

mynaric

Mynaric First Half 2022 Results

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Introduction

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Welcome

Welcome, everyone, to Mynaric First Half 2022 Results Conference Call and Webcast. Prior to today's call, we released our first half 2022 results as part of our first half 2022 management report, which is available for download on the Investor Relations section of mynaric.com.

Before we begin today's formal presentation, I must remind you that this presentation and oral statements regarding the subject of this presentation include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended. All statements other than statements of historical or current facts contained in this presentation are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and assumptions that are difficult to predict or are beyond our control, and actual results may differ materially from those expected or implied as forward-looking statements.

The forward-looking statements included in this presentation are made only as of the date hereof. Neither we nor any other person undertakes any obligation to update any forward-looking statements to reflect events or circumstances after the date of this presentation or otherwise.

With that out of the way, we have a great agenda for you today, including an update on our vision and strategy, customer success highlights, a discussion of our first half 2022 financial results and our outlook for the remainder of 2022. Following the formal presentation, we will take questions from analysts. We anticipate this call will last no longer than one hour.

On the call today are Mynaric's CEO, Bulent Altan; and Mynaric's CFO, Stefan Berndt-von Bülow. With that, it's my pleasure to turn the call over to Bulent for his opening remarks. Bulent?

H1 2022 Highlights

Bulent Altan

CEO, Mynaric

Thank you, Tom. Mynaric reported solid results for the first half of 2022 as we're prepared for significantly higher production levels later this year, next year and into 2024. At the Analyst Day back in April, I spoke about growth and momentum, and this continues through today.

We reported another strong order backlog in terms of optical communication terminals and cash-in from customer contracts. Two key performance indicators were introduced this year to help our investors to better track our performance. We also remain disciplined in our investment strategy to support the future growth of the business, and our pipeline of opportunities remains the highest in our industry.

Over the past two years, we invested and hired to ready the company for serial production, and we no longer need substantial investments in capability and capacity. We are now focused on continuing to improve our operational excellence and the improvements we have implemented over the past year in our product design have allowed us to now have the capacity in place in order to fulfil our medium-term goal of producing 2,000 terminals per year. I'm extremely proud of the effort the team puts into delivering these results over the first half of this year.

A reminder to many of you on the call who may not be familiar with Mynaric, our vision is to eliminate the barriers of connectivity to ensure the unrestricted flow of information and close the digital divide. We are not only a space company or an aerospace company, we are a critical communication systems company with products that are produced at scale to serve many end markets, including government and commercial customers.

We do this by making what has previously been a one-off, highly tailored solution market into a scalable volume production market through serial production, the higher reliability and simplicity, greater affordability and increased standardisation of our products.

Business Performance

Before I turn the call over to Stefan for a more detailed look at our results, I want to highlight a few customer successes we've had since we last spoke with you all.

First, we've recently won an additional order from Northrop Grumman in support of the Space Development Agency's Tracking Layer programme. This follows the announcement of the SDA's Transport Layer programme announcement in March of this year. These are the initial deployments for these programmes and volume shipments will commence in the second half of 2023. For those unfamiliar with the SDA programme, these programmes will support critical government defence efforts. Their budget dollars have already been allocated and deployment schedules are relatively set at this point, which gives us great visibility on our forward delivery commitments, revenue and cash flow.

In addition, we were selected by DARPA, the US Defense Advanced Research Projects Agency for Phase 1 of their Space-BACN programme, which aims to develop a low-cost, high-speed reconfigurable optical data links to connect various low earth orbit constellations.

In July, we signed agreements with L3Harris for increased future collaboration and L3Harris invested €11.2 million for a 7.2% stake in Mynaric. This is a significant validation for Mynaric as L3Harris is now not only a customer but also a strategically aligned partner for us, and we see this developing into future programme activity across all domains, including airborne, space, maritime and ground.

As we have said for some time, the government market is ahead of the broader commercial market in its shift towards optical data links, but the commercial market is poised to catch up quickly. For example, we know there are a number of major commercial constellation operators making key supplier decisions over the next six to 12 months as they look to deploy these constellations starting in 2024 and the subsequent years.

We believe we are all well-positioned in the market, given our technology and ability to scale production to compete for these programmes. I could not be more excited by the market

opportunity in front of us, and I believe we have the right team to capitalise on this opportunity.

With that, let me turn it over to Stefan to walk you through our results in more detail. Stefan?

Financial Overview

Stefan Berndt-von Bülow

CFO, Mynaric

Thank you, Bulent. Let's turn to our results for the first half year of 2022. First, let's turn to the two key business metrics we introduced at the Analyst Day in April that we believe will continue to best demonstrate the momentum we are seeing in the business.

Cash-in from Customer Contracts

First, cash-in from customer contracts. This is a key forward-looking predictor of revenue as the cash is only received as we met contractual milestones. There is a typical lag between cash received from customer contracts and shipments. This varies depending on the contract terms. As a reminder, these are contractual payments received when certain milestones are met, but full delivery and acceptance has not been reached.

In a sense, this is pre-revenue cash received, and we believe a very significant indicator of the future revenue of the company.

For the half-year period, cash-in from customer contracts was more than €8.3 million as of the end of the period, compared to €1.9 million for the comparable period of last year. Since the end of the half year, our cash-in from customer contracts has continued to increase and is now at more than €11 million. By comparison, two years ago, we had virtually no cash-in from customer contracts. So we are showing a very strong momentum as we continue to execute for our customers.

Optical Communication Terminal Backlog

Second, optical communication terminal backlog in units as of today is 243 units. This compares with 36 units at the comparable period of last year and continued growth from what we reported back in April of this year.

Our current backlog includes a downward reduction of total units to account for one customer, SpaceLink, whose parent company today announced a change in its investment plan. As of today, we still include 15 units attributable to SpaceLink in the backlog pending final notification from the company. Including this adjustment, our guidance of 2022 remains unchanged and healthy, given our terminal backlog is more than 90% related to government-funded contracts. We continue to see a strong and steady pipeline of opportunities and expect these metrics to continue to increase through the end of this year and into next year.

Looking at a few other figures. Revenue was €25,000 in the first half of 2022 and represent only product leasing revenues but we were negatively impacted by supply chain challenges, which delay HAWK shipments and push-outs in customer delivery schedules.

Our current contractual committed optical communication terminal backlog, primarily consisted of CONDOR Mk3 products, mostly for sea scheduled shipment primarily in 2023 and 2024. Cost of materials increased by more than 85% compared to a year-ago period as we continue to ramp up our production ahead of major delivery milestones over the next nine to 18 months. We continue to invest at a strong pace in product development. This includes both enhancements to existing products and investment in next-generation products.

Personnel Costs and Acquisition

Personnel costs increased 62% at a year-ago level as we continue to add capability to our team. We expected our capability across – we expanded our capability across all divisions of the company this year and will continue to do through the remainder of 2022. We ended the half year with more than 300 full-time employees compared to 210 in the year-ago period and 249 at the end of last year.

We will remain disciplined in our talent acquisition to support our expected strong growth over the coming years. However, we expect the pace of the headcount expansion will slow somewhat over the coming months and into the first half of 2023 as we look to align our headcount needs with the programme we have been awarded.

Overall, the company reported an operational loss of €34.9 million as we continue to make necessary investments in people, equipment and systems in preparation for strong shipment growth in 2023 and beyond.

Balance Sheet

Now let's turn to a few key balance sheet figures. Our cash balance at the end of June was more than €25 million compared to €18 million at the half year 2021. Not included in this figure is the early July investment by one of our key customers, L3Harris, who invested more than €11 million in exchange of 7.2% stake in Mynaric.

In 2022, we remain in investment mode and as a pre-breakeven company, we expect our cash balance to decline further through the end of this year. We continue to look at a number of different options to provide the capital we need to support our growth objectives.

Inventories were €13.4 million, up from €8.4 million at the end of the last year as we continue to invest in component inventory ahead of the expected ramp in communication terminal production we see next year.

Property, plant and equipment at the end of the period was €21 million compared to approximately €17 million at year-end. We invested €6.4 million in property, plant and equipment this half year as compared to €3.5 million in the year-ago period. As Bulent spoke of earlier, through the combination of our previous investment and a major breakthrough in the main production [inaudible], we were able to arrive at our 2,000 unit medium-term capacity goal in our manufacturing.

Through additional automation, Mynaric is now able to utilise our manufacturing capacity with minimal amount of factory employees [inaudible] order arrival. As a result of all these breakthroughs and improvement, we see our future capital investment needs for our production capacity lower relative to historical levels.

Outlook

Now let me walk through our outlook for the two key business metrics for the remainder of the year. We expect cash-in from customer contracts to be at least €20 million for the full year 2022. As noted earlier, we are well on our way to achieving the goal based on the year-to-date cash income customer contracts. We expect continued growth in our optical communication terminal backlog by the end of the year. We expect our year-end 2022 optical communication terminal backlog to exceed 250 units, which we recently increased from our previous guidance of 220 units.

There are a number of opportunities that potentially could close by year-end, and our team remains well positioned to capture these.

With that, let me turn it back over to Bulent for his closing remarks. Bulent?

Conclusion

Bulent Altan

CEO, Mynaric

Thank you, Stefan. So what have we shown you today? What are the key takeaways? In short, today was all about growth and momentum. When we talk about growth and momentum, we are talking about strong growth in our order backlog and our cash-in from customer contracts.

These two metrics are the key to future revenue and the profitability of the company. We believe the market opportunity is significant in both the space and the airborne sector. At two recent conferences, World Satellite Business Week and the International Astronautical Congress, the buzz was all about laser communications. At IAC, we ran a live demo of two of our HAWK terminals transmitting data.

The recent announcements from large consumer brands and communication service providers, such as Apple, Starlink, T-Mobile, Huawei and others, all demonstrate the long-term need for interconnected satellites. And laser communication is what will enable all these constellations to achieve their goals of ubiquitous connectivity. As many of you listening today know, I've been in the space industry for two decades. I've seen what growth of this magnitude looks like and, more importantly, what it takes to capitalise on that growth.

Mynaric is the only company with the ability to do what we do at scale. That gives us a huge advantage and one that we intend to leverage to the fullest.

In order to do that, you must have a great team, and we have put together a great leadership team that is driving execution in order to capitalise on the multi-decade opportunity ahead of us as we enable the internet above the cloud.

In August, we added a key executive, Mustafa Veziroglu, as our new President of Mynaric. He brings a wealth of industry experience and is key to taking us to the scale we want to achieve for the business. We have also added considerable talent over the past six months to our engineering and product development, sales and communications and administrative teams on a global basis. We continue to build a strong foundation for the business.

We believe now is the time to capitalise on the opportunity ahead of us, and we made the right investments ahead of the growth so we can now accelerate our momentum. And we are only getting started capitalising on the investments we've already made.

With that, operator, could you please provide the instructions for the question and answer session? Operator?

Q&A

Operator: Thank you. As a reminder, to ask a question, you will need to press star one and one on your telephone, and wait for your name to be announced. Once again, please press star one and one on your telephone to ask a question. We will now go to our first question. Please stand by.

One moment.

And your first question comes from the line of Greg Konrad from Jefferies. Please go ahead. Your line is open.

Greg Konrad (Jefferies): Good afternoon. Just – I mean, it seems like the demand side is really strong. I just had two supply side questions. You called out the supply chain in relationship to HAWK. What are you, kind of, seeing on the supply side there? How did those work themselves out, and maybe the timing of that clearing up?

Bulent Altan: Yeah. Thank you for that question. On the HAWK side, yes, the supply chain is something we looked over quite a bit over the last year. And what we saw there wasn't the supply chain issue that you see across the industry, rather an obsolescence issue that we are working through in our design, which is something to expect and we are well equipped to do so.

We are doing a design update that removes these obsolete components. And as we do that, we are working to introduce commonly available components of today. So we expect that supply chain issue to be solved within Q4 of this year and the next HAWK deliveries starting following that.

Greg Konrad: And then maybe just a follow-up on the demand side. You mentioned some of the commercial opportunities that could be decided near term, and you saw some good orders in the quarter from Northrop. What are you maybe seeing on the competitive side in terms of market share or given the higher backlog outlook? Is it that opportunities are coming in sooner? Or maybe are you capturing a higher share than you previously expected?

Bulent Altan: I think engaging with our potential commercial customers, we see a good respect for the amount of capability we have built within the company and the fact that we can produce at scale. The commercial opportunities we all know about have been, to a certain extent, hit by the current invasion of Russia in Ukraine, and therefore, the resulting of unavailability of Russian rockets to Western constellations.

But we've also see a huge shift right now to use our Western rockets that give these constellations a renewed launch capability that just resulted in a temporary move to the right on the deployment of these constellations. With those actually out of the way, with that

problem and well underway to be solved, I think we expect that these constellations will make decisions in the next six months to maximum 12 months to decide on who utilise.

And I think we see that also by the comments of such potential customers that think that they are mostly valuing the capability to ramp up production. So the investment we have already made and the capacity we already have put together is giving them a lot of confidence in the fact that – with Mynaric, they would not be facing an execution risk.

Greg Konrad: Thank You.

Operator: Thank you. Once again, if you would like to ask a question, please press star one and one on your telephone and wait for your name to be announced. That is one and one – star one and one if you would like to ask a question. We will now go to our next question. Please stand by.

And your next question comes from the line of Austin Moeller from Canaccord. Please go ahead. Your line is open.

Austin Moeller (Canaccord): Hi, Bulent. Good afternoon. Just my question here, are we still expecting the first CONDORs to be launched into orbit by the end of the year? And should we expect that the delayed HAWK deliveries that are getting components replaced will go – will be delivered in the first half of 2023? Is that the best way to think about it?

Bulent Altan: Moeller, I'll answer those two questions in order. First of all, on the launch of the CONDOR to space, we do not expect that to take place this year as our customers have many different challenges that they are facing. And we expect them to solve them soon, but I don't expect the launch to be this year.

On the HAWK side, yes, we have built quite a handful of HAWKs already before the parts became unavailable that we are talking about and for which we did a redesign. We expect some of those to be delivered imminently. Then the balance of it is, of course, shifting over to early 2023.

Austin Moeller: Okay, great. And then just one more, if I may. How many people do you still have to hire to be able to meet the current backlog? And if I understand it, the facility can produce 2,000 terminals a year at this point, right?

Bulent Altan: So yes, our manufacturing capability is exactly, with the investment that we have already made, at 2,000 units. There is the few last items coming in that are coming in over the next few weeks and months. But overall, we have the manufacturing capacity in place. And as you said, there is a certain amount of uptick to meet the customer demand that may come.

I think overall, today, we have, just as Stefan said, a little bit more than 250 terminals to build. I think this is, given the factory capacity, a fraction of what we can build. So the uptick in people should not be significant at all. It would be a handful, if anything, because, as also Stefan alluded to, we have multiple technical breakthroughs that happened over this last year that allowed easier build of the terminals with quite a few less machining and integration operations necessary. And then we have put in automation, where we can, to also reduce the number of people we would have to add to the team.

Austin Moeller: Fantastic. Thanks for the colour, Bulent.

Bulent Altan: Thank you.

Operator: Thank you. Once again, if you would like to ask a question, please press star one and one on your telephone. Star one and one to ask a question. We'll now go to our next question. One moment please. And your next question comes from the line of Scott Deuschle from Credit Suisse. Please go ahead. Your line is open.

Will Jackson: Hi guys. Will Jackson on for Scott today. Thanks for taking the question. Bulent, you mentioned the strategic partnership with L3Harris. Can you go into a little bit more detail on that, maybe especially looking at the air terminals, how you see that changing your market opportunity there?

Bulent Altan: Thank you so much for that one. Yes, L3Harris, I think it's a fantastic partner to be had for our company. They are definitely in a tremendous amount of vehicles and systems across the world, and they have capabilities to integrate technology to a multitude of systems.

If you look at the non-space market, if you look into the aviation market, the maritime market, the ground market or what have you that really requires this type of technology that is stealth, that is high bandwidth, that is low probability of interference or detection, I think that level of partnership is tremendously valuable.

What L3Harris brings with it is a knowledge of these different systems and the back-end systems that we would have to connect to. And we are quite positive that L3Harris will open up markets beyond just the first initial one that we saw as beachhead markets for HAWK. I think what we will see is trends, market opportunity, starting from ground all the way to air with the integration experience of L3Harris that knows the final customer a lot closer than we do.

So we would hope for an uptick in the amount of markets we can address as we are a good technology partner for them, and they are a good, I want to say, integration and also aftersales support experts across all these markets.

Will Jackson: Great. And then just one more for me, if that's okay. I think the numbers released last week showed that inflation is still very much a point of concern. Can you talk about any concerns that you have internally about that or maybe any protections you have in your current cost – your current contracts, I should say?

Bulent Altan: I think that's a numbers question that I would really love to hand over to Stefan.

Stefan Berndt-von Bülow: Could you repeat the question? It's about the inflation or –

Will Jackson: Yes. Just any kind of inflation protections you may have built into the cost structures of existing contracts?

Stefan Berndt-von Bülow: So, at the moment, I'm not [inaudible], to be honest. I'm not aware of any inflation protection we have at the moment in place. But what I can say is that we're constantly reducing our purchase prices from our suppliers because we are ordering bigger numbers.

And on the other side, the most of our purchase we do is from the US side. So we have also a little bit advantage of the currency or the currency[?] transaction because the US dollar is

getting stronger and stronger. But I think at the moment, we don't have an inflation protection in the contracts. But I have to look at that. I don't know it exactly at the moment, to be honest.

Bulent Altan: And I think, Stefan, it's, I think, very useful, I think, to reiterate here that Mynaric has been doing quite a bit of investments to bring in the biggest cost drivers in-house, such as the telescope of the terminal that allows us to control costs. And as Stefan alluded to, all of these are done in the Eurozone, where all – almost all our contracts are in the dollar side. So there is a certain amount of advantage we are taking off there.

And then secondly, for the execution of these contracts, we have gone into long-term purchase agreements with most of our cost drivers. So I think we have the cost side controlled for these contracts and then we are looking into what the effects will be for future contracts to come.

Will Jackson: Perfect. Thanks so much guys.

Operator: Thank you. I will now hand the call back to Tom.

Thomas Dinges: Thank you, operator. For further information about our upcoming engagement with the investment community, please visit the Investor Relations section of Mynaric.com. Thank you, everyone, who joined us today and for your interest in Mynaric. We will speak with you all again when we release full year 2022 financial results next year. Goodbye for now.

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