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Karman Space & Defense

Second Quarter 2025 Earnings

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CORPORATE SPEAKERS:

Steven Gitlin

Karman Space & Defense; Vice President of Investor Relations

Anthony Koblinski

Karman Space & Defense; Chief Executive Officer

Michael Willis

Karman Space & Defense; Chief Financial Officer

Jonathan Beaudoin

Karman Space & Defense; Chief Operating Officer

PARTICIPANTS:

Peter Arment

Baird; Analyst

Kenneth Herbert

RBC Capital Markets; Analyst

Michael Fisher

Evercore ISI; Analyst

Louie DiPalma

William Blair; Analyst

PRESENTATION:

Operator

Hello. And thank you for standing by. (Operator Instructions)

At this time I would like to welcome everyone to the Karman Space & Defense Second Quarter Fiscal Year 2025 Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to Steven Gitlin, Vice President of Investor Relations.

Please go ahead.

Steven Gitlin

Karman Space & Defense

Second Quarter 2025 Earnings

Good afternoon. And thank you for joining Karman Space & Defense's Second Quarter Fiscal Year 2025 Earnings Conference Call.

I'm Steven Gitlin, Vice President of Investor Relations, and I'm pleased to welcome you today.

Joining me on today's call are Tony Koblinski, our Chief Executive Officer; Mike Willis, our Chief Financial Officer; and Jonathan Beaudoin, our Chief Operating Officer.

Before we begin, please note that on this call certain information presented contains forward-looking statements.

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements and may contain words such as believe, anticipate, expect, estimate, intend, project, plan or words or phrases with similar meaning.

Forward-looking statements are based on current expectations, forecasts and assumptions that involve risks and uncertainties including but not limited to economic, competitive, governmental and technological factors outside of our control that may cause our business strategy or actual results to differ materially from the forward-looking statements.

All forward-looking statements should be considered in conjunction with the forward-looking statements in our earnings release. Future company updates will be available via press releases.

For further information on these risks we encourage you to review the risk factors discussed in our company's periodic reports on Form 10-K and Form 10-Q filed with the SEC and the Form 8-K filed today with the SEC, along with the associated earnings release and the safe harbor statement contained therein. This afternoon, we also filed our earnings release and posted an earnings presentation to our website at karman-sd.com in the News and Events section.

The content of this conference call contains time-sensitive information that is accurate only as of today, August 7, 2025. The company undertakes no obligation to make any revision to any forward-looking statements contained in our remarks today or to update them to reflect the events or circumstances occurring after this conference call.

I'd also like to note that unless otherwise stated, all numbers we will be discussing today are GAAP. Our press release contains a reconciliation of any non-GAAP financial measures to the most comparable GAAP measure.

Now I would like to turn the call over to Tony.

Anthony Koblinski

Thank you, Steve. And good afternoon, everyone.

Karman Space & Defense

Second Quarter 2025 Earnings

On today's call I will provide an overview of our second quarter highlights. Then Mike Willis will review our financial performance and balance sheet strength. Jon Beaudoin will then discuss the state of our end markets and our operational performance. Following their remarks, I'll return to share our strategic outlook and guidance before opening the call for your questions.

I'm pleased to report another exceptional quarter marked by strong execution across all aspects of our business.

Our record second quarter results continue our strong momentum since our February IPO and demonstrate the continued success of our strategy and the effective performance of our team. Shown on Slide 4 of our earnings presentation are the key highlights for the quarter:

We posted record revenue of \$115 million, with growth across all three of our end markets.

We set a new high for gross profit at \$47 million.

Adjusted EBITDA reached \$35 million, another new quarterly record.

And funded backlog reached an all-time high of \$719 million, giving us more than 100% visibility to the midpoint of our full year revenue guidance range.

Given this strong performance, we are now raising our guidance for 2025 revenue and adjusted EBITDA, as I will detail in a few moments.

Beyond the numbers, we achieved several major milestones shown on Slide 5:

We refinanced our credit facility, saving more than \$8 million in annual interest expense and improving our financial flexibility.

We completed two strategic acquisitions, MTI and ISP, which deepen our capabilities and customer contacts.

We were added to the Russell 1000 and other indices.

And just two weeks ago, we completed a \$1.2 billion secondary offering that was significantly oversubscribed, increasing our public float and completing our transition to a fully independent company.

Taking a broader view, the demand environment remains very favorable, with more than \$1 trillion in planned DoD funding, including robust support for production and development programs we already participate in.

As such, we are well positioned to drive continued growth in and beyond 2025.

Karman Space & Defense

Second Quarter 2025 Earnings

Drivers for that growth include restocking activity resulting from extensive consumption of U.S. missiles and unmanned systems in conflict zones, the Golden Done for America program and signs of growing international demand as NATO allies increase their military spending.

Supporting both DoD and commercial markets, we also anticipate a continued increase in space launch cadence.

With that high-level overview, I'll turn the call over to Mike for a review of the quarter's financial highlights.

Michael Willis

Thank you, Tony. Good afternoon, everyone.

Q2 was another strong quarter that demonstrated the positive impact of our strategy and operational discipline. Shown on Slide 6, highlights include:

Revenue of \$115.1 million, representing a 35% increase compared to the second quarter of fiscal year '24.

Gross profit grew 36% to \$47 million, maintaining gross margins at nearly 41%.

Net income rose 48% to \$6.8 million.

Adjusted EBITDA jumped to \$35.3 million, a 29% year-over-year increase.

Adjusted EPS more than tripled to \$0.10 per diluted share.

And funded backlog has grown 36% year-over-year, and 24% since the end of '24.

Growth was broad-based across all three of our end markets, shown on Slide 7:

Hypersonics and strategic missile defense revenue, at \$35 million, grew 22% year-over-year, supported by programs like Next-Generation Interceptor and classified work.

Space and launch jumped 39% to \$39.6 million, driven by orders supporting increased launch cadence.

And Tactical Missiles and Integrated Defense Systems was up 46% to \$40.5, million driven by production ramps in UAS and counter U.S. programs.

End market revenue mix was balanced:

Karman Space & Defense

Second Quarter 2025 Earnings

- 34% space and launch
- 30% hypersonics and SMD
- and 35% tactical missiles and IDS

Turning to the balance sheet:

- We ended the quarter with \$27.4 million in cash and cash equivalents, up nearly \$16 million from the end of 2024.
- We upsized our Term Loan B to \$375 million, with \$20 million available on our \$50 million revolver.

Our oversubscribed secondary offering added 24.15 million shares to our public float, improving our liquidity without issuing any new shares. This offering marked our transition to a fully independent company.

Looking ahead, we continue to expect a statutory tax rate of 24% and expect CapEx to be approximately 4.5% of revenue.

With that, I'll turn the call over to Jonathan for an overview of our market position and operational highlights.

Jonathan Beaudoin

Thank you, Mike.

From a market standpoint, demand signals remain strong across the board. National security priorities are driving increased defense spending, while the commercial space market remains very active. The Big Beautiful Bill signed in July provides significant funding aligned with our business, as shown on Slide 8:

\$25 billion for the Golden Dome for America.

\$ 5billion for unmanned systems, where we are a leader in the growing area of launch systems.

\$3 billion for hypersonics where we support multiple development programs.

And \$17 billion for missiles and munitions, where we have production programs supporting most major missile systems.

The 2026 Defense spending request proposes year-over-year funding increases for a number of programs we have been supporting for years, including:

Funding for GBSD or the Sentinel program is growing from \$2 billion to \$4.1 billion.

Karman Space & Defense

Second Quarter 2025 Earnings

THAAD funding is more than doubling, from \$649 million to \$1.6 billion.

Other missile, UAS and Counter-UAS programs stand to receive more than \$2 billion.

The Golden Dome program is particularly exciting because we believe it will drive additional demand for production and development programs we already support. And its space layer will require a considerable number of space launches to build, driving demand for the critical subsystems we supply to nearly all space launch vehicles.

Turning now to our operations, we remain focused on capacity, capability and productivity.

This quarter, we installed one of the most advanced vertical turning lathes available, capable of machining components up to 18 feet in diameter while keeping the extremely tight tolerances required for strategic and space launch programs.

We also added an advanced, 5-axis machining center with automated cells to produce complex parts with minimal human intervention, which will enhance our UAS launcher manufacturing.

We are also expanding our tactical missile nozzle production capacity by approximately 50% by adding more nozzle curing equipment.

These investments increase throughput, enhance quality and allow us to scale without significant additional CapEx.

Turning to our recent acquisitions, both MTI and ISP integrations are progressing on schedule.

We've incorporated ISP's energetic systems into our design processes, while MTI's advanced forming capabilities are contributing to key defense programs and providing us access to important new customers. We are in the process of implementing our ERP system, our business development and engineering processes and aligning our organizational structures.

From a risk management perspective, we are structured to minimize the financial risk of tariffs in several ways:

First, more than 90% of our contracts are fixed price.

Second, these contracts are typically 12 to 18 months in duration, giving us the ability to renegotiate pricing to address input price increases.

Finally, we generally purchased raw materials for our programs at the very beginning, reducing our exposure to price volatility over time. And because we use very little rare earths in our operations, our throughput has not been affected by supply constraints.

Karman Space & Defense

Second Quarter 2025 Earnings

In summary, any financial impact from tariffs or rare earth continues to be immaterial to Karman.

Now I'll turn the call back to Tony for our strategic overview and outlook.

Anthony Koblinski

Thank you, Jonathan.

Our business strategy is an IP-driven, vertically integrated, merchant supplier to nearly all prime contractors in the U.S. space and defense market is well aligned with our growing market opportunities.

Our acquisitions in the second quarter have already begun yielding results, expanding our capabilities and deepening our relationships with key customers. The combined capabilities of these acquisitions, along with our existing expertise, position us uniquely to address the growing demand in hypersonics strategic missile defense, UAS, counter-UAS and advanced space systems.

Let me now turn to our outlook and updated financial guidance for the remainder of fiscal year 2025, summarized on Slide 9.

Based on our strong performance in the first half of the year, the integration of MTI and ISP and continued momentum across our end markets as reflected by our growing funded backlog, we are raising and narrowing our full year guidance.

We now expect full year revenue of between \$452 million to \$458 million, representing a 32% increase year-over-year to the midpoint.

And non-GAAP adjusted EBITDA of \$138.5 million to \$141.5 million, also a 32% year-over-year increase to the midpoint.

This guidance reflects our 100% visibility to the midpoint of our increased revenue guidance range.

In response to the strong demand signals we have described, we are leaning in where we see opportunities to position ourselves to capture end market demand, including hiring key staff.

Looking beyond 2025, we are already building funded backlog for 2026.

Our differentiated capabilities, strong backlog, growing pipeline and proven ability to execute reinforce our confidence in our long-term growth algorithm of consistent organic growth supplemented by strategic accretive acquisitions.

Karman Space & Defense

Second Quarter 2025 Earnings

In closing, I'd like to thank our employees, customers and shareholders for your continued support.

As we highlight on Slide 10, a Karman is a new kind of space and defense company, one that is engineered for performance and growth. We are creating long-term value for all our stakeholders by helping to enhance national security and enable the next-generation space economy.

Now let's open up the call for your questions.

QUESTION & ANSWER:

Operator

(Operator Instructions) Our first question will come from the line of Peter Arment with Baird.

Peter Arment

Tony, Mike and Jonathan, great results. Yes. Tony, maybe if you could just update us on, you've got 11 facilities now and you've got all these different growth drivers within your end markets and your key strategic areas. Just how do you feel about kind of the existing capacity utilization? I know Jonathan probably would want to weigh in, but just your ability to leverage kind of all these different growth drivers with your existing footprint today.

Anthony Koblinski

Yes. Thanks for the question.

We feel confident, is the summary statement, and we've talked before about - we've got ample square footage as we've added facilities in Alabama and additional facilities in some of our existing sites. And we keep a keen eye on the demand curve, they're trying to stay ahead of it. Jonathan rattled off about three different investments among many others that will continue to bring us the capacity we need to meet the demand.

We work closely on a daily, weekly basis with our customers collaboratively in terms of understanding the demand and our need to be ready for it over the coming quarters and years.

And we feel quite good that we'll stay ahead of that curve and be ready for the demand as it continues to evolve.

Peter Arment

I appreciate that. And then you mentioned about 2026 kind of already kind of building your backlog, what kind of insight can you give us there just that in terms of the long lead times, just

Karman Space & Defense

Second Quarter 2025 Earnings

given the initiatives that are going on, whether it's Golden Dome or all the restocking that needs to take place within the missile munitions category. How should we think about just kind of the backlog, how it gets built.

Anthony Koblinski

Yes.

As we indicated today, record backlog, \$719 million. That would be for next year and some into '27 and a little into '28 as we think about that.

We believe that we try to keep the lead times of our capacity expansion inside the lead times of the demand signals, and we're successful in doing that.

So right now again, I wouldn't guide you in terms of what next year looks like other than the momentum continues.

And I'd point you back to right now our focus is on executing 32% increase year-over-year as we just signaled.

Operator

Our next question comes from the line of Ken Herbert with RBC Capital Markets.

Kenneth Herbert

Yes. Tony, really nice results. Maybe just to start off, as you look at the strong second quarter and more importantly, I think the full year raise to the revenue guidance, can you provide any more detail if the upside is really coming from just greater pace of activity, maybe greater volume? Are you seeing sort of incremental share gains or sort of extensions on existing contracts or maybe pricing? I mean how can we maybe parse out what looks to be a much better sort of organic growth outlook than we'd expected at the beginning of the year?

Anthony Koblinski

Yes.

I would say though all of those are a factor. The growth is predominantly rate increases. And so you're seeing the headlines you're hearing from some of our customers as they're looking to increase rates on a number of programs that we're currently on, as well as some of the development programs that have not yet hit low rate production levels.

So coming from a number of factors, principally rate.

Karman Space & Defense

Second Quarter 2025 Earnings

Kenneth Herbert

Okay. That's very helpful. And as we think about the margin guidance, I think you called out as part of the second quarter pre-announcement, some elevated sort of onetime costs associated with being a public company.

Can you just maybe walk through how we should think about maybe gross margins progressing here through the second half of the year and maybe the setup into '26?

Michael Willis

Thank Ken yes, this is Mike.

So I'll give a couple of thoughts on that.

I mean the second half of this year, we do expect to be stronger than the first half in terms of EBITDA margins.

I don't see any necessary cliff per se, but just continued focus on operational efficiencies, strategic deployment of capital, and so for the rest of this year as well, not to get too specific, but as far as what we see moving in the future to just have modest increases from here on out to capture what we've already achieved to date and then to continue to capture more efficiencies moving forward.

So to get from where we were in the first half to the full year guidance, I would call it modest improvements, but well within our range.

Operator

Our next question comes from the line of Amit Daryanani with Evercore ISI.

Michael Fisher

This is Michael Fisher on for Amit.

I just wanted to start with. Wondering if you can give us more of a, kind of high-level overview of your exposure to various drone programs.

I believe you're involved with the Switchblade, which is obviously at the higher end of loitering munitions. And so I'm wondering if you also have any exposure to some of the cheaper, lower cost drones like we've seen be deployed pretty effectively in Ukraine.

Anthony Koblinski

Karman Space & Defense

Second Quarter 2025 Earnings

Yes, first of all, Michael and we're careful to disclose things that are not public.

Obviously, it's a known fact in terms of our support for AV in the Switchblade, our support for the Coyote and other programs.

But it's our goal, mission to partner with everybody. And so we have a number of activities going on across the spectrum of the unmanned and counter-unmanned systems.

We see that as a significant growth driver moving forward.

Michael Fisher

All right. And then I'm just curious, you guys touched on the Golden Dome and some of the space and satellite component of that.

I'm wondering, do you anticipate that being something that's, a lot of that launch volume is coming from SpaceX or do you think there's going to be multiple providers involved there?

Anthony Koblinski

We think without question, there'll be multiple providers.

Looking forward to the debrief coming out of the Industry Day that's occurring simultaneous to this call, it's unclassified, I'm not sure how much more we're going to get.

But we know that positioning assets in terms of sensing, tracking intercepting from space is an important element of this multilayer system, along with a lot of those systems that we already support.

So we're looking forward to more clarity, but it means more things in space. And as we support SpaceX ULA, Blue Origin, RocketLab, Firefly, who had a good day today, as you all know, we enjoy supporting all of those. And so we're agnostic, as we've said before, as to who flies, we've got components on it.

It will take a combination of those providers to fulfill the vision and the reality of Golden Dome.

Operator

Our next question comes from the line of Louie DiPalma with William Blair.

Louie DiPalma

Tony, Mike, Jonathan and Steve, good afternoon, as it relates to the very strong increase in backlog, do you expect to maintain your pricing perhaps even with some modest increases? And

Karman Space & Defense

Second Quarter 2025 Earnings

should we expect the margin expansion that has generally taken place over the past few years to continue?

Anthony Koblinski

So I think Mike just briefly touched on the margin, again, leading you to modest expansion from operational efficiency and leverage in that regard. And so 50 basis points kind of increases as we move forward. From a pricing standpoint, again, we work collaboratively with our customers.

We make certain that they're meeting their program targets. And so, it's our view that 30-plus percent EBITDA margins are strong, sustainable and perhaps we can expand them a bit moving forward, but we would not anticipate that the strong backlog would lead directly to increased pricing strength.

We want to make certain that we work as a partner meeting their program needs as well as our margin requirements.

Louie DiPalma

And can you also provide some color in terms of how your recent acquisitions have been able to contribute to your different segments and whether they have opened up the opportunity for you to increase your partnerships with your prime platform partners and how that's been able to just increase your overall scope of business?

Anthony Koblinski

Yes.

With each of MTI and ISP, they brought new capabilities, as we've talked about, right? Our acquisition strategy is to keep them relatively small, but strategically important, building upon a pretty robust toolbox that we've got right now as we serve our customers, but adding to that along the way as we add these on.

So MTI, which brought us the refractory metals experience, brought us classified space and classified programs along with new customers, and ISP brought us these multiple dozens of energetic formulations and proven expertise in small solid rocket motors that we've already integrated well with what we've got going in Mukilteo and Skagit from an energetics and small SRM capability.

So both are immediately accretive on the financial front and accretive to our capability to serve our customers with the addition of additional customers that they have brought to us that we're already cross-selling and looking for opportunities to add to what we provide to them.

Operator

Karman Space & Defense

Second Quarter 2025 Earnings

(Operator Instructions) And that will conclude our question and answer session.

I'll hand the call back to Steven Gitlin for any closing comments.

Steven Gitlin

Thank you all for your attention today and for your interest in Karman Space & Defense. An archived version of this call all SEC filings and relevant company news can be found on our website karman-sd.com.

We wish you a good day, and we look forward to updating you on our continued progress in the quarters ahead.

Operator

This concludes today's call. Thank you all for joining.

You may now disconnect.