08 - 06 - 2026

Karman Space & Defense

Second Quarter Fiscal Year 2026 Earnings Conference Call

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TOTAL PAGES: 26

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Jon Rambeau
Karman Space & Defense; Chief Executive Officer
Michael Willis
Karman Space & Defense; Chief Financial Officer
Jonathan Beaudoin
Karman Space & Defense; Chief Operating Officer

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William Blair; Analyst
Kenneth Herbert
RBC Capital Markets; Analyst
Amit Daryanani
Evercore; Analyst
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Citi; Analyst
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PRESENTATION:

Operator

Karman Space & Defense

Second Quarter Fiscal Year 2026 Earnings Conference Call

Hello, everyone. Thank you for joining us. Welcome to the Karman Space & Defense second quarter Fiscal Year 2026 Earnings Conference Call. (Operator Instructions) I will now hand the conference over to Steven Gitlin, Senior Vice President of Investor Relations. Steven, please go ahead.

Steven Gitlin

Good afternoon. Thank you for joining Karman Space & Defense's second quarter Fiscal Year 2026 Earnings Conference Call. I'm Steven Gitlin, Senior Vice President of Investor Relations and Corporate Communications. Joining me today are Jon Rambeau, Chief Executive Officer; Mike Willis, Chief Financial Officer; and Jonathan Beaudoin, Chief Operating Officer.

Before we begin, please note that many of the statements made on this call are forward-looking. These statements involve risks and uncertainties that may cause actual results to differ materially.

We encourage you to review the risk factors discussed in our filings 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.

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 August 6, 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.

We have posted our earnings release and presentation on our website at karman-sd.com. Now I'll turn the call over to Jon.

Jon Rambeau

Good afternoon. In the four months I've been with Karman, I've worked intensely and methodically to evaluate our strategy, our operations, and our progress as we continue in our second year as a mid-cap public company.

I'm very proud of what Karman has accomplished, and I'm pleased to see our hard work reflected in milestones such as our recent addition to the S&P SmallCap 600 Index. Against all measures of progress, we're seeing positive results.

Second Quarter and Recent Highlights

Shown on Page four of our earnings presentation, highlights in and since the second quarter include:

- Sequential revenue growth of 20.4% from the first quarter to the second
- Year-over-year quarterly organic growth of 24.4%, representing revenue growth from businesses we've owned for more than 12 months
- Record backlog of $1.3 billion
- Record quarterly bookings of nearly $500 million
- Initial fit-up of a 200,000 square foot factory in Salt Lake City with production capability online before the end of 2026
- A large, long-term agreement executed with the space and launch customer further to the contingent agreement received earlier this year
- Meaningful progress toward remediating the material weakness previously shared in our public filings. We anticipate the necessary controls to be fully implemented by the end of 2026, with testing of operating effectiveness expected to continue into early 2027.
- Selection of, and transition to, PwC as our new audit firm, moving Karman into the ranks of other established public companies working with a Big four auditor
- Signed agreement to acquire Walker Precision Engineering, establishing a beachhead position in Europe with relationships across the spectrum of European defense primes. Additional details on the Walker acquisition can be found on Page 5.

With these accomplishments as background, today I'll summarize our record second quarter performance, highlight the progress we've made, and outline the priorities guiding our next phase of growth. Then Mike will discuss our financial results and guidance, Jonathan will provide updates on demand, integration, and capacity expansion, and I will discuss our growth trajectory before we take your questions.

Record Quarterly Financial Results

From a performance point of view, as shown on Page 6, we delivered another quarter of record financial results, with quarterly revenue of $182 million, non-GAAP adjusted EBITDA of $55 million, and backlog reaching $1.3 billion, giving us 95% visibility to the mid-point of our full year revenue guidance.

Strong Organic Growth

We expect our strong organic growth rate to continue and want to provide additional clarity on why short-term organic growth isn't as useful a metric for our integrated business model as it may be for other companies.

Some companies manage newly acquired businesses in more of a holding company fashion with minimal operational integration. In contrast, we identify and acquire companies that bring unique and valuable capabilities to Karman, capabilities that allow us to offer greater value to our customers, and we begin the integration process on day 1.

This means that we seek to exploit these capabilities immediately to the benefit of Karman and our customers, regardless of the amount of time they have been a part of the company.

For example, if a newly acquired business is better suited to manufacture products for a long-standing program, then we will move production to that site, regardless of whether the output is considered "organic" or "inorganic."

An example is what we're doing now in Gulfport, where we're transitioning certain products for our space and launch end market from another long-standing business. We categorize this as inorganic, even though it's really organic business that we're simply moving to a recently acquired site that is best suited to its delivery.

From an operational and customer perspective, what we call that revenue is much less important than making the best business decision for the customer and the enterprise.

To provide a second and slightly different example, following the acquisition of our Cedar City, Utah energetics business, we immediately began pursuing new use cases and customers for its capabilities. Having seen rapid success, we created new revenue streams within that recently acquired business that would not have been possible had they remained independent.

We aim to continue pursuing this strategy of moving work and combining capabilities across all of our businesses and will not constrain that strategy by managing to a quarterly organic growth metric that could reduce long-term value capture for the enterprise.

With that said, we remain focused on end markets with very strong organic growth vectors, and we remain confident in our ability to deliver 20% to 25% annual organic growth for the foreseeable future.

Our demonstrated performance supports that growth rate. Quarterly year-over-year organic growth in the five full quarters since our IPO has ranged from 19% to 36%, including 24.4% organic growth year-over-year in the most recent quarter.

As we move forward, we will periodically share organic growth, at a minimum annually, while continuing to focus on optimizing the company for maximum shareholder returns over time.

Commercial Milestones Achieved

Beyond our financial results, we achieved significant commercial milestones that position Karman for sustained profitable growth:

- As we first announced in May 2026, we secured four large contingent supply agreements, one of which converted to a firm contract in the second quarter, with the others expected to close by the end of the year.

- Additionally, while protecting our single and sole-source positions on Munitions Advisory Council, or "MAC", programs remains a top priority, we see this moment as an opportunity also to go on offense in terms of increasing our share as a second source to prime contractors. Not all suppliers have invested as proactively as Karman, positioning us to step in and become a second source where we aren't participating today. Here are several examples of the progress we've made.
    - First, separation motors for a major munitions program
    - Second, expected selection as a second source on a small propulsion system for a widely deployed anti-armor weapon system
    - Third, emerging opportunity as a second supplier for large solid rocket motor or SRM cases
    - Fourth, an opportunity to be a second source supplier for a shroud system on a widely recognized interceptor program.

- And finally, we're also engaging with customers on an opportunity for a future lower-cost interceptor program.

These wins and opportunities reflect growing customer confidence in Karman's ability to scale, innovate, and deliver critical hardware at speed and at high volume. They also reinforce what industry leaders have recently demonstrated: framework agreements are converting into large production contracts, as highlighted by the more than $90 billion in THAAD and PAC-3 interceptor contracts recently awarded to Lockheed Martin.

And these large contracts are not limited to missile defense, as the Navy recently awarded an historic $76.6 billion in contracts for five new Columbia and nine new Virginia-class submarines, programs that we support extensively through our maritime defense end market.

Those contract awards underscore the strength of our pipeline and the state of the global security environment that drives our customers' mission every day.

The demand environment remains strong, with an urgency to replenish depleted munitions and interceptor stockpiles at an unprecedented rate. In fact, some customers are now citing demand to increase certain annual production buys by as much as a factor of 10, which would dwarf earlier projections of two, three, or four times multiples of current build rates.

Karman is purpose-built to respond to this market demand, and we continue to partner with prime contractors to help them deliver reliably and efficiently.

Go-Forward Priorities

Having covered our Q2 highlights, I'd like to turn for a moment to my go-forward priorities:

- First, continue our track record of strong financial performance while capturing generational demand that we see continuing through at least the end of the decade
- Second, fully unlock the value of Karman, leveraging differentiated IP, a growing and well-capitalized development and production system, and a talented workforce. Having now visited 17 of our 20 current and expected to be acquired sites, I have confidence the whole will be realized as more than the sum of the parts.
- And third, drive operational excellence through technology, capacity, and a rigorous operating rhythm.

Areas of Focus

To support these priorities, we've identified key areas of focus:

- First, drive disciplined delivery of free cash. While we still view growth and margin performance as top priorities, you will see increased focus on this metric in 2027, and this will be reflected in our executive compensation incentive framework beginning next year.
- Second, create financial flexibility. As we find opportunities for operational efficiency and operating leverage, this will provide options for price reduction, business reinvestment, or margin improvement in a way that best maximizes long-term shareholder returns.
- And third, continued expansion of our total addressable market, within the high-growth end markets we currently occupy, through both organic and inorganic means.

I am pleased with the progress we've made at the mid-point of the year, and I remain confident that 2026 will be another year of record performance.

With that, and to further discuss that performance, I'll turn it over to Mike.

Michael Willis

Thank you, Jon.

Strong Second Quarter and Year-To-Date Performance

Our record second quarter results demonstrate the continued strength and momentum of the Carbon business model. Pages seven and eight include key financial metrics:

- Revenue of $182 million, up 58% year-over-year and 20% sequentially
- Gross profit of $78 million, up 66% with a gross margin of 43%
- Net income of $14 million, up 106% year-over-year
- Adjusted EBITDA of $55 million, up 55% year-over-year
- Adjusted EPS of $0.14, 43% above last year
- Backlog of $1.3 billion, up 65% compared to the end of fiscal year '25
- Bookings in the quarter totaled nearly $500 million from all end markets, including a large space and launch LTA.

Organic revenue grew 24.4% year-over-year in the quarter. As Jon mentioned, full quarterly organic revenue growth since our IPO has ranged between 19% and 36%, supporting our annual 20% to 25% organic revenue growth target.

Each of our legacy markets delivered year-over-year quarterly and year-to-date growth:

- Tactical missiles and IDS grew 55% to $63 million year-over-year quarterly, and 41% to $108 million year-to-date, led by strength in core production programs including unmanned and counter-UAS and emerging programs transitioning into production
- Maritime Defense Systems contributed $34 million in the quarter and $60 million year-to-date, driven by legacy and next-generation submarine programs
- Hypersonics and strategic missile defense grew 24% to $43 million year-over-year quarterly, and 22% to $79 million year-to-date, driven by growth in key interceptor program production and increased production associated with a new surface-to-surface missile system
- Space and Launch grew 6% to $42 million year-over-year quarterly, and 17% to $86 million year-to-date, supported by content for both legacy and new launch providers, partially offset by customer order timing associated with shifting launch schedules

Our second quarter revenue mix was as follows:

- Tactical Missiles and IDS, 35%
- Hypersonics and SMD, 24%

- Space and Launch, 23%
- and Maritime Defense Systems, 18%

For the six months ending June 30:
- Revenue rose to $333 million, up 55% year-over-year
- Gross profit increased to $142 million, up 64% year-over-year
- Net income grew to $22 million, up from $2 million a year ago
- Adjusted EBITDA jumped to $99 million, up 51% year-over-year
- and adjusted EPS climbed to $0.25, up 56% year-over-year.

Balance Sheet and Cash Flow

Looking now at the balance sheet, we continue to prioritize growth as we make capital allocation decisions, understanding that CapEx and working capital will continue to consume cash through this high-growth cycle.

That said, we're also placing increased emphasis on cash management and will include free cash flow metrics in our executive compensation program, as Jon described earlier.

- Cash and cash equivalents totaled $52 million, up $18 million from year-end
- Cash used in operations was $4 million, driven primarily by increases in accounts receivable and contract assets. This reflects the working capital requirements associated with the 58% revenue growth driving our receivables as well as contract assets from production ramps and investments we are making to expand our capacity. We expect volume and cash generation to accelerate in the second half of '26, delivering free cash flow of $15 million to $20 million.
- Accounts receivable growth in the second quarter was a function of timing in our growth with significant deliveries taking place late in the quarter. Accounts receivable is likely to continue to grow in Q3 and Q4, but we do not expect AR days to grow.
- CapEx year-to-date was $22 million, supporting growth across nozzle capacity, UAS launches, launch vehicles, maritime programs, and spacecraft manufacturing. This represents a slightly higher run rate than our 5% guidance for the year, implying a step down in CapEx in the second half of 2026. Our CapEx does not include customer-funded capital. We are investing ahead of orders to strengthen our ability to respond to the generational demand cycle we expect to persist for a number of years.

Strategically Managing Leverage

Turning now to leverage:

- Total debt was $752 million at the end of the second quarter.

- Our Q2 leverage ratio was roughly 3.7x adjusted EBITDA on a pro forma basis. Subject to regulatory approval of the Walker acquisition, we expect our pro forma leverage ratio to be approximately 3.5x by the end of the year.
- Since the quarter end, we repriced our Term Loan B to SOFR plus 2.25%, a 50 basis point reduction equivalent to a savings of approximately $4 million a year in interest payments.
- We also previously increased our revolving credit facility from $50 million to $150 million, providing greater strategic flexibility.

M&A and Audit Update

Now I'd like to provide a brief update on M&A and our auditor.

We announced the execution of an agreement to acquire Walker with a total consideration of GBP 70 million, or approximately $94 million. The adjusted EBITDA multiple we expect to pay at closing is consistent with the other acquisitions we have made since our IPO. The regulatory review process is underway, and we expect the acquisition to be completed by year-end.

Our integration of Seemann and MSC is on track, delivering higher-than-expected margin as we prepare to transition space and launch work to the Gulfport location.

We are not seeing meaningful changes in valuation expectations across our robust proprietary M&A pipeline.

We continue to represent an acquirer of choice for IP-rich first- or second-generation owners seeking long-term growth for the businesses they've created.

We engaged PwC as our new auditor this quarter. Their scale and expertise are well-aligned with our business model and growth strategy.

Raising Guidance

I'll now provide an update on our full-year guidance.

Given our strong first half results, record backlog and 95% visibility, we are raising our '26 outlook, shown on Page 9:

- We now expect full year revenue of $730 million to $745 million
- and non-GAAP adjusted EBITDA of $215 million to $222.5 million, 29.7% margin at the mid-point
- This represents year-over-year revenue growth of 57% and adjusted EBITDA growth of 51% at the mid-point. This outlook does not include the financial results from the Walker acquisition.

- Importantly, we reaffirm expectations for 25% or higher organic growth in ‘26.
- We expect second half revenue to increase sequentially, with approximately a 47%-53% split between Q3 and Q4.
- With high visibility, much of our growing record backlog supports our plans for 2027 and beyond.

Lastly, for ‘26 modeling purposes, we expect:

- a statutory tax rate of 26.5%
- and capital expenditures of 5% of revenue, roughly $37 million.

Now I’ll turn the call over to Jonathan.

Jonathan Beaudoin

Thank you, Mike.

Integration Progress

As John stated earlier, integration of acquired businesses is key to our strategy, and enables us to create value that would not exist if these businesses remained standalone. Integration of our recent acquisitions continues to move ahead smoothly, including Seemann and MSC, which remains on track for completion this year.

We are realizing early benefits capturing new business pursuits, leveraging our collective capability, along with increasing production of existing Karman products by utilizing available capacity at the newly acquired facilities.

For example, our Cedar City, Utah business is helping secure our positions to compete for second source propulsion system opportunities on a MAC interceptor and a key program of record air-to-ground missile system.

An additional illustration is our initiative to manufacture space launch vehicle systems at the Gulfport facility, leveraging its large-scale maritime production capabilities to meet the specialized demands of space launch products.

All business development opportunities and pursuits have been incorporated into our company-wide BD systems, allowing us to fully utilize Karman’s capabilities to address customer needs.

We have started implementing the Karman operating system across all companies acquired since our IPO, with progress varying by location. In the second quarter, our machine utilization monitoring system was launched at our Albany, Oregon facility.

Capacity Expansion

Given the unprecedented levels of demand, it is imperative to ensure we have sufficient capacity to satisfy our customers' requirements ahead of their need. We are optimizing existing assets by evaluating utilization rates at recently acquired businesses and leveraging the Karman operating system to identify and address output constraints.

In addition, we are investing in expanded capacity to accommodate future demand. Installation of advanced equipment is underway to support our significant space launch award with enhanced spacecraft production capabilities slated for deployment in Q4 2026.

We continue to advance our Salt Lake City manufacturing center, which will support both Tactical Missile and IDS and Hypersonic and SMD customers. The first production equipment arrived last month, and we expect initial production capability in the fourth quarter 2026.

The transition of select production from the Seattle area to SLC will release meaningful capacity to support development, low rate and full rate production at that location.

Supply Chain Management

Maintaining strong visibility across our supply chain is necessary to support our growth strategy. As our business continues to grow, so does our customer and program count, now at more than 150. This increased diversification also applies to our supply chain with no one vendor now making up 10% of our accounts payable.

Our customers control the supply of key high-temperature composite materials, ensuring that we have access to the materials required to support them. In parallel, we are working to qualify our proprietary MG Resin as an alternative solution to support the significant expansion in high-temperature material demand.

We continue to monitor raw metallic material availability. And at this time we have not experienced any constraints for our products.

AI Implementation

Turning now to our AI initiatives, we are advancing AI-enabled capabilities across engineering and select business processes with the goal of reducing cycle times and expanding capacity.

Our core initiative, what we call "Project Moonshot", is focused on securely applying AI to our historical engineering and program data, accumulated over several decades, to accelerate design, engineering, and proposal workflows.

Over time, we believe these capabilities could improve capture probability and drive growth. We expect to share additional examples of our progress next quarter. Now I'll turn it back to Jon.

Jon Rambeau

Well, thank you, Jonathan.

As we look toward the balance of the year, we remain focused on performance and growth. Complementing our strong organic growth, we also expect to continue to pursue our growth strategy through additional acquisitions, with a focus on munitions and space capabilities that complement our current footprint in domestic and international markets.

Beyond the current year, we believe that we are well-positioned to deliver 20% to 25% annual organic growth for a multi-year period. At that growth rate, revenue could double in three to four years, with potential inorganic growth accelerating that timeline.

There's no question that this is an exciting time for Karman, and we're just getting started! Now let's take your questions.

Operator

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

Peter Arment

Nice results. And maybe just first question, the new LTA within Space and Launch, could you give us a little more color on kind of the timing and when you expect that to start to contribute to the top line?

Jon Rambeau

Yes. Sure, Peter. I'll start off with that one if I could. This is one we had mentioned in our prior quarter earnings call.

We talked about a contingent supply agreement that we were actively negotiating in Space and Launch.

And at that time I think we had mentioned approximately a $250 million value for that LTA. That did come through, just a bit below that number, but not too far from it.

It's a 5-year agreement.

So, you can see there will be some amount of that, that will start to feather in over the balance of this year following on to some prior year agreements that had already been in place, and that will just burn off on -- following this year, it will burn off at a relatively level rate across the following 4.5 or so years.

Peter Arment

Okay. Super helpful.

Then just as a follow-up, the second half -- the guidance raise in the second half implies kind of a sequential step-up on the top line. Would you -- do we assume that Tactical Missiles, IDS will still be the main driver of the top line?

Or maybe any color you could give on the end markets or segments?

Michael Willis

I think end markets are going to continue to be kind of steady course from what you saw in the first six months.

So we would expect Tactical Missiles and IDS to remain pretty strong in the second half.

Operator

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

Louie Dipalma

Great. Jon, Michael, Jonathan and Steve, nice work on the strong quarter.

On the prior quarter earnings, you announced that you were in negotiations with several framework agreements. I was wondering if you could provide an update in terms of the progress with those framework agreements and potential timing on when they might become

Jon Rambeau

Yes. Sure. I'd be happy to answer that, Louie.

We continue to have active discussions with our prime customers on those three contingent supply agreements.

We've made progress on all three of those, and we are continuing to anticipate as we did prior quarter that those would have firm agreements in place between now and the end of the year.

We have, I would say reasonable confidence that we'll see initial contracts coming through as early as Q3.

But again I think by the end of the year, we'll see those fall into place.

We've been going back and forth. And as you might imagine, as the prime contracts come through, we have to sort of have our time in the queue to get to the detailed negotiations with those customers.

But the conversations are ongoing.

If anything, I think the expectation in terms of the total quantity volume that we'll be seeing coming through those is going to be at or above what was anticipated last quarter.

Louie Dipalma

Great. And across the industry, Jon, you've observed and many investors have observed, how the Department of War is looking for second suppliers for many of the leading platforms.

For instance, Northrop Grumman was added as a second supplier for the PAC-3 system. Like overall, in aggregate, do you view this second supplier trend as having a positive neutral or potentially negative impact on Karman's business?

Jon Rambeau

Yes. I can tell you, Louis, it's an active conversation that we're having almost every day. And certainly, as you are, we're well aware of the conversation around second sourcing. I would call it a net opportunity for Karman.

And the reason I would say that is, first off, we really have leaned out ahead a bit in terms of anticipating where demand was going to be, getting equipment on order, getting facilities in place.

Jonathan talked a little bit about our expansion facility that's well underway and we're quite excited about that.

So, while we know our customers are being asked to look hard at second sourcing, our commitment is, we'll convince them that we have the volume -- I'm sorry, the capacity in place to support the volume, and we're going to continue to be a reliable and competitive partner to them.

If there is an instance where they're asked to develop a second source, we work with them to make sure that, that was more of a contingency plan versus a meaningful diversion of volume from Karman.

On the other side of the coin, I think a big positive for us in terms of our opportunity to go on offense here and look for opportunities where other suppliers have not been able to build confidence with the primes that they're going to be able to meet the demand and meet the production ramp.

And so, we've had, as I mentioned in my remarks just a few minutes ago, a number of opportunities that have either come through or that we feel reasonably confident will come through for us to be a second source on certain programs for certain components.

In at least a couple of these instances, those will be meaningful, large, long-term upside opportunities for Karman.

So, while those are not all in the bag yet, I'm feeling optimistic so far based on the conversations we've had.

Operator

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

Kenneth Herbert

Jon, I wanted to follow up on just a comment you made right there at the end of your prepared remarks, and that involved post '26, sort of a 20% to 25% organic growth framework for the business. I mean it does represent a slight, at least at a headline level, slowdown from what we're seeing this year.

But maybe you could just talk about confidence around that, how you see maybe the opportunity to continue with sort of this mid-20s organic growth framework?

And maybe just as you thought about providing that sort of longer-term outlook, what you went through is the puts and takes as you think about that?

Jon Rambeau

Yes. I guess Ken, I did not intend to communicate a slowdown. In fact, we see a very steady trend over time.

As we look back across the last five or so quarters that we've been public and as we look to the foreseeable future, we see it being a consistent trajectory.

And I think if you just look at the end markets and some of the demand we're seeing there, particularly the missiles, munitions, interceptors, where we see Space and Launch headed, where we see the unmanned systems and counter-UAS systems going, I think it easily supports that continued demand signal, at least through the end of the decade.

Kenneth Herbert

Perfect.

If I could, just on the comments around free cash, we can appreciate sort of where you are in the investment cycle and supporting growth.

But maybe, if you could just remind us again, and appreciate as well the increased focus on that you're bringing to the business, how we think about sort of conversions maybe in the near term, but more importantly, what you think the business should or could support in the longer term as we continue to see the growth and ideally, some of the investments in terms of CapEx and working capital start to moderate a bit?

Michael Willis

Yes. Ken, this is Mike. I think that longer term, we would still maintain that free cash flow should be in the range of 80% to 90% of net income. Now in this growth cycle we're in right now we do have a use of cash for both working capital as well as CapEx.

On the working capital side, at this level of growth that we're seeing, we certainly have an increase in receivables, which would be expected.

We also are leaning forward to help support the upcoming ramp.

So you are seeing inventory and contract assets that are on the rise.

First half of the year was a little bit heavier on CapEx.

We were able to pull things to the left to help support the ramp coming, which is why we do expect CapEx to be a little bit lower as a percentage of revenue in the second half.

And long term, we would still maintain that where we're at in terms of 5% of revenue on CapEx.

We think that's an adequate level to support the growth that we're seeing for the rest of the decade.

Operator

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

Amit Daryanani

I have two as well. I guess maybe to start with on the operating leverage side. Your EBITDA margins, I think came in around 29.8% in the first half.

The full year guide sort of implies it's going to step down a bit in the back half of the year despite sales, I think being higher. Can you just walk through like what is driving that margin drop?

Is it just the acquired entities that perhaps at a lower margin?

Are there start-up costs, there's some capacity investments?

I'd love to just understand kind of what's driving that downtick?

And if there's a way to think about normalized EBITDA margins as we go into '27.

Michael Willis

Amit, so our guidance on the full year EBITDA margins, they're in line with the margins that we guided to a quarter ago, slightly better.

But the reason why they were a little bit stronger in the first half of the year is really due to a mix of contract type.

And that does relate a little bit to acquisitions.

When you think about the Seemann and MSC acquisition that we did in February, they happen to have a much higher percentage of cost-plus type contracts.

Those naturally do carry a lower EBITDA margin than a firm fix.

So, what we saw in the first half, and particularly in the second quarter, is a more favorable contract mix where we did not have as much revenue proportionately coming from those cost-plus contracts.

So, we see that normalizing in the second half, but still better than what we thought we would be a quarter ago.

Amit Daryanani

Got it. Perfect. That's helpful.

Then the $1.3 billion backlog number, obviously very impressive. Can you just talk about what is the duration of this thing look like?

Is there a way for us to at least conceptually think how much of that would convert to sales in the back half of this year versus '27?

Then what's beyond that?

I would love to just kind of understand how much of this uptick is being driven by duration versus anything else?

Michael Willis

I can start with that.

So, the very strong booking quarter, nearly $0.5 billion that we had in the second quarter. Much of that, in fact, most of it was to support 2027 and beyond.

So that gives us great confidence for the outlook.

We do only have 5% left to book this year. It's no white space or go-get. It's really just timing of PO placement.

Of those bookings, and specifically of the large LTA that we ended up getting on Space and Launch, there is opportunity that some of that revenue will start to occur in the back half of the year.

But most of the bookings really are supporting our longer-term strategy.

Operator

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

John Godyn

It’s great to see the organic growth reaccelerate in the second quarter. And just because of the laser focus on that, I was hoping maybe we could just revisit organic growth in the back half of the year, you could kind of discuss the shape in a little bit more detail, just to level set everybody.

Michael Willis

John, yes, great quarter in the second quarter at the 24.4% on organic.

We do believe that on the year, we are going to be at 25% or slightly better on organic.

So we’re going to expect to see that continue to increase in Q3 and again in Q4.

So kind of of that sequential buildup that we were talking to a little bit at the start of the year in terms of how the year would play out, but we would get to 25% or slightly better on the full year.

So you’re going to see an acceleration in the second half.

John Godyn

Got it.

It sounds like you mentioned you’re 95% covered for the year.

So tremendous visibility into that. Is there anything that can happen between now and the end of the year that would actually cause -- create upward pressure to that number?

Like what would be a source of upside surprise to organic growth from here?

Jon Rambeau

In terms of upside surprise that you might see, I think if the framework agreements that we talked about would convert earlier than the end of the year, there could be some additional upside that we might see as that gets up and running.

As we have previously discussed, we’re anticipating right now and planning for those to really start hitting us in the first part of 2027.

But as we’ve seen, there’s a sense of urgency to get that work contracted, and we’re hopeful that we might see some opportunity for upside, but it’s a little bit too early to count on that right now.

John Godyn

Got it.

If I could just ask one more. Jon, in the prepared remarks, you were talking about fully unlocking the value of carbon.

One of the things you mentioned was margins. In the conversations that I have with investors, it's not unusual that investors think kind of 30% EBITDA margins are the right normalized level roughly.

But it sounded to me like you might think over the long term, there could be upside beyond that. Did I hear that correctly?

And maybe you could just sort of unpack that -- those comments a little bit more.

Jon Rambeau

Yes. Certainly happy to do that. I don't want to set an expectation that margins will exceed 30% on a continuing basis as we go forward.

However, what we are very focused on right now as we continue to integrate the company, it's been very apparent to me as I've traveled around to almost every one of our physical locations that, as you would expect, with a number of recently acquired businesses, their initial integration has been completed, and there is still more opportunity to optimize the enterprise.

And the way we're thinking about that optimization is to find opportunities for financial flexibility, and we're thinking about that in three ways.

One is we recognize that as our customers pursue some of these generational increases in capacity and look to lock in long-term arrangements, there could be pressure put on our pricing, and we want to make sure we have contingency in place to be able to manage that while still maintaining our margin performance.

We're also looking at whether we might want to take that financial flexibility and look at reinvestment in the business to capture the next-generation franchises that are yet to be identified.

The third opportunity would be, obviously if we decided the best long-term value to our shareholders was to deliver that as additional margin for the business.

That's an option that we would like to have available as well.

So it's a strategy we're going to continue to, I would say pursue very intentionally, and we'll provide updates as we start to make progress on that.

Operator

(Operator Instructions) Your next question comes from the line of Michael Leshock with KeyBanc Capital Markets.

Michael Leshock

Maybe just a follow-up on the margins there. I'm curious if you have a sense of what the margin difference is between a second source opportunity and maybe a legacy Karman sole-source program.

It sounds like there's quite a bit of second source opportunities that you're pursuing, and you mentioned it's a net positive. Just curious what your expectations are on the margin impact should that become a bigger piece of revenue over time?

Jon Rambeau

Michael, I don't see that there's going to be an appreciable either increase or decrease in margins as a result of the second source opportunities.

Certainly, we will perhaps be a bit more aggressive initially in pricing if we needed to, to secure a very nice long-term franchise for the company, but we wouldn't enter into something that would be significantly dilutive to margins over the long term.

We would have an appropriate business case and think that through carefully before we made that decision.

Obviously we want to look at finding a way to meet our customers where they are today look at the price point they're paying today. Can we be competitive with that?

Can we make the business case close in terms of any capital investment we might have to make there.

But as I said, for the ones that are already in the pipeline that we have clear visibility to, I think we feel comfortable that Karman type margins would be in family with these new ones.

Michael Leshock

Okay. Great.

Then maybe on space, if you can provide any details on the New Glenn anomaly and the impact that had, if any, at all. I would expect it to be minimal, but just curious on the puts and takes as we look longer term given they're a meaningful customer within that segment.

Jon Rambeau

Yes. Sure. The long-term outlook for Space and Launch overall continues to be very favorable for us.

We certainly do talk on a regular basis with Blue Origin.

I think I might have mentioned last quarter that the conversations we've had with them from almost immediately following the mishap were that things are full steam ahead from a production point of view.

The relationship hasn't slowed down. If anything, it's accelerated and strengthened over time.

So I feel very good about where we are and where we'll continue to go as a partner with Blue Origin.

Operator

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

Alexandra Mandery

Nice results. You mentioned working to qualify your MG Resin. I guess what are qualification lead times right now?

And are there any discussions with the Department of War to support the acceleration of those processes to support demand more quickly?

Jonathan Beaudoin

Yes. I appreciate the question. This is Jonathan.

We are receiving funding to further develop MG Resin. It's both for use as an ablative material in solid rocket motor nozzles and for carbon carbons.

So kind of applications of the MG Resin system.

So that will further advance it.

Then we're working with the propulsion primes to find a project or a platform that we would then insert it. At that time it's probably, call it, a year to two years for a full qualification at a platform level.

Operator

We have a follow-up question from Amit Daryanani with Evercore.

Amit Daryanani

I guess Jon, you were initially talking about just the organic growth, and you talked about how the way you integrate acquisitions makes it difficult for you folks to disclose the quarterly organic growth going forward.

I guess the question for you would be, when you evaluate an acquisition target, presumably, part of the model separates the return on the target standalone organic base you would get from the return on integration synergies, like moving the Gulfport type work that you just cited.

Historically, has that split been formal when you look at a deal and you underwrite it for IRR and stuff internally?

And I guess the question would be that now that you're going to disclose the organic inorganic less frequently, does that change how you internally are looking at deals pre and post synergies at all?

Or is this really purely an external reporting decision of not giving information?

Jon Rambeau

Yes. Thanks for the question, Amit. I guess first off, I would say this is something that our approach and how we think about it has remained consistent.

Typically, when we evaluate an opportunity, we would really make the base investment decision based on the current business plan or projection that we would see as we model the opportunity of the property.

So really there -- from there, we bring the business on as a, call it, instant bolt-on.

We start the integration process, and then we typically will work the upside opportunities from there.

We certainly do talk about, as we're evaluating an acquisition, the strategic value and how we could bring the portfolio more tightly together and unlock additional opportunities, but the base case is typically made on the, call it, the organic growth we'd see resident in that business.

So as we think about our model going forward and our plans to talk about organic growth annually, I don't see that really changing the way we would evaluate a target.

Operator

There are no further questions at this time. I will now turn the call back to Jon Rambeau, CEO, for closing remarks.

Jon Rambeau

Great. Well thank you everyone, for joining the call today. Before we close, I'd just like to emphasize three key points from today's call:

- First, Karman continues to deliver 20% to 25% annual organic growth, and we reaffirm our expectation of delivering 25% or higher organic growth in 2026. This growth rate varies quarter-to-quarter, but has remained consistent on average over the five full quarters since our Q1 2025 IPO.
- Second, we're strengthening our platform, expanding internationally, adding valuable new capabilities, deepening customer relationships, producing higher operational efficiency, and tightening our focus on cash.
- And third, we're deploying capital effectively by expanding our capacity to address generational demand and positioning Karman to deliver sustained 20% to 25% organic growth and adjusted EBITDA margins of up to 30% for years, supplemented by inorganic growth.

This is only made possible by the efforts of our outstanding Karman employees whose relentless focus on serving our customers continues to inspire.

Thank you for joining us today for your interest in Karman Space & Defense. You can find our SEC filings and relevant news on our website at karman-sd.com.

We look forward to speaking with you again following our next quarter.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.