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Karman Space & Defense (Q1 2026 Earnings)

Karman Space & Defense First Quarter Fiscal Year 2026 Earnings Conference Call

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CORPORATE SPEAKERS:

Steven Gitlin

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

Jonathan Rambeau

Karman Space & Defense; Chief Executive Officer

Michael Willis

Karman Space & Defense; Chief Financial Officer

Jonathan Beaudoin

Karman Space & Defense; Chief Operating Officer

CORPORATE SPEAKERS:

John Godyn

Citigroup; Analyst

Jans-Frans Engelbrecht

Baird; Analyst

Alexandra Mandery

Truist; Analyst

Kenneth Herbert

RBC Capital Markets; Analyst

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PRESENTATION:

Operator

Hello, everyone. Thank you for joining us.

Welcome to the Karman Space and Defense First Quarter Fiscal Year 2026 Earnings Conference Call.

After today's prepared remarks we will host a question-and-answer session. (Operator Instructions)

I will now hand the conference over to Steven Gitlin, Senior Vice President of Investor Relations and Corporate Communications.

Steven, please go ahead.

Steven Gitlin

Good afternoon. And thank you for joining Karman Space & Defense's First Quarter Fiscal 2026 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 John Rambeau, 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 that are based on current expectations, forecasts and assumptions and that involve risks and uncertainties.

These are described on page 2 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 that we believe can be useful in evaluating our performance. Such non-GAAP financial measures should not be considered in isolation or a substitute for results prepared in accordance with GAAP.

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Our earnings 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 May 12, 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 John Rambeau.

Jonathan Rambeau

Thank you, Steve. And good afternoon.

Today I'll begin by summarizing our record first quarter performance. Then Mike Willis will review our financials, followed by Jonathan Beaudoin, who will discuss the demand environment and our capacity expansion initiatives.

I'll wrap up with our outlook before we take your questions.

Before we review our results, I want to acknowledge the service and sacrifice of the men and women who protect our nation, both at home and abroad, especially during these challenging times. Allow me to also recognize the achievements of our Astronaut Corps and the dedicated teams at NASA and throughout the space supply chain.

At Karman, we're proud to serve these individuals every day with the critical systems that help protect and propel them to new heights.

It's been an exciting and rewarding six weeks since I joined Karman.

In that time, I visited six of our sites across the country from California to Pennsylvania from Mukilteo to Mississippi.

I've gotten to know the people and the technology that have made Karman successful.

I've also spoken with customers who consistently praised the value Karman delivers.

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I've had the pleasure of meeting many investors, some already shareholders and others who may join us in the future. Their feedback has been constructive and is always appreciated.

Two questions, I'm often asked are: number one, what prompted me after 30 years working in the defense prime to join Karman; and two, what do I plan to do differently here?

To the first, I spent 30 years in defense. Yet when I began studying Karman, I saw something I hadn't seen before. The company's growth trajectory, product line pedigree and unique merchant supply position as a provider to the primes across defense, space and launch made this an opportunity I couldn't pass up.

To the second, I believe Karman's strategy is working well, so I don't see a need for substantial changes in strategy or the trajectory of the company. My focus is on the continued strength of relationships with our customers and our investors, and on meeting our commitments to our customers with on-time product system delivery, and to our shareholders via continued organic and inorganic growth and bottom line returns.

Finally, I'm focused on the continued optimization and integration of capabilities across the company to unlock the full value of the Karman enterprise.

As we come through the balance of 2026, I look forward to ongoing engagement with employees, customers, investors and analysts and to your questions and feedback.

Now let's turn to our results.

Our team delivered another set of record results in the first quarter.

As shown on page 4 of our earnings presentation, highlights include:

- Record quarterly revenue of \$151 million with year-over-year growth across all three end markets and the addition of our new maritime defense systems end market.
- Record quarterly gross profit of \$64 million
- Record quarterly adjusted EBITDA of \$45 million
- all-time high backlog of more than \$1 billion.

And given our strong performance and high visibility, we are now raising our full-year revenue and adjusted EBITDA guidance, as I'll detail shortly.

Our Seemann Composites and MSC acquisition, which closed in January, contributed two months of revenue this quarter. This represented about half of our year-over-year quarterly revenue growth. Just two weeks ago, I visited our sites in Horsham, PA and Gulfport,

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Mississippi, and I was impressed by the depth of capabilities, breadth of solutions and the energy of our team, an impression that's been consistent across every site I've visited.

Some of the sites I visited produce critical components for the space industry.

One of the most exciting recent developments was a successful Artemis II moon mission in April. Karman supplied key subsystems for the SOS launch vehicle and the Orion capsule.

Our space and launch market produced 29.5% year-over-year revenue growth, underscoring our key position in the space ecosystem and as highlighted with our inclusion in Morgan Stanley's recent space trade list.

The Artemis II success and the restructuring of the Artemis program, with annual missions now planned through and beyond 2029, have increased both customer engagement and contracting momentum.

Karman has a long, proven track record in space, and we look forward to continuing to support all major U.S. launch providers, both established and emerging, as well as our integration of a lunar lander for NASA's CLiPS Program.

We're off to a strong start in 2026, and we believe market dynamics point to continued opportunity through the end of the decade and beyond.

With that, I'll turn it over to Mike for a detailed financial review.

Michael Willis

Thank you, John.

Our record first quarter demonstrates Karman's continued strength and momentum as shown on page 5:

- Revenue of \$151 million was up 51% from Q1 fiscal 2025
- Gross profit of \$64 million grew 62% with a gross margin of 42%
- Net income was \$8 million compared to a \$5 million loss last year
- Adjusted EBITDA reached \$45 million, up nearly 50% year-over-year as compared to Q1 fiscal year '25
- Adjusted EPS increased more than 100% to \$0.11 per diluted share from \$0.05
- And backlog grew 61% year-over-year to more than \$1 billion.

Each of our three legacy markets produced strong year-over-year growth in Q1, as shown on page 6:

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- Hypersonics and strategic missile defense revenue grew 19% to \$36 million, driven by increases in strategic programs
- Space and launch revenue grew 29% to \$44 million, driven by the timing of orders for critical content supporting both legacy and emerging launch providers and spacecraft
- Tactical Missiles and Integrated Defense Systems revenue rose 25% to \$45 million, primarily due to demand associated with the continued adoption of advanced drone and loitering munition systems and an increase in production output for GMLRS
- Maritime Defense Systems contributed \$26 million, primarily from ongoing submarine and LCAC programs, among others.

First quarter revenue mix was:

- Space and launch, 29%;
- Hypersonics and SMD, 24%;
- Tactical missiles and IDS, 30%;
- And Maritime Defense Systems 17%.

Turning to the balance sheet:

- We continue to prioritize growth as we consider capital allocation decisions
- We ended the quarter with \$74 million in cash and cash equivalents, up \$40 million from year-end '25
- CapEx totaled \$7 million supporting growth in nozzle capacity, UAS launchers, launch vehicles and spacecraft manufacturing capabilities
- Total debt stands at \$758 million with an interest rate of SOFR plus 2.75%
- We expect leverage to decline to approximately 3x adjusted EBITDA by the end of 2026
- Our untapped revolving credit facility increased from \$50 million to \$150 million, providing further flexibility

We expect a statutory tax rate of 26.5% for fiscal year '26 and CapEx at roughly 5% of revenue or approximately \$36 million.

We expect that D&A and interest expense will moderately increase due to the acquisition of Seemann and MSC.

Regarding margins, we continue to focus on operational efficiency and scale which we expect will support strong margins as we grow.

Now I'll turn it over to Jonathan for an update on market demand and capacity expansion.

Jonathan Beaudoin

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Thank you, Mike. The demand environment remains very favorable for Karman, and we're investing in capacity to support our customers.

The President's FY 2027 defense budget request, published in late April, is the very first step in the congressional appropriations process that typically plays out over a multi-month period and could result in compromises and changes. Nevertheless, the budget request includes sharp procurement funding increases for the programs Karman supports.

For example, in hypersonics and SMD, the request proposes a tripling of SM-6, near quadrupling of PrSM and more than eightfold increases in SM-3, PAC-3 and THAAD funding.

Other data points support significant increases in production for key programs. The prime contractor for PAC-3, PrSM and THAAD recently announced that it had reached a multiyear framework agreement with the U.S. government to triple PAC-3 production and quadruple the production of THAAD and PRISM.

In Tactical Missiles and IDS, the request includes over \$53 billion for drone dominance with more than \$14 billion for counter-UAS development and deployment.

The extensive deployment of both loitering munitions and counter-UAS solutions as a result of recent conflict in the Middle East has driven demand for our UAS launch systems production.

In Maritime Defense, funding for Columbia and Virginia class submarine programs is set to rise by over 30% from \$23 billion in 2026 to more than \$31 billion in 2027. We believe we provide unique, qualified content for these programs.

For space and launch, the request includes \$71 billion for the Space Force with \$4.2 billion for launch services targeting 22 national security launches in FY 2027. As a reminder, we support the major U.S. launch providers and several emerging providers.

Reflecting the growing interest in our capabilities and the growing value of the opportunities we can pursue, we've seen a marked increase in proposal volume and an even greater increase in proposal value for our integrated systems. These proposals include concepts to support next-generation systems to enhance our nation's capabilities in space and defense.

With respect to capacity, we are installing advanced production technology to boost output, quality and productivity with deployments continuing through the year.

For nozzles and UAS launchers, specifically, our current capacity places us ahead of demand, and our new Salt Lake City facility will keep us ahead as it comes online and demand grows.

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That new facility will add nearly 200,000 square feet of operating floor space and is on track for expected initial production capability in Q4 of this year.

We're also completing a large logistics and polymer facility at our Gulfport site to support continued growth there.

We are already benefiting from targeted applications of AI to help make our business processes more efficient and accurate. At the same time we are exploring its broader applications to enable enterprise transformation.

Finally, the integration of Seemann and MSC is progressing well, with teams collaborating on best practices and operational synergies to enhance our offerings.

One example is how our Seemann and MSC acquisition instantly expanded our advanced materials technologies intellectual property and manufacturing capabilities across the enterprise to propel new solutions for customers in all markets.

We are ramping up capacity to serve customers with speed, agility and scale. Karman is ready to deliver.

Now I'll turn it back to Jon.

Jonathan Rambeau

Thank you, Jonathan.

In my short time here, what I've come to appreciate most is that Karman is truly a different kind of space and defense company, a sentiment echoed by customers, investors and employees alike.

We are built to deliver speed, agility and scale, so our customers can succeed. A large part of what makes Karman special is our talented team of nearly 2,000 employees and the leaders who set the vision for that workforce.

We've made some recent changes that will strengthen the leadership team and accelerate our growth.

I'm pleased that Doug Laurendeau has joined us as Chief Growth Officer, bringing a proven track record from his decades of service to Lockheed Martin.

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Stephanie Sawhill has assumed the role of Chief Technologist, where she will continue to evolve our technology roadmap and engage with customers around the integrated solutions of both today and tomorrow.

Both of these appointments will help Karman strengthen our competitive moat and create shareholder value.

Another factor that sets Karman apart is the strong long-term relationships we built with our customers. In many cases, we have decades of experience delivering critical systems to support them. We believe this track record has established Karman as a trusted supplier and partner.

As customer demand for a number of programs reaches new heights, strong relationships and clear communication are more important than ever. These connections help us profile our capacity investments as our customers increase their volume commitments to end users.

In last quarter's call, we discussed recently announced framework agreements and whether Karman had received commitments as a supplier under those agreements.

At that time, I referenced verbal discussions that are underway. This quarter, I'm pleased to announce that we have now received written contingent demand commitments from four of our largest customers, in both the space and defense sectors. These commitments cover payload protection, propulsion and space launch core-stage products, and guarantee Karman certain multiyear production levels subject to our customers receiving contracts from their end customers.

The time horizon of these commitments ranges from four to seven years. They have the potential to yield revenue in excess of \$1 billion when fully realized and give us greater certainty as we plan investments and scale operations.

With respect to capital allocation, we'll continue to complement investments in organic growth with strategic acquisitions to deepen and expand our capabilities.

Our pipeline remains healthy, and we expect to pursue one to two targeted acquisitions per year at similar multiples as past transactions.

Looking ahead, with our strong Q1 results, record backlog and greater certainty of demand, we are raising our 2026 outlook as summarized on page 7 of our presentation.

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We now expect full year revenue of \$720 million to \$735 million and non-GAAP adjusted EBITDA of \$208.5 million to \$219.5 million, with 29.4% margin to the midpoint. This represents 54% year-over-year revenue growth and 47% adjusted EBITDA growth.

We expect revenue growth this year to be evenly split between organic and inorganic sources, with the impact of our increased guidance affecting the second half of 2026.

At this time, our strong backlog, combined with first quarter revenue, provides approximately 90% visibility to the midpoint of our full year revenue guidance. The remaining 10% is expected from anticipated contracts on existing programs.

Strategic positioning has placed us on track to exceed our prior forecast for the year. We're seeing a generational demand for our solutions unfolding in a rapidly expanding pipeline and substantially increased proposal volume, which we expect to translate into growing bookings later this year.

As funding for our core defense programs accelerates, and space launch activity increases, the commitments we're securing today provide a clear runway for continued momentum through 2027 and beyond. We remain focused on making the prudent investments necessary to deliver the volume our customers rely on to satisfy their customers.

Thank you for your time today.

It's an exciting time for me and an even more exciting time for Karman.

Now let's open up the call for questions.

Operator

(Operator Instructions) Your first question comes from the line of John Godyn with Citigroup.

John Godyn

I wanted to follow up on the missile framework agreements, kind of an exciting development.

I'm just trying to better understand the nature of the agreement. You suggested there were volume minimums and what the shape of that revenue growth outlook may look like going forward.

We've had other companies talk about acceleration, sharp acceleration at the end of this year and in '27. Any color there would be helpful.

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Jonathan Rambeau

Yes. Thanks for the question, John.

I guess how I would start with that is to say that the commitments vary by customer.

We do have commitments that have come through, both on the, call it, related to the framework agreements as well as related to at least one of our space and launch customers.

So, it's -- they're varied and they came in different forms, letters of intent, draft long-term agreements that are yet to be finalized, if you will. But across the board, we have -- we're starting to see customers come forward with these requests for longer-term ramps in production.

So, I would say that we are seeing volumes increasing consistently year-over-year. I would say that what we're seeing is initially, I would say probably a floor that will have some upside.

As we -- I think what we're seeing with the customers is that they are looking at how they anticipate the entire supply chain is going to be able to ramp, and they're forecasting perhaps a little bit conservatively.

John Godyn

Got it. That's helpful.

Then just on that last point on supply chain. Anything to call out in terms of the supply chain as production ramps?

Jonathan Beaudoin

I'll step in here. This is Jonathan. That's something that we continue to manage on a regular basis.

So, we're engaging with our suppliers and flowing similar demand signals to them so that we're able to secure the inputs to our products. So, right now we're not foreseeing any significant constraints there, but it is something that we manage on a regular basis.

Operator

(Operator Instructions) Our next question comes from Jan Engelbrecht with Baird.

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Jan-Frans Engelbrecht

Congrats on another strong print.

I wanted to get back on unmanned systems.

I know you've got some very good exposure there on the legacy partners that you have on launchers and wings as well.

But if we just look at the drone dominance program, \$54 billion, how are you seeing sort of that your ability to participate in the Group one to four, and even the CCAs, where do you think is the sweet spot for Karman and your capabilities?

Jonathan Rambeau

Certainly, the demand for the systems we've been providing, the launching systems, in particular, we're seeing that continue to increase.

So, we've anticipated that that demand was going to be coming. Certainly, the recent situation that's played out in the Middle East has only made that demand stronger.

So, we've started to see larger volume orders coming in for -- whether it's components that support the unmanned systems themselves, whether it's the launching systems, demand is continuing to increase, and we're going to be able to meet that demand with the new capacity we're putting in place in our Salt Lake City facility.

So, I think across the spectrum, there will be opportunities to participate. As you look to more, call it, the larger unmanned systems there, I think we would have opportunities to contribute with some of our advanced composite systems and technologies.

I would say that's probably a little bit more yet to be defined at this point in time.

Jan-Frans Engelbrecht

That's very helpful.

Then just a quick follow-up, if I may. You already have 90% revenue visibility.

But if we just look at, I know the 2026 reconciliation funding is only about 30% of that \$150 billion that has already been obligated to the industry.

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So, we obviously expect that pace to pick up the rest of that year and then you have this potentially very big '27 reconciliation. We'll see what happens if they vote on that.

But is there a sort of -- do you see upside to sort of as you exit '26 in terms of the visibility that you usually enter the year?

I think Karman usually enters the year with about 70%. But I would think maybe if you exit '26, you probably have the ability to have more than that given the huge funding tailwinds.

Jonathan Rambeau

Yes. I think what we see so far, obviously we've taken our guidance up just modestly so far through this quarter. And as we look towards the end of the year, say Q4 timeframe, we're looking to see some of that funding flow through in the form of new contracts. And as we move into '27, we think that's only going to strengthen.

So yes, as the year goes on, we'll continue to provide updates, we've guided to what we can see at this point in time, but we feel very confident, having the 90% visibility at this point in the year.

It feels very good.

Jonathan Beaudoin

A bit of a go-back to the first question. This is Jonathan Beaudoin. Karman has extensive experience and heritage integrating various payloads onto UAVs and larger fixed wing aircraft.

So, as that continues to expand, we see that as a potential opportunity for us to help integrate payloads and dispense them from those aircraft.

Operator

Your next question comes from Alexandra Mandery with Truist.

Alexandra Mandery

Nice results. Can you give more color on what M&A target profiles look like?

I'm sure you're looking to add capabilities, but anything else in terms of geographic footprint or to increase capacity inorganically?

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And I guess what would be the end market you're looking to add new capabilities (inaudible)?

Jonathan Rambeau

Alexandra, thank you for the question.

We continue to maintain a pipeline of potential acquisition candidates. And as you might expect, we're looking at things that are relatively close adjacencies to the capabilities that we have today, and we've continued to put those pieces together as you've seen in the past. And certainly, as we look to the future here, how do we continue to expand our advanced materials capabilities, how do we continue to incrementally expand in missiles and munitions.

You might look at capabilities that are very close adjacencies, as I said, to the capabilities that we have today.

I wouldn't be surprised if we saw another small bolt-on acquisition between now and the end of the year.

We'll share more details about that when we're able.

Alexandra Mandery

Great. Then just another quick one.

What are you seeing in terms of labor?

Any difficulties in adding new labor or retaining labor?

Jonathan Rambeau

We're not seeing significant difficulties with labor at this point in time.

Obviously, we have to continue to keep an active campaign in place to recruit and retain employees as the business continues to grow, but I wouldn't say labor shortages are a significant constraint for us at this point in time.

Operator

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

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Kenneth Herbert

First question, clarification. I just wanted to be sure the 90% visibility. Did that include any of these framework agreements?

Or are they not included yet in sort of expectations in terms of visibility for this year?

Jonathan Rambeau

I think the answer to that is it's a little bit of a mix.

As you look at the commitments that have come through to us from these key customers, there are some volumes here that were in forecast for 2026, work that we expected. In some cases, there's perhaps a bit of modest upside to 2026, but then a lot more visibility into '27, '28 and '29 and beyond.

So, I would say a small percentage might already have been in our plan for this year. The balance of it would be upside, mostly looking to future years.

Kenneth Herbert

Okay. That's helpful. And how do we think about -- I know you called out sort of, the total growth, sort of half was contribution from M&A.

It seems like though that maybe that number was a little bit higher. How do we think about sort of the underlying organic growth when we think about the first quarter acquisitions, but then some of the '25 acquisitions as well.

Michael Willis

Ken, this is Mike.

I'll start by addressing it. So, we still would expect that our full year '26 of the growth that we're seeing, it's roughly half of it organic and half of it inorganic. The first half of the year is going to have a little bit more of the inorganic side of it just based on timing of when those purchases were done last year, when you think about MTI and ISP being right at the start of Q2 and mid-Q2.

So full year still maintaining that. We have great visibility on seeing a roughly even split between organic and inorganic.

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It will be a little bit more on the organic side in the second half, as just based on the timing of those purchases last year.

Operator

There are no further questions at this time.

I will now turn the call back to Steven Gitlin for closing remarks.

Steven Gitlin

Thank you, Ellen.

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, 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 for attending.

You may now disconnect.