

**Redwire Corporation**  
**Q3 2023 Earnings Call**  
**November 7, 2023**

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**Presenters**

**Jeff Zeunik, SVP, Financial Planning & Analysis**  
**Peter Cannito, Chairman & CEO**  
**Jonathan Baliff, CFO**

**Q&A Participants**

**Mike Crawford - B. Riley Securities**  
**Suji DeSilva - ROTH MKM**  
**Greg Konrad - Jefferies**  
**Brian Kinstlinger - Alliance Global Partners**

**Operator**

Greetings. Welcome to the Redwire Space Q3 2023 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note, this conference is being recorded.

I'll now turn the conference over to your host, Jeff Zeunik, Senior Vice President, Financial Planning & Analysis and Investor Relations. You may begin.

**Jeff Zeunik**

Thank you, Shamali, and good morning, everyone. Welcome to Redwire's third quarter 2023 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](http://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 risk and uncertainties that are described in more detail on slide two.

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

As previously mentioned, 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 2023, followed by Jonathan, who will present the financial highlights for the same period. We will also discuss our continuing outlook for the remainder of 2023, after which we will open the floor for Q&A.

Please move to slide six. I am pleased to report that the third quarter was another record quarter for financial performance at Redwire. Our ability to deliver a wide breadth of high-quality solutions and products to our customers is enabling us to deliver tangible financial results for our shareholders.

During the third quarter of 2023, we once again achieved record revenues, gross profit, and adjusted EBITDA. We expanded our margins with a beneficial shift in product mix. We continued to balance top-line and bottom-line growth, which supports our sustainable financial position and we demonstrated resilience from our diversity of products, customers, and end markets during a highly dynamic period in the space industry.

Please turn to slide seven. The third quarter of 2023 was another excellent quarter for Redwire, during which we continued our momentum from the first half of 2023. We have now delivered three consecutive quarters of positive adjusted EBITDA and revenue growth. We achieved \$62.6 million in Q3 revenue, a year-over-year quarterly growth of 68.1% from the third quarter of 2022 to the third quarter of 2023.

We achieved positive adjusted EBITDA of \$4.9 million in Q3, a \$6.4 million increase on a year-over-year basis from the third quarter of 2022 to the third quarter of 2023. We achieved a net loss of \$6.3 million, a \$4.1 million year-over-year improvement from the third quarter of 2022 to the third quarter of 2023, and we achieved free cash flow of negative \$5.9 million, a year-over-year improvement of \$6.7 million. Lastly, we also achieved cash from operations of negative \$3.3 million, a year-over-year improvement of \$8 million.

It is important to note that we achieved these positive financial results by developing and delivering critical innovations for our customers. In Q3, we continued our established track record of delivering dependable, flight-worthy products and launched five solutions on three launches in the quarter. Beyond the numbers, this reliable performance for our customers provides a foundation for future growth.

Please turn to slide eight. At Redwire, our breadth of products and customers provides strength and resilience to the business. Our ability to balance our focus across multiple customer markets provides stability to the organization. Therefore, it can be instructive to discuss some of the trends we see across these markets.

First, the national security market which encompasses U.S. and allied national security organizations including classified projects. It is important to note that we see this as our fastest growing target market in the near future. Current geopolitical dynamics, most notably an emerging space race with China, are driving significant growth in the market and we are well positioned to capitalize on this growth trend. As example, we are participating on the Space Development Agency programs with multiple prime contractors on multiple tranches, providing critical capabilities that will enable the Space Force National Security Space Architectures.

One particular differentiator worth noting is our ability to perform on classified contracts. These contracts require facilities and personnel that take time and funding to put in place. Redwire already has this capability, which puts us ahead of some of our competitors. This barrier to entry increases our total addressable market, or TAM, with limited competition.

Another customer market we serve is the commercial space market. This market predominantly includes commercial space companies providing commercial services for a variety of end customers. At Redwire, it is our opinion that the commercial space market has tremendous opportunity for growth. However, recent volatility in the capital markets has created a near-term headwind for this market. A reduction in capital for commercial space companies is delaying awards in this target market and we're seeing some significant pipeline opportunities pushing out into future quarters. However, large, well-funded commercial entities still show demand for Redwire's capabilities because of our spaceflight heritage. Fortunately, the growth in national security should offset this near-term trend and in some cases, our commercial customers are also ultimately targeting growth with national security customers.

Lastly, we are also working in the civil space market, which includes civil space agencies such as NASA and ESA. It is appropriate to acknowledge that there is some risk associated with the NASA budget due to potential Congressional budgeting outcomes playing out in the U.S. government. However, again, our diversity here provides us some mitigation as demand for the European Space Agency remains strong. In addition, we are seeing strong demand signals from other multinational civil space agencies across the globe.

So the bottom line is this, the space industry has entered a dynamic period with a number of different market trends affecting overall market demand. However, Redwire's access to a rapidly growing national security market, to include classified budgets, provides balance to some emerging headwinds in commercial and U.S. civil space markets. Additionally, our global footprint

allows us to participate in multinational civil space opportunities with expanding budgets, such as in Europe. The net result is a resilient position across diverse markets that provides many pathways to growth.

Turning to slide nine. As Redwire continues on its path to profitability, one of our key approaches is to balance top-line growth and bottom-line profitability. As a result, Redwire's approach to growth balances risk with profitability, avoiding growth at any cost. This disciplined approach drives our financial performance through selective bidding.

In addition, as discussed last quarter, Redwire continues to make prudent strategic investments that drive our return on investment. We'll discuss these investments in additional detail later in the presentation. Balancing top-line and bottom-line growth ensures we create value in the present while maintaining a strong foundation for the future.

Turning to slide 10. As I just mentioned, our strong financial performance is driven by our proven ability to deliver differentiated solutions for our customers today, which is why we are confident that it is sustainable. On the next few slides we'll share some examples of our recent operational successes and investments.

As I mentioned, national security spend is on the rise. The U.S. Space Force budget request for fiscal year 2024 of \$30 billion is \$3.9 billion or almost 15% higher than the FY 2023 enacted budget. In addition, the Department of the Air Force's comprehensive strategy for the Space Force for August showed a sizable portion of the Space Force budget dedicated to classified projects through 2028. With secure facilities in multiple geographies, cleared employees with critical skill sets, and leadership with proven national security experience, Redwire is well positioned to continue building its classified national security business. For the year-to-date period through September 30, 2023, 21.2% of revenues were from national security.

Please turn to slide 11. In our mission enabler focus area, Redwire is proud to have delivered 10 coarse sun sensors for the Psyche spacecraft, which will journey to an asteroid located between Mars and Jupiter. Redwire's sun sensors will help the Psyche spacecraft to accurately navigate the stars throughout its 2.2-billion-mile journey. This is only the latest space mission to rely on Redwire's sun sensors which have supported a variety of high-profile missions from multiple rover missions to Mars to NASA's Double Asteroid Redirection Test in 2022, an excellent example of the power of our space heritage.

Please turn to slide 12. Redwire recently announced the first spaceflight mission for its cutting edge in space pharmaceutical manufacturing platform, PIL-BOX, aboard SpaceX commercial resupply services 29. The inaugural mission in partnership with Eli Lilly and Company will conduct three experiments focused on developing advanced treatments for diabetes, cardiovascular disease, and pain. To commemorate this breakthrough flight, Redwire developed the mission

patch shown on the right of this slide. Building on Redwire's multi-decade space crystallization flight heritage dating back to the space shuttle era, PIL-BOX is a striking example of Redwire's ongoing leadership in space biotech solutions.

Please turn to slide 13. Finally, space is a multinational endeavor and Redwire Space continues to be a global leader in international space missions. Redwire recently announced that it has been awarded a contract with OHB Italy to provide the onboard computer for the European Space Agency's Comet Interceptor mission. Comet Interceptor will be the first spacecraft to visit a long-period dynamically new comet. The onboard computer is a part of Redwire's third-generation Advanced Data and Power Management System, and as the brains of the spacecraft, it is designed to monitor and control other critical components. With our expanded multinational operations, we are very proud to have been selected to support exciting ESA activities including Comet Interceptor.

Please turn to slide 14. Turning to our bookings and backlog. Our bookings during the third quarter were \$46.5 million, an increase over our contracted awards for the second quarter of 2023, which totaled \$45.6 million. Our last twelve months book-to-bill ratio was 1.38x as of Q3 2023.

Finally, as you can see on the right-hand side of this slide, our contracted backlog has increased 59.5% since September 30th of last year to a contracted backlog at the end of Q3 2023 of \$253.4 million. The growth in contracted backlog is one factor that gives us confidence in our future growth and stability. We continue to have a healthy pipeline with an estimated \$4.5 billion of identified opportunities including approximately \$714 million in proposals submitted year-to-date through September 30, 2023.

Please turn to slide 15. Not only did Redwire achieve positive adjusted EBITDA during the first three quarters of 2023, we did so while continuing to make prudent strategic investments. During the year-to-date period ending September 30, 2023, we have made \$5.2 million in capital expenditures, \$4 million in investments in research and development, and \$3 million in a variety of corporate investments in systems and infrastructure that flow through the SG&A line. Clearly, we continue to demonstrate our ability to perform and deliver now while also investing in our future.

Please turn to slide 16. 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, let me just highlight on this slide it's rendering for NASA's upcoming Dragonfly mission. Redwire is proud to have been selected to

supply critical navigation technology for this groundbreaking mission to advance humanity's search for building blocks of life on Saturn's largest moon, Titan.

Please turn to slide 17. Similar to the other quarters this year, the next few pages will quantify and expound on a number of themes that Pete just talked about, including key financial takeaways starting with the financial quarterly metrics shown on these charts and then continuing on with other quarterly, year-to-date, and last 12-month financial information.

An important point to reiterate in detail for this third quarter's financials is that Redwire's excellence in execution initiatives and our global team continue to deliver on our growth promises and our path to profitability as we scale our business with record revenues, record gross margin and profit, and record adjusted EBITDA once again this quarter.

So let's discuss the specifics. As Pete spoke about in his introduction, this chart shows the continuing 2023 trend of positive year-over-year results across all our financial metrics, starting with the achievement of record revenue of \$62.6 million in the third quarter of 2023. We achieved our third consecutive positive adjusted EBITDA quarter since becoming a public company, again a record adjusted EBITDA of \$4.9 million in this third quarter.

Similar to the last two quarters, better adjusted EBITDA occurred primarily due to a more than doubling of gross profit year-over-year and is attributable to disciplined program management and continued cost controls. These same factors also contributed to a \$4.1 million year-over-year improvement in a net loss of \$6.3 million in the third quarter of 2023.

In the third quarter of 2023, we also achieved year-over-year improvement in free cash flow of \$6.7 million, with that improvement in free cash flow being driven by the improvement in cash from operations of \$8.0 million.

Please turn to slide 18. Specifically for quarterly revenue, as you can see from the chart and as I talked about before, this quarter's record \$62.6 million represented a 68.1% increase on a year-over-year basis and an increase of 4.2% on a sequential basis.

On a full year last 12-month basis, Redwire grew revenue at 58.2% rate, an acceleration of the revenue growth from last quarter's similar period of 45.6%. With more than 85% of our revenue derived from funded government programs or from global marquee customers that Pete talked, we're delivering in the national security area, LEO commercialization, and the exploration of space to name just a few.

Excluding the revenue contributed by Space NV, our third quarter revenues were \$49.1 million, an excellent organic growth rate of 31.8% on a comparable year-over-year basis, especially as this is more profitable growth.

Please turn to slide 19. For the year-to-date, or first nine months of 2023, Redwire recorded \$180.3 million of revenue, which is a 68.8% year-over-year revenue growth. Excluding the revenue contributed by Space NV, we grew organically at 31.3% compared to the first nine months of 2022.

We saw growth across all three of our primary focus areas, with space systems and subsystems as an integrated mission enabler, payloads and infrastructure to explore, live, and work in space, and with Redwire Europe spearheading our multinational space leadership.

The revenue percentage breakdown by customer type for year-to-date through September shown on this slide also shows the diversification of our revenue and adjusted EBITDA and cash flow streams with 45.9% of our revenue from civil, 32.9% from commercial, and 21.2% from national security customers, echoing Pete's comments about the strength from balance and resiliency of our operations.

Of note, for the year-to-date period through September, our commercial customer revenues have seen the largest growth percentages of 90.2% year-over-year, our civil customer revenues grew at 78.5% year-over-year, and our national security revenues grew year-over-year by 30.5% through September.

Please turn to slide 20. Redwire's path to profitability that we've discussed on prior calls continued successfully in this quarter, as you can see from the progress made on the chart on the right, with a steady march of quarterly financial improvement in 2022 now continuing through 2023 third quarter.

The 2023 adjusted EBITDA is improving \$6.4 million year-over-year to a record \$4.9 million. Once again, our record adjusted EBITDA improvement was primarily driven by our improvement in gross profit with the year-over-year third quarter gross profit growing 2.2x higher from \$7.9 million to \$17.1 million. The significant gross profit and gross margin improvement was primarily driven by better contract mix and the maturing of our program management.

Our adjusted EBITDA improvement was also supported by excellent cost control with Redwire third quarter SG&A expenses at 29.2% of revenue, a significant drop from the 41.4% in the third quarter of fiscal year 2022.

Please turn to slide 21. Similar to last quarter, on the left-hand chart, we show free cash flow. As a reminder, free cash flow provides a metric based on our U.S. GAAP cash from operations minus capital expenditures, or CapEx. On a year-over-year basis, quarterly free cash flow improved by \$6.7 million to a use of cash of \$5.9 million and this is due to an \$8 million improvement in year-over-year cash from operations. Credit goes to the revenue growth and profitability

improvements already discussed, but in addition, we had more efficient and effective working capital management over the third quarter, as you can see by the narrowing of our operating cash from operations. This is helped by our diversity of cash flow that is not dependent on any one product or solution or any one customer class.

Improvement in year-over-year quarterly cash used in operating activities was also offset by over \$5 million of planned capital expenditures and other expenses associated with growth and resiliency initiatives like our radio frequency test chamber and our ERP implementation in the third quarter of 2023, just to name a few. These expenditures are intended to grow and diversify our revenue, scale our operations, and accelerate our path to profitability.

On the right-hand chart, we show our available liquidity as of September 30, 2023, which totaled \$30.9 million. This quarter's liquidity is much improved from a year ago as we continue our path to profitability. And I want to thank all of the Redwire's teams for this quarter's excellent results, a total global effort that we will work to continue and improve upon through 2023 and beyond.

Please turn to slide 22, and I will now turn the presentation back over to Pete to provide a brief outlook for the remainder of 2023. Pete?

**Peter Cannito**

Thank you, Jonathan. Please turn to slide 23 for a brief discussion of the outlook for the remainder of 2023. For 2023, we reaffirm our full year guidance range of \$220 million to \$250 million, which represents 46% year-over-year growth at the midpoint of the range. As you can see from our presentation, Redwire continues on our path to profitability and continues to deliver now with strong operational and financial performance, while investing in our future, resulting in a strong pipeline and future backlog.

With that, I'd like to thank all of the Redwire professionals around the world for their hard work and an excellent third quarter, and all our customers for trusting Redwire. We will now open the floor for questions.

**Operator**

Thank you. And at this time we will be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Mike Crawford with B. Riley Securities. Please proceed with your question.



**Mike Crawford**

Thank you, Pete and Jonathan. First of all, I'm really impressed by not only the gross margins -- I know you mentioned mix, but also the jump in pipeline by I think \$800 million from last quarter and the \$200 million jump in bids submitted waiting for proposal. Can you just dive into that bid pipeline in a little bit more detail for us, like have you lost any bids? Are there any big awards that you're expecting before the end of this year? I know Q4 is usually a pretty good bookings quarter for you.

**Peter Cannito**

Hey, Mike. How are you? Appreciate your question. Yeah, so, again, we're always bidding, as a result, we're always losing, but we're also always winning. And I really am very proud of, quite frankly, the team for the growth in that pipeline; so thank you for calling it out because we really have started to hit our rhythm in terms of regularly being out in front of new opportunities and increasing our bid tempo, and that's really important for our growth.

We don't typically project awards by quarter. There's a lot of reasons for that, not least of which is that some of these are very hard to predict when you have a dynamic government situation, as well as just the general dynamic of things going on in the space industry right now.

But yeah, we expect a regular tempo of awards. They do tend to be pretty lumpy. We are bidding things over \$100 million in our pipeline. So I know that if it's not your next question, one of the questions will be about our book-to-bill for the quarter, so I can start talking about that right away. But typically what will happen is we'll win a big bid and then we'll work it off for a while while we're submitting more big bids. And then book-to-bill will pop up, but the timing of that is pretty difficult to predict. And that's why we always try to guide people towards that yearly or last twelve months book-to-bill ratio because the timing of our really large awards make it difficult to really have a meaningful number in terms of book-to-bill on a quarterly basis. Did I answer your question?

**Mike Crawford**

Yeah, partially, Pete. Maybe if I come at it from a slightly different angle in the context of the reaffirmed guidance you gave of \$220 million to \$250 million for the year? I mean that implies that fourth quarter revenue could be anywhere from \$40 million to \$70 million with the range that you have. I would imagine we'd have to have an absolute government shutdown for you to be anywhere near \$40 million. But what would have to happen or what are the things that could happen that could actually spike your revenue up to \$70 million in the fourth quarter?

**Peter Cannito**

The timing of awards is the key to that, right. A lot of our customers, they're not focused on fiscal year-end, or in the case of the government, their fiscal year ends in October or late September,

so they're not seeing it as a calendar year dynamic. So the timing could materially shift things one way or the other. Although let me talk to you a little bit about our approach to guidance.

As you know, we're a fairly young public company and we've set out three guiding principles for our guidance. Number one is to keep it simple, number two is to take a long-term view, and number three is to be somewhat conservative on our approach, so we're not giving people -- we're not confusing the marketplace as we move forward here.

So from the guidance perspective, the approach that we're taking is giving guidance at the beginning of the year and then sticking with that guidance throughout the year despite the quarter-to-quarter perturbation as a way of just kind of keeping the guidance simple, accurately reflecting our year-on-year pathway, and delivering what we say we're going to do.

**Mike Crawford**

Okay. Thank you. That's helpful. I'll just ask one more, and it's more of a broader question about what you think the state of the -- what is the outlook for commercial LEO destinations and the ISS that might -- the latter of that which might actually even be extended beyond 2030 now and where Redwire fits in amongst all that?

**Peter Cannito**

Yeah. I love that question. So, what I'm excited about with Redwire is that we believe that the United States and our allies will always have a presence in LEO. Right now, that presence is the International Space Station. And we're participating a lot in the research and development that's happening in LEO on the ISS. As commercial LEO destinations come online, we're actively engaged with all of the different providers out there to provide the capability that we've been providing to the ISS and quite frankly, not only NASA, but ESA.

So they see us as a leader because we're proven and therefore the net-net on commercial LEO to us and of course, we're watching this very closely and weren't terribly surprised by the fact that NASA, if they need to, will extend the life of the ISS. We really basically continue to perform and generate revenue off of our services to LEO development, whether it's a government space station or whether it's a commercial space station. So, for us, we feel pretty comfortable both ways.

**Mike Crawford**

Okay, well, thank you very much.

**Peter Cannito**

Thanks, Mike.

**Operator**

Our next question comes from the line of Suji DeSilva with ROTH MKM. Please proceed with your question.

**Suji DeSilva**

Hi, Peter. Hi, Jonathan. Congratulations on the progress here. So just curious on the free cash flow, the CapEx spending. Is that spending -- does that need to happen ahead of your programs coming online or is that something that customers -- you're kind of doing on a success basis as programs ramp?

**Peter Cannito**

Hey, Suji, how are you? Good to hear from you. It depends. So we have CapEx expenditures associated with ground support equipment developing our really large solar array wings for the Power and Propulsion Element of Gateway. That would be a good example of a CapEx supporting near-term programs.

We also have our most recently built RF chamber that supports our antenna business for customers like the SDA, and a pretty large percentage of our future pipeline associated with antennas. So in some cases, it's to support ongoing operations, and in other cases, it's built to support more recent and emerging program wins as well as what we anticipate to be growth areas in the company. Jonathan, I don't know if you want to add anything to that.

**Jonathan Baliff**

No, exactly. I mean, the expenditures that we make for equipment, a lot of it's captured in the contracts themselves and paid for by the contracts, right? But a lot of the CapEx that Pete, for example, used perfect examples is an example of CapEx that we can use, I mean these pieces of equipment last a long time and can be used on other contracts. That's why you're seeing a level of efficiency.

The only thing I would add to Pete's comments is that we watch these return on invested capital, this CapEx very, very closely and that's why you're seeing the narrowing of our cash flow from operations has happened because we're focused on those returns happening for our investments earlier, and then obviously with a threshold it's got to meet. There's a discipline to this process, Suji.

**Suji DeSilva**

Okay. Great. And then sticking to the financials, the gross margin side, you talked in the prepared remarks about gross margin tailwind from mix. Can you just remind us the relative gross margins, how should we think about that in segments, and where the mix tailwinds are versus headwinds in gross margin or relative to gross margins?

**Peter Cannito**

We don't have segments, so our gross margin is our gross margin. What I can talk to you about gross margin is the way we think about it, one of the key things that I tried to highlight in my comments was this idea of avoiding growth at any cost. And I would say a year, potentially two years ago, the industry was and -- quite frankly, the investor community was primarily focused on top line growth really at any cost.

I'm not sure Redwire was ever all-in on that concept. But certainly, in the past year, we've been very selective about what we bid and we've been working very hard at sunseting other programs that either came through acquisition or otherwise that had gross margin less than what we're targeting. So that disciplined approach of selective bidding on programs where we feel that we can maintain our margins is what's driving the changes you're seeing in gross margins right now. Did that answer your question?

**Suji DeSilva**

Yes, it does. And good to hear that you're doing that on the acquisitions. And then last question really on the demand in the civil area. You talked about some volatility around the U.S. government. Are you seeing actual program pushouts or positive reductions yet? Or is that just a sort of sense that there is some uncertainty there more broadly?

**Peter Cannito**

Yes, I think it's being prudent about watching closely what's going on in terms of budgeting, specifically for NASA. So I wouldn't say -- it's always difficult to understand why the government does what they do. They very publicly, I believe, just announced that they were pushing the LTV procurement out for instance. I don't have firsthand knowledge as to why that is, but we have to be realistic about that some of the Congressional budgets that are being out there, I believe some of them are looking at rolling back masses budget to 2022 levels. Obviously, we have a fair amount of Congressional budgeting or I would say maybe just U.S. government dysfunction going on right now. So, that's certainly going to find its way into the planning cycles. And so we just need everybody to be clear-eyed and realistic about the potential risk associated with those dynamics.

**Suji DeSilva**

Okay. Great. Thanks, Peter. Thanks, Johnathan.

**Jonathan Baliff**

Yeah. I mean, Suji, the only other thing I would say on that is, we're celebrating the year that we acquired Space NV, now Redwire Europe. And so, we're pretty deliberate about that. Obviously, we need to meet our financial thresholds, which it's meeting, but also it allows us to diversify.

And the ESA and other European governments are very much on a three-year cycle of their budgeting as we've talked about with the investors and you. And that really helps diversify as part of what the Redwire overall strategy is to be this -- still grow this business, grow it profitably, but

also make sure that it's a lower risk type of profile and take advantage of these opportunities as they come up globally.

**Suji DeSilva**

Great. Thanks.

**Operator**

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

**Greg Konrad**

Good morning, and good quarter.

**Peter Cannito**

Hey, Greg, thanks.

**Jonathan Baliff**

Thank you, Greg.

**Greg Konrad**

Maybe just to kind of bridge or follow-up to some of the prior questions. I mean, you're coming off the third straight strong quarter around EBITDA. I know you don't guide for the year, we can see what the revenue guidance is, but how are you thinking about the variability of profitability into Q4? How much is tied to volume versus mix? I think you've talked investments in the past. And how are you thinking about maintaining positive EBITDA into the year-end?

**Peter Cannito**

Thanks. Appreciate the question, Greg. So if you think about some of the comments I made on balancing top-line and bottom-line growth, I already touched on one aspect of this approach, that's the idea of being selective in our bidding. But we don't want to pass on very significant opportunities that may present itself in the pipeline that requires some investment upfront because we've kind of talked ourselves into a corner, if you will, around EBITDA.

So we're very focused on being profitable. We're very focused on selectively bidding programs that we could be profitable on. But there are instances where going back to the discussion on CapEx, we may be required to make an investment, of course, that won't hit EBITDA, that'll hit cash flow more, but there's other internal SG&A or B&P or IRAD dollars that do flow through SG&A that we might have to ramp up on in order to take advantage of some particular positioning that we have. And we don't want to sub-optimize our approach based on something like the guidance we're giving or what have you.

So that's what we mean by balancing top-line and bottom-line growth is, if there is an opportunity out there that includes a high probability win that will materially transform Redwire as a business and we need to spend some of our SG&A money to go after that, we're going to do it. So does that answer your question?

**Greg Konrad**

Yes, that's helpful. And then maybe just to follow-up on PIL-BOX, and I think you've announced some other partnerships on the drug development side, plus with what you've done historically. Is there any way to think about the TAM of that market and just timing given some of your other partnerships and kind of where we are in terms of adoption and transition, given it seems like there's a lot of opportunities in that market?

**Peter Cannito**

Yes, it's a very interesting market. In the past when I've talked about Redwire is having a blue chip foundation with venture optionality, the biotech segment of our business is certainly part of that venture optionality, which I think is very exciting and maybe not people who invest in the aerospace industry specifically, but certainly people who invest in the biotech industry can appreciate the value of that.

It's interesting. There's a lot of opportunities there. We've obviously been working on this for a long time. So even though this is the inaugural launch of PIL-BOX, we have been working on crystallization, as I mentioned, all the way going back to space shuttle. There is some market information on there around crystallization done on Earth. I don't have the TAM figures at my fingertips right now. Perhaps that's an item for follow-up in a future earnings call that we have where we can talk about that, but this is an existing market. The only thing that we're bringing to the market is an innovation where we could potentially, if the experiments are successful, change that. But it's pretty early days.

I would say, the biggest step forward from a maturation perspective in my mind is the fact that we now have this partnership with Eli Lilly, so it's not just NASA-funded research for the sake of research. There are actual commercial organizations who are really interested in the potential here, very serious commercial organizations, mind you. So that's encouraging.

But again, we've got to fly PIL-BOX, it's got to work, we've got to look at the results. And I think as this progresses forward, we'll learn more. The exciting thing about having a positioning where you have a blue chip foundation with venture optionality is the future of Redwire is not dependent on the success of that one singular mission. But if we do make great strides here along with if we make great strides obviously, we announced the 3D printing of our meniscus and we have a number of really exciting opportunities associated with the bio printing on orbit as well as with those and other biotech experiments that we're conducting on orbit, if one of those takes

off, as you can imagine, it would be exciting for us as a company. Jonathan, you want to add anything?

**Jonathan Baliff**

Just I want to remind you, Greg, that we do talk about in -- what we've disclosed in what we call our Redwire 101 that the explore, live, and work in space for the benefit of humanity, which both of what Pete is talking about is for the benefit of us on Earth -- It's a \$5 billion to \$10 billion TAM over the next five years. That includes some level of biotech, but it scratches the surface. Publicly disclosed numbers that we know, the bio research, right, that doesn't include necessarily things associated with printing meniscuses, but just the pharma industry spends over \$150 billion a year on research and development and this is the market that, just like they went to the Amazon 40 years ago, they're going to go to space.

And so for us, we're going to be talking more about that in the future, but as Pete said, let's get our PIL-BOX successfully launched, but it's already planned getting up there, and so let's talk about it later, Greg. But does give you some numbers here to allow you to see that we're only scratching the surface.

**Greg Konrad**

I mean it's the perfect name for the product, so good to whoever names the product. And

**Peter Cannito**

We will thank John, yes, John vellinger, if you're out there. He runs this part and has been doing it for decades and so he named it, in association with Eli Lilly also.

**Greg Konrad**

And then maybe just to dig into national security a little bit more. I mean, in the prepared remarks you talked a little bit about SDA and tranches and that market is much more stable and you kind of have the drivers versus your commentary around some of the commercial near-term headwinds. I mean, what's driving that growth? I mean, is there any way to think about SDA versus some of the other areas of national security that are lifting that business today?

**Peter Cannito**

So what's driving the growth of national security space spending in general is obviously what I talked about in the prepared remarks about the geopolitical dynamics associated with space now being a warfighting domain. SDA in the near-term has been a big part of that. Proliferated LEO is fairly new, and so there's a fair amount of spending there. And as I mentioned, we're participating in those procurements on multiple teams, multiple tranches and we'll continue to do so.

So that is obviously a big part of it, but there's also the classified budgets, which obviously are less public, but there's a lot of activity going on in there too through the intelligence community

and other customers who operate against those budgets. So that's another, I think, critical aspect to the growth in national security.

So again, without going into too much detail, there's just a lot of -- with the idea that space is now considered a warfighting domain and the establishment of the Space Force, they really got their legs under them now as a service, and I think you're starting to see spending grow in a number of different areas around their mission set.

**Greg Konrad**

I'll leave it at that. Thank you.

**Operator**

And our next question comes from the line of Brian Kinstlinger with Alliance Global Partners. Please proceed with your questions.

**Brian Kinstlinger**

Great. Thanks so much for taking my questions. You reported bids submitted this year-to-date were \$714 million. I'm curious first if you could share the value of the total bids that are still awaiting adjudication? I take it those numbers are not the same. What is your average win rate over the last year or two? And then as you've discussed the various market dynamics, what are your plans from now through, say, the end of 2024 in terms of investments, people, or dollars, needed in sales and marketing to continue to grow your proposal efforts?

**Peter Cannito**

Okay. That was a lot. So let me take a couple of at a time. I'll start with the last one. We are making investments in growing our bid and proposal efforts. We're currently in the process as we are every year at around this time in building our budgets. So I don't have the exact figures for you for 2024, but we will continue to invest in that area.

On the rest of it, I think, Jonathan.

**Jonathan Baliff**

Yeah. Let me help you out, Brian. First of all, if you look at last quarter, the year-to-date submitted bids, it was roughly, let's call it, half. I'm not going to give the specifics, but it's publicly disclosed. A large increase in that are some of the bids that are pending. So without -- because then we don't talk about what the future in the fourth quarter is doing, but you can get a sense of that from a number standpoint.

Historically, the win ratio, which we have disclosed, we haven't disclosed it this year, but in the past, we've disclosed about a 40% win ratio, but I do have to emphasize what Pete talked about. We are very selective in what we're bidding to make sure that we are on that path to profitability



of improved EBITDA, improved free cash flow, improved operating cash flow. It then gets the idea of then CapEx and other investments. We believe that this path to profitability has to take into account those investments. The whole idea of Redwire as a differentiated investment in space is to be more -- or as like any aerospace company to be able to fund a lot of our organic growth, if not most of it, through organic cash flow.

And so that's -- we're on that path, a lot of it, we have to scale the business to be able to enjoy that, but we are on that path as you can see on a year-to-year basis. We don't give the specifics, but you look at the SG&A, a lot of that SG&A, even though it's gone down significantly as a percentage from 41% to less than 30%, a lot of that SG&A is for growth, right? We don't distinguish it, but it is for growth and resiliency. And so, you just need to understand that we have enough cash, we have enough liquidity to again continue with the growth rates that we talked about for 2023, but we're not going to do anything differently because it's working.

**Brian Kinstlinger**

Great.

**Peter Cannito**

The only thing I'll add real quickly is win rates change obviously a lot, right, depending on what you're bidding, it can go up, it can go down based on any specific award, especially if you're using total dollars or revenue awarded. So if the goal of what your question is getting at is this idea of taking the number of bids submitted, and trying to apply a win rate to it to project, I would say that because of the dynamic nature of the number of things that we're bidding, the size, the outsize of some of the bids, as well as just how fast things are changing in general, I wouldn't use that as a straight thing if you're trying to come up with an algorithm for projecting future growth.

**Brian Kinstlinger**

Okay. Then I assume most of your contracts are fixed price, I'm not sure, maybe you can share that. But in line with your strategy to grow profitably, how has your process for pricing of proposals changed over the last 12 to 18 months if at all?

**Peter Cannito**

So correct me if I'm wrong here, you have the exact percentages?

**Jonathan Baliff**

Yeah, we generally say publicly disclosed, about 80% of our contracts are fixed price.

**Peter Cannito**

So, I mean, again, one of the things that Jonathan mentioned in his prepared remarks was this concept of excellence in execution. Excellence in execution is an internal initiative that we have that really focuses on understanding the business and the details on how we bid and then how

that bid translates into recognizing revenue and making sure that we have the programmatic discipline in place to hit our financial goals.

In that context, we spend a lot of time looking at pricing, and it has changed significantly. Especially, as I mentioned, we're not looking at growth at any cost, so for instance, when we look at our pricing, we're looking at making sure that we're pricing in a way that will give us the highest potential path to profitability.

When you think about it from in that context, we are looking at all the different cost elements that go in, we're making sure that we apply risk factors associated with our firm fixed price bids as is traditional in the market. We have a number of internal processes in place now and are continuously implementing process improvement across the business to make sure that we stay disciplined.

**Brian Kinstlinger**

Yep. Good. Thank you.

**Peter Cannito**

Perfect.

**Operator**

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

**Peter Cannito**

I appreciate everybody's questions. Once again, it was a really exciting quarter for us. We're very pleased with the performance. And I just want to thank all of our employees and customers out there, that is really what Redwire is all about. At the end of the day, it's our employees that delivered these numbers and it's the trust our customers give in us that enable us continue to drive our overall performance. So we appreciate everyone's time today. Thank you for listening and go Redwire.

**Operator**

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