."

Operator

That concludes our conference, today. Thank you for joining us. You may now disconnect.