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Blacksky Technology, Inc. (BKSY)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. And welcome to BlackSky Technology's Second 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.

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 second 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 August 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 or 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

President, 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 pleased to report that BlackSky delivered another strong quarter as we continued to demonstrate revenue growth, the strong operating leverage of our business, and positive adjusted EBITDA operations. Our performance in Q2 was primarily driven by the ongoing demand we're seeing for our differentiated space based intelligence solutions from new and existing government customers around the world.

Let me share some of the quarter's key highlights. First, we delivered strong year-over-year revenue growth in Q2 of 29%. Demand for our imagery and analytics services continues to grow as customers incorporate high frequency, low latency BlackSky data into their daily workflows. Second, we were awarded \$40 million in new awards and extensions in the quarter, supporting US and international government agencies, demonstrating strong customer demand for BlackSky's capabilities. Third, we delivered another quarter of positive adjusted EBITDA driven by our strong revenue growth and operating leverage. This was our third consecutive quarter of positive adjusted EBITDA. And fourth, our next generation, very high resolution Gen-3 satellites are in the final stages of assembly, integration, and test.

Our team is actively preparing for launch and commissioning operations and are excited that our first 35 centimeter resolution satellite remains on track for a planned launch in late Q4. I will talk more about our Gen-3 constellation and our progress in ramping satellite production at LeoStella in a few minutes. These highlights demonstrate how we're executing well on our business plan and meeting the growing global demand for space based intelligence. We continue to deliver strong operating leverage through our high margin imagery and analytic services while we remain focused on responsible cost management. Our ability to deliver strong quarterly performance has us on the right path towards long-term profitable growth.

I would now like to share some operational highlights from the quarter. Turning to slide 4. During the quarter, we won several new and follow on contracts across various US agencies, demonstrating the ongoing demand for our imagery and analytics services across the US government. I'm pleased to report that the NRO extended its subscription to our high frequency Gen-2 imagery services under the Electro-Optical Commercial Layer, or EOCL contract. This extension represents continued confidence in BlackSky as a trusted mission partner as the NRO leverages commercial space to support national security needs. We look forward to unlocking future EOCL subscription services as our Gen-3 capacity comes online.

During the second quarter, we won a new task order with the US Air Force Research Laboratory. This new order continues advanced development of AI-enabled moving target detection services. Under this contract, the government is leveraging our advanced AI capabilities to detect, track and identify moving targets using multiple government and commercial data sources. We've also won several contracts and options with new customers acquired through the Global Data Marketplace or GDMP. For those who may not know, the GDMP is a new online marketplace whereby US government agencies can connect with commercial providers to contract for a broad range of data and analytics services in support of various mission needs. This service enables government end users to quickly request and get delivery of unclassified intelligence through a streamlined acquisition process. BlackSky has been successful in reaching new customers through this marketplace who are looking to quickly access our advanced high frequency imagery in AI-enabled analytic services. The contracts we've won through the GDMP are rapid, quick turnaround services, providing a new channel that puts the power of real time space based intelligence in the hands of many more government end users. Although GDMP is still in its early stages, we look forward to winning a growing number of similar contracts over time and using this marketplace as a new sales tool that's part of our land and expand strategy.

Turning to slide 5. The need for real time intelligence continues to expand across many international markets due to an ever changing geopolitical and economic environment. More and more international governments are looking to invest in space based capabilities in support of their national security and economic growth initiatives. In the second quarter, we announced a \$7 million contract renewal with one of our long-term international government customers. This customer will continue to access our high frequency imaging services as well as task multiple third party data sources through the BlackSky Spectra platform. This offering provides this customer with a single, easy to use platform to access BlackSky and a constellation of partner satellites to provide comprehensive, high frequency, all-weather, day and night imaging and analytic services to meet their daily mission requirements. During the quarter, we were also awarded multiple six figure subscription contracts in support of various international government agencies. We're making great progress expanding our international customer base as we continue to execute and deliver on our land and expand strategy. In fact, revenues from international customers in the second quarter more than doubled over the prior year quarter, with revenues from international customers now representing 40% of our business.

Building a diverse customer base with high visibility subscription revenue is a key element of our plan towards long-term, sustainable, profitable growth. I'm pleased that we continue to make progress in many markets around the world and believe we are well-positioned to expand these accounts over time when our 35 centimeter Gen-3 constellation comes online.

Turning to slide 6. I'd now like to share a customer use case that highlights the power of our space based intelligence capabilities and how our on-demand Spectra platform enables end users to rapidly respond to important events that may impact our security or economic interests. In this case, our dynamic monitoring services accessible through our Spectra software played a key role in a counter-drug operation in Latin America. About six weeks ago, an international defense organization detected a suspicious aircraft entering their country's airspace, which they believed was carrying illegal narcotics. After assessing the situation, this customer ultimately decided to take down the aircraft to intercept the illegal transport of drugs. As part of this mission, their operations team used BlackSky Spectra self-service platform to test our high frequency constellation to obtain real time imagery of the area where the plane was shot down. Because of our real time service, we were able to successfully capture high resolution imagery of the specific location and delivered timely and actionable intelligence during their active mission. This is just one example of how BlackSky is changing the user experience and putting the power of space based intelligence directly in the hands of users through a fully automated, AI-enabled Spectra platform. Through subscription based access to our imagery and analytics services, government

agencies around the world can rapidly respond and receive space based intelligence to meet their needs for timely and accurate mission critical intelligence.

Moving on to slide 7. We're pleased to report that the production of our Gen-3 satellites is on track and the first units are in the final phases of assembly, integration, and test. Our team has already begun mission dress rehearsals and are planning for the launch of our first Gen-3 satellite in late Q4. Our Gen-3 satellites will add very high resolution 35 centimeter imagery to our existing dynamic hourly monitoring constellation. When combined with our Spectra AI platform, our Gen-3 constellation will provide our customers with transformative space based intelligence that will deliver a next level of speed, performance, and AI-enabled insights for a first to act advantage. Our Gen-3 constellation remains on track to unlock our next phase of growth. The improved resolution, combined with high frequency imaging and automated AI analytics, will enable new timely insights that are not achievable using traditional mapping constellations. The demand for this capability is evidenced by the significant contracted backlog we've been able to secure over the past few years from major US and international customers through multi-year subscription based contracts. As we start a deployment cadence of Gen-3 satellites in 2025, we expect to start unlocking our next phase of growth through the delivery of services from this contracted backlog and through the expansion of existing land and expand contracts.

Turning to slide 8. As a reminder, our Gen-3 satellites are being produced by LeoStella, our satellite manufacturing joint venture. This state-of-the-art manufacturing capability was built from the ground up to support agile and rapid small satellite production. LeoStella has an exceptional track record of producing highly reliable, high performing small satellites, as evidenced by the deployment of our Gen-2 constellation over the past several years. The Gen-2 constellation continues to perform well and is meeting or exceeding all of our performance and expected mission life objectives. This level of performance [ph] and on orbit heritage (15:15) has been incorporated into our Gen-3 design and satellite production line. In addition to the production of our first Gen-3 satellites, LeoStella has been ramping up supply chain and production operations to support a sustained rate of production of these satellites to meet our constellation deployment objectives. The fact that we are beginning to launch our next generation of satellites in less than two years from the completion of our Gen-2 constellation demonstrates how BlackSky is changing the industry by aligning the agility and speed of the new space architecture with a real time and fully automated AI-enabled software platform. LeoStella further enhances this competitive advantage through vertical integration that enables us to bring responsive solutions to market at disruptive speed and economics, enabling customers to accelerate their space based intelligence initiatives.

In summary, we're pleased that our Gen-3 satellites remain on track and that Q2 was another strong quarter highlighted by strong bookings, continued revenue growth, operating leverage, and positive adjusted EBITDA operations.

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. I am pleased with the execution we've made across many aspects of our business and with our second quarter financial results. Beginning with slide 10. Total revenue for the second quarter of 2024 was \$24.9 million, an increase of \$5.6 million or 29% over the prior year quarter. Imagery and analytics revenue grew to \$17.5 million, an increase of \$2.2 million or 14% 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 \$7.4 million in the second quarter of 2024, compared to \$4 million in the prior year quarter. The 87% year-over-year increase was primarily driven by 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 depending on a project's estimated cost and percentage of completion.

Turning to cost of sales, we continue to demonstrate strong operating leverage in our imagery and analytics business as shown on slide 11. For the first half of 2024, imagery and analytics cost of sales excluding stock-based compensation, depreciation, and amortization expenses were \$6.8 million compared to \$7 million for the same period last year. The \$200,000 year-over-year decrease was primarily driven by cost savings in our satellite and software operations. With imagery and analytics revenues for the first half of 2024 increasing nearly 14% and the respective cost of sales decreasing 3% over the prior year period, we continue to demonstrate how incremental high margin revenues flow directly to the bottom line, which is a key driver to our long-term profitable growth.

Let's move to slide 12 and talk about cash operating expenses, which exclude stock-based compensation and depreciation and amortization expenses, as we believe these non-GAAP financial measures enable us to better manage our expenses without having non-cash items obscuring the underlying performance. For the second quarter of 2024, cash operating expenses were \$16.3 million, a \$500,000 improvement compared to our prior year quarter. This year-over-year improvement was primarily driven by ongoing reductions in general corporate costs, which more than offset investments we've been making in our go-to-market initiatives. Over the last four quarters, we've reported year-over-year reductions in cash operating expenses, which further demonstrates our laser focus on managing cost responsibly and our success in running an efficient business model.

Turning to slide 13, our adjusted EBITDA for the second quarter of 2024 was \$2.1 million. This was an increase of \$7.9 million compared to the prior year period. Not only was this a strong performance over the prior year, but we're pleased that we delivered our third consecutive quarter of positive adjusted EBITDA. The year-over-year improvement in adjusted EBITDA that we continue to realize on a quarterly basis is primarily driven by increased revenues from new and expanded customer contracts, improved margin performance, especially in our core imagery and analytics business, and cost savings and efficiencies in our cash operating expenses.

Moving on to our balance sheet. We ended the second quarter of 2024 with \$42.3 million of cash, restricted cash, and short term investments, which included \$20 million we received in the quarter from a commercial bank line. As of the end of June, we had over \$28 million in contract assets which we expect to receive in payments over the next 12 months as interim milestones on a few major customer contracts that are met and expected to be billed. Together with the vendor financing we have in place for our upcoming Gen-3 launches in the adjusted EBITDA improvements we expect to continue delivering, we believe we have sufficient liquidity for the foreseeable future.

Now, let's move on to our 2024 outlook as shown on slide 14. We're pleased with our first half operating results and are anticipating a strong second half of the year. As a result, we are maintaining our full year 2024 guidance of revenue between \$102 million to \$118 million, adjusted EBITDA of between \$8 million to \$16 million, and capital expenditures of between \$55 million and \$65 million. In summary, we're pleased with our financial performance in the second quarter and the progress we've made across many aspects of our business.

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

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Thank you, Henry. In closing, we're pleased with the strong second quarter performance and the momentum we are carrying into the second half of the year. We're continuing to see growing demand for BlackSky's differentiated, space based intelligence solutions. Our Gen-3 constellation remains on track to deliver the

transformative solutions our customers are demanding, using the power of our very high resolution imagery, combined with high frequency monitoring, and automated AI analytics. We built and continue to grow a strong customer base with some of the most important organizations in the world and are getting ready to unlock our next phase of growth as we begin to introduce Gen-3 capabilities later this year.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Greg Burns with Sidoti & Co. Please go ahead.

Gregory Burns

Analyst, Sidoti & Co. LLC

Q

Good morning. I was just hoping to get a little bit more color on the inventory and software growth that you saw this quarter. It was down a little bit sequentially. So I just wanted to get a better understanding of maybe how much of that revenue is take or pay versus more variable consumption based. Like, why would it decline sequentially? And then how should we think about maybe the cadence of growth over the balance of the remainder of the year? Thank you.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. Thanks, Greg, for your question. I think if you look back historically, you've seen a step-up in imagery and analytics revenues typically in the second half of the year. That's primarily been driven by the timing of budget cycles and renewals. And so that's why you're still seeing the strong year-over-year growth. But some of the flatter performance in the first couple of quarters. I will note that another key aspect of this, as we continue to add more customers, they tend to start out with smaller pilot projects and grow over time. So that's historically how we performed. And we're, as you can see, year-over-year, we're continuing to grow that line and that's what's driving our high margin business and driving the EBITDA performance right through the bottom line.

Gregory Burns

Analyst, Sidoti & Co. LLC

Q

And then with the GDMP vehicle that you mentioned, is that incremental? I always thought that your contracts with the NRO were kind of umbrella for the government and for government agencies to procure through that. Is this separate and incremental or part of that and an extension of that? How does that work?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. It is separate and incremental. The one thing to note is the EOCL contract is for imagery. The marketplace can be for a broad set of services which include analytics and other services. So it's a new sales channel for us. We're excited that marketplace is providing a fast and flexible platform to streamline delivery of capability to a whole new set of customers. So as I mentioned in my remarks, this is in the early days of this type of marketplace. So we're excited in the potential where that can go.

Gregory Burns

Analyst, Sidoti & Co. LLC

Q

All right. And then when we're thinking about the launch cadence for the Gen-3s, is it going to be one satellite that's launched or is it going to be multiple satellites launched at one time? And can you just remind us about the cadence to getting the satellite tested and operational. Like, what's the timeframe between launch and maybe it starting to generate revenue?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. The first few satellites will go up on separate launches. Typically, for a new satellite, this – the commissioning time is about 60 days. As we get through that, then we'll move into a steady cadence of launches from there. As a reminder, if you look at our performance in deploying our Gen-2 constellation after we got the first couple up there and operational, we were doing multiple satellites per launch and we reduced the commissioning time down to under 24 hours to bring those satellites into operation. So we're anticipating the same type of cadence and commissioning performance with Gen-3s.

Gregory Burns

Analyst, Sidoti & Co. LLC

Q

Thank you.

Operator: Your next question comes from the line of Edison Yu with Deutsche Bank. Please go ahead.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good morning. Thanks for taking our questions. First of all, I just wanted to follow up on the third Gen. Do you have any sense of how much of the backlog is tied to any sort of capabilities on Gen-3? I think the backlog is \$200 plus million at least as of the last quarter.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Edison, thanks for your question. Yeah. A significant amount of that backlog is tied to – it's tied to Gen-3. Also, as a reminder, our EOCL contract, which is a \$1 billion, 10-year contract is heavily back loaded on Gen-3 services as well. But also, we continue to close subscription deals and have actually just renewed another year under EOCL of our Gen-2 capability. So we're excited about what Gen-3 will unlock, but we're also on a nice trajectory and continuing our growth through Gen-2.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Understood. Any updates on when you think the NGA, the Luno A could get awarded?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

We're carefully watching that, Edison. Of course, as you know, we feel we're well-positioned for that given our performance under the predecessor contract EIM. So we're anxiously waiting, but I don't have a specific timeline from the government when we can anticipate those awards, or we expect it will be sometime later this year.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And just one on financials. I know you mentioned something like \$28 million in the contract assets. Can you just remind us how we should kind of model the cash flow trajectory perhaps for the rest of the year or anything to keep in mind on our working capital?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Sure, Edison. Happy to. I mean, that \$28 million is contracted assets are unbilled receivables. That's tied to milestones as we achieve our Gen-3 program and we've got those in our current assets. We expect to be collecting that over the next 12 months and it does provide us some significant liquidity to us as well.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Anything else on the working capital to take note of? Dynamics?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Everything else is pretty steady state. I mean, we've got a fair bit of cash and the contract assets give us a fair bit of liquidity. So we feel pretty good at the moment.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Thank you.

Operator: Your next question comes from the line of Max Michaelis with Lake Street. Please go ahead.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Q

Hey, guys. Thanks for taking my questions. When we look at the full year guidance – the way through the year, so if we're still sticking with that \$102 million to I believe \$118 million guidance. What's really driving the difference between the low end and the high end here? I mean, is this a few deals that we're waiting on or is this one large chunky deal? I was wondering if you could get some more color on that.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. Thanks for the question, Max. Yeah. As we stated in our remarks, we're maintaining full year guidance. We typically have had stronger back half of the year. It's tied to renewals and expansions of existing contracts. Obviously, we have a pretty robust pipeline of opportunities we're working on. And so we look at those opportunities on a weighted basis and that's how we arrive at really the range in the midpoint.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Q

More new business coming online?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Yeah. You could – there's a blend of new business and renewals that are actively being worked.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Okay. And then I guess if we look at that \$40 million in new contracts or new awards signed in the quarter, I mean, can you help me out with like the mix between new customers versus extensions?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

As I mentioned in my remarks, the two primary ones were tied to our EOCL renewal and a renewal from one of our long term existing international customers. But we also had a number of new customers enter into six figure level subscription services. So it was a blend.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

All right. Thanks. That's it from me.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Thank you, Max.

Operator: Your next question comes from the line of Scott Buck with H.C. Wainwright. Please go ahead.

Scott Buck

Analyst, H. C. Wainwright & Co. LLC

Hi. Good morning, guys. Thanks for taking my questions. I'm curious on the professional engineering services gross margin, you've seen a nice uptick there last few quarters. Is that just a representative of the mix of assignments you're currently working on or have you guys done something internally to create some additional efficiency there?

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

Hey, Scott. This is Henry. That's a function of the work that we're doing with all of our large customers. As we – as I mentioned in our script, we had a step-up in some of the activity. So various aspects of these programs kind of allow us to have higher margins as we produce. So it's a kind of a revenue mix and we expect those margins to kind of stay in this sort of category, although, as you know, that that variability, there could be some variability on professional engineering services based on milestones.

Scott Buck

Analyst, H. C. Wainwright & Co. LLC

Sure. That's helpful, Henry. Thank you. And then it sounds like Gen-3 launch activity becomes a bit more meaningful in 2025. I'm curious if you can give us any early color on CapEx expectations for 2025 versus 2024?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Yeah. Scott, we're not guiding to 2025 CapEx yet. We'll do that later.

A

Scott Buck

Analyst, H. C. Wainwright & Co. LLC

That's fair, guys. And then lastly, I just want to ask about – now, it seems like we have our horses for the election, whether or not you guys are doing any handicapping or any potential outcomes could be more positive or less positive?

Q

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

I think I'd just say generally, kind of independent of the election outcome, there's strong support both in the US government as – and we're seeing internationally as well, to increase investments in defense and space, space being a strategic area of investment going forward. So we continue to see strong support in Congress for the commercial industry. Last quarter, we reported Space Force coming out with a commercial strategy that we're excited to pursue. And so, I think, independent of the outcome, we're seeing strong support and good visibility going forward.

A

Operator: And your next question comes from the line of Dave Storms with Stonegate. Please go ahead.

Dave Storms

Analyst, Stonegate Capital Markets, Inc

Good morning. Thank you for taking my questions. My first one is just, if you could help us understand what the current environment is like for acquiring and retaining AI talent.

Q

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

That's a good question. As you know, we've been developing AI capabilities for years now in our Spectra platform and been winning significant contracts there, primarily due to our AI technology and our AI talent. We actually had pretty good performance in recruiting and retaining AI talent. I think that's primarily driven by the fact that when you combine what we're doing in space with high frequency monitoring, with a proprietary constellation, with the Spectra platform, and how you can translate that into actionable intelligence, that is – it's exciting and meaningful work. And so we've been very fortunate and retaining the talent we have. And the mission around what we're doing with our capabilities to support a more safer and secure world is also an attractive aspect of what we do. So we have not had any real challenges there.

A

Dave Storms

Analyst, Stonegate Capital Markets, Inc

Understood. Thank you. And then we understand that CapEx guidance is up this year due to the significant Gen-3 investments. Following the completion of those investments, do you think – do you believe that CapEx will return to a more normalized level or should we anticipate that will be higher than the historical rate due to increased maintenance CapEx for the Gen-3 satellites?

Q

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Dave, this is Henry. Thanks for that question. I mean, when we take a look at our CapEx, we are guiding to \$55 million to \$65 million of cash CapEx this year as we are preparing to get launches going. We have discussed how – when we get into a steady state, our CapEx could be in the neighborhood of the replenishment rate of the 16 constellation or 16 satellite constellation, which when you do the math using about \$13 million or so per satellite times 16 satellites and divide that by about a five-year life, you're looking at probably on a steady state in that, \$40 million to \$50 million range for the satellite constellation. And then a little bit for our AI capability. So it's probably in that – without giving guidance, you can do the math on that one.

Operator: Your next question comes from the line of Josh Sullivan with The Benchmark Company. Please go ahead.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

GDMP, how does pricing work? Does the customer set the price or value or do you as BlackSky? Just interested to hear how the mechanics of the market work.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. Good morning, Josh. And thanks for the question. Yeah, it's a pretty exciting opportunity either. Basically, it's a platform through which customers can put out requests for proposals for certain capabilities and commercial companies can submit bids to provide that capability. And it's a – though it's competitive, but it's also a streamlined acquisition model that allows customers to quickly get data and analytic services through this type of vehicle. So it's a really nice platform for the government because it is competitive, but it's also streamlined. So it's a win-win for the government and commercial.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

And what's your sense of how large of a sales channel it could be, or what do you think the total value of the market could potentially be over time?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

I can't – it's starting out with some initial budget. It's early days. I will say that what we've been seeing is an interest in growing the budget for that, but also a strong partnership with the government to continue to refine the model and the types of services that can be acquired through this type of a marketplace. So it's early days, but we're excited about where it is and where it's going and the fact that we've been able to secure a number of these types of contracts.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Great. Thanks for your time.

Operator: Your next question comes from the line of Jeff Van Rhee with Craig-Hallum Capital Group. Please go ahead.

Daniel Hibshman

Analyst, Craig-Hallum Capital Group LLC

Q

Hey. Thanks for taking my question. This is Daniel Hibshman on for Jeff. Just in terms of the pipeline, if maybe you could give us a little better color on just what you're seeing come down? The presentation mentioned a few, quote, sizable multi-year sales opportunities. I assume that's referencing EOCL, the [ph] \$150 million Asian ally and \$50 million Indonesia contract (40:52). But just anything else you can call out in terms of the sorts of things that are coming down the line, whether in terms of what kinds of imagery or what kinds of object detections, just what the biggest sorts of opportunities in the pipeline are, and where we should be focused.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, Daniel. Thanks for the question. I think just to reiterate, EOCL Indonesia, those types of other larger international, those are all contracts we have. So as far as those are in our contracted backlog and those revenues will unlock over time. The other things we're seeing in the market are continued demand for our high frequency monitoring with integrated AI capability through an assured access subscription. We're seeing strong interest in our Gen-3 technology as evidenced by the contract we announced earlier this year in Indonesia. And then of course, when we bring 35 centimeter imagery into our high frequency monitoring capability, that will be a transformative service for customers that, for the first time, can bring very high resolution with high frequency combined with the AI delivered in a single service platform. So all of those things are – we're seeing strong demand, both in the US and abroad for those capabilities. And we expect as we bring Gen-3 into the market that demand will continue to grow.

Daniel Hibshman

Analyst, Craig-Hallum Capital Group LLC

Q

Thanks for that. And then just kind of wanted to sort of broader – I don't know if you want to call this macro question, but how is revenue generally connected or correlated with conflict in terms of are your customers highly flexible in terms of their task orders and volumes where depending on what's going on globally, or they're going to flex what they're buying or do they typically have pretty set amounts contracted annually?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. It's good question. I think the misnomer out there is that a lot of the industry and the revenue is driven by crisis events and that's just not the case. We're dealing with organizations that plan years and ahead for access to capacity to meet their day to day mission requirements that they have now and what they're forecasting in the future. We support them by providing flexible mechanisms to where they task and when to be responsive to whatever they're dealing within their day to day operation. So we provide them with that assured access flexibility. But as you know, we typically offer those capabilities through long-term multi-year subscription contracts because they want that capacity and they want to ensure that it's going to be there for years.

Daniel Hibshman

Analyst, Craig-Hallum Capital Group LLC

Q

Makes sense. And then just one last one for me, for Henry. Just maybe one other way of looking at that contract asset balance. Where would you see that being sort of a year from now? I understand that expecting to collect the current balance over the coming year, but I assume also new signings and renewals would be adding to that

balance. Just do you envision that balance being roughly where it's at? Significantly higher, significantly lower? Just any color there would be helpful.

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

A

Sure. What I would point – the way I would take a look at that one is a lot of these are tied to milestones. As we complete our Gen-3 program, start getting our Gen-3 satellites up and work towards completing that program. And some of the work that we've talked about on the international projects that we need to complete prior to being tied into their work streams. So over time, that number should be coming back down. If you look at where we've been historically, it would be a good way to look at that. And so I think – I don't think it will stay up at that [ph] 2028 (45:12). But we're not providing guidance on next year's numbers yet.

Daniel Hibshman

Analyst, Craig-Hallum Capital Group LLC

Q

Okay. That's helpful. Thanks for all the help.

Operator: [Operator Instructions] And your next question comes from the line of Chris Quilty with Quilty Space. Please go ahead.

Chris Quilty

Analyst, Quilty Analytics LLC

Q

Thanks. Just wanted to do a follow-up on the GDMP program. Is there a cap on the size of contracts that customers can contract through that vehicle? And second question is, like, is there a graduation path? I mean, should we think of this as sort of like a [ph] Ciber's type program (45:50) that allows small contracts and then eventually, if those customers want to engage in a larger, long-term contract, they're going to have to go out and find separate funding for it. And I know it's early days program, but what's your...

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah. It's a good question, Chris. I think what we're seeing now, you're right, it is early days. Right now, they're starting out with small kind of five figure type services. They get delivered really quickly and quickly within like weeks and months. They typically start with that base kind of service, but they also can attach options to them to extend them over time. So – and it is because it is early days, I think the government end users are still working through the potential of this and how they can take advantage of it. But I think the general thing that we're seeing is this is a really efficient – has the potential to be a really efficient marketplace that can drive incremental revenue and drive incremental capture of a whole range of new customers through a streamlined acquisition process .

Chris Quilty

Analyst, Quilty Analytics LLC

Q

Question on Gen-3. Obviously, the first one going up [ph] in number timeframe (47:26) just based upon the CapEx to date on the program. Is it fair to assume you've got half dozen to a dozen satellites in some stage of production? And I know you're not providing guidance for next year, but it sounded like after the first satellite, you may do single satellite launches before. Is that a fair assumption? And when you look...

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

A

Yeah, Chris. I think...

Chris Quilty

Analyst, Quilty Analytics LLC

Go ahead, sorry.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Yeah. No. I think, as I said, we'll launch the first couple single launches. You can assume that we have been investing in the long lead components for a number of Gen-3 satellites. And as I mentioned in my remarks, that production line is ramping up and that will enable us to get into a cadence of launches next year. On the single launch element of this, just as a reminder, we have secured the first four launches with Rocket Lab through a vendor finance deal. So overall, we're on track to get the first units up later this year. We got the supply chain and the production line up and running. That puts us in a position to get to a regular delivery of satellites and deployment of those in 2025.

Chris Quilty

Analyst, Quilty Analytics LLC

And how should we think about the revenue contribution from Gen-3 from the perspective that you're going to be tapering in, as you launch new satellites, more and more capability? Are the contracts that you signed with customers, including EOCL, structured in such a way that there are incremental step-ups? Or do you have to get to like a certain volume of imagery before there is a step-up in the contract?

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

I think you'll see a little bit of both, Chris. I think the way we think about it, there'll be a steady ramp in revenues. You're not going to see – and in some cases, some contracts will have step-ups. But when you look at it year-over-year, you should see steady growth in that line as we bring that capacity online.

Chris Quilty

Analyst, Quilty Analytics LLC

And Henry, what should we think in terms of contract advances? You've got large contracts with the – modeling in some sort of step-up [indiscernible] (50:21)

Henry E. Dubois

Chief Financial Officer, Blacksky Technology, Inc.

Each contract tends to be unique. Some of them have some early prepayments which help with the CapEx programs, some of them tail off a little bit and we build up a little bit of some contract assets as we work our way through it. But overall, we price those large contracts. We've got a couple in the pipeline and that's the variability on where we think the year-end guidance could be just be due to timing.

Chris Quilty

Analyst, Quilty Analytics LLC

And with those two specific contracts I mentioned, obviously, there's a development phase and I think 12, maybe even 24 months [indiscernible] (51:08)

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Well, we don't discuss individual customers. We've never identified who our customers are internationally. So our various international customers will ramp up as we get our Gen-3 capabilities online.

Chris Quilty

Analyst, Quilty Analytics LLC

So are both – is it fair to assume both of those contracts are based on Gen-3 entirely or...

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

There's work through across all our product lines.

Chris Quilty

Analyst, Quilty Analytics LLC

And final question on the cost savings. Is that primarily due to head count reductions that were done within the past year? Or is that more just operational cost savings within the business? And part two of that is as you ramp up Gen-3, which is a new capability, are there any incremental costs or is operating those satellites seamless within the [indiscernible] (52:18)

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Yeah, Chris. It's Brian. I think, first off, we're continuing to hire. So we have – we haven't had to do any major structural head count reductions in the company. The savings you're seeing are just improving our business operations, back office and other things. So we are – actually, as we achieve those savings, we're actually reinvesting some of that OpEx into things like sales and marketing to support our growth. But I think what you're seeing is we're aligning our growth with our revenue and we're managing our expenses extremely well and are highly focused on that.

Chris Quilty

Analyst, Quilty Analytics LLC

Great. Thanks, guys.

Brian E. O'Toole

President, Chief Executive Officer & Director, Blacksky Technology, Inc.

Thank you, Chris.

Operator: At this time, there are no further questions. This concludes BlackSky's second quarter 2024 earnings conference call. Thank you for joining the call today.

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