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Corporate Speakers

- Thomas Dinges; Mynaric AG; Vice President of Investor Relations
- Bulent Altan; Mynaric AG; Co-Chief Executive Officer
- Mustafa Veziroglu; Mynaric AG; Co-Chief Executive Officer
- Stefan Berndt-Von Bulow; Mynaric AG; Chief Financial Officer & Member of Management Board

Participants

- Gregory Konrad; Jefferies LLC; Analyst
- Scott Deuschle; Credit Suisse AG; Analyst
- Zafer Ruzgar; Pareto Securities AS; Analyst

PRESENTATION

Operator: Good day, and thank you for standing by. Welcome to the Mynaric Preliminary Full Year 2022 Results Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. And I would now like to hand the conference over to your speaker today, Mr. Tom Dinges, Vice President of Investor Relations. Sir, please go ahead.

Thomas Dinges: Thank you, operator. Welcome, everyone, to Mynaric's Preliminary Full Year 2022 Results Conference Call. Prior to this call, we released our preliminary full year 2022 results, which are available for download on the Investor Relations section of mynaric.com.

Before we begin today's formal presentation and remarks, 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 day hereof. Neither we nor any other person undertakes any obligation to update any forward- looking statement to reflect events or circumstances after the date of this presentation or otherwise. This presentation may include certain financial measures not presented in accordance with IFRS. Such financial measures are not measures of financial performance in accordance with IFRS and may exclude items that are significant in understanding and assessing our financial results. Therefore, these measures should be considered in isolation or as an alternative to loss for the period or other measures of profitability, liquidity, or performance under IFRS. We have not completed preparation of our financial statements for the year ended December 31, 2022. The information presented herein is preliminary in nature and is subject to change, including as a result of any normal adjustments resulting from completion of procedures in relation to the financial statements for the financial year 2022. There can be no assurance that the final results for these periods will not differ from these preliminary results and any such differences could be material. Financial results for the financial year 2022 will be included in our annual report on Form 20-F to be filed with the Securities and Exchange Commission.

With that out of the way, we have a great agenda for you today. After some brief opening remarks, we will provide an update on our operations, discuss our preliminary full year 2022 financial results, and provide a bit more color on our outlook for 2023. Following the formal presentation, we will take questions from analysts. We anticipate this call will last no more than one hour.

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

Bulent Altan: Thank you, Tom. Mynaric reported solid preliminary results for 2022 as we prepare for significantly higher production levels later this year, next year, and thereafter. Our order momentum and funnel of new opportunities remains strong. We can say it has possibly even accelerated as some constellation operators, both commercial and government, have moved past the design and development stage, and are actively selecting suppliers to formally launch their constellations over the coming years.

We reported another strong increase in order backlog in terms of optical communications terminals from 36 at the end of 2021 to 256 at the end of 2022 and 348 as of today. Additionally, our cash in from customer contracts increased significantly from EUR 3.9 million in 2021 to EUR 18.3 million in 2022. Already in 2023, as of today, cashing from customer contracts has already exceeded the full previous year's amount with EUR 18.8 million. 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 history.

Over the past 2 years, we invested significantly into preparing the company for serial production. And as such, the company does not need to make substantial investments in capability and capacity to meet our near-term delivery commitments. We are now focused on continuing to improve our operational excellence and the improvements we have implemented over the past year in our product designs have allowed us to now have the machine capacity in place in order to fulfill our medium-term goal of producing 2,000 terminals per year. I'm extremely proud of our team's success putting in place this capability serving the wider constellation community.

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.

Before I turn it over to Mustafa, I want to welcome him to our earnings call as my partner in the co-CEO role, which he assumed in January. He is a very seasoned corporate executive, and I couldn't ask for a better partner to work with as Mynaric shifts into its next phase of growth. Now let me turn it over to Mustafa, so he can discuss our strategy that supports Mynaric's vision as well as provide an update on our operations and product development activities. Mustafa?

Mustafa Veziroglu: Thank you, Bulent, for your kind words, and I'm excited to be part of the team. Mynaric's strategy for realizing the vision of eliminating barriers of connectivity is focused on making what has previously been market of one-off highly tailored solutions into a scalable volume production market through serial production, the high reliability and simplicity, greater affordability, and increased standardization of our products for both government and commercial markets. Our products enable our customers to deploy solutions addressing the communications challenges they face in space, in air, on the seas, and on the ground.

Since joining Mynaric in August of last year, my focus has been on three main areas: production readiness, continuous process improvement, and streamlining our product development process. Let me give you a bit more detail on each one of these three areas and how I believe they set us up for success over the both near and long term.

As you may have recently read from one of our key customers, Northrop Grumman, they announced that their SDA satellite design featuring our CONDOR Mk3 terminals has passed the vigorous critical design review process. With that critical step behind us, the Mynaric team has been working diligently preparing for the first year of production shipments to key customers, including Northrop Grumman, starting in the second half of this year.

We made great strides to ensure we're ready to handle this key milestone in the company and the industry's development by already building pre-serial production, verifying our assumptions about takt times involved in different manufacturing and assembly steps, ensuring that our data systems are ready for the demanding requirements of complex aerospace systems, production documentation. In addition, the company has secured the supply chain to support the current and any additional near-term orders.

As we continue to prepare for serial production at scale, we've made many process improvements over the near term. One key process improvement that has significantly unlocked the production capability was the insourcing of our Telescope production. The telescope is one the most critical subcomponents of our CONDOR Mk3 terminals. These were previously outsourced, a process that took weeks and sometimes months to have enough qualified components to complete a build. By in-sourcing the production and focusing on process improvement, we were able to reduce this process from weeks to minutes. This has freed up additional resources and allows us to meet our medium-term 2,000 production targets based on the installed physical capability.

As we mature as we move the CONDOR Mk3 into serial production, we're leveraging the technology into future product development. The focus on our product development and engineering team is on utilizing fundamental building blocks, such as using common components, the communications optical head, electronic-controlled assemblies, and software with an eye towards reusing these building blocks to accelerate development in future generations of both CONDOR and HAWK terminals. This should also improve our manufacturability of these next-generation products as well as removing potential barriers such as single source critical components, which in the past have negatively impacted our industry's ability to manufacture at scale.

In summary, I can tell you that we are well prepared for the opportunity ahead, and I believe we have the right team with the right products to capitalize on this exciting opportunity in front of us. With that, let me turn it over to Stefan to walk you through our results in more detail. Stefan?

Stefan Berndt-Von Bulow: Thank you, Mustafa. Let's turn to our preliminary results for the full year 2022. First, let's turn to the two key business metrics we introduced at the Analyst Day in April of last year that we believe will continue to best demonstrate the momentum we are seeing as the business.

First, cash-in from customer contracts. This is a key forward-looking predictor of revenue as the cash is only received as we make contractual milestones. There's typically a lag between when cash-in received from customer contracts and when the shipments are made. This varies depending on the contract terms. As a reminder, these are contractual payments received when certain milestones are met, but fully delivery and acceptance has not been reached. In essence, this is free revenue cash receipts, and we believe a very significant indicator of the future revenue of the company.

As Bulent referenced before, cash-in from customer contracts was EUR 18.3 million in 2022 compared to EUR 3.9 million in 2021. Year-to-date, our cash-in from customer contracts is EUR 18.8 million, which is already more than we reported for all of the last year, demonstrating our execution for our customers.

Second, optical communication terminal backlog in units at year-end was 256 units, up from 40 units at the end of 2021. As of today, our terminal backlog is 348 units. As a reminder, our current terminal backlog is heavily weighted towards government funded contracts, including programs with the SDA. We continue to see a strong and steady pipeline of opportunities, spanning both CONDOR and HAWK products as well as across government and commercial opportunities.

Let's look at a few other figures. Revenue was EUR 4.4 million in 2022 and was driven by terminal shipments, multiple customers, as well as service revenue. Our current contractual committed optical communication terminal backlog, primarily consisting of CONDOR Mk3 products, mostly foresees schedule shipment in the second half of 2023 and throughout 2024.

Cost of materials increased by more than 45% compared to a year ago as we continue to ramp up our production ahead of major delivery milestones over the next 6 to 18 months, including in this increase was EUR 5.6 million write-down for components related to brie generation condo products. Our drive to product excellence through rigorous testing involves assembling many units for internal use. The reduction of these units has contributed to the increased cost of materials.

Personnel costs increased 60% compared to the year-ago level as we continue to add talent and capabilities to our team. Part of the increase is related to higher stock compensation costs, which increased by EUR 4 million to EUR 6 million year-over-year. Currently, our total headcount is similar to what we reported at the half year at just over 300 employees.

Looking ahead, we are taking a disciplined approach to adding headcount and other operating expenses. We feel comfortable with the overall investment in engineering, and we expect to add to our operations headcount to support our higher level of production. We believe the growth rate in personnel expenses over the near term should decelerate to a more moderate level.

Overall, the company reported an operating loss of EUR 73.8 million. The operating loss for 2022 was higher than 2021 for a number of reasons, including a previously mentioned higher personnel costs as we increased headcount and incurred higher stock compensation expenses. Also, we incurred higher insurance, legal and consulting fees of EUR 8.5 million related to our dual listing an extraordinary write-off of EUR 9 million, including EUR 7.5 million related to component inventories for our CONDOR Mk1 and Mk2 terminals as well as additional EUR 1.5 million write-off of own work capitalized.

Now let's turn to a few key balance sheet figures and discuss our current credit agreement and capital raise. Our cash balance at end of 2022 was more than EUR 10 million compared to EUR 48 million in 2021. This does not include the approximately EUR 11 million that were in transit at the year-end for cash0in from customer contracts.

Our cash balance today is EUR 63.9 million includes of the recent debt and equity raise, net of prepayment of our previous line of credit along with these expenses incurred as a part of the capital raise. We remain in market-leading mode and as a breakeven company, we expect our cash balance to decrease from today's level through year-end before stabilizing in 2024. With our recent capital raise, we believe we have a strong balance sheet, and we are very well positioned to capitalize on the opportunities ahead of us.

Inventories were up EUR 13.3 million, up from EUR 8.4 million at the end of last year as we continue to invest in component inventory ahead of the expected ramp in the terminal production in the second half of the year. We also took a charge of EUR 1.9 million against existing inventory of our Mk1 and Mk2 CONDOR terminals, reflecting our expectation of decreased demand for this product.

Property, plant, and equipment at the year-end 2022 was EUR 22.3 million compared to approximately EUR 16.7 million at the year-end 2021. We invested EUR 10.2 million in property, plant, and equipment in 2022 as compared to EUR 7.6 million in 2021.

Earlier this week, we announced our new funding that in total brought approximately EUR 80 million to Mynaric. We are thrilled to welcome a fund managed by an affiliate of our U.S.-based global investment manager as our new credit provider, a new shareholder of Mynaric. This transaction provides us with the long-term capital we need to support our future growth. We used a portion of the funding to repay our existing line of credit and intend to use the rest to support our business plan.

The summary details of the new credit agreement were provided to you earlier this week when the agreement was announced, but I want to highlight just a few key points here before I turn to the guidance for 2023.

First, we undertook an extensive and exhaustive process using highly experienced outside advisers looking at a number of options to provide us with the capital needed to support our business plan. The agreement provides us with the capital and the flexibility to fund our growth and objectives over the near-to-midterm with the reduced dilution for existing shareholders as was one of the objectives with the financing.

Second, the credit agreement is a multiyear agreement at a competitive rate of interest, given the stage we are as a company with no restriction on early repayment. Finally, the additional equity funding provided in conjunction with the credit agreement added more liquidity to our balance sheet in the near term and fund needed working capital requirements to support the needs of our customers.

Now let me walk you through our guidance 2023. We released our guidance for the key performance indicator for 2023 in an ad hoc release on Tuesday, and I want to reiterate what we disclosed. We expect cash-in from customer contracts to increase significantly for the full year 2023. Specifically, in the first half of the year, our cash has been and will continue to be based on milestone payments and customer deposits.

In the second half of this year, we expect cash from customer contracts to be a bit more balanced in terms of deposit and milestone payment relative to delivery related received in comparison to prior periods at customer milestone payments will be continued with received from terminal shipments. So as we see our shipments start to ramp, cash-in from customer contracts will be much more closely correlated to shipments going forward.

As noted earlier, we have had a great start to the year in terms of cash-in from customer contracts with year-to-date cash in already above last year's full year level and see a strong pipeline of cash-in based on secured orders and potential opportunities through year-end. We expect continued growth in our optical communication terminal backlog by the end of this year, as we expect our year-end 2023 optic and communication terminal backlog to increase significantly compared to 2022 levels.

As a reminder, the backlog is net of shipments, and we have a substantial ramp in shipments projected for the second half of the year. Additions to this year-end backlog, we will be functioning our ability to capitalize on a number of opportunities that could close by year-end, and our term remains well positioned to capture lease. These opportunities are across both the government and commercial sector as well as spanning all our product lines. As a reminder, we defined a significant increase as a year-over-year increase of 30% or more.

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

QUESTIONS AND ANSWERS

Operator: Yes. Thank you. (Operator Instructions} Our first question will come from Greg Konrad of Jefferies.

Gregory Konrad: At this point, I mean you mentioned a substantial ramp in production in the second half of the year. How much is kind of locked in at this point versus the potential to book and ship still in this year? And any way to kind of level set expectations around shipments for 2023?

Bulent Altan: Just for us to reiterate the question to make sure that they understood it right. Your question is around how much is locked in this year for shipments to the customers versus our current backlog. So how much of it you have to ship?

I would say I don't want to give you any numbers we haven't given to the market yet, but I would say that our shipments concentrate right now in our backlog -- quite a bit between the 2 years, 2023 and 2024 almost equally. Let's leave it at that to show how many units we will be shipping this year and it will refill to build our backlog and then add on top.

Gregory Konrad: That math is pretty easy to do. So I appreciate that. And then you mentioned some acceleration in constellation operators; reaching kind of the design stage or getting past the design stage. Is there any way to level set maybe the near-term opportunity set or how many terminals you're in active discussion for?

Bulent Altan: Absolutely. I think orders from our customers are coming towards Mynaric are very often preceded by customers reaching out to system houses that build a bigger systems such as satellites, network systems, routing architectures, and whatnot. If you look at the current market movements by constellation operators on both sides of the Atlantic, you'll see that there have been recent movements in acquiring launches and satellites by some big players, and we exactly expect those people to come out and do the optical communications decision. Next, we expect people who have selected their satellites or their launchers or at least made significant filings to come out in the next half year or so and do the optical comms decision.

Gregory Konrad: And then maybe just last one for me. I mean a lot of the conversation is more on the satellite side. I mean, what are you seeing in terms of divergence between CONDOR and HAWK? And kind of any update on discussions around HAWK and when we could see maybe some more substantial orders for that system.

Bulent Altan: Of course, I think the key markets are quite a bit different. So it's the satellite side, of course, we see these larger projects that are quite intertwined and the large block orders because there is a quite a takt time to be catching between the launch and constellation, between the first and the last one being launched to build up that network in the sky.

In the air market or other mobility maritime ground-based markets, we see a different approach as one can deploy, almost want to say, at leisure. And therefore, we have more of a push market from the Mynaric side of view rather than a pull market. We are engaged with multiple customers out there. And there, the modus operandi very often is an early shipment to the customer for them to do their integration test, their hands-on trials, a certain amount of technical education of their team, and then very often, we talk about larger orders than stood over multiple years. But they have a different type of indicator versus, of course, that big giant order coming in from a constellation customer.

And that's what we are seeing today on the market. I think that will continue for a while. And very often, these early orders, these trial orders are, I want to say, competition-sensitive for these customers who are doing early adoption. So we don't communicate them as openly out there, and we can't really give guidance around what the customer is thinking around that order. But very often, there are some really large undertakings in their mind.

Gregory Konrad: Thank you.

Operator: Our next question will come from Scott Deuschle of Credit Suisse.

Scott Deuschle: Stefan, I think you said that the cash balance would stabilize in 2024. Are you saying you expect to be free cash flow breakeven by '24? Or otherwise, how do I interpret that stabilization commentary?

Stefan Berndt-Von Bulow: Yes. So I would say we expect end of 2024 to be cash flow neutral. Yeah.

Scott Deuschle: Got it. Okay. And then the credit agreement, can you say what the annual cash interest cost is on that?

Stefan Berndt-Von Bulow: So the interest rate is -- I think we published it at 10 basis points above the SOFR and so you can calculate it on the $75 million loan per year.

Scott Deuschle: Got it. Okay. And then more for Bulent or Mustafa, I guess, just kind of more a market opportunity question. It seems like you've had some momentum with HAWK. I think kind of originally when you guys came out something like CONDOR's going to be the bigger opportunity. But curious kind of looking forward the next 3 years, which of those market opportunities look bigger, the air-based market or the space market? Thank you.

Bulent Altan: Talking about the market opportunity, I think we still see CONDOR preceding HAWK for a year or two at least. It is an opportunity that is being pushed forward by U.S. government and commercial constellations alike where US government has done a fantastic job. And now we also see the European government adopting this technology for their constellation and really trailblazing for the commercial constellation as well. And we see that trend continuing at least for 2 years.

But HAWK in itself has the opportunity, of course, to immediately surpass the Condor opportunity because there is no delay in acquisition from the decision-making to the purchasing to the deployment, there is no waiting around for a launch opportunity or the satellite is being built. It can materialize a lot quicker, but I think that is still 2 years or so away.

Scott Deuschle: Okay. And I'd be remiss if I didn't ask. I think it kind of gets to the question Greg asked, but just any kind of revenue guidance or book marketing give us at least the low end in terms of this year, how to think about revenue?

Stefan Berndt-Von Bulow: Yes. So I keep it at that. Significant increase means at least 30%. And regarding to the question...

Scott Deuschle: Turning up from a billion dollars though so...

Stefan Berndt-Von Bulow: Yes. So I'm coming to the second part of my answer. And the question was related to more about the shipment and the current order terminal backlog, as Bulent mentioned before, the shipments will be split mainly 2023, 2024. So then you can recalculate about approximately revenue.

Bulent Altan: Yes. I think our ASP out on the market is quite well quite well, I think, formulated. I think combining the ASP and with our projection of even split, I think one can do a quick calculation there.

Scott Deuschle: Okay, fair enough. Thanks guys. Appreciate it.

Operator: Thank you. (Operator Instructions) Our next question will come from Zafer Ruzgar of Pareto Securities.

Zafer Ruzgar: Yes. A few questions from my side. The first one is on your financing and yes, the net proceeds of $75 million. I think it's a bit more than originally expected and what is the reason for this? Do you need more than originally planned for the production ramp-up? Because if I look into your cash in numbers, that looks quite strong. So the question is, do you have more capital need and also would be interesting to know for which period is this financing sufficient?

Stefan Berndt-Von Bulow: So thank you for the question. So first of all, it's not only the $75 million. It's an additional, the capital increase was close to 10%, which adds EUR 12.2 million. So saying that, a portion of that was used to repay the existing loan. And for sure, with this transaction, there were also related to some fees and expenditures. But still the net proceeds are significant for the company, but we will use this for a further ramp up the production, fulfill our contracts, and discuss us also a headroom if there may be some delays or some other topics coming up. So we have enough headroom for the next 12 to 24 months.

Bulent Altan: If I may add to Stefan's comments here, he's absolutely right. The headroom is, I think, an important one because also this year is a defining moment for many constellations and their supply chain. We want to be well armed with a good balance sheet to be able to materialize on these opportunities at hand, and they are coming big this year, I believe. And this really gives us the headroom to do so and it also gives our customers a certain amount of, I want to say, peace of mind that they are working with a stable company, and they have no concerns about ordering these really large orders from us. I think it is overall multiple tools combined in one is really will suit us very well.

Zafer Ruzgar: Okay. Understood. Very clear. And then your cash-in of [EUR 18.8 million] you mentioned. How many units of this corresponds to? And if I'm right and these units will be also your shipments in the near-term future, right?

Stefan Berndt-Von Bulow: Just for clarity, you're referencing to the cash-in by customers this year or last year?

Zafer Ruzgar: Yes. Yes. No, no. Year-to-date, EUR 18.8 million for this year.

Stefan Berndt-Von Bulow: Yes. So this is mostly related to prepayment and when we achieved milestones with the customer. So the majority of the shipment will be in the second half of the year, but still beginning of this year, we shipped some engineering models already. But with the cash-in, it's not 100% related to shipments. It's more prepayment, long-lead items and for that.

Zafer Ruzgar: Okay. And can you give us an idea about the size of the units, the total volume of the shipments ahead based on this cash-in?

Bulent Altan: Absolutely. So what I would say is, of course, our backlog is from firm contracted orders. So with every unit out of our backlog, we are in some contracts and each one of those contracts are built around the milestone payments and upfront payments. So I would say, when we are talking about the payments, the cash-in from customers this year, we're talking about prepayments against our complete current backlog. So knowing the backlog what it is today, you can kind of calculate what that is. But I think it allows us to cash efficiently operate all of our contracts without going into a negative or too much supply chain ahead in our purchases.

Zafer Ruzgar: Okay, fine. And then finally, a question regarding constellation in Europe and IRIS^2. This is progressing well now in Europe and we know from the previous announcement that the EU wants to involve also start-ups in this program. Where do you see your opportunities here? And do you think that your related business, the optical terminals will be divided between multiple suppliers would be interesting to have your thoughts on this IRIS 2 program?

Bulent Altan: Absolutely. I think we've welcomed definitely Europe taking a really bold approach there on building up a constellation for their own hard soft gov needs as well as service needs for the governmental customer. As you have said, the European Commission has taken a hard stance that they want to start-up involvement. We really want to see that materialize. I think that is very important for the space industry of Europe. So the European Commission has realized that as well and has written that in as a criteria.

What we see is that optical comms plays a very big role in that constellation. There are other elements like Quantum Key Distribution also, which are a big part of a constellation and its use of optical communications. And I can also remind you that we have recently announced that we are working in multiple programs with the German government on the quantum key distribution topic.

All of that combined -- and also, in addition to the fact that we are one of the very few viable optical communications businesses in Europe -- in countries of the European Union. And our, I want to say, leading role already on this side, on the U.S. side of the Atlantic and governmental programs, I think we are very well situated to make use of this constellation for providing terminals, I'd say, at least in the percentages of the start-up involvement, if not more.

Zafer Ruzgar: Okay. Sounds good. Thank you very much. Thanks a lot.

Operator: Thank you. And pardon me, it looks like there may be a follow-up. One moment. We are getting a follow-up from Zafer Ruzgar of Pareto Securities.

Zafer Ruzgar: No, there's no follow-up questions from my side. Should be a mistake. Sorry.

Operator: No problem. Thank you, sir. There are no questions in the queue at this time. So I will turn the call back to Mr. Tom Dinges.

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 we thank you for your interest in Mynaric. We will speak with all of you again when we release half year 2023 financial results. Goodbye for now.

Mustafa Veziroglu: Thank you.

Bulent Altan: Thank you.

Operator: This concludes today's conference call. Thank you all for participating. You may now disconnect, and have a pleasant day.