Mynaric AG (FY 2023 Results)

June 20, 2024

Corporate Speakers:

- **Thomas Dinges**; Mynaric AG; Vice President of Investor Relations
- **Mustafa Veziroglu**; Mynaric AG; Chief Executive Officer
- **Stefan Berndt-von Bulow**; Mynaric AG; Chief Financial Officer

Participants:

- **Greg Konrad;** Jefferies LLC, Research Division - Equity Analyst

PRESENTATION

Operator

Hello and thank you for standing by. Welcome to Mynaric Fiscal year 2023 Preliminary Results and Fiscal Year 2024 Outlook Webcast Call. (Operator Instructions) I would now like to turn the call over to Tom Dinges, Vice President of Investor Relations for Mynaric. You may begin.

Thomas Dinges - Mynaric AG; Vice President of Investor Relations

Thank you, Operator. Welcome everyone, to Mynaric's preliminary full year 2023 results and 2024 outlook webcast call. Prior to this webcast call we released our preliminary full year 2023 results and 2024 outlook 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 are preliminary results as we have not completed our European filing and 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 our 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 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 not be considered in isolation or as an alternative to loss for the period or other measures of profitability, liquidity or performance under IFRS.

With that out of the way, we have a great agenda for you today. We will begin with opening remarks by Mustafa. Following Mustafa's remarks, Stefan will discuss our preliminary full year '23 results. and our outlook for 2024. Following the formal presentation, we will take questions from analysts. We anticipate this webcast will last no more than one hour.

On the webcast today are Mynaric's CEO, Mustafa Veziroglu; and Mynaric's CFO, Stefan Berndt-Von Bulow.

With that, it's my pleasure to turn it over to Mustafa for his opening remarks.

Mustafa?

Mustafa Veziroglu - Mynaric AG; Chief Executive Officer

Thank you, Tom. Mynaric reported solid results for the full year of 2023. Order momentum was excellent in '23 and early 2024 as evidenced by record backlog of terminal units. Our team did a great job in landing new customers as well as winning repeat business with existing customers.

Our current backlog now stands at 829 terminal units including our most recent award from Rocket labs in support of SDA Tranche two Transport Layer program. As a reminder, just a few short years ago, our backlog was standing at 40 units. The increase we reported over the past couple of years is a testament to the strength of our core technology as well as the execution and high degree of customer service on our sales team. It also demonstrates a strong belief our customers have placed in us to support their next-generation satellite communication networks. Our funnel of new opportunities remain very strong across both the government and commercial sectors. We remain disciplined in our investment strategy to support the future growth of the business, and our pipeline opportunities remain the highest in our history.

Since the last time we spoke with you, the industry has continued to make progress in terms of constellation deployment, funding and design. Let's start with the government sector. The U.S. Space Development Agency is now past the initial deployment phase of this constellation and has awarded all Tranche one and nearly all Tranche two awards to prime satellite contractors. We expect the first launches of Tranche one satellites should begin later this year or early next year. Within the SDA, we estimate we have the highest -- largest market share of optical terminals, and we are now in the early phase of our manufacturing brands to meet the needs of our multiple prime customers for this program, albeit somewhat slowly, we are finally seeing movement in other government constellations. On IRIS^2 Constellation for

Europe. The bids for the technical specifications were submitted while the major government funding has been approved. Since then, the European Commission has asked for final bids from the consortium by the end of this month. We recognize that there are potentially both economic and political factors at play here that are outside of our control that could delay the final decision of the constellation. And right now we're in a wait-and-see mode. Similar to the SDA program, we're seeing other governments across the world, initial steps to develop and deploy their own SDA like constellations given their unique regional security concerns. Many of these are moving into RFI phases at this time. Importantly, the team has worked hard to ensure we're in a position to meet the needs of these significant programs once they are finalized.

Next, switching to the commercial opportunities. We've talked for some time now about a number of large opportunities for low earth orbit satellite constellations. We're happy to say many of these are now moving into RFP stage. Some of these are well known to most of you as they’re very large mega constellations, while others are smaller, more regionally focused or specific use case focused constellations. Importantly, capital is slowly starting to flow into these opportunities that's allowing the constellation operators to start to move forward with their selections for key critical subsystem suppliers such as Mynaric. Hopefully, we'll have more to share with you in the coming months when we anticipate that these decisions will be finalized.

In total, these large commercial and government constellations represent an opportunity in multiple thousands of terminals to be delivered over the coming years. We believe we have the right technology, manufacturing scale and capability to capitalize on these opportunities.

Last year, we talked about three focus areas for Mynaric: production readiness, continuous process improvement and streamlining the product development process. With the completion of our first product shipment at the end of first quarter of this year, we've now moved on to the early phase of the big push for our production ramp.

On the process of improvement front, the team continues to refine the production process as we look to ramp shipments throughout the remainder of this year. We made significant progress in this area in just a few short months, but a lot more work is still left to do to meet the production levels we need to achieve.

Process improvement isn't our only focus. In November, we moved into a new square meter or 120,000 square feet facility in Munich. This facility is significantly larger than our prior production facility and also allowed us to combine most of our development, administration and production capabilities, all within one building. This not only gives us the capacity to support higher volumes of unit shipments, but also improves our product development as our product development engineers are now only a short walk away from the production lines.

In addition, throughout 2023 and into 2024, we've added key staff members promoted a number of employees into senior leadership roles, continue to optimize our nonproduction processes and accelerated our supply chain procurement to ensure we can meet customer deadlines. We feel comfortable with our existing footprint and headcount to meet our current and near-term expected shipment goals.

I'm confident we are well prepared for the opportunity ahead, and I believe we have the right team with the right solutions and the operational structure and capacity to capitalize on the opportunity in front of us.

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

Stefan?

Stefan Berndt-von Bulow - Mynaric AG; Chief Financial Officer

Thank you, Mustafa. Let's turn to our results for the full year 2023. First, let's turn to the two key business metrics that we believe will continue to be the best demonstrate the momentum we are seeing in 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 met contractual milestones. There is typically a lag between when cash is received from customer contracts and when shipments are made. 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 essence, this is pre-revenue cash received, and we believe a very significant indicator of the future revenue of the company.

Cash in from customer contracts for the full year 2023 was EUR 49.2 million, which is well above the EUR 18.3 million we report for the full year of 2022. This reflects the achievement of program milestones as well as the high level of new program wins we were awarded in 2023.

Second, optical communication terminal backlog in units for the full year 2023 were 794 units compared to 256 units at the year-end 2022. In addition, our backlog as of today, showed further momentum and increased to 829 units net of recent shipments. As a reminder, our current terminal backlog is heavily weighted towards government funded contracts and primarily includes programs with the scheduled shipments will continue over the remainder of 2024 throughout 2025 and a small number of units delivered in the first half of 2026.

We continue to see a strong and steady pipeline of opportunities for our terminal products across both government and commercial markets. Let's look at a few other figures before opening the call for questions.

As a reminder, our preliminary financials are presented in accordance with IFRS and are reported in euros.

Revenue was EUR 5.4 million for the full year 2023 compared to EUR 4.4 million for the full year 2022. Revenue for the full year reflects terminal shipment to multiple customers as well as service revenues.

Cost of materials increased by more than 8% compared to the year ago period, driven by onetime items that more than offset reduced costs for finalizing the development and testing of our products as well as production line testing. Included in the cost of the materials for 2023 is a write-down in the amount of EUR 9.4 million related to raw material attributable to our HAWK Mark one terminal. Excluding the write-down, cost of material would have decreased by 37% compared to the year ago period as our production rate increased substantially over the coming months and into the next year, we expect our cost of material to increase. We have implemented a number of internal initiatives to reduce the cost of materials for the CONDOR Mk3 terminals. Over time, that should provide positive benefits over the coming years as shipments accelerate.

Personnel costs decreased 2% compared to the year ago level. We continue to selectively add talent and capabilities to our team, but at a much slower pace than we reported in the prior periods. As a result, our overall headcount was relatively flat at just over 301 average employees compared to the year ago period. The decrease in the personnel cost was mostly due to lower stock compensation expense. Looking ahead, we expect to continue to add to our operations headcount as we look to ramp production, which we've previously discussed with you. We are taking a disciplined approach to adding headcount and other operating expenses. We feel comfortable with the overall investment in engineering. We believe the growth rate and the personnel expenses over the near term should remain relatively flat in the first half of this year. and then increase slightly in the second half of the year as our production ramps accelerates.

Overall, the company reported an operating loss of EUR 79.2 million for the full year 2023 compared to an operating loss of EUR 73.8 million for the full year 2022. Including in the operating loss for the year are more than EUR 14 million in onetime charges related to write-downs and impairment charges. Excluding these charges, our operating loss decreased by less than 1% compared to the year ago period. which was in line with our forecast.

Now let's turn to a few key balance sheet figures.

Looking first at our cash and liquidity. Our cash balance at the end of December 2023, was just under EUR 24 million compared to EUR 10.2 million at the end of 2022. Our cash balance, as stated in our 20-F filing on May 17 was EUR 2.5 million. As shipments continue to ramp throughout the remainder of 2024, we expect to remain in cash consumption mode through year-end. Based on our current production forecast, we believe we can achieve EBITDA breakeven by year-end if those production forecasts hold. To that end, we entered into an additional deferred draw term facility with our primary lender totaling USD 20 million. As of May 17, we had drawdown USD 10 million on the facility. As we stated in the 20-F filing, should we experience a shortfall of revenue and of corresponding cash in from customer contracts compared to our forecast, it's highly likely we could require additional external financing. We are focused on ramping our shipment and winning new contracts as these are the two best cash-generating activities for Mynaric at this time.

Turning to inventories. Our inventories were EUR 22.7 million, up from EUR 13.3 million at the end of last year, as we continue to invest in component inventory ahead of the expected ramp in terminal production over the coming months.

Finally, looking at our fixed assets. Our property, plant and equipment were EUR 22.9 million compared to EUR 22.3 million at year-end 2022. We invested EUR 4.9 million in property, plant and equipment during the full year 2023 and as compared to EUR 10.2 million for the full year 2022. Looking ahead, we expect our investment in property, plant and equipment in 2024 to remain relatively flat in euros with the last year due to the significant investments we have already made over the past several years.

Now let me walk you through our guidance for 2024. For 2024, we are adding specific numeric guidance for revenue and operating loss to our prior key performance indicator guidance. Given we are now shifting from a preproduction company to a full production ramp, our guidance metrics going forward will reflect this transition. In addition, the outlook is based on the current projected production ramp and current liquidity protection. Should Mynaric experience either a pushout in its production schedule, fail to secure new orders as planned or incur delays in securing new orders from customers, there is a high likelihood the company could need to raise additional capital. Mynaric is also considering pursuing multiple alternative options in order to secure the cash needs and bolster its long-term success.

For the full year 2024, we expect revenue to range between EUR 50 million and EUR 70 million, driven by shipments of CONDOR Mk3 units to multiple customers. This assumes we are able to ramp to our current production plans.

We expect our operating loss for the year to decrease significantly from last year's level and range between a loss of EUR 40 million and a loss of EUR 30 million. Importantly, we believe our production level should help us achieving a breakeven EBITDA level by the end of the year on a run rate basis.

We expect cash-in from customer contracts to range between EUR 65 million and EUR 100 million, reflecting both cash-in from terminal shipments as well as customer prepayments for new business wins.

We expect our optical communication terminal shipment backlog to finish the year in a range between 800 and 1,000 units. This reflects expected new wins in the government and commercial sector more than offsetting our projected shipment for this year.

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

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Greg Konrad with Jefferies.

Greg Konrad - Jefferies LLC, Research Division - Equity Analyst

Maybe just to start, you mentioned you started shipping production units at the end of Q1. We're almost through H1. Is there any color you can give us in terms of the revenue and op loss guidance for the year, how you kind of expect that between H1 and H2?

Mustafa Veziroglu - Mynaric AG; Chief Executive Officer

I'm glad you're here, and thanks for the question. So, we don't want to get into the specific unit projections as we are not included in that in our outlook. But from a revenue guidance perspective, obviously most of the revenue guidance would be driven by the product shipments. And given that we are in June, most of that would be happening back end loaded.

Stefan, do you want to add some more to that?

Stefan Berndt-von Bulow - Mynaric AG; Chief Financial Officer

No. I think you covered it well.

I think we are in a ramp-up of the production and starting of the shipments, and then we will see the revenue in the second half of the year, mostly the second half of the year. And this is our current revenue and shipment forecast where we feel comfortable.

Greg Konrad - Jefferies LLC, Research Division - Equity Analyst

And then I mean sticking on operating income, I mean in the past, you've kind of talked about a 50% gross margin. You gave some good color around kind of expenses. Is that kind of what we should think from the onset just as production unit ship? Or is there kind of a build on the gross margin side?

Stefan Berndt-von Bulow - Mynaric AG; Chief Financial Officer

Greg, no, I think that's overall, what's still correct, and we are looking of a 50% gross margin. To be fair, what we are looking more at the moment is to speed up the ramp-up of the production. So, this is the main focus. And then the second focus point is that for sure, reducing the material costs overall. So, we have a mid- and long-term plan to significantly reduce the material costs. But overall, your statement is still right, yes.

Greg Konrad - Jefferies LLC, Research Division - Equity Analyst

And then, I mean you called out some risk when talking about on the capital side. I mean how much of that is supply side ramp versus demand potential? And when you think about this year, what percentage of expected shipments are already in backlog?

Mustafa Veziroglu - Mynaric AG; Chief Executive Officer

So, I mean -- so this is Mustafa. So, pretty much 100% of the revenue shipments this year will come from existing backlog. So, we're not banking on any turns business that we need to book. In fact, as you know we have over 800 terminals on our backlog roughly euros/dollars, roughly somewhere around $200 million.

So, we are only shipping planning, forecasting, giving outlook for a partial of that. So, the aging of the backlog looks like the second half of this year, most of 2025 and some of that ages into early part of '26.

Greg Konrad - Jefferies LLC, Research Division - Equity Analyst

Yes. And then maybe just one more for me. I mean you mentioned a number of commercial pursuits. I mean I think we're aware of a bunch of them, and you said hopeful for announcements over the coming months. When we think about the guide for 800 to 1,000 terminal backlog guidance for year-end, we can kind of do the math on how many you expect to ship this year. How do you think about the conservatism in that? How does that provide P wins attached to maybe some of those pursuits and just kind of how you arrived at that number?

Mustafa Veziroglu - Mynaric AG; Chief Executive Officer

Right. And as you know this is a combination of how much you should, how much you add. So it's a net add is what we're seeing. So, the first level of message is we anticipate being able to book more orders than we're able to ship. And we are rapidly, as we said, our main focus right now is rapidly ramp up that shipment because it's the best way of securing cash for the company and most importantly, to meet our delivery objectives for our end customers.

Operator

(Operator Instructions) I'm showing no further questions in the queue. I would now like to turn the call back over to Tom.

Thomas Dinges - Mynaric AG; Vice President of Investor Relations

Thank you, Operator. For further information about our upcoming engagement with the investment community, please with the Investor Relations section of mynaric.com.

Thank you for everyone who joined us today. And thank you for your interest in Mynaric. We'll speak with all of you again when we release half year 2024 financial results later this year. Good-bye for now.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.