

Redwire Corporation
Q1 2023 Earnings Call
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Presenters

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

Q&A Participants

Mike Crawford - B. Riley Securities
Greg Konrad - Jefferies
Suji DeSilva - ROTH MKM

Operator

Greetings, and welcome to Redwire Corporation's Q1 2023 Earnings Call. At this time, all participants are in a listen-only mode and the floor will be open for questions following the presentation. If you should require assistance throughout the conference, please press star zero to reach a live operator. As a reminder, this conference is being recorded.

At this time, it is my pleasure to turn the call over to Jeff Zeunik. Sir, the floor is yours.

Jeff Zeunik

Thank you, Karen, and good morning everyone. Welcome to Redwire's first 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.

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

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

I am Jeff Zeunik, Redwire's Senior Vice President of Financial Planning and Analysis. Joining me on today's call are Peter Cannito, Chairman and Chief Executive Officer, and Jonathan Baliff, Chief Financial Officer.

With that, I would like to turn the call over to Pete. Pete?

Peter Cannito

Thank you, Jeff. During today's call, I will take you through a discussion of our key accomplishments in the first quarter of 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. Before we get into the details, as I did last quarter, I'd like to start with an overview of Redwire's high level positioning in the space industry. Redwire is an integrated pureplay space infrastructure company with mission solutions and payloads for civil, commercial, and national security space customers, and our mission is to accelerate humanity's expansion into space by delivering reliable, economical, and sustainable infrastructure for future generations. With decades of proven flight heritage combined with innovative products and culture, Redwire is uniquely positioned to assist our customers in solving the complex challenges of future space missions and industries.

Redwire has three primary areas of focus that form our business. Number one, as the fully integrated mission enabler Redwire is empowering space mission providers, such as government agencies and large prime contractors, with a broad portfolio of space infrastructure, systems, subsystems and components that can be procured either as a single item or in a tailored bundle for maximum supply chain efficiency. In addition to efficiency, this scalable model is currently solving some of our customers' most critical supply chain issues by providing resiliency and reliability.

Number two, providing the infrastructure and technology needed for people to permanently explore, live, and work in space, increasing our understanding of the Moon, Mars, and beyond, as well as developing breakthrough commercial technologies for the benefit of life on earth that can only be produced in microgravity. This area is generating real revenue and gross profit today.

And lastly, supporting multinational access to space for countries that recognize space as a unique opportunity to build national prestige and accelerate economic development.

We continually demonstrate our commitment to, and expertise in, our three key focus areas in a variety of ways, such as by having Redwire products on two launches in Q1, having developed 20 research facilities for the ISS with 10 currently operating on the ISS to deliver world leading research, possessing well over a hundred years of flight heritage across our various legacy businesses, and growing to over 700 employees at 10 facilities in both the United States and Europe.

Please turn to slide seven. The first quarter of 2023 was another record quarter for Redwire. Our revenues of \$57.6 million were the highest of any quarter-to-date. We achieved positive Adjusted

EBITDA of \$4.3 million, an improvement of \$5.1 million versus the fourth quarter of 2022, and improved our net loss to \$7.3 million, a significant improvement from the same period last year. More on that in a moment.

We entered the quarter with contracted backlog of \$286.8 million. As an administrative note, starting with this quarter, we have switched from focusing on total backlog, which included both contracted and uncontracted backlog, to simply reporting contracted backlog. There was no change in our calculation of contracted backlog from previous reporting, and we made this change to simplify reporting and increase comparability of the company's performance metrics with industry peers.

Notably in this quarter, we also launched three solutions on two launches, continuing our proven track record of delivering real flight heritage.

Please turn to slide eight. Beating our previous record in the last quarter of 2022, Redwire's revenue growth achieved a new record level of \$57.6 million during the first quarter of 2023. Year-over-year, compared with the first quarter of 2022, Redwire's total revenue grew by 75.3% and on a sequential basis, we grew Redwire's total revenue by 7.3% over our previous record revenue in the fourth quarter of 2022. Notably, even if you exclude revenue contributions from our acquisition of Space NV, Redwire revenues grew by 37.9% year-over-year, which demonstrates strong performance from our baseline operations in the same quarter last year.

Please turn to slide nine. Although strong revenue growth is very positive, we are not solely focused on top-line growth. We are also focused on profitable growth. As such, we are pleased to report we have achieved a year-over-year improvement of net income on the order of a \$10 million positive move to the upside as our losses decreased from a \$17.3 million net loss in the first quarter of 2022 to a \$7.3 million net loss in the first quarter of 2023.

Moving to Adjusted EBITDA, I am very pleased to report that our Adjusted EBITDA has increased by \$9 million on a year-over-year basis. For this first quarter of 2023, we generated an Adjusted EBITDA of positive \$4.3 million versus a negative \$4.7 million Adjusted EBITDA for the first quarter of 2022. Achieving positive Adjusted EBITDA for the first time as a public company is an important milestone and an outstanding accomplishment on both an absolute and percentage growth basis and has given us significant financial momentum heading into the remainder of 2023.

Please turn to slide 10. Now let's move beyond the numbers to continue to emphasize that this financial performance is driven by our proven ability to deliver differentiated solutions for our customers. Slide 10 to 15 share just a few examples of successes in the first quarter of 2023 that highlight the importance of our capabilities. For example, in Q1, the U.S. Space Force and SpaceX launched the GPS III SV06 satellite from Cape Canaveral, Florida with two complete Redwire fine

sun sensor systems of orbit. Each system consisted of four fine sun sensor heads and two processor electronics.

Redwire sun sensors are key navigational tools that provide sun acquisition, solar array pointing, and fail-safe recovery options for GPS III SV06 as it orbits 12,550 miles above the surface of the earth. Redwire has been a key supplier of critical sun sensors for more than 50 years, and this technology has enabled more than 70 NASA missions - a clear example of our incredible space heritage.

Please turn to slide 11. During the first quarter of 2023, Redwire delivered two more ROSA wings, numbers five and six, to Boeing to be launched on an upcoming commercial resupply mission to the International Space Station. To date, four ROSA wings have been launched and installed and are operating efficiently and effectively. With the addition of wings five and six, the overall power generating capability of the ISS will be improved by 20 to 30%, a substantial increase.

ROSAs are not only used for the International Space Station, Redwire is also producing various modular versions of ROSA for many government and commercial space flight applications, including the power and propulsion element for NASA's gateway program.

Please turn to slide 12. As I mentioned at the beginning of this presentation, Redwire is a leader when it comes to developing breakthrough commercial intellectual property for the benefit of life on earth that can only be produced in microgravity. As an example, we are currently managing research in microgravity to discover a new type of electronics system.

During Q1, 20 days of on-orbit experiments were completed with the Redwire-managed Pore Formation and Mobility Investigation facility as part of the Asymmetric Sawtooth and Cavity-Enhanced Nucleation Driven Transport investigation or PFMI-ASCENT. The findings of the PFMI-ASCENT space physics study will help with the design of passive cooling systems for spacecraft electronics, which are often limited by available space and electric power and for consumer electronics here on Earth. The five experiments that have been completed on-orbit represent the first half of the PFMI-ASCENT investigation.

Please turn to slide 13. As we enter a new era of space exploration and commercialization, Redwire is a leader in developing inspirational content with commercial thought leaders to inspire future generations. As an example, Redwire is collaborating with Microsoft to create a unique learning opportunity inspired by Marvel Studios' Guardians of the Galaxy Vol. 3, to engage students in science, technology, engineering, the arts, and mathematics topics, including 3D printing for future space exploration and microgravity R&D and manufacturing for the benefit of humanity. In conjunction with Guardians of the Galaxy Vol. 3, Redwire and Microsoft have produced an engaging, educational video to motivate the next generation of astronauts, engineers and scientists.

In addition, through a sponsorship from the ISS National Laboratory, Redwire and Microsoft intend to 3D print a Microsoft Zune on the ISS using Redwire's Additive Manufacturing Facility to illustrate space-based manufacturing in an engaging way. Redwire has manufactured more than 200 parts in space and as the only company currently providing commercial 3D printing on the ISS, Redwire was the natural choice to 3D print Star Lord's Zune.

On the right side of this slide, you can see our Guardians of the Galaxy STEM promotional patch featuring Cosmo and Rocket from the movie, as well as a highly visible digital cube display in Times Square in New York City promoting the Marvel, Microsoft, and Redwire team. It is important to note that this effort was not a paid promotion by Redwire, but rather we were a paid partner as part of Microsoft's plan to leverage the power of space in their branding. We believe this is an excellent template for future Redwire offerings to provide space-based branding content for other commercial partners. For more information on this effort, please visit zune.net.

Please turn to slide 14. Space is a multinational endeavor and Redwire Space is a global leader in international space missions. In the first quarter of 2023, Redwire Space Europe fully integrated two European Space Agency PROBA-3 spacecraft that will perform the world's first precision formation flying mission. In the PROBA-3 mission, two small satellites will launch together and separate, maintaining a specific distance and working as one unit as they orbit around the earth.

On this program, Redwire is building and integrating the satellites themselves to include developing the onboard computer and advanced avionics. This mission is important in proving orbital formation flying technologies and rendezvous experiments for future science, astronomy, and earth observation missions that will require satellites to seamlessly cooperate on-orbit.

Please turn to slide 15. Next, I'd like to highlight a Redwire Space Europe project that kicked off during the first quarter of 2023, a 3D bioprinting system. We have discussed Redwire's NASA-funded biofabrication facility on previous earnings calls, but this is a completely different mission funded by the European Space Agency. Redwire Space NV was awarded a €14 million contract to design, develop, and qualify the 3D bioprinting system. The system will leverage the latest 3D bioprinting technologies to provide a modular, powerful, and unique system to sustain a large number of experiments. With the 3D bioprinting system, Redwire is expanding its leadership of in-space manufacturing and bioprinting on the International Space Station for exploration and improving life here on Earth.

Please turn to slide 16. Turning back to the numbers, our bookings during the first quarter were \$29.7 million. However, as a reminder, our contracted awards for the fourth quarter of 2022 totaled \$91.2 million. It is important to note that Redwire's bookings are typically lumpy and the first quarter historically is usually the lowest of the year. Using a longer period of measure to smooth out the lumpiness, as of Q1 2023, our last twelve-month book-to-bill ratio was 1.76.

I'd like to point out that during the first quarter of 2023, Redwire made two changes with respect to our key performance indicators. First, we changed to using contracted backlog only. Second, we changed the book-to-bill calculation to present this metric on a last twelve months or LTM basis, whereas prior period disclosures were presented on a year-to-date basis. We believe these presentation changes will provide meaningful insights into contract award trends and increase comparability of the company's performance metrics with industry peers.

Finally, as you can see from the bar chart on the right-hand side of this slide, our contracted backlog has more than doubled since March 31, 2022 of last year to a contracted backlog at the end of Q1 2023 of \$286.8 million. This 108.8% growth in contracted backlog is one factor that gives us confidence in our future growth and stability.

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

Jonathan Baliff

Thank you. Please turn to slide 17. Before we begin the financial section, I'd like to highlight the picture shown on slide 17. This is the Redwire-managed Plant Habitat-03 experiment on the ISS. The ability to grow fresh crops in space will be critical for exploring, living, and working in space, one of the three focus areas for Redwire that Pete talked about. Redwire's doing critical work now and earning revenue and gross profit now to support space industries including the agricultural industry in-orbit.

Please turn to slide 18. Similar to last quarter, I will help quantify and expound on a number of first quarter 2023 themes that Pete just talked about, including 1) key financial takeaways, starting with quarterly revenue here on the right-hand chart, and then continuing with other quarterly financial information, and 2) a brief update to our financial outlook for the remainder of the year.

Key points to reiterate in detail for this quarter's financials:

One, Redwire's excellence-in-execution initiatives continue to deliver on our promises and path to profitability as we scale our business with record revenues and record gross profit. We are providing our government and marquee customers with critical, proven, and differentiated space infrastructure and payloads from the ROSA wings and GPS III SV06 sun sensors to the PFMI-ASCENT and 3D BIOSYSTEM facilities. These and other solutions, digital engineering, and payloads created in our over 300,000 square feet of facilities by our outstanding team members across the globe - drove this first quarter 2023 revenue and gross profit growth.

Two, first quarter 2023 saw our first positive Adjusted EBITDA quarter since becoming a public company with record positive Adjusted EBITDA overall. In the first quarter of 2023, Redwire has

continued to win and deliver on more profitable contracts to more than double gross profit, but we are also doing this more efficiently as we drove more operating leverage into the business with absolute and percentage reductions in operating expenses and SG&A this quarter.

Turning to revenue, as you can see from the chart on the right, we had \$57.6 million for the first quarter of 2023 versus \$53.7 million for the fourth quarter of 2022, representing an increase of 7.3% on a sequential basis. On a year-over-year basis, this represents a 75.3% increase over revenues of \$32.9 million in the first quarter of 2022. On a last twelve-month basis, we also grew at a rate of over 33%.

Importantly, excluding the revenue contributed by Space NV, our first quarter revenues were \$45.3 million, a comparable 37.9% increase over Q1 2022 revenues. This almost 40% growth is an important milestone, as historically the first quarter has generally been a lower revenue growth quarter. We were able to achieve this in the legacy US businesses due to the significant growth in backlog, not just due to the excellent partnership and acquisition of Space NV, as you'll see on the next slide, but also as our government business expanded. Over 85% of our revenue is derived from funded government programs or from global marquee customers who are delivering in the national security, LEO commercialization and habitation, and exploration of space domains.

Please turn to slide 19. Continuing with revenue, this is our year-to-date revenue slide for fiscal year 2023, so given it is our first quarter, the growth is identical to the previous slide, but let's discuss the makeup of that growth. First, Redwire saw year-over-year revenue growth across all the three primary focus areas, whether it be space systems as an integrated space mission enabler, or payloads to explore, live, and work in space, or with Redwire Europe with our multinational space leadership; all focus areas saw growth year-over-year.

From a customer's perspective, again, all customer types, national security, civil, and commercial grew on a year-over-year basis. To remind you on the call of these types, civil customers are with civilian space agencies like NASA, ESA, or the Luxembourg Space Agency. National Security Revenue is derived from U.S. and allied countries' defense or security departments and ministries like Space Force, SDA, and Air Force Research Labs. Finally, commercial revenue is derived from predominantly large marquee global prime aerospace systems and service providers, and it is important to note that this commercial type of revenue is mostly derived from funded government programs that ultimately face a national security or civil space entity. Of note for this quarter, our commercial revenues have seen the largest percentage increase, more than 129% year-over-year, so our customer diversity is balanced, especially now that our customer types include a larger portion globally.

Please turn to slide 20. Redwire's path to profitability 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 in 2023 with growth we discussed on the previous slides leading to more profitable growth over the past year.

Under U.S. GAAP, we had a significant improvement - \$10 million improvement - from a net loss of \$17.3 million a year ago to a net loss of \$7.3 million during the first quarter of 2023 and sequentially we improved even more compared to the fourth quarter of 2022.

We also saw our quarterly adjusted EBITDA improve \$9.0 million year-over-year to a positive \$4.3 million, an improvement of 193%, and sequentially this positive \$4.3 million was an improvement of \$5.1 million over the fourth quarter of 2022. This Adjusted EBITDA improvement was primarily driven by our improvement in Redwire gross profit.

Our excellence-in-execution initiatives: the roll off of lower margin contracts, better labor utilization, better program management, and cost control increased our year-over-year gross margin from 15.7% to 24.7% with our year-over-year gross profit nearly three times higher from \$5.2 million to \$14.2 million. The Adjusted EBITDA improvement was also supported by being more efficient with our indirect operating expenses.

First quarter Redwire SG&A year-over-year improvement occurred on both an absolute and percentage of revenue basis. Absolute SG&A declined 23.4% from \$21 million in the first quarter of 2022 to \$16 million in the first quarter of 2023 and now stands at 27.8% of revenue. This represents a significant drop from Redwire's first quarter of 2022 SG&A margins.

Please turn to slide 21. Similar to our fourth quarter, on the left-hand chart, we show free cash flow. As a reminder, free cash flow provides a perspective based on our operating cash flow and CapEx, unadjusted for one-time items.

As you can see, during the first quarter 2023, free cash flow consumption increased to a use of cash of \$14.8 million compared with the fourth quarter of 2022's \$5.5 million. Although we saw a significant improvement in our profit and loss statement, the sequential increase in free cash flow consumption was driven by a historic increase in net working capital driven by our top line growth and given the significant backlog growth going into 2023.

And this quarter's consumption was very different from last year's as the cash consumption was attributable last year to losses due to a significantly lower gross profit and much higher SG&A. This quarter's net working capital build was the primary result of growth in our contracted assets and decrease in our deferred revenue, and since the end of March, we are seeing much less cash consumption with a notable reduction in net working capital. Redwire's management remains very focused on the improvement trend in our free cash flow as we execute on the revenue growth conversion of our \$287 million of contracted backlog.

On the right-hand chart, we show our available liquidity as of March 31, 2023, which totaled \$36.3 million. This quarter's liquidity is much improved from a year ago as we continued our path to profitability, and again, since the end of Q1, we are seeing much less cash consumption with a notable reduction in net working capital.

Finally, given our improved financial position, especially our improvement in gross profit in adjusted EBITDA and effective May 1, the company met the requirements to end the incremental 2.0% PIK interest required under our credit facility with Adams Street Partners. This achievement saves significant expense and is a direct result of the global Redwire team's commercial and operational successes, leading to an excellent start to the year that Pete and I have been discussing throughout this call.

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

Peter Cannito

Thank you, Jonathan. Please turn to slide 23 for a brief reminder of the outlook for the remainder of 2023. Our most recent first quarter was a strong start to the year. As a result for 2023, we affirm that we expect our full year revenue to be between \$220 million to \$250 million, which represents 46% year-over-year growth at the midpoint of the range.

With that, I'd like to thank all of the Redwire employees for an excellent first quarter. Thank you for all the hard work you do across the world every day to accelerate humanity's expansion into space. Go Redwire.

Thank you, and we will now open the floor for questions.

Operator

Thank you. Ladies and gentlemen, the floor is now open for questions. If you do have a question, please press star one on your telephone keypad at this time. Again, that's star one if you do have a question or comment. Please hold as we poll for questions.

And we'll take our first question from Mike Crawford from B. Riley. Please go ahead, Mike.

Mike Crawford

Thank you. Just to start off where we left off, I was hoping we could go a little bit further into your outlook where you're talking about better program management, cost control, and increased gross margin and you expect gross margin improvement during the year, but do you expect -- I know there's a big range of products with like star sensor -- sun sensors on the lower side and ROSA on the higher side, but what more can you tell us about gross margin percentages that you're targeting directionally for the rest of this year? Maybe we could start with that.

Peter Cannito

Hey, Mike, how are you? Thanks for your question. So that was a lot. So I'll just go to the gross margin part because I think that's what the sense of it is. Yeah, as you can see we're significantly improving our gross margin over time, and some of the reason for this is if you think about the history of Redwire, one of the built-in systemic efficiencies that we're able to achieve is to take a lot of the companies that were previously small businesses and inject more programmatic discipline, better systems through things like ERP implementations and taking a hard look at the gross margins and the pricing power that we can achieve by going to market in integrated bundles and things like that as a much larger company.

So all of those different improvements are what you see happening in gross margins to date and the improvements that you see there. And then we expect to continue to be able to improve on those gross margins as we continue into the future. And that's essentially the plan because I can tell you some of the really unique technologies that we have that are highly differentiated, like you mentioned ROSA, have increasing pricing power in the marketplace and are gaining much wider adoption now that we have so many wings on the ISS.

Jonathan, anything you want to add to that?

Jonathan Baliff

I would just say we improved our gross margin from 15.7% to 24.7%. I would say that this continued higher level of improvement is aspirational for 2023. Mike, I know you want a specific number, and we do believe we can continue improving on this gross margin number in Q1FY23, from not just from the mid-twenties, but higher than that. It's just from a timing standpoint, just being continue to increase gross margin almost 10% - that is hard to do that every three or four months, it takes a many months to do it - but we have an intent to do it. And We're seeing the sequential performance improvement; this Q1FY23 gross margin is a 65% improvement over gross margin even last quarter. I just want to warn you that being able to get that level of improvement on a quarter-over-quarter basis is more aspirational. I do believe we can get there; just I wouldn't want to put it all in 2023.

Mike Crawford

And to that end, I do know there's a wide variance in margin on different products that you're delivering, and so it's not necessarily going to be a straight line, is that correct?

Jonathan Baliff

That's right, Mike. When we look at it, it's a bit of a product mix, but I would say across all of our focus areas, whether it be enabling space missions, or space industries, with the payloads, and then Europe: we're improving gross margins across the board because of the excellence-in-execution initiatives that Pete talked about. And so in certain focus areas you're seeing 400 or 500

basis points of margin improvement. And as we again see the roll-off of older contracts that people that Pete talked about, you just start to see that positive impact create kind of a virtuous cycle.

Mike Crawford

Okay. And just one more on this, if you don't mind. I think you mentioned 300,000 square feet of space a lot of that manufacturing, and how much room does Redwire have to grow before you have to have significant CapEx, which was under a million dollars in the quarter?

Peter Cannito

Great question. No, I think that there's a healthy amount of growth in that space that's already out there. As you know, a lot of our capabilities that would otherwise be CapEx is paid for by customers in many cases. And because we've really acquired a lot of significant in-place capabilities, I think we have what we need to achieve the goals we've outlined for 2023.

Mike Crawford

Oh, okay.

Jonathan Baliff

One of the reasons we're seeing margin improvement is we're efficiently using these facilities.

Mike Crawford

Oh, okay. And again, I do reference the question with, I know there's a mix issue on revenue, so you can't answer, specifically regarding EBITDA, but I would think it's fair to assume a steady walk higher on SG&A now as opposed to those not going down further from here?

Peter Cannito

So the SG&A, there's still opportunities to continue to improve on our SG&A as a percentage of revenue. So on an absolute basis, as revenue grows, of course, SG&A will grow as well, but we're very focused on maintaining SG&A in a level commensurate to our revenue that achieves our overall profit objectives. I think the broader idea would be within SG&A of the swing in internal research and development and how much we spend on that, that will be more variable based on the number of opportunities that we have that present themselves throughout the year.

Mike Crawford

Excellent. Thank you very much.

Peter Cannito

Great. Thanks, Mike.

Jonathan Baliff

Thanks, Mike.

Operator

Thank you. And we'll take our next question from Greg Konrad from Jeffries. Please go ahead, Greg.

Greg Konrad

Good morning, and great quarter.

Peter Cannito

Thanks, Greg.

Jonathan Baliff

Thanks, Greg.

Greg Konrad

Maybe not to continue the last set of questions, but obviously, EBITDA was very strong in the quarter. I mean, you talked about some of the drivers, you had the EACs last year in some mix. I mean, how are you thinking about just sustainability on an EBITDA perspective just given tailwinds, headwinds through the year? I mean, should we expect to remain positive from an EBITDA perspective for the rest of the year?

Peter Cannito

So again, just to kind of expand a little bit more on the last question. So there's a fair amount of efficiency that we can continue to pull out just through excellence-in-execution. And that is kind of our broad nomenclature for this idea of enhancing our delivery systems through a more disciplined approach than perhaps some of the legacy organizations and some of the legacy projects that comprised Redwire as we came together over the last couple years. So there's an amount of profitability that we can pull out of that, and that of course is typically tied to the EACs.

However, there's also what we are doing from a strategic perspective, because when you look at our growth rates, 30% plus growth rates is, there's a lot of demand out there on the marketplace that we don't want to miss out on if it required some sort of IRAD investment. So the swing factor in EBITDA for us is going to be steady increases in efficiencies, but throttling up or down IRAD based on the opportunities that are presented throughout the year. Does that make sense?

Greg Konrad

Yeah. I mean, so there's some variability when you think out in the plan based on internal actions which --

Peter Cannito

Correct.

Greg Konrad

-- are going to be a little bit harder to forecast. Just thinking about the revenue, and obviously the last couple of years have been weird, but typically there's some sequential build through the year, and if I just look at the midpoint of your revenue outlook, it kind of implies that revenues are kind of flat-ish sequentially through the year, obviously on a good Q1. Are there any puts or takes there? Can you maybe talk about the dynamics there just thinking about kind of how you built up the, the year's outlook?

Peter Cannito

Yeah, no, it's interesting. One of the things we're very focused on is making sure that we look at the right time period and we don't react to things. And this is especially important for a company like Redwire because we have programs and products that can materially move the needle on any given quarter, right? For example, we mentioned -- and Mike mentioned -- we have everything from the fine sun sensors all the way to the ROSAs.

We have opportunities in the pipeline that are really big. And depending on when those hit, which can be difficult to predict, both in the government and the commercial sector based on their spending profiles. So quarter-to-quarter it's a lot more difficult to predict than year-over-year. So what we're really focused on is if you go back to the idea that excluding Space NV we grew 37.9% last year. Our midpoint for this year is to grow 46% midpoint on the range that we gave. So the focus is really on having that 30 to 40% revenue growth year-over-year. And when it actually occurs can be more challenging to predict.

Greg Konrad

And then maybe just lastly, you talked about some of the two changes around your KPIs. It looked like the pipeline, you know, still healthy, but stepped down quite a bit sequentially. What accounted for that? Whether it was submitted bids or just evolution of programs moving in and out and just how you're thinking about the pipeline more broadly?

Peter Cannito

Jonathan?

Jonathan Baliff

Yeah, it's just mathematics. You know, right now we have a pipeline that's roughly five years, so we're coming into 2023. So now we extend it out a year, right? And there's no doubt that there are going to be a filling of that pipeline in FY28. As we go through the year, and the same thing happened last year, you'll start to see the pipeline start to increase, right? So it's just a

mathematics - we're shifting it out a year. And in that year, a lot of the \$600 million [in the pipeline] actually has found its way in the backlog, right?

So a lot of what you see with Rewire, which it's pretty special, you can see our pipeline turn into contracts that we're bidding on, turn into backlog, turn into revenue, and now you're seeing we have a path to profitability with this gross margin moving up, right? And we continue, again, there was a focus with the last analyst discussion - on gross margin improvement. That's the place to look. That's where we're trying to really move the needle from the mid-twenties, get that higher with the idea that we're taking this larger pipeline, turning it into backlog revenue, obviously on our path to profitability to free cash flow too. Makes sense?

Greg Konrad

Makes sense. Thank you.

Jonathan Baliff

Any other questions --

Operator

(inaudible) Apologies.

Greg Konrad

I can throw in more if you'd like.

Jonathan Baliff

You had -- I thought you're going to have another one. But go ahead.

Greg Konrad

I'll throw in one more quick one. Can you maybe just talk about that 14 million Euro contract announced under ESA for the 3D biosystems? I think you did mention Space NV, but I know you also have quite a bit of, you know, 3D printing technology before that. Can you maybe just talk about the legacy position and kind of cross-sell opportunities that you're seeing with that business?

Peter Cannito

Yeah, absolutely. Well, so it's a good point in terms of taking a capability and moving beyond just the US to a much larger total addressable market worldwide, right? So Redwire was already previously the leader in bio-manufacturing on-orbit with our BFF. This creates, you know, expands our leadership to more of a global presence, presence. And I think the most critical factor here, and, you know, this applies to Redwire's business overall, is there's a certain point in the company's history where it transitions from being about flying single experiments to actually

building a business. And I think that's what you're seeing here in the biomanufacturing specifically is, you know, there may be startups. Of course many years ago some of these technologies started in startups. So it's an important part of the ecosystem, but the startup typically is flying single experiments in order to prove out a technology.

And in this particular case, what's really exciting about the 3D bioprinting coming out of ESA when added to the BFF, the Biofabrication Facility, already funded by NASA, as you can see that this is shifting from being single experiment offerings to a full offering within Redwire with multiple customers. So it's really about scaling and building technical momentum in an area. And that's what I think is probably most exciting to us about when you see us combining these technologies and leveraging the broader Redwire expertise in this area to grow that segment as not just an area where we're pushing technology, but a business offering that generates real revenue and profitability.

Greg Konrad

I will officially leave it at that. Thank you.

Jonathan Baliff

Thanks, Greg.

Operator

As a reminder that's star one if you do have a question or comment.

And our next question comes from Suji DeSilva from ROTH MKM. Please go ahead.

Suji DeSilva

Hi Peter. Hi Jonathan. Congratulations on hitting EBITDA positive, great accomplishment there.

Jonathan Baliff

Thank you Suji.

Peter Cannito

Thank you.

Suji DeSilva

Looking at, yeah, looking at the revenue lines, just trying to understand this. I mean, this going to be a hard question to answer, but you have, you cited metrics for the number of launches and the systems in there and then also some of the sun sensor systems and the ROSA systems. I'm just curious, is there a way to think about a revenue per product here as you start to do more of these systems and provide those kind of unit metrics at least? Or is it just all over the map and hard to really trace out that way?

Jonathan Baliff

So Suji, first of all, I appreciate the question, and we do have, obviously, unit economics. We have a very good idea of it. We generally don't present those because of competitive reasons, right? We can say that we are bidding and winning larger contracts that you're seeing directly in the improvement of gross margin to 24.7% in the first quarter. But we don't provide unit economics due to competitive reasons.

However, we are going to be moving towards presenting a Redwire 101 brief, in being able to talk to the investment community concerning unit economics based on our products separated into focus areas: 1) enabling space missions, 2) explore, live, and work in space, and then obviously our 3) Our European, but really, global, business with multinationals. So we will be able to do that in the future, but right now we don't give the specifics on different product areas for competitive reasons, which is common in the aerospace industry.

Suji DeSilva

Appreciate the sensitivity there. And then my other question is on a longer-term business model perhaps. I mean, you've had, you have this payload business and the ESA contract the first milestone, 14 million Euro. Is there a opportunity for that business model to evolve longer term into a type of revenue share or per unit type of or some sort of business like that versus staying a contract business with milestone payments?

Peter Cannito

Yeah, I think that's right. So as the market evolves, you're going to see a lot more activity in commercial space which is going to generate a lot of different new ways of providing value. So right now, typically a lot of these things, like a bioprinter for instance, is funded through a government organization as a project like the 14 million Euro we're having out of ESA. But that's not the ultimate goal either for Redwire or ESA for that matter. What they're trying to do is stimulate that economy in space where commercial organizations like Redwire can have major breakthroughs on things like being able to print organoids that are really important to the pharmaceutical industry or cell manufacturing or on the in-space manufacturing side, some of the work that we've done with forming crystals for pharmaceuticals.

So ultimately, you know, Redwire in a way gets two bites of the apple. We get paid to develop these technologies as the government, you know, pushes the key technologies necessary for future space exploration and microgravity research. But we also maintain this critical intellectual property as we look at the commercial opportunities associated with what are the different products that could be manufactured at scale and space and sold on a per unit basis to, you know, industries, like I mentioned, pharmaceuticals.

Suji DeSilva

Thank You.

Jonathan Baliff

It's important to note that we're getting there and the gross margins on this payloads based business could be quite high. If we look at the ability, again, I'm going back to gross margin, you talk about the ability to generate higher gross margin this quarter versus 2022 first quarter a lot of the improvement was due to that explore, live, and work in space focus area.

Peter Cannito

But mostly driven by the traditional business model of being paid by government customers.

Suji DeSilva

Got it. Thanks for the preview of the business model to come, guys. Appreciate it. Thanks.

Peter Cannito

Thank you.

Operator

As a reminder, star one, if you do have a question or comment.

And there are no further questions at this time, I'd like to turn the floor back over to management for closing remarks.

Peter Cannito

Again, I'd like to thank everybody for joining the call and reiterate just how proud Redwire is of our employees for delivering a great first quarter and looking forward to the remainder of 2023. Thank you and have a good day.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time and have a great day.