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ASTR.OQ - Q1 2022 Astra Space Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to Astra's First Quarter 2022 Earnings Conference Call. Joining us today are Astra's Founder, Chairman and CEO; Chris Kemp; CFO, Kelyn Brannon; and Vice President of Compliance and Deputy General Counsel, Michael Stitche. (Operator Instructions)

I would now like to turn the call over to Michael for introductory remarks. Please go ahead.

Michael Stitche - *Astra Space, Inc. - VP of Compliance & Deputy General Counsel*

Thank you, operator. Good afternoon, everyone, and thank you for joining us for Astra's First Quarter 2022 Earnings Call. After the market closed, we released our financial results. The earnings release is available on the SEC's website and our Investor Relations website at investor.astra.com. This teleconference is also being broadcast over the Internet and will be archived and available on our Investor Relations website.

During our call today, we will be referencing non-GAAP financial measures, which we believe to be useful to investors as our management team uses these non-GAAP financial measures to plan, monitor and evaluate our financial performance. These non-GAAP financial measures exclude certain items and should not be considered as a substitute for comparable GAAP financial measures. Astra's methods of computing these non-GAAP financial measures may differ from similar non-GAAP financial measures used by other companies. A description of these items, along with the reconciliation of our non-GAAP financial measures to their most comparable GAAP financial measures, can be found in our earnings release.

Today's call will also contain forward-looking statements. These forward-looking statements refer to future events, including Astra's future financial outlook. When used in this call, the words anticipate, could, enable, estimate, intend, expect, believe, potential, will, should, project and similar expressions as they relate to Astra are, as such, a forward-looking statement. These forward-looking statements are subject to a number of risks and uncertainties, and as a result, Astra's actual future results and performance may differ materially from those discussed in this call. We encourage you to review our filings with the SEC in which we describe the factors that could cause actual results to differ materially from our current expectations.

We also refer to commercial launches in this earnings press release. When we use the phrases commercial launch, commercial revenue launch or commercial orbital launch, we mean the launch conducted under an FAA commercial launch license. Additionally, each of our launch vehicles is noted by an asset title with abbreviation of LV, standing in for launch vehicle, followed by the serial number. For instance, our March 15, the most recent launch vehicle was referenced as LV0009.

Finally, I would like to remind everyone that this call will be recorded and will be made available for replay via a link available on the Investor Relations section of our website. With that, I now turn the call over to Chris Kemp, Astra's Founder, Chairman and Chief Executive Officer. Chris?

Chris C. Kemp - *Astra Space, Inc. - Founder, President, Chairman & CEO*

Thank you, Michael, and good afternoon, everyone. Thank you for joining us today. For those of you who have just started following Astra, I'll begin with a brief introduction to our mission, vision and strategy.

Astra is a space technology company. Our mission is to improve life on earth from space. And our vision for a healthier and more connected planet inspires everyone here at Astra and it's what unites us with our customers. In the first phase of our strategy, we're focused on scaling our launch services business as quickly as possible, with an aim to dramatically increase access to space for our customers. Adam and I started Astra with the goal of providing daily orbital space delivery.

In Phase 2 of our strategy, we plan to leverage our frequent, low-cost per-launch access to space and vertical manufacturing capability to rapidly develop space technologies and space-qualified market-leading products that are needed by Astra and our customers as we build next-generation space services. The Astra Spacecraft Engine is an example of a space technology we've acquired and productized this past year.

Finally, in Phase 3, we plan to bring all of these technologies together into a vertically integrated space services platform. Like cloud computing has enabled tech companies to build new applications, without investing in upfront capital, buying servers, leasing data centers and operating networks, the Astra space platform will allow our customers to focus on their applications instead of buying dedicated launches, building custom satellites and operating constellations.

With this context, let's review some milestones from Q1 and this past calendar year, which had been a quarter of accelerating investment, customer adoption of our space technology products and growth in our customer pipeline. In January, NASA awarded Astra the Venture-Class Acquisition of Dedicated Rideshare contract. Along with other launch and space service providers, this award represents a \$300 million opportunity over the next 5 years.

In February, we conducted our first launch out of Cape Canaveral under the first FAA Part 450 launch license in history, both important accomplishments for our team. And as you're aware, an anomaly at stage separation prevented us from delivering the payloads for our customer, where we took the opportunity to understand what occurred and we quickly implemented corrective actions and fixes prior to the next flight.

In March, our successful launch out of Kodiak, Alaska, was a huge milestone for Astra as it marked our first delivery of 22 customer payloads into orbit, just 33 days after our prior flight, which is less than half of the cycle time we achieved at our prior 2 launches.

With these 2 launches in Q1, Astra tied with United Launch Alliance, the joint venture between Boeing and Lockheed, as the fourth most frequent orbital launch provider in the world last quarter behind SpaceX, China and Russia. The fact that we can make it on this list with only 2 launches illustrates just how infrequent and inaccessible access to space is today and why our model of frequent and affordable launch is so badly needed as the space economy continues to expand.

In April, we announced that LeoStella has contracted with Astra to provide multiple Astra Spacecraft Engines for LeoStella satellites. This win was a direct result of our strategic acquisition of Apollo Fusion last year. The Astra's Spacecraft Engine has demonstrated it can assist satellites in achieving and maintaining target orbits and maneuverability. To date, we have sold 61 Astra Spacecraft Engines and are excited by the continued demand for this product. And finally, in April, we added another launch for the Department of Defense onto our manifest as we continue to demonstrate strength in the mix of commercial and government demand.

Looking ahead to the second quarter, the Astra team is excited to test our ability to execute a rapid launch cadence for the upcoming TROPICS launches. Astra is honored to have the opportunity to serve NASA to further our vision for healthier and safer planet as we prepare for a multi-launch campaign out of Cape Canaveral to deploy the NASA TROPICS constellation. TROPICS will observe deep inside cyclones so we can forecast storms better, improve disaster preparation and ultimately save lives. These launches represent a significant milestone for the company and our mission to improve life on Earth from space.

As our production and launch operations teams manufacture and launch rockets to provide launch services for our customers this year, we're increasingly focusing on Launch System 2.0, which will introduce the next version of our Rocket 4.0, which is designed for a weekly production

rate in our new rocket factory, with increased payload capacity, decreased material labor and launch operations costs. Launch System 2.0 will allow Astra to address a much larger segment of the launch services market with more flights and higher margins.

I'd like to thank our employees, their dedication to our mission has enabled Astra to reach orbit so quickly and within months again and again. We are just getting started, and we're thankful for the unwavering support of our customers and investors and their commitment to our mission.

We look forward to sharing even more detail about our strategy, our road map and Launch System 2.0 next Thursday, on May 12, at our inaugural Astra Space Tech Day 2022. This will take place at our newly expanded rocket factory at our headquarters in Alameda, California, and we'll be video streaming the entire event. This event will showcase our leadership team, review the overall strategy. We're going to make some exciting product announcements, and we're going to let on-site guests tour our rocket facility. We expect over 100 participants to be in attendance.

Once again, for all of those who have taken the time to join us during this quarterly results call, our current investors and those considering investing in Astra, industry experts and those who are inspired as we are by the potential to commercialize space in ways that will make all of our lives better, I want to thank you.

And now I'd like to turn it over to Kelyn to discuss our first quarter financial results before we begin Q&A. Kelyn?

Kelyn Brannon - Astra Space, Inc. - CFO

Thank you, Chris, and good afternoon, everyone. As you heard from Chris, we continue to see customer adoption of our space products that will be deployed in our customers' constellations in the years ahead. First, let me now turn to review our Q1 results. As a reminder, all nonrevenue financial figures I will discuss today are adjusted, unless I state them as a GAAP measure. You will find a reconciliation from GAAP to non-GAAP results in today's press release.

Revenues in Q1 were \$3.9 million derived from launch services as we commenced paid commercial launch services during Q1. We launched Launch Vehicle 0008 on February 10 and launched vehicle 0009 on March 15. Notably, the orbital launch conducted on March 15 represented our first delivery of customer payload into Earth's orbit. Cost of revenues were \$11 million for the 3 months ended March 31, 2022. This included \$5.5 million in cost of launch services related to launch vehicles 0008 and 0009 as well as a write-down of \$5.5 million of inventory net realizable value related to launch vehicles 0010 through Launch Vehicle 0014.

First quarter adjusted net loss was \$50.1 million. Q1 adjusted EBITDA was within our guidance range at a loss of \$47.5 million. On a GAAP basis, our first quarter net loss was \$85.7 million, the sequential increase in net loss was primarily related to the change in the fair value of the contingent consideration for Apollo Fusion of \$15.5 million and a gross loss of \$7.1 million. For modeling purposes, total stock-based compensation expense during Q1 totaled \$17 million. This breaks down as follows: cost of revenues, \$0.2million; research and development, \$6.7 million; sales and marketing, \$1.6 million; and G&A of \$8.5 million.

First quarter additions for capital expenditures were \$15.1 million and primarily related to finalizing the expansion of our Alameda manufacturing facility. We now fully occupy the entire facility and have begun installing production equipment for rocket manufacturing. Cash outflows for capital expenditures for Q1 totaled \$20.9 million, which includes additions of \$15.1 million and cash paid for current and prior quarter additions. We ended the quarter with cash, cash equivalents and marketable securities of \$255.2 million and no debt outstanding.

Next, I'll provide an outlook for our second quarter ending June 30, 2022. For the second quarter, we currently expect adjusted EBITDA loss to be between \$58 million and \$64 million, depreciation and amortization to be between \$2.9 million and \$3.2 million, stock-based compensation to be between \$15 million and \$18 million, cash taxes are forecasted to be 0, basic shares outstanding to be between 267 million and 270 million shares, capital additions to be between \$18 million and \$23 million.

Let me provide some additional color on guidance. During Q2, we expect a meaningful increase in operating expenses as we accelerate investments into the development cycle for Launch System 2.0 or Rocket 4. Many of the variable expenses incurred during this cycle include development

materials and consulting services, which are not expected to continue at the same rate in later quarters. Additionally, we will continue to target key hires for our engineering and operation functions that will allow us to scale.

Our second quarter guidance is subject to various important cautionary factors referenced in the section entitled Forward-Looking Statements below; and our Form 10-K, including risks and uncertainties associated with the ongoing COVID-19 pandemic. As Chris mentioned, there is also risk associated with our supply chain when it comes to the war in Ukraine, a dynamic shared across many companies and industries. However, we believe our investments in our factory and vertically integrated manufacturing processes are one of the factors that helps mitigate this risk.

We continue to expect calendar 2022 to be a transformative year as Astra continues expanding our product road map and scaling production. As we outlined on our Q4 earnings call during the year, we will embark on a product cycle transition to our next-generation Launch System 2.0 as well as expand space product offerings led by Astra Spacecraft Engine. As mentioned earlier, Q2 is an important quarter as we made key investments in the development and execution of our product road map, capacity to conduct launch operations at scale and implementation of systems that will increase productivity. Lastly, we will continue to focus on ensuring these investments deliver value to shareholders and set us on the path for long-term success.

Before I turn the call back over to Chris, I want to add to his earlier comments of gratitude to our team and growing roster of customers who trust us to deliver for them. As Chris mentioned, we look forward to hosting our inaugural Space Tech Day for investors and analysts on May 12 at our newly expanded rocket factory in Alameda.

And with that, operator, would you please open the call for questions for Chris and myself.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question that we have is from the line of Edison Yu from Deutsche Bank.

Xin Yu - *Deutsche Bank AG, Research Division - Research Analyst*

I have about 3, if I may. First, could you maybe talk about the unit economics embedded into the guidance? I know in the first quarter, there was probably some unfavorable launch pricing. Any color you can provide on what you're kind of embedding for the second quarter?

Chris C. Kemp - *Astra Space, Inc. - Founder, President, Chairman & CEO*

Yes, it's a great question. I'm going to let Kelyn take the first stab at that, and then I'll provide a bit more color as well.

Kelyn Brannon - *Astra Space, Inc. - CFO*

As we look at the launches of our Rocket 3 series, the revenue economics on those vary by launch. I would say, on average, it's around that \$2 million mark, but it does vary. And is that what you need Edison? Or is there other unit economics that you want?

Xin Yu - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. Also, the...

Kelyn Brannon - Astra Space, Inc. - CFO

On gross margin, if we look at that, we are pleased that out of the gross margin that we received, that about 25% of that relates to materials. And we're really pleased with that because that's what we forecasted, and we're adhering to that and drive forward. So that leaves kind of launch operations and the other items that go in there that we feel comfortable that, over time, that we are going to be able to make significant improvements. As you think about fixed costs, as we continue to scale up and we continue to increase the cadence and the number of rockets that we produce, we will benefit from the economy of scale, certainly starting with Launch System 2.0 when we accelerate the manufacturing and launch cadence.

Chris C. Kemp - Astra Space, Inc. - Founder, President, Chairman & CEO

Yes. Edison, as with previous quarters, the mental model you want to have of Astra is a company that is making the investments in our factory and in our infrastructure production equipment and staffing to produce at a weekly rate. Now a lot of that is amortized into the cost of launches at a monthly rate today. But as we invest ahead of the launches of 2.0 to satisfy the demand of our launches at a higher launch rate, it does skew the economics and kind of translate into what looks like a lower-margin product at this production rate. So I think this will become a much more interesting thing to dive more deeply into next quarter and the following quarter, as we start to -- in particular next year as we start to get to rate on the Launch System 2.0 and Rocket 4.0 series.

Xin Yu - Deutsche Bank AG, Research Division - Research Analyst

Got you. And it's fair to assume that -- the TROPICS mission, I think the number is out there has better economics relative to what happened in the first quarter, correct?

Chris C. Kemp - Astra Space, Inc. - Founder, President, Chairman & CEO

That's correct.

Xin Yu - Deutsche Bank AG, Research Division - Research Analyst

Okay. Great. So second question, any sort of rough time line to provide on the TROPICS mission cadence?

Chris C. Kemp - Astra Space, Inc. - Founder, President, Chairman & CEO

It's going to be pretty rapid cadence. So again, we have the goals that we set for the team and the mission, and then we have the weather, we have other things happening at the range. We have all the typical complexities that you're going to run into launching rockets. But I can tell you that this is a mission that we'd like to complete before the storm season, which is to say before we get into the summer. And so the objective is to get this campaign started this quarter and get as many launches done this quarter as we can, but it is likely that we're not going to be able to get them all done by the end of the quarter. But keep in mind that that's still a pretty high cadence.

So I think the team's goal is to achieve a better than monthly rate for this next series of 3 launches for TROPICS, and that's really just to get the mission accomplished before the storm season begins. This is a mission that, I think, is pretty exciting because the more of the launches that are successful, the more data you get. But if 2 out of the 3 are successful, it's not mission failure. It's just a lower refresh rate for the constellation. So I think NASA designed this mission with the first flight that they did on the SpaceX transport mission to have some additional capacity. And they're really effectively paying for this series of launches from Astra, when many of our competitors charge for a single launch.

And so this allowed Astra to really deliver a capability for them that they wouldn't be able to get from any other provider because they needed 3 separate launches or multiple launches, delivering the satellites into different orbital planes. This is truly -- might be a new great mission for Astra

because it's a mission where new capability like ours can be fielded. We can still achieve a success, and we can still -- and we can deliver NASA fantastic economics at the same time.

Kelyn Brannon - *Astra Space, Inc. - CFO*

The only thing that I would add to that -- Edison, the only thing I would add to that is to say that the rockets are ready. We'd like to say rocket in a box sort of thing. And what we're waiting on is license for all the 3 launches under 1 license. So that's what's in progress right now. But the rockets are ready.

Xin Yu - *Deutsche Bank AG, Research Division - Research Analyst*

That's certainly a great start. And just last one from me. Any color you can provide on the 61 Spacecraft Engine orders in terms of breaking that down by customers or types of customers? Just curious about that.

Chris C. Kemp - *Astra Space, Inc. - Founder, President, Chairman & CEO*

We can tell you it's a number of different customers, and they're going to be deployed on satellites and constellations over the next couple of years. So I would just think about it as -- there's a lot of demand for that product. We're just getting started. We're really delighted to have 61 of them already sold.

Kelyn Brannon - *Astra Space, Inc. - CFO*

And we're continuing to see the pipeline for these products continue to grow. And we see continued success with those Astra Spacecraft Engines that are in orbit today, and that is driving demand that we see in our pipeline.

Xin Yu - *Deutsche Bank AG, Research Division - Research Analyst*

And is there an average price you've mentioned before on that?

Kelyn Brannon - *Astra Space, Inc. - CFO*

We have not done that. And -- but the -- I'm just -- I'm looking over at Martin right now to see whether or not we actually have publicized our price list, our standard price list out there.

Martin Attiq - *Astra Space, Inc. - Chief Business Officer*

We have not. But perhaps for the next quarter, we can prepare something that can be digested by the investment community.

Kelyn Brannon - *Astra Space, Inc. - CFO*

But Edison, as we discussed a couple of weeks ago, the gross margin on these Spacecraft Engines is positive.

Operator

Your next question comes from the line of Andre Madrid from Bank of America.

Andre Madrid - *BofA Securities, Research Division - Analyst*

Just want a little bit of color. Could you give us some details around maybe the kind of CapEx schedule that you guys are expecting moving forward?

Chris C. Kemp - *Astra Space, Inc. - Founder, President, Chairman & CEO*

Some color is we've really -- if you have folks at Space Tech Day next week, you'll see we have completed the expansion of our factories. So we've deployed a lot of CapEx at our facility to scale up to this weekly production rate for Rocket 4. We've deployed a lot of capital into equipment. So we're going to see that taper off into next quarter and the following quarter rather substantially, because we've -- in fact, what we've seen over this quarter and the previous quarter is we've seen a lot of capital deployed to reduce the cost of producing rockets basically.

So this is why we went public. This has been the strategy all along. Let's expand the factory, let's go from making 1 rocket a month by hand to making 1 rocket a week using a lot of more automated equipment, robot, machines. We've bought a lot of those machines already, and we're kind of getting to the end of deploying capital into the infrastructure in the factory and in the building itself. And one of the reasons why we thought it would be great to host Space Tech Day is a lot of the analysts and banks and investors should really see what we've built out here. It's truly impressive.

And if you've been to SpaceX and some of the other companies, I think you'll walk into Astra and you'll see the right combination of investments in the equipment, they will have a direct result of reducing labor and reducing the cost of our products. And that's really -- it's not 3D printing, it's not chasing things with helicopters, it's just making a high-margin product. It's driving the cost of our product down through automation that is going to get Astra to scale. So we're all about scale, and that's the capital that we have now largely deployed.

Kelyn Brannon - *Astra Space, Inc. - CFO*

And then the only thing I could add to that if you're thinking about modeling, our CapEx expenditures for 2022 are more front-end loaded, right? So these orders go in early and we want to get the automation equipment and finalize the infrastructure, our test infrastructure, and be ready to start producing rocket for Launch System 2.0 moving into the back half of the year and preparing for test flights.

Operator

There are no further questions at this time. I would like to turn back the call over to the presenters.

Michael Stitche - *Astra Space, Inc. - VP of Compliance & Deputy General Counsel*

We appreciate everyone's attention today and the questions. We're looking forward to hosting everyone next week on May 12 at Space Tech Day. We'll have this, live streams. And we're going to be welcoming a number of our investors, shareholders, customers, analysts here, and this will be an opportunity for you all to hear about Launch System 2.0, our road map. We're going to be making some product announcements.

And we hope to have launch dates for LV0010, 0011 and 0012 as soon as we can provide them. And in fact, we're putting together -- for those investors out there that are less familiar with how launches work, we're going to be putting together and releasing, I believe, tomorrow, a detailed primer on what goes into announcing a launch date. And frankly, why we haven't announced the launch date yet. And while all those websites out there that published reported launch dates are literally just reporting some of the preparatory work and filings that we do in advance of the launch, but they're not actual launch dates.

So we appreciate everyone's patience and we're going to get out to Cape Canaveral and we're going to do 3 back-to-back launches, and we're going to do them faster than we've ever done them before. So we're excited to see out there on the webcast, and we'll see you at Space Tech Day next week.

Operator

This concludes today's conference call. Thank you all for joining. You may now disconnect.

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