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Blacksky Technology, Inc. (BKSY)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Blacksky Technologies First Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Please note this conference call is being recorded.

I would now like to turn the call over to Aly Bonilla, Blacksky's Vice President of Investor Relations. Please go ahead.

Aly Bonilla

Vice President-Investor Relations, Blacksky Technology, Inc.

Good morning, and thank you for joining us. Today, I'm joined by our Chief Executive Officer, Brian O'Toole; and our Chief Financial Officer, Henry Dubois. On today's call, Brian will provide some highlights on the quarter and give a strategic update on the business. Henry will then review the company's first quarter financial results and outlook for 2024. Following our prepared remarks, we will open the line for your questions.

A replay of this conference call will be available from approximately 12:30 PM Eastern time today through May 22. Information to access the replay can be found in today's press release. Additionally, a webcast of this earnings call will be available in the Investor Relations section of our website at www.blacksky.com. In conjunction with today's call, we have posted a quarterly earnings presentation on the Investor Relations website that you may use to follow along with our prepared remarks.

Before we begin, let me remind you that certain statements made during today's conference call regarding our future plans, objectives and expected performance, including our financial guidance for 2024, are forward-looking statements. Actual results may differ materially as these statements are based on our current expectations as of today and are subject to risks and uncertainties, including those stated in our Form 10-K. We encourage you to review our press release, Form 10-K and other recent SEC filings for a full discussion of the risks and uncertainties that pertain to these statements and that may affect future results for the market price of our stock.

BlackSky assumes no obligation to update forward-looking statements except as may be required by applicable law. In addition, during today's call, we will refer to certain non-GAAP financial measures, including adjusted EBITDA, adjusted imagery and software analytical services cost of sales and cash operating expenses. A reconciliation of these non-GAAP financial measures to their most comparable GAAP measures are included in today's accompanying presentation which can be viewed and downloaded from our Investor Relations website.

At this point, I'll turn the call over to Brian O'Toole. Brian?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

Thanks, Aly, and good morning, everyone. Thank you for joining us on today's call. Let's begin with slide 3. I'm happy to report that Q1 was another strong quarter as we continue to make great progress across all aspects of our business. Demand for our space-based intelligence remains strong as we continue to secure more new customers and expand the services we are delivering to existing customers. We also continue to demonstrate strong operating leverage in our business as revenue growth from our high margin imagery and analytics services delivers improving operating margins.

Combined with our disciplined cost management and streamlined operating efficiencies, we continue on our path of delivering positive adjusted EBITDA results. Let me share some of the quarter's key highlights.

First, we delivered strong year over year revenue growth of 32%. Our imagery and analytics revenue continue to grow with many of our existing customers placing incremental orders for our high frequency imaging services. Second, we were awarded \$30 million in new contracts and renewal agreements in the quarter supporting US and international government agencies. These contracts demonstrate the growing demand from customers looking to obtain Blacksky's, unique space-based intelligence solutions.

Third, we delivered another quarter of positive adjusted EBITDA, driven by our strong revenue growth and operating leverage inherent in our business model. As our business continues to scale, we look forward to delivering improved EBITDA performance over time. Fourth, we continue to make significant progress on the production of our Gen-3 satellites. Our constellation remains on track with Gen-3 satellites planned to start launching this year.

And finally, we secured a \$20 million commercial bank line in April, which strengthens our liquidity position and provides us with additional financial flexibility. Henry will go into more details on this transaction later. These highlights, along with the growing market demand for our imagery and analytics services and space-based intelligence solutions reinforces our confidence that we are well-positioned to capitalize on new sales opportunities and are progressing towards sustainable, long-term profitable growth.

I would now like to share some operational highlights from the quarter. Turning to slide 4. During the quarter, we continued to invest in advanced AI capabilities, which are resulting in the capture of new customers and contracts. One of our recent awards was with the Air Force Research Laboratory or AFRL. Through this IDIQ contract,

which is valued up to \$24 million, we will develop and deliver advanced moving target engagement services in support of emerging surveillance, reconnaissance and tracking or tactical SRT missions, which is one of the key commercial investment areas identified in the US Space Force's recently released commercial space strategy, which I will talk about more in a few minutes.

The program will leverage our advanced AI capabilities that feature highly scalable and high-speed machine learning technology that can process data from our proprietary satellites and from other data sources to provide a deeper understanding of pattern of [indiscernible] 00:07:13 changes. These data sources can include government intelligence, surveillance and reconnaissance, or ISR, as well as data from other commercial providers. Combining multiple data sources through machine learning techniques increases our capability to detect, track and identify moving targets more accurately and at a much greater scale.

Turning to slide 5, we continue to see government agencies at home and abroad increasing their investments in space-based capabilities to meet their country-specific intelligence, surveillance and economic development needs. This trend is driving strong demand for BlackSky's products and services worldwide, resulting in new customer wins and the expansion of services to existing customers. One example is a multimillion dollar contract we won during the first quarter with an existing defense and intelligence customer. We're happy to provide this customer with advanced space-based intelligence capabilities that are essential to their day-to-day operations.

In addition, we successfully closed over 10 six-figure contracts and renewal agreements in the quarter. Many of these contract wins are multiyear awards, demonstrating the customer's commitment to adopt long contract periods in order to secure access to our capacity. These multiyear contracts help to further strengthen our base of long-term customers and provide BlackSky with good revenue visibility. We're happy that our land and expand strategy continues to gain traction as these new and expanded contracts help to further build the foundation for recurring subscription imagery and analytics revenue.

Moving on to slide 6. I would like to provide an update on the contract supporting the government of Indonesia that we announced last quarter. Within 30 days after contract award, we sent a BlackSky team to Indonesia to provide training to government end users and how to task our Gen 2 satellite constellation and receive AI-driven analytics through our Spectra AI software platform. We're pleased to report the training program was a success, and that the Indonesian government now has direct access to our Spectra AI platform to receive high revisit satellite imagery and analytics. The BlackSky software first AI approach end users through our Spectra AI platform can receive real-time space-based intelligence, giving them a strategic first to act advantage on mission critical objectives. We continue to see strong interest in this new adoption and acquisition model from governments around the world. This new model enables customers to immediately take advantage of BlackSky's real-time imagery and analytics solutions while also enabling them to develop and accelerate their sovereign-based space capabilities over time, leveraging rapidly advancing commercial space and AI technologies.

Turning to slide 7. Last month, the U.S. Space Force announced their new commercial space strategy. The strategy outlines a framework and a commitment for integrating commercial space solutions to deliver technological innovations that supplement government owned and operated capabilities. The strategy aims to leverage commercial space solutions combined with organic and allied capabilities into a hybrid architecture to enhance national security and other military requirements.

A key part of the strategy will be to strengthen partnerships with commercial space companies in order to develop more resilient space architectures and expand the number of solutions that can be addressed by the commercial industry. This is very encouraging for BlackSky as we have anticipated this market opportunity and have spent the last several years building an architecture capable of supporting these objectives.

We have already won a number of multi-million dollar R&D programs with organizations such as the Defense Innovation Unit and AFRL for capabilities such as moving target engagement and advanced tactical ISR capabilities from space. These program wins align with several competition areas outlined in the Space Force's commercial strategy. We believe this has us well-positioned as the Space Force moves forward with this plan over the next several years.

Moving to slide 8. We continue to make significant progress on our Gen-3 satellite program and remain on track to begin launching this year. Our Gen-3 satellites are in production and are currently in the integration phase. As a reminder, these satellites will deliver very high resolution, 35 centimeter imaging, along with other advanced capabilities such as shortwave IR and high speed communications, to further improve the timeliness and the delivery of actionable intelligence.

Keep in mind, we already have contracts in hand for Gen-3 capacity and are excited to bring these new capabilities to market to unlock these revenue growth opportunities. As these satellites begin to come online, we anticipate this new capacity and enhanced capabilities will meet the strong demand we're seeing for space-based intelligence and drive even more opportunities over time.

In summary, we're pleased with the progress we made in the first quarter and the strong execution in our business. I'll now turn it over to Henry to go through the quarterly financial results. Henry?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

Thank you, Brian, and good morning, everyone. We're pleased to have delivered another quarter of strong revenue growth and positive adjusted EBITDA. Now, I'll walk you through the details.

Beginning with slide 10. Total revenue for the first quarter of 2024 was \$24.2 million, an increase of \$5.8 million or 32% over the prior year quarter. Imagery prior-year quarter. Imagery and analytics revenue grew to about \$17.8 million, an increase of \$2.1 million or 13% over the prior-year period. The year-over-year increase was primarily driven by incremental customer orders for Blacksky's imagery services.

Professional and engineering services revenue grew to \$6.4 million in the first quarter of 2024, compared to \$2.6 million in the prior-year quarter. The significant year-over-year increase was primarily driven by new customer wins and the step-up in the execution of multiple major international contracts we won last year. Keep in mind, revenues recognized from these types of contracts, which are largely milestone-based, may have quarter-over-quarter revenue variability. As a reminder, these strategic contracts deepen our relationship with these customers and are oftentimes precursors to securing long-term subscription contracts for imagery and analytics services.

Moving on to slide 11. Our imaging and analytics business continue to demonstrate strong operating leverage. Imagery and analytics cost of sales excluding stock-based compensation, depreciation and amortization expenses was \$3.4 million in the first quarter of 2024, compared to \$3.6 million in the prior year quarter. The \$200,000 year-over-year decrease was primarily driven by cost savings in our satellite and software operations. Put another way, our first quarter 2024 imagery and analytics revenue increased 13% year-over-year, while our cost of sales decreased 6%, resulting in another quarter where our incremental high margin revenues flow directly to the bottom line.

This consistently strong performance further demonstrates the operating leverage in our business and is a fundamental driver to our long-term profitable growth.

Let's move to slide 12 and talk about cash operating expenses, which excludes stock-based compensation and depreciation and amortization expenses. For the first quarter of 2024, cash operating expenses were \$16.1 million, an improvement of \$300,000 compared to the prior year quarter. This 2% reduction in our expenses demonstrates our lean business model and ability to effectively manage costs while continuing to substantially grow our top line especially when compared with the revenue growth of 32% over the same period.

This year-over-year improvement was primarily driven by reductions in general corporate costs such as insurance, rent and various professional fees. These cost savings more than offset investments we've made in our go-to-market initiatives which include expanding our sales team to capitalize on new opportunities and investing in our AI capabilities and R&D efforts.

Turning to slide 13. Our adjusted EBITDA for the first quarter of 2024 was \$1.4 million, an increase of \$5.5 million compared to the prior year period. The year-over-year improvement was primarily driven by greater volumes of our high margin imagery and analytics revenue coupled with cost savings and cash operating expenses, as I just mentioned.

Moving on to our balance sheet. We ended the first quarter of 2024 with \$35.8 million of cash, restricted cash and short-term investments. As you may have seen in April, we entered into a \$20 million commercial bank line, which together with our ending cash position in Q1, brings our total liquidity to \$55.8 million on a pro forma basis.

In addition, we expect to further enhance our liquidity from the receipt of approximately \$24 million, from a few major customer contracts that include interim milestones for which revenue and costs have already been recognized but have not yet been built. These activities, combined with the vendor financing in place for upcoming launches and anticipated continuing adjusted EBITDA improvements, reinforce our position that we have sufficient cash for the foreseeable future to execute on our business plan.

Lastly, our capital expenditures in the first quarter of 2024 were \$14.6 million in line with our expectations and primarily due to milestone payments for our Gen-3 satellite production and software development spend to enhance our Spectra AI platform.

Now, let's move on to our 2024 outlook as shown on slide 14. As mentioned earlier, we are continuing to win new contracts and expand existing agreements with US and international government customers as demand for our space-based intelligence solutions remain strong. With continued revenue growth and ongoing disciplined cost management, we expect to carry on the strong operating leverage our business has consistently delivered.

Therefore, we are maintaining our full year 2024 guidance with revenues between \$102 million to \$118 million. Adjusted EBITDA between \$8 million to \$16 million and capital expenditures between \$55 million and \$65 million. In summary, we're pleased with our financial performance in the first quarter and the continued momentum we're seeing across our business. We look forward to continued progress throughout the year.

With that, I'll now turn it back over to Brian for some closing remarks. Brian?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

Thank you, Henry. In closing, we're off to a strong start in 2024 as we continue to deliver critical intelligence that our customers rely on every day in support of their national security needs. We're pleased with our first quarter results and the strong execution across all aspects of our business. We're continuing to deliver revenue growth

while demonstrating strong operating leverage in our business. We're advancing our leadership position in AI as we continue to win more contracts driven by our advanced AI technology. We're capitalizing on a growing US and international market for BlackSky's space-based intelligence, and we're advancing our leadership in space, and we're ready to unlock our next phase of growth with the launch of our Gen-3 constellation. We built a strong foundation, are executing well on our plan, and are on track to deliver sustainable, long-term, profitable growth.

This concludes our remarks for the call, and we'll now take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We'll go first to Greg Burns with Sidoti & Company.

Gregory Burns

Analyst, Sidoti & Co. LLC

Q

Morning. The first two-year period of the [indiscernible] 00:21:24 contract is coming up, I think, this month. What's your outlook for that? Do you expect the government to increase funding there or maintain it at the same level? Any color you can give on that would be helpful. Thank you.

A

Yeah. Thanks, Greg. Good morning. Yeah. Just under EOCL, just, we're performing really well under that contract and meeting all of our delivery requirements. And also, as a reminder, we had some reported in earlier quarters, our successful integration with the government's commercial interface. So, all that is going well. And because that interface is in place, that's driving higher distribution within the government and use of our data in critical intelligence activities. We are in active discussions for a renewal agreement to continue service and by the annual service date, which is in June.

Q

Okay. I guess you don't know exactly if they're going to just – what are the options? Like, how could this play out for you? Well, they – can they fund another tranche and layer that on top of the existing revenue to extend the revenue, like what are the scenarios that potentially play out with this renewal for you?

A

There's multiple options that are being discussed. First and foremost is the renewal of the base subscription, and then, there's additional options on top of that to continue the service for Gen-2 capability that we have now. Gen-3 type services will come later after we get those satellites on orbit.

Q

Okay. And then, with the Gen-3's, what is the turnaround time from launch to its operations?

A

Typically, in the past, after we've had a few launches, we've been able to bring satellites into operations within 24 hours. What we expect but we expect with the Gen 3s, it will be 60 to 90 days since these are brand new satellites to get those commissioned and we'll have a regular launch cadence that goes along with that. So, we will quickly ramp operations.

Q

Thank you.

Operator: We'll go now to Edison Yu with Deutsche Bank.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Thank you for taking our questions. First, can you just clarify, on the \$24 million that you're getting from the customers, what exactly is driving that delay?

A

Good morning, Edison. The delay, can you clarify?

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Sorry. The timing, the \$24 million in cash. I think you had mentioned that you recognized the revenue and cost but haven't [indiscernible] 00:24:34

A

Oh, yeah. Let me hand it over to Henry on that one.

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Hey, Edison. This is Henry. Yeah. What that is, is we make progress against various milestones on a couple of these large international contracts we talked about. And because we recognize the revenue and the cost, they're already sitting there in the – in our revenue and cost cuts. We've got the margins already now baked in.

However, because we only can bill against actual milestone completion, they are sitting in our other contract assets at the moment and we would expect whilst we hit those milestones that we'd be able to build and that would be cash directly to the balance sheet because we've already incurred the associated costs with that revenue.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

And would that be coming in 2Q or is that spread throughout the rest of the year? How do we think about timing?

A

It's going to be spread over the next 12 months.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then on the – I guess on the growth for I&S, it seems to be kind of in the – you know, if we average it out the last three quarters, kind of mid-teens. I'm curious, do you think that can step up, you know, as we go forward? And what sort of a more, I guess, normalized growth considering all the – on the back all you have?

A

Well, you know, there's a couple of things at play here, Edison. You know, we're – we remain highly focused on capturing long-term anchor defense and intelligence customers through a land and expand strategy. And that's working. You can see the results through those large contracts and their renewals. We also announced this quarter a number of new customers starting out with initial kind of six-figure pilots that then grow over time. I mean, what you've probably witnessed is really a step function as we go through the bringing on of these new customers and the ramp of those services. And then we anticipate a decent step up as we begin to get Gen-3 online.

Q

Understood. And last one for me. You've got all these contract wins, obviously. Could you maybe share anything about win rate or how, I guess, the competitive dynamics are? That would be helpful. Thanks.

A

Yeah. I would say, Edison, we're not because of what we offer, which is this unique high frequency, dynamic monitoring capability, this is a new capability for most of these customers. So, we're not – we're not in a so-called head-to-head competition. It's more of an adoption type curve. So, we're just incrementally bringing those customers on and they're adopting our services and integrating it into their environments.

Q

Great. Thank you.

Operator: Next, we'll hear from Jaeson Schmidt with Lake Street.

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Q

Hey, guys. Thanks for taking my questions. Brian, just want to follow up on you noting sort of those 10, 6-figure contracts and renewals in the quarter. Is this pretty consistent with past quarters or is this sort of a step-up compared to what you saw in 2023?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

I think it starts – we're starting to see a step-up. The, you know, some of the sales cycles for these long-term customers are a little longer, and we've been in the market with our high frequency capability now for 18 months. So, I think you're seeing – you're seeing the step-up related to sales cycle timing and where we are in the market.

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Q

Got it. And then, regarding the Gen-3 satellites, I know you noted contracts in hand for this capacity. Are most of these contracts currently utilizing Gen-2 today like Indonesia or are they waiting for Gen-3 to launch?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

I would say almost all of these contracts are utilizing Gen-2 capacity today.

Jaeson Allen Min Schmidt

Analyst, Lake Street Capital Markets LLC

Q

Okay. And then, just the last one for me and I'll hop back in the queue. Henry, I think the first quarter where you sort of eclipsed that 70% plus on gross margin, should we think about this sort of a new run rate throughout 2024?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Well, I mean, as you can see in this quarter, we did hit about 81% on the imagery and analytics. And we did – we were able to deliver some pretty good performance out of professional services and engineering around the 40%, 44% or so gross margin mark.

I mean, as we go forward, as long as we continue our growth, I mean, we're feeling pretty good. We have stepped up from where we were last year from 65% for the first quarter of last year to 71% overall for the first quarter of this year.

Q

Sounds great. Thanks a lot, guys.

Operator: Our next question comes from Josh Sullivan with The Benchmark Company.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Hi. Good morning.

A

Morning, Josh.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

As far as Gen-3, what do you see as the largest technical manufacturing or otherwise hurdles that remain before we get to launch?

A

As I mentioned, Josh, we're in the final assembly and integration phase. So, this is putting together all of the subsystems and assemblies and bringing that together into an integrated satellite and testing the software. So, we're in a normal position for satellite at this stage. And as I mentioned, we remain on track to begin launching the satellites this year.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

And then as far as the Indonesian contract, what has been the response from other international prospects? You mentioned some new customer activity. Has that deal driven incremental interest in the pipeline?

A

Well, as I've been reporting the last year or so, there's very strong interest in growth opportunities internationally. I think the Indonesian deal represents a new adoption model and a faster adoption model, which we can then bring to these customers and the conversations we've had ongoing for several years as we look to bring them on. So, I think it's just enhancing our ability to close these customers and accelerate programs with them over time.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

And then just one last one. the comment on commercial applications in the prepared remarks you mentioned there, where or what markets are you seeing early interest in that?

A

I don't think I commented on commercial applications.

A

C&I.

Q

There was a comment...

A

Josh, I think maybe you're referring to the commercial strategy for...

Q

Right.

A

... Space Force. Yeah. So, yeah, I think – for sure, I think – obviously, the Space Force has now put out a formal strategy that is committing them to integrate with commercial space capabilities through what they call hybrid architectures. What we're seeing is things that align with our purpose-built architecture are related to tactical SRT, very similar capabilities to what we announced in our \$24 million AFRL contract. Other areas are space domain awareness and then other resiliency and command and control capability. So, we're excited as these things all align with the architecture that we have at Blacksky.

Q

Thank you for the sense.

Operator: We'll go next to Jeff Van Rhee with Craig-Hallum.

Jeff Van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Thank you. Good morning, guys. Couple for me. Maybe, Henry, just to start on the \$30 million in new renewals in terms of contracts signed, what's the ARR on the \$30 million?

A

Well, \$30 million, some of those – for example, one of those is a contract, that we're doing some work with the US Government on. That was one day we announced it starting off at about [ph] 3.9 00:33:23 over about an 18-month period, And that was in a press release earlier this year, and others are continuing to look forward. So, they're all typically multiyear, and we work our way through them as we get the task [indiscernible] 00:33:36.

Q

So, rebounds, you can put around that, I mean, generally speaking, should I take that number and divide it by two, three, four, five, like a typical duration just to get a swag at how much ARR was signed?

A

Well, I mean, you heard Brian talk about the other 10 contracts that are in the six figures that are multiyear. I mean, they kind of go all over the place. But given the fact that they are all multiyear, the typical range of those is probably in that three-year sort of time period.

Q

Okay. How are you thinking about past the free cash flow and timing?

A

Well, as we – as we said in the prepared remarks, we've got – we feel like we've got a pretty good amount of liquidity on the books, including the commercial bank loan we just put in place. We would have had about 55.8 at the end of the quarter. We did just talk earlier on the Q&A about the roughly \$24 million of liquidity that will be coming in over time from the major contracts that we've been progressing on the milestones. And we also, as you may recall, have our launches vendor finance for the first couple of launches. So, we feel like we're in pretty good shape to get our Gen-3s up and get to the next stage of our – of our growth.

Q

Okay. I guess just last one for me then. On the software line, specifically software. So, \$1.3 million in the quarter. And, you know, Spectra and some of the capabilities there have long been talked about and certainly, from our work, looked to be differentiated in terms of capabilities. From a revenue standpoint, I got to believe that's not target – not hitting where you sort of are targeting that line, if I look over the last three years. It's just generally flat to modestly down. What is it about that line that is not growing? And does it cause you to rethink about the competitive landscape? Is it just timing?

about the competitive landscape? Is it just timing? Just a little more, you know, a little more specifics, if you would?

A

Yeah, I would say, just the real competitive advantage we have is that Spectra AI platform, which is driving increased and new user experience, and then, which is – which is what is behind our increasing imagery and analytics revenues. We've had strong growth in that area, particularly around the – the NGA-EIM program in the past. And that program is transitioning to a new program called Luno, which is currently in the proposal process and has a multiyear budget that will be four or five times that of EIM. So, we feel we're well positioned for that. And, you know, that will drive our – or help drive some of the future analytics revenues.

Q

Okay. Thank you.

Operator: We'll go now to Caleb Henry with Quilty Space.

Caleb Henry

Analyst, Quilty Analytics LLC

Hey, thanks for taking my questions. Just a few from me, because I know that Blacksky has always had a focus on AI, but I was wondering if the recent hype around Generative AI has had any impact whatsoever on Blacksky?

A

Yeah. We've been using AI for quite a bit for – for quite a while here. We use it across all aspects of our operations, from intelligent tasking to tipping and cueing to machine vision and learning on our imagery and analytics. We have used Generative AI type capabilities against open source feeds to identify emerging events. And so, we're excited about where AI is right now. We are using it every day and we're seeing that as really an amplifier to our core imagery and analytics business over time.

Q

Okay. There was a mention of space domain awareness earlier in the call. I was wondering if you could clarify that. Is that – is BlackSky planning on services that involve like imaging other satellites in space or is it something else?

A

Our current satellites have a capability of looking up. In fact, that capability is available to the government today and we see that as an emerging market opportunity.

Q

Okay. All right. Yeah. That's cool. I hadn't heard about that before. Can you give a little bit more specifics on the Gen-3 plans? How many of those do you anticipate launching this year?

A

As I said, we are on track to begin launching this year. I should also mention in parallel with getting the first couple of satellites up and working, there is a full production line that is being ramped up. So, we will get into a steady cadence of satellites coming off that line and then up into orbit over time.

Q

Okay. One or two more questions. It looked like D&A was a little bit higher this quarter. Can you give any color on why that was?

A

Depreciation and amortization, do you mean?

Q

Yes, yes.

A

Well, depreciation and amortization went up because we had more satellites in the air as compared to a year ago at this time.

Q

Okay. And then last one for me. I just wonder is there any additional steps for the Indonesia contact or is that trading? And then with the – I think there's \$7 million in revenue recognized last quarter. Is that kind of the expected rate in quarters to come or is there any kind of change along that quarter-over-quarter?

A

Well, that program will progress on two fronts. The first is their access to our imagery and analytics services through a subscription – multi-year subscription agreement. So, that will ramp over time, and then delivery of satellites which will ramp as we make progress against the delivery of those satellites. That will be a little lumpier but those are the two paths for that program.

Q

Okay. Those are all my questions. Thank you.

A

Thank you.

Operator: We'll go now to Scott Buck with H.C. Wainwright.

Scott Buck

Q

Hi. Good morning, guys. Thanks for the time. Brian, can you give us any indication of what kind of step-up pricing looks like for customers utilizing Gen-3 versus Gen-2?

Brian E. O'Toole

Chief Executive Officer & Director, Blacksky Technology, Inc.

A

I'm not going to into pricing – specific pricing, but I think it's safe to say that the Gen-3 capability is a significant step-up in capability both from a resolution perspective, the fact that we're adding a short-wave IR capability and we'll have improved timeliness. So, all of those things combined, we will be delivering a much higher service to customers as opposed to the current Gen-2 capability.

Scott Buck

Q

Great. Appreciate that. And then second one for me. Just given that it's an election year, I'm sure you guys have done some internal handicapping of outcomes and what kind of impact that may have on handicapping of outcomes and what kind of an impact that may have on the business or programs you're working with. Any thoughts you can share with us there?

A

Well, I think, the programs that we have, you know, visibility into obviously our EOCL, which is a 10-year program of record. And so that gives us good confidence and long-term budgets for that. They are subject to annual renewals. The Luno program by NGA is now a new program of record which will – which will drive a whole new set of revenue opportunities as that program ramps online. And then, obviously, the Space Force strategy is putting budget in place for those capabilities. So, everything we're looking at is tied to long-term US government programs.

Q

Great. Appreciate the additional color, guys. Thanks again.

A

Thank you.

Operator: [Operator Instructions] We'll go now to Chris Quilty with [ph] Quilty Space 00:42:27.

Chris Quilty

Analyst, Quilty Analytics LLC

Q

Thanks, guys. Tag team in here. This week is [indiscernible] 00:42:35 week. Are there any announcements out of that that you think are worth highlighting? And maybe can you comment specifically, I think there was an NGA fairness announcement. Is that something that you feel well positioned?

A

Yeah. I think if you look at a lot of the remarks that [indiscernible] 00:42:58 went this year, they're highly reinforcing of the Government's adoption of commercial imagery and analytics. As you mentioned, there's now a new program related to maritime surveillance. That's a capability we support today with some of our other

partners and have demonstrated that. So, that's an exciting opportunity for us. Obviously, [indiscernible] 00:43:24 is coming online and then there were also remarks coming out of the Space Force related to the potential opportunities for commercial capabilities being involved with their hybrid architectures in the future. So, we love the momentum and we love the directionality that's coming out of the government.

Q

Great. Henry, with the \$20 million bank line, is that all the borrowings you will need between here and in free cash flow positive or might we need another slug looking out into next year as things [audio gap] 00:44:07

A

Thanks, Chris. As we said, we are pretty excited about bringing in that extra – that \$20 million I think bring in as a commercial bank line. It is at very good cost of capital, if you will, relative to other forms. So, it gives us a fair bit of liquidity there. As I mentioned earlier in the call, plus the vendor financing, plus some of these other unbilled receivables that we will be collecting over the next couple of years, I think they are – they fully fund us on our path towards our next stage of growth.

Q

Great. And final question here. As you start to ramp up Gen-3 production, I know we're three years out from COVID. Every single quarter, I still keep hearing supply chain challenges for a lot of the companies I work with. How do you feel about the supply chain? Are there any particular components or vendor that you're concerned about as that production scales?

A

We have – Chris, we have really good visibility into the supply chain. The advantage we have is we're not building supply chain. The advantage we have is [indiscernible] 00:45:16 building one or two satellites for building a production line that has a cadence, as you mentioned over the next several years. So, we're able to get down in front of this by ordering long lead components, critical path components well ahead of when we need the satellites. And that's reflected in our overall plan.

Q

Good. Congrats on the quarter. Thanks.

A

Thanks, Chris.

Operator: And at this time, there are no further questions. This will conclude BlackSky's first quarter 2024 earnings conference call. Thank you for joining the call today. You may disconnect at this time.

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