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Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

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CORPORATE SPEAKERS:

Steven Gitlin

Karman Space & Defense; Senior Vice President of Investor Relations and Corporate Communications

Jonathan Rambeau

Karman Space & Defense; Chief Executive Officer

Tony Koblinski

Karman Space & Defense; Director and former 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

Clarke Jeffries

Piper Sandler; Analyst

John Godyn

Citigroup; Analyst

Louie Dipalma

William Blair; Analyst

Alexandra Mandery

Truist Securities; Analyst

Austin Bohlig

Needham; Analyst

Amit Daryanani

Evercore; Analyst

Michael Leshock

KeyBanc Capital Markets; Analyst

PRESENTATION:

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Operator

Thank you for standing by. Welcome to the Karman Space & Defense fourth quarter and Full Fiscal Year 2025 Earnings Conference Call. (Operator Instructions) I'd now like to turn the call over to Steven Gitlin, Senior Vice President of Investor Relations. You may begin.

Steven Gitlin

Good afternoon. Thank you for joining Karman Space & Defense's fourth quarter and Full Fiscal Year 2025 Earnings Conference Call. I'm Steven Gitlin, Senior Vice President of Investor Relations and Corporate Communications, and I'm pleased to welcome you today.

Joining me on today's call are Jon Rambeau, our new Chief Executive Officer; Tony Koblinski, our Director and former 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 that are based on current expectations, forecasts and assumptions and that involve risks and uncertainties.

These are described on Page two of the earnings presentation we posted to our website this afternoon, and in detail in Karman's reports filed with the SEC and the Form 8-K filed today with the SEC. I'd also like to note that we will discuss a number of non-GAAP financial measures today.

Our press release, which we filed today, can also be found under the heading "News and Events" on the "Investors" section of our company website and contains a reconciliation of any non-GAAP financial measure to the most comparable GAAP measure.

The content of this conference call contains time-sensitive information that is accurate only as of today, March 25, 2026.

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. Now I would like to turn the call over to Jon Rambeau.

Jonathan Rambeau

Thank you, Steve. And good afternoon. I'm excited to be with you all today as I assume my new role with Karman. I'm honored to have the opportunity to lead this impressive team and to represent them with more than 80 customers across the entire space and defense landscape.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Karman's market position, described on Page 3, and its track record of success, combined with its winning profitable growth algorithm, make this a very special company and a compelling opportunity. I've been working in defense for over 30 years, and I can't remember the last time I was this excited.

Karman's deep engineering expertise and vertically integrated, full-spectrum manufacturing capabilities position the company as a unique enabler for national security and the growing space economy.

Karman's values resonate with me, and none of them more than "Be Relentless." Given that this is my first week in the role, I've asked Tony to summarize the strong financial and operational results the Karman team delivered in 2025 under his leadership. Tony?

Tony Koblinski

Thank you, Jon. It's great to have you as part of Karman, and I wish you tremendous success as you lead this team to new heights.

Before I begin, I want to express my deep appreciation to our Board, our employees, our shareholders, and our customers for the trust you have placed in me and in the Karman team. Together, we have worked hard to make a meaningful difference for our customers.

In doing so, we've created significant value for both our employees and our shareholders. Leading Karman has truly been a tremendous capstone of my career.

Over the past several months, as the Board conducted a comprehensive search for my successor, we had the opportunity to meet a number of outstanding candidates; Jon Rambeau clearly stood out.

We are fortunate he chose to join Karman, and I look forward to supporting him in my role as a director. I'm confident you will quickly appreciate his experience, leadership and ability to guide Karman through its next phase of growth.

As for me, after a 44-year business career, I'm looking forward to taking things a little slower, spending time with my family and having a different kind of fun.

Now, turning to today's call.

I'll begin with highlights from our fourth quarter and full year 2025 results. Mike Willis will then provide more detail on our financial performance and capital allocation priorities, Jon Beaudoin will follow with an update on how we are expanding capacity to meet accelerating demand, and Jon will close with his strategic outlook and guidance.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

We'll then open up the call for your questions. Now let's turn to our results.

Our team delivered another quarter of record performance, driven by outstanding execution across the business and strong momentum following our February 2025 IPO.

As shown on Page four of our earnings presentation, key fourth quarter highlights include:

- Record quarterly revenue of \$134 million, with growth across all three end markets,
- Record gross profit of \$54 million,
- Adjusted EBITDA of \$42 million, another quarterly record for Karman,
- And backlog reached an all-time high of \$801 million.

For the full year, we also delivered record financial results, with revenue and adjusted EBITDA ahead of the updated guidance we gave two months ago as part of our Seemann and MSC acquisition announcement:

- Full year revenue was \$472 million
- Gross profit, \$190 million or 40% of revenue,
- and record adjusted EBITDA of \$145 million.

At the same time, we executed on a disciplined and strategic M&A agenda. During 2025, we completed three acquisitions: MTI, ISP and Five Axis, adding capabilities in advanced metallic solutions for extreme environments, energetic deployment systems and precision solutions for liquid rocket engines.

In January, we further expanded our platform with the acquisition of Seemann and MSC, extending our reach into maritime defense with long-standing positions on Columbia, Virginia, and Seawolf class submarine programs.

These businesses also deepen our expertise in Composites and Advanced Materials, capabilities we will leverage across the entire Karman portfolio. Page five summarizes the four acquisitions completed since our IPO and the capabilities they bring to the company.

Taken together, these actions position Karman exceptionally well to meet what we believe is a generational increase in demand across missiles, interceptors, hypersonics, UAS counter UAS, Maritime Defense, as well as Space and Launch.

For example, multiple prime contractors have recently outlined significant planned annual production increases across key missile programs we support, including approximately 100% growth in AIM-9X, 200% in THAAD and standard missile, and 300% for PAC-3.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

We expect these programs to achieve their production rate goals over the coming years. This is a demand environment that we expect to persist through the end of the decade and beyond.

Importantly, because this demand is tied to national security priorities, we believe it will continue to receive strong bipartisan support. In response to the demand signals, we have been proactive in expanding both capabilities and our capacity.

Today, Karman operates across eight states with more than 1 million square feet of design, development and manufacturing space.

Our recently announced Launch Systems and nozzle manufacturing hub in Salt Lake City will further enhance our ability to support customer needs while positioning us closer to our key customers.

We have a great deal to be proud of coming out of 2025, and even more to look forward to in the years ahead. With that, I'll turn the call over to Mike for a more detailed financial review.

Michael Willis

Thank you, Tony. Q4 was another strong quarter in which our team continued to demonstrate its focus on supporting our customers.

Shown on Page 6. Highlights include:

- Revenue of \$134 million represented a 47% increase compared to fourth quarter of fiscal year 2024
- Gross profit grew 54% to \$54 million, increasing gross profit margin at 40%
- Net income rose over 300% to \$8 million
- Adjusted EBITDA jumped to \$42 million, a 59% year-over-year increase
- Adjusted EPS more than tripled to \$0.11 per diluted share from \$0.03
- and backlog grew 38% year-over-year to \$801 million.

For clarity, our numerical calculation and definition of backlog has not changed. We simply updated the terminology from “funded backlog” to “backlog”, to better align with industry practice. Growth extended across all three of our end markets in the fourth quarter, shown on Page seven.

Hypersonics and Strategic Missile Defense or SMD, revenue grew 42% year-over-year to \$48 million, driven by expanded strategic missile programs, continued progress on NGI, higher volumes on classified programs and increased activities supporting hypersonic test beds.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Space and Launch jumped 25% to \$36 million, driven by the timing of orders for critical content supporting both legacy and emerging launch providers.

Tactical Missile and Integrated Defense Systems, or IDS was up 77% to \$50 million, primarily driven by demand associated with the continued proliferation of advanced drone and loitering munitions, and an increase in production rates for GMLRS.

End market mix in the fourth quarter was as follows: Space and Launch represented 27% of quarterly revenue; Hypersonics and SMD, 36%; and Tactical Missiles and IDS 37%.

For the full fiscal year 2025:

- Revenue of \$472 million represented a 37% increase compared to 2024
- Gross profit grew 44% to \$190 million, resulting in a gross profit margin of 40%
- Net income rose 37% to \$17 million
- Adjusted EBITDA jumped to \$145 million, a 37% year-over-year increase
- and adjusted EPS nearly tripled to \$0.37 per diluted share from \$0.13.

End market mix for the year was as follows: Space and Launch represented 32% of annual revenue; Hypersonics and SMD, 32%; and Tactical Missiles and IDS 36%. Moving forward, we will report a fourth end market beginning in the first quarter of 2026. Maritime Defense Systems will capture Karman's existing maritime programs and those of Seemann and MSC.

We expect our four end markets to be relatively balanced in terms of revenue, with no discernible seasonality.

Now on the topic of seasonality, Karman, like many other companies in our industry, experienced a temporary slowdown in contracting activity during the fourth quarter of 2025, extending into the first quarter of 2026, due to the federal government shutdown.

We continue to have discussions with our customers on program production needs and ramp-ups that are expected to materialize once contracts are let.

Turning now to the balance sheet, we continue to prioritize growth as we consider capital allocation decisions:

- We ended the fourth quarter with \$34 million in cash and equivalents, up \$22.5 million from year-end 2024
- We invested a total of \$20 million in CapEx during the year to support growth, prioritizing new manufacturing equipment and floor space including our Decatur, Alabama facility, our advanced clean room in Mukilteo and our energetics testing complex in Skagit.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

- With our acquisition of Seemann and MSC, our total debt increased to \$768 million with an interest rate of SOFR plus 2.75%, an improvement of 75 basis points.
- We continue to expect our leverage ratio to decline to approximately 3x adjusted EBITDA by the end of 2026
- Earlier this month, we increased our revolving credit facility from \$50 million to \$150 million to provide added flexibility as we expand capacity to meet anticipated surge in demand

Looking ahead, we expect a statutory tax rate for fiscal year 2026 of 25.5% and now expect CapEx to be approximately 5% of revenue, equivalent to approximately \$36 million. Note that we increased our CapEx rate to expand our capacity for the anticipated volume increase that Tony discussed.

Now I'll turn the call over to Jonathan for a discussion of our operations and capacity expansion initiatives.

Jonathan Beaudoin

Thank you, Mike. The demand environment that Tony described places our focus squarely on continued effective execution and the strategic deployment of capital to expand our capacity and meet the requirements of our customers.

We are prudently investing in advance of contract receipt to ensure we enable the anticipated ramp in customer demand.

Karman was formed to produce qualified, proven systems at a rate that supports our customers' significant production output goals.

We combine our deep understanding of real-world end user requirements with the most advanced material and manufacturing technologies, and then add the operating tools for efficient, scaled production.

Karman essentially provides the agility and technology of a small business with the capacity and investment horsepower of a large business. It is exactly what our customers need to meet their mission requirements and production ramp-ups.

We are frequently asked about potential capacity constraints, and we are fortunate to be able to rapidly respond and ensure that we are ready for current and future rates.

We think of our capacity in four separate but related categories.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

First, the physical space and equipment with which we develop, test and manufacture products.

We now have over 1 million square feet under roof. Tony mentioned our plans for a new Salt Lake City manufacturing hub which will add nearly 200,000 square feet, quadruple our production capacity for loitering UAV launch systems and add valuable, redundant nozzle manufacturing capacity.

We expect this site to achieve initial operational capability in the fourth quarter of this year.

We invested the majority of our \$20 million in CapEx last year on capacity expansion projects at various sites.

In addition, as we recently announced, we are equally co-investing with the government a total of \$10 million to expand nozzle production capacity. These nozzles are key subsystems for solid rocket motors which propel most missiles and many hypersonic systems.

Next, we are well positioned to accelerate hiring and expand our talent base to drive increased output.

Our workforce grew significantly in 2025 from 1,100 to 1,400 employees. This growth was fueled primarily by strategic acquisitions.

We have enhanced our recruiting capabilities by adding experienced recruiters and expanding our calendar recruiting events, enabling us to more effectively identify and attract top talent.

Additionally, our presence across eight states broadens and diversifies our talent pool, further strengthening our ability to attract top talent.

Third, we are carefully monitoring our supply chain to identify any potential bottlenecks well before they can interrupt production, and are making strategic moves to strengthen our position. Acquiring ISP last year helped us secure energetic formulations for multiple solutions we deliver to our customers.

We are applying Karman's MG resin technology to tactical missiles and hypersonic systems, improving supply chain robustness, and our acquisition of Seemann and MSC provides us with deeper and expanded composite expertise, resin formulations and woven fabrics.

Fourth, we are rolling out our Karman operating system company-wide. This platform integrates our ERP system with advanced manufacturing execution and asset monitoring tools. By leveraging AI-enabled technologies, we expect to increase throughput, minimize downtime improve yield, enhance workplace safety and automated administrative tasks, allowing us to focus our resources where they matter most.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

As an example, we can now monitor real-time data for most of our specialized manufacturing equipment across multiple states and sites. These data, as well as historical data, can be interrogated with AI to determine choke points and develop action plans for improving utilization and, ultimately, increasing capacity.

In the near future, we will be able to monitor all of our key manufacturing equipment to proactively prescribe preventative maintenance, speed repairs and evaluate utilization rates by site, program, device, shift and operator.

Our integration of acquired companies is proceeding according to plan. Earlier this month, we held a welcome event at our Greenville, South Carolina and Gulfport, Mississippi sites. We were thrilled by the spirit and enthusiasm of the more than 200 teammates who attended our events.

We expect to complete the integration of Seemann and MSC by the fourth quarter of this year.

We have come a long way, and there is much work ahead, but we are well prepared to support our customers' aggressive production ramp plans.

Now I'll turn the call back to Jon for his comments on 2026 and beyond.

Jonathan Rambeau

Well thank you, Jonathan.

Karman's financial and operational execution has been tremendous.

Our position as a merchant supplier to nearly all prime contractors in the U.S. space and defense market differentiates us and defines our unique value proposition.

Complementing strong organic growth with strategic acquisitions has continued to strengthen our competitive position, deepening existing capabilities and adding adjacent lines.

This model, and the performance of the team, provide evidence that Karman is a new kind of space and defense company.

The demand environment could not be more favorable for Karman. Tony mentioned the dramatic production increase is planned for many programs Karman supports.

Having led growth businesses in the past and made critical capital allocation decisions, I'm eager to lean in and help our customers achieve their multiyear goals through focused investment strategies and consistent performance.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Our 2026 outlook reflects the near-term growth we anticipate, summarized on Page 8.

We now expect full year revenue of \$715 million to \$730 million and non-GAAP adjusted EBITDA of \$207 million to \$218 million. This represents 53% year-over-year revenue and 46% adjusted EBITDA growth, and additional growth above our previously communicated 2026 guidance given this past January.

We continue to expect revenue growth to be roughly split between organic and inorganic. We also expect our first half to represent approximately 45% of total revenue and adjusted EBITDA for the year, with sequential quarterly growth similar to that of last year.

While we have confidence that additional growth vectors such as Golden Dome will materialize, timing of those remains uncertain.

Strong market conditions and the Seemann and MSC acquisition expanded our backlog to more than \$1 billion, providing approximately 80% visibility to the midpoint of our full year revenue guidance range as of March 20, 2026.

We remain confident in our long-term outlook of strong organic growth, supplemented by strategic accretive acquisitions. This is a proven formula that has driven remarkable growth and profitability for the past three years.

I'm focused on maintaining Karman's trajectory in the coming years. Thank you, all for your time today. I'll be learning more about our company, the people and the technology that have made it successful as I visit our primary locations in the coming weeks.

I look forward to meeting our shareholders and the analysts who follow us. I'm excited to lead this incredible organization at this important moment for our company, our industry and our nation. Now let's open up the call for questions.

Operator

(Operator Instructions) Your first question comes from the line of Peter Arment with Baird.

Peter Arment

And congrats, Tony. Thanks for all your support over the last year. Really enjoyed it. And Jon, congrats on the new role.

Could you guys talk a little bit about what we're seeing potentially with multiyear frameworks for the primes on ramping up on not only interceptors but missile production and how that might

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

impact whether you guys are going to be part of those agreements given your customer relationships there and just how we might think of that.

Jonathan Rambeau

Yes. This is Jon. Thank you, Peter. I appreciate the question. I guess the way I would address that is to say as time continues to march forward, we continue to have a little bit more clarity on how these frameworks are going to be implemented.

And certainly, Karman will benefit from the outcomes of the frameworks. That being said, we still I think we'll need to work a little bit further with the primes to understand specifically what the demand profile is going to look like over what period of time.

So if you think about the significant increases in production rates that are contemplated within those frameworks, we don't see any of that really materializing in the form of orders for Karman until, at the earliest, the fourth quarter of this year.

So, we really don't see that there's a lot of that in the 2026 guidance that we provided.

But certainly, we see that starting to materialize in '27 and beyond.

Peter Arment

Okay. And just a broader question, maybe, Mike, for just on capacity. You guys talked about CapEx 5% of revenues. Can you just remind us where capacity utilization stands today and your ability to kind of meet all the demand signals?

Michael Willis

Yes. It's always one that's tough to put a number on, depends on the product and exactly where that constraint is.

But we do have existing floor square footage to expand into before even the Salt Lake City facility.

Then that will give us a tremendous boost in terms of square footage.

But as we noted, it will quadruple our UAS launch capability and then give us redundant capability for nozzle production and on certain critical programs, double our rate on those.

So we feel good about our immediate capacity today but we're going to quadruple and double it depending on the product in the near future.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Operator

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

Kenneth Herbert

Congratulations again Tony.

Welcome, Jon. I first wanted to ask, the record backlog exiting '25, how should we think about the margin represented in the backlog?

And do we see any -- as you're expanding the backlog, is there any sort of mix benefit as you think about margins over the next one to two years from what's in the backlog?

Or conversely, are you seeing any incremental pressure on pricing from your customers that could potentially be a headwind as -- from a mix standpoint?

Jonathan Rambeau

So, I'd say as we exited the year with the \$801 million of backlog, there's really no notable mix changes in that number, whether it be positive or negative. It's a pretty steady course from what we're used to.

But I would just make mention that as we talk about Seemann now coming into our portfolio and the backlog that they bring, we have discussed that they have a bit of a different profile, just given the content on cost-plus contracts versus firm fixed, so that's going to change things in the near term.

But over time as those programs mature, we're going to work to put those into firm fixed contracts as well.

Kenneth Herbert

Great. And just to clarify, on the increased revenue guide for '26, I know heading into the year, you talked about 50% -- basically 25% organic, 25% from the acquisitions.

With the slight tweak upwards on the guide for '26 now and should we assume that the increase again is roughly sort of half organic, half acquisitions. It looked like initially much of the increase, albeit small, but much of the increase was driven by timing of the acquisitions.

Jonathan Rambeau

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

There are a few factors there. Certainly, the timing of the acquisition on Seemann drove a lot of that change.

So that would be the primary driver.

But we still expect that in aggregate, we're going to have a pretty level split there between organic and inorganic.

Operator

Your next question comes from the line of Clarke Jeffries with Piper Sandler.

Clarke Jeffries

Just generally, I was curious, how has the last month changed your investment plans, any part of the business that you may not have considered a priority for 2026, now 30 days later, you're considering the priority for this year?

Michael Willis

I wouldn't say that it changed anything, call it, more strengthening the convictions that we already had.

So, there's no, call it, shift in terms of our priorities, it just gives us more conviction to lean into the investments we already had planned.

Jonathan Rambeau

Yes. This is Jon. I guess just to add, we did take our planned CapEx expense up a bit for '26 as we look forward.

We were thinking about 4.5%. I think the last time we spoke. And as we've evaluated opportunities for growth.

We decided 5% was a better number.

So we're going to plan for that.

Clarke Jeffries

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Perfect.

Then just exiting the year here with a really strong margin progression over the course of the year.

I was wondering if you could maybe talk about M&A integration headwinds to EBITDA margins, whether underlying margin expansion is around that 50 basis points you've talked to earlier or higher than that?

Just maybe some discussion around the EBITDA guide.

Michael Willis

So from what we saw in the year, I'd say it was in line with expectations, and we've talked in the past about operating leverage bringing about 50 bps a year on expansion.

But again, I would just point to, and it's baked in our guide for '26, with that contract mix of Seemann and MSC and the heavy nature of cost-plus contracts, we do have that in our guidance numbers.

That's why you do see that is the primary reason in fact why adjusted EBITDA margin would be lower in '26 versus '25.

Operator

Your next question comes from the line of John Godyn with Citigroup.

John Godyn

First, I just wanted to chat a little bit about the supply chain. How would you characterize the supply chain at present any bottlenecks?

And any ramifications from what's going on in the Middle East?

Jonathan Rambeau

Yes. This is Jon. I'll start and maybe hand it off to Jonathan. I guess one of the things I would start -- was saying here is that, in the first few days, I've been with the business, I spent some time with the team talking about both the growth trajectory as well as current operations. And as I ask questions, one of the things that surprised me was that there was not a significant concern raised to a large extent around supply chain.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

So as we look at the Karman operating model and strategy, the bringing together of pieces of the supply chain into the integrated family of Karman product lines that we have here today, I think we've really derisked to a great extent the supply chain concerns that would normally be seen at this layer of the overall defense supply chain.

A couple of minor areas that I think Jonathan might want to talk to here.

But generally speaking, I would say supply chain risk is low.

Jonathan Beaudoin

Yes, as our customers are engaging with us, collaborating with us on the rates and timing of the ramp-ups, we are in kind doing the same with our suppliers going to them, communicating the planned rates, understanding what their capacities are so that they're ready to support us. And as part of that, we're looking to engage with them on longer-term deals so that we can secure our materials from a cost standpoint as well.

John Godyn

Great. Very helpful color. And just changing gears on Golden Dome, I think your phrasing was you have a lot of confidence as Golden Dome materialize, but the timing is uncertain. Maybe we could just sort of unpack that, the confidence that it will materialize, but then also what is driving uncertainty on timing, whatever you're willing to -- whatever color you want to offer, appreciate it.

Jonathan Rambeau

Yes. I would say from a Golden Dome point of view, overall, it's clearly a priority initiative for the nation.

There's going to be a lot of emphasis on the program as we continue forward. How exactly all of the priorities of Golden Dome will be implemented is still a little bit unclear.

And we -- given we reset in the supply chain, would anticipate that a lot of the volume to support Golden Dome will actually come through modifications to existing production programs.

So, I think that PAC-3, standard missile, for example, those types of programs are already in place, and the adjustments could be made to the production rates.

In fact, those have already been largely communicated to the public.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

So, I think that the timing again is the question. And as I said earlier, I think that we can perhaps start to see some of the upside driven by Golden Dome coming towards the end of the year in the form of orders with potential revenue as we start to look into 2027.

Jonathan Beaudoin

The only thing I would add is Golden Dome is, call it, one vector of growth that we'll see. The supplemental - munition supplement - provides another opportunity.

So, we won't get a PO that says necessarily "Golden Dome."

So, that is baked into the ramp-ups that we're collaborating with our customers on being able to support.

Operator

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

Louie DiPalma

Congratulations, Tony. And Congratulations, Jon. I was wondering for either Jonathan, Tony or Jon, can you discuss the trends that you're seeing in your space business with NASA, Blue Origin and ULA and some of your other customers?

I think the recent Vulcan launch experience an anomaly, and there's been some changes with the Artemis program, but can you describe at a high level the trends you're seeing and how that impacts your 2026 projections?

Jonathan Rambeau

Yes. I think from a space perspective, the way we're looking at it is that the demand for space launch is going to remain strong.

So, having a strong position across the space launch, call it, prime supply chain, I think we have a good position here.

And while we may see, for example, a temporary setback for ULA as they work through some technical challenges, and we may see others project perhaps more and more strong near-term opportunity to support such initiatives or launch events, I should say.

Overall, we have confidence that the trajectory we've been on will continue to be as it presses forward, even though the mix from one provider at the prime level to another may adjust.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Jonathan Beaudoin

Yes. Again, our strategy is to support all the launch providers.

So, should one have a bump, like ULA, we are supporting all of them. Interestingly enough, Artemis is showing some positive demand signals for us.

So, we do see opportunity there on both SLS and Orion to support that program.

Louie DiPalma

Fantastic. And for you, Jon, you bring a unique perspective in that you came from L3Harris and you also came from Lockheed, which are Karman's larger customers.

I was wondering, do you see opportunities for the defense primes to offload more of the research and development and offload more of the subsystems development to Karman? Do you think there's potential there for you to like gain like market share from your customers in terms of the production of these munition systems?

Jonathan Rambeau

In both instances, I think the answer to your question would be yes. I think there's certainly more opportunity for Karman to support the primes.

That's been part of the overall strategy of the company, to look within the second tier of the supply chain and find opportunities to bring together companies that, on their own, may not have had the resources to invest at the levels required to scale in the way that the primes, both traditional and nontraditional primes, are likely to be expected to in the coming years.

And so, we would look to be additional adjacent areas to support, whether that be development or work production and continue to scale the volumes of the products that we're supporting today.

So yes, I see significant additional opportunity as time continues on I would temper that by saying the opportunity that we see at this point in time is in the '26 guidance.

Operator

Your next question comes from the line of Alexandra Mandery with Truist Securities.

Alexandra Mandery

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Nice results. I just want to ask, can you provide more color on the contract delays including the size of the headwind to backlog and growth and if this is embedded in the outlook, if at all?

Michael Willis

The size of delay, that might be a little bit more difficult in terms of the exact figure itself.

We are a constant contact and communication dialogues with our customers, and so that is getting better.

We have great confidence that it is truly just a delay and it's a timing matter rather than, will the orders come through.

So, we are confident that our customers are also confident that it is really just a timing matter.

Jonathan Rambeau

Yes. I think having just joined the company and certainly talking with other companies in the industry over the last six months, I think that the delays that Karman's experienced would be not inconsistent with what other companies in the industry experienced during the same period of time if that helps.

Alexandra Mandery

That makes sense. Yes. Yes, perfect.

Then I guess, one other follow-up was that we've seen a push towards low-cost, high-volume production of munitions and upon systems by the Department of War.

So, are you working with any new entrants that are playing in this space?

Jonathan Rambeau

Yes. We are.

We have -- we enjoy a really healthy position here at Karman. We're on over 130 programs, and we're working with 80 different customers, most of which are prime across the space and defense landscape. Certainly, all of the established primes as well as the newer entrants.

So, we're pretty well diversified from a coverage perspective.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Jonathan Beaudoin

And we're built from a manufacturing standpoint to support those types of lower-cost, high-volume systems that are gaining traction in demand.

As an example, ISP has a commercial offering of launch motors.

So, we're able to leverage those commercial launch motors for DoD applications, or DoW.

Operator

Your next question comes from the line of Austin Bohlig with Needham.

Austin Bohlig

Congrats on the solid results. The first question just has to do with the new updated guidance and there's just some big supplemental packages possibly going through Congress related to the conflict in Iran. How should we think about potential upside with possible new funding that could be coming related to that war?

Jonathan Rambeau

Yes. Thank you, Austin. I appreciate the question.

I guess the first question is if that supplemental continues to move forward, how long is it going to take to find its way into law and then into funding. Certainly, while we see there's good reason for that supplemental to be pushed forward based on what we're seeing now on the hill, it's a little bit unclear how long that's going to take to work its way through and the path is not going to be an easy one.

So, timing would be a question. If that were to move quickly, certainly, there might be something that could materialize before the end of this year.

But again, our best guess at this point in time is those things that could present upside would likely materialize in orders as early as the fourth quarter of 2026, with real volume potentially in 2027.

Austin Bohlig

Got it.

I guess Jon, one more question for you. Just given your deep background in the space, and just

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Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

given Karman's history of being very acquisitive, I guess, like, what capabilities do you think are most of interest that might make sense to go out and purchase an M&A.

Jonathan Rambeau

Yes. Look, I've had an opportunity to spend some time with the team looking at the M&A pipeline, and it continues to be one that has a number of opportunities in it that are under various stages of evaluation.

Certainly, as you're thinking about things that might be of interest to Karman, I would look at things that are complementary or adjacent to the things that we do today if you look at how we put the company together to date, that's largely been how we've constructed it, and there tends to be value that accrues across the broader portfolio with each one of these portfolio businesses that we've acquired.

One thing we've been really thoughtful about is, we are a supplier to 130 companies, most of them primes.

So, we're really thoughtful about not wanting to directly compete with our customers.

So we're looking at how we can bring together pieces of the sub-tier supply chain in a more meaningful way that brings greater value to the primes than if they were to try to do these things themselves, or as traditionally in many cases, has happened to try to piece them together with a number of smaller businesses that just have less capacity to invest and scale.

So, that's the lens that we're putting over the landscape. We're also looking for high-technology, IP-rich opportunities, as has been our historical trend and our focus.

Operator

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

Victor Santiago

This is (Victor Santiago) on for Amit (Daryanani). Congrats on the solid quarter and wishing Tony a happy retirement from the team. I wanted to ask about the backlog.

I understand that you guys don't guide by segment, but can you help us better appreciate the composition of your backlog and which segments that you see driving the recent expansion?

Michael Willis

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Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

I would just point you that we are seeing solid growth in now all four of our end markets.

The reason why I wouldn't maybe call out one in particular is because there is a timing aspect of contract awards, whether it's a Space and Launch commercial platform, award of longer-term contracts now of course with Maritime.

So, the composition can shift from one quarter to the next.

In a longer-term horizon of a year, it's rather pretty well balanced in terms of bookings and what that looks like.

But I would just leave it with all four have great growth drivers behind them.

We expect that, that trend is going to continue on all four of those end markets.

Victor Santiago

Got it.

To follow up on the last question around M&A. Just how can we think about Karman's appetite to do another acquisition following the Seemann and MSC acquisition, just given where net leverage is just over 3x.

Jonathan Rambeau

Yes. This is Jon. Look, I would say as I've come on board, it's impressed me how well Karman has perfected the process of M&A integration.

One of the things that's been really impressive to me, and as you know can often trip up the integration process, is culture.

And what I've seen is that, first off, the core Karman business has a very healthy culture, and one of the things that really attracted me to this job as I got to know Tony and know the business was the way he's led this team in the way I would lead this team, and I will lead the team going forward.

And the companies that have joined the portfolio are very enthusiastic about being a part of this business. They understand what's been happening here. They see it as something special, and they want to become part of this team.

That's really made the integration process very straightforward.

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Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

I've met with representatives from all of the component parts of the company in my short time here these last few days and honestly, there's just a lot of enthusiasm, and that's made the integration process more straightforward.

So, back to the question of appetite, I think the appetite is there if you think about the mix of organic and inorganic growth that we are projecting going forward. That will depend upon a certain amount of continued M&A activity.

We won't get out over our ski tips and bite off more than we can chew.

But I think there's a formula here, and as long as we stick to the formula, things will continue to go well and we'll continue to see that balanced mix of growth in the business for the years to come.

Operator

Your next question comes from the line of Michael Leshock with KeyBanc Capital Markets.

Michael Leshock

I wanted to follow up on the NASA Ignition program announced yesterday to accelerate work on the moon.

You did -- you talked about your ability to support the launch providers.

But are there any other areas outside of just launch that you might have exposure to as NASA looks to build out the lunar base over the next decade, maybe within satellite technology or anything else there that you can highlight?

Jonathan Rambeau

Yes.

We do have some participation outside of strictly the launch component of the full equation.

In fact, space vehicles is an area where we do have some work that's active. And Jonathan, I'm not sure how much we can say about that work, if you want to add anything to that?

Jonathan Beaudoin

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Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Yes. It's one of those where we look at the capabilities set that we have, and they have broad ability to support our customers, really kind of independent and into what their mission ends up being.

And so yes, we have built out at our Seattle facility, a large clean room to support spacecraft integration and assembly work.

So, we would be able to support satellites and spacecraft from that facility, but certainly, we're very engaged with the NASA and the prime customers on the Ignition program to see how we can support.

Michael Leshock

Great.

Then switching to hypersonics, just given the significant growth that we're seeing across the industry there, and clearly, budget support for those initiatives. Is there any more color you can provide on how significant some of these growth opportunities could be within hypersonics over maybe the next year or 2?

Jonathan Rambeau

Yes. I'm not sure how much I want to speculate on the growth of specific initiatives in hypersonics.

I mean clearly, it's a continued area of focus for our customers. It is an area where we do, again have -- we have participation across a number of programs that are in various stages of development.

We have some that are classified.

We have some that are a little more out in the open. And again, we follow our customers' lead on those.

So, I would say it will continue to be a significant focus for us.

It's a part of our portfolio that continues to grow along with the other pieces.

I think we said that Hypersonics and Strategic Missile Defense grew for us, about 31% year-over-year in '25.

So, it's a healthy growing part of the business.

Karman Space & Defense

Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Operator

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

Kenneth Herbert

I appreciate the follow-up. I know the vast majority of what you sell you're sole source, but are you aware of any specific efforts or even broader effort by your customers try and add on second sources beyond yourself on any particular programs?

And if so, how do you view that risk?

And obviously how do you then go about trying to prevent that?

Jonathan Rambeau

Yes. Ken, certainly, it's something we've talked about.

I think that right now we aren't aware of any initiatives of our customers to second sources for performance or capacity or any other reasons.

As we look though, at the increases that are contemplated.

One of our highest priorities is first off, to make sure we're performing and meeting our commitments to our customers today, and I've been in touch with many of our customers in this last several days here to reinforce our commitment, and we'll be meeting with them in the weeks to come here.

Our focus is to make sure that we never become a chokepoint, a bottleneck or a risk for our customers. I mean Jonathan mentioned the redundant - we're putting in additional capacity for nozzle production.

We're also doing that deliberately in those locations from our primary nozzle production, and part of that is to provide some redundancy to our customers without having to contemplate going elsewhere to get redundancy for those critical capabilities.

So, it's something we think about it, something we talk about.

It's something that is part of our strategy. And certainly, we are committed not to be a choke point or bottleneck that would put our customers in the position, frankly, over time consuming and costly qualification of another source.

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Fourth Quarter and Full Fiscal Year 2025 Earnings Conference Call

Operator

That concludes our question and answer session. I will now turn the call back over to Steven Gitlin for closing remarks.

Steven Gitlin

Thank you, Tiffany.

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 and industry news can be found on our website at 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 your participation. You may now disconnect.