



Archer Aviation Inc.

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Earnings Call

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Call Participants

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Presentation

Operator

Good afternoon. Thank you for attending today's Archer Aviation, Inc. Q4 2022 Financial Results Conference Call. My name is Bethany, and I will be the moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to our host, Andy Missan, Chief Legal Officer with Archer Aviation. Please go ahead.

Andrew P. Missan

Chief Legal Officer & Secretary

Thank you, operator. Good afternoon, everyone, and thank you for joining us today to review Archer's Q4 and full year 2022 operating and financial results. My name is Andy Missan, the Chief Legal Officer of Archer Aviation. On the call today is Adam Goldstein, our Founder and CEO; Mark Mesler, our CFO; and Tom Muniz, our COO. We posted a shareholder letter detailing our Q4 and full year 2022 operating and financial results to our IR website. This call is being recorded, and an archive will be available on our IR website. Before we begin, I'd like to remind everyone that during today's call, we'll be making forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual events or actual future results to differ materially from those expressed or implied in the forward-looking statements on this call.

Those risks and uncertainties are described in the Risk Factors section of our last annual report on Form 10-K, our Form 10-Q is filed since then and other filings with the Securities and Exchange Commission available on the SEC's website and on our IR website. Except as required by law, we disclaim any obligation to update or make revisions to such forward-looking statements as a result of new information or future events.

Also, please note on this call, certain financial measures are presented on a non-GAAP basis. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in our shareholder letter posted on our IR website. We'll begin with commentary and then we'll open up the call to questions. And with that, I'd like to turn the call over to Adam Goldstein. Adam?

Adam D. Goldstein

Founder, CEO & Director

We remain committed to bringing to market the leader at for the UAM business case. That means bringing to market a safe, low noise aircraft that can carry approximately 1,000 pounds of payload to enable a pilot plus 4 passenger aircraft operation that has low direct operating cost and the ability to conduct rapid back-to-back trips in and around urban areas; two, designing an aircraft for certification and mass manufacturing from day 1; and three, focusing our in-house development on only the key enabling technologies that cannot be sourced from the existing aerospace supply base. We believe that our strategy, coupled with our team's industry-leading experience across [Entel] aircraft in electric propulsion systems is what allows us to make such demonstrable and clear progress.

We entered 2022 with an aggressive road map to advance our business across 4 key areas: technology development, manufacturing build-out, certification and commercial operations. We exited 2022 with tremendous momentum with the Archer team achieving significant milestones in each area. I'll recap for you a few of what I believe to be and most noteworthy highlights that demonstrate our leadership in this market, taking maker from Hover to full transition in less than a year, receiving an industry-first \$10 million nonrefundable predelivery payment on 100 aircraft from United Airlines.

Announcing with United Airlines, the first commercial electric air taxi route in the U.S. from downtown Manhattan to Newark Liberty International Airport, unveiling our production aircraft midnight at our open house event in the Bay Area that included a flight test experience and announcing the industry's first high-volume EV Tal manufacturing facility in Covington, Georgia.

I couldn't be prouder of what our team has achieved. We ask them to come to work every day to figure out how to do what was once thought impossible, build and commercialize electric aircraft. But the challenge to our team doesn't stop there. We push them to do it more efficiently than anyone else in the industry. That means finding a way to do it while spending 1/3 less capital, using 1/3 less people and in 1/3 of the time as some of our leading competitors.

Our team continues to deliver in space. One of the keys to our efficiency is how we leverage our relationships with our key strategic partners, United and Stellantis. I've previously talked at length about our United relationship and given our recent exciting announcements about the deepening of our partnership with Stellantis, I'll focus on that on today's call. As a reminder, Stellantis one of the world's largest automakers. It's storied and iconic brands, including Jeep, Ram and Maserati. Stellantis has been a strategic partner to us since 2020 through various collaboration initiatives. They've also been a cornerstone investor since 2021. During this time, Archer has leveraged Lantus deep manufacturing, supply chain and design expertise in connection with our efforts to design, develop and commercialize our EBT aircraft.

Carlos Tavares, Stellantis' CEO, has a very unique perspective on the industry as a result of his experience as the CEO of one of the world's largest and best run auto manufacturers in the world and having sat on the board of Airbus for nearly 6 years. This makes him one of the only people in the world that have expertise in both efficient, high-volume auto manufacturing operations and large-scale aerospace manufacturing. And that is why we are very proud of the sentiment he shared recently when he commented that he is continually impressed by Archer's ingenuity and unwavering commitment to deliver.

One of the common investor question people ask me is, how is Archer going to manufacture aircraft and higher volumes than other traditional aerospace OEMs. The answer is simple, together with Stellantis -- and this is what our expanded partnership is all about. As Carlos said, supporting Archer with their manufacturing expertise is another example of how Stellantis will lead the way the world moves. We've joined forces to ramp our manufacturing capabilities together. We will leverage each company's respective strengths and competencies. We bring our world-class team with EV Tal, collective powertrain and certification experts while Stellantis brings advanced manufacturing, technology and expertise, scale, experience, personnel and capital to the partnership. This combination is intended to enable the rapid scaling of aircraft production to meet our commercialization plans while allowing us to strengthen our path by helping us avoid hundreds of millions of dollars of spending during the manufacturing ramp-up phase.

Working with Stellantis, we have now begun construction on the industry's first high-volume manufacturing facility in Covington, Georgia, and a site adjacent to the Covington municipal airport. In selecting this location, we completed together with Stellantis, a comprehensive survey of potential sites across the United States. Key considerations included the availability and diversity of talent in the local labor market, ability to conduct seamless flight test operations, construction costs and logistics. In April, we plan to host a ceremonial event at the site to celebrate this achievement and the exciting future we have ahead in Georgia.

The plan is to initially build out a 350,000 square foot facility capable of producing up to 650 aircraft per year. The facility is set up so that it can be expanded by an additional approximate 550,000 square feet to support production of up to 2,300 aircraft per year. We will share more details on the progress of this build-out as it continues to take shape. Just as important as the manufacturing expertise and experience they bring to the relationship is the capital they bring. As a key part of our expanded relationship, Stellantis is providing us with up to \$150 million in equity capital for draw at our discretion in 2023 and 2024, subject to our achievement of certain business milestones, which we expect to occur in 2023.

The structure of this equity investment is quite unique and intentional, and that it gives us the flexibility to access it if and when we need it with our goal being to minimize dilution. Stellantis also signaled their intent to increase their strategic shareholding through future purchases of our stock in the open market. We believe this is by far the deepest commitment by a strategic partner across the eVTOL industry. I couldn't be happier with the relationship we have forged with Carlos Tavares and his team at Stellantis.

I'll now shift to what's ahead in 2023. We -- the leaders in this industry are now focusing on building and conducting piloted operations with conforming aircraft to support the goal of entering into service

in 2025. Today, we announced our exciting progress at the final assembly of our first midnight aircraft is nearly complete. All major aero structures that is the wing, tail, peso, et cetera, have been built and mated together. Our team has installed a significant portion of the wiring, electronics, actuators and other systems. And we are currently targeting to begin our flight test campaign with this aircraft in mid-2023. I'll let Tom talk in more detail about the progress and purpose of this aircraft, but I do want to note that will be used to enable company testing in advance of 4 credit certification testing.

Additionally, component manufacturing is already underway for our first conforming midnight aircraft, which will be flown with the pilot. As we noted in our shareholder letter, we are planning to build 6 or more conforming aircraft for credit testing with the FAA in support of our type certification. We are targeting completion of our initial conforming aircraft in 4Q 2023. And in turn, we will begin piloted flight test operations with this conforming aircraft in early 2024. These conforming aircraft will be built at our San Jose, California manufacturing facility and integrated test lab, located strategically just around the corner from our HQ. Now I'll turn to our commercial operations build-out efforts.

We continue to make great strides there. Following on from our announcements in 2022 with United Airlines, setting out the first planned commercial point-to-point eVTOL route from downtown Manhattan to Newark Liberty International Airport as well as our joint eVTOL Advisory Committee, our teams continue to work closely to identify additional planned takeoff landing location in the New York metropolitan area and other cities in the U.S. and mature our plans around commercial operational matters.

As part of this work with United and as we build out our customer-facing app, our data science and product teams are working hard to map out the desired Urban Air Mobility customer experience. To better understand the customer journey, we recently built out our first Archer portal at our HQ. The Archer portal is a prototype build of the takeoff and landing experience we plan to deploy. It will allow us to test the configuration, technologies and procedures we will leverage in our everyday commercial operations. The Archer portal design is modular, adaptable and low cost, enabling it to evolve based on a variety of environments and requirements. We plan to integrate our Archer portal seamlessly into the existing infrastructure at our takeoff and landing locations so that we can offer a heightened and efficient experience to both passengers and crew members. Stay tuned as we'll continue to have exciting announcements in this area throughout 2023.

At Archer and as an industry, we are pushing the boundaries to provide the world with a new sustainable form of transportation that will unlock the skies. We are honored to host FAA Acting Administrator Billy Nolen and Director of Certification, Lirio Liu, along with other members from the FAA at our HQ in January to discuss how we are executing against that goal. The key takeaway from our time together was that safely integrating eVTOL aircraft into the national airspace in 2025 is a top 3 priority at the FAA. Our team remains focused and energized as we close in on achieving our mission.

I'll now turn it over to Tom Muniz to share more details on our technology development and certification progress.

Thomas Paul Muniz
Chief Operating Officer

Thanks, Adam. I'd like to start off by thanking our suppliers who have played a key role in allowing us to achieve the progress Adam highlighted on our first midnight aircraft and beginning component manufacturing for our first consultant on only the key enabling technologies and relying on partners to supply components that are already being used on certified aircraft today is really paying off. 2023 is my 14th year working on eVTOL aircraft. Over all these years, I've been lucky enough to play a major role in the design and development of 8 full-scale aircraft. But for me, this year and next with the progress we are seeing at Archer and across the industry is set to be the most exciting period of my career. As Adam highlighted, 2023 and 2024 at Archer are all about building and flying both nonconforming and piloted conforming midnight aircraft to enable entry into service in 2025. Since conformity is such a hot topic, I think it's worth taking a minute to explain what conformity means and why it matters in the type certification process.

As a reminder, a type certificate signifies that the design of the aircraft is in compliance with the airworthiness standards in the certification basis, all in more simple terms, but the aircraft is engineered correctly and the type design is safe. Conformity means that a particular part has been manufactured, inspected and found to conform to the engineering data of the type design. In a clean sheet certification program like ours, once the design is mature and likely to be compliant with the airworthiness standards, the company works with the FAA to conform physical parts to the design data, thereby ensuring that the data generated from tests on those parts is valid to show the performance of the design and compliance. It was with great excitement today that the first build of our midnight aircraft is nearly complete. That aircraft is scheduled to enter into ground testing here very soon and begin its flight test program during the middle of this year.

This program will allow us to perform critical company testing that helps accelerate and reduce risk on the overall midnight program in advance of the 4 credit certification testing we will conduct early next year with the piloted conforming midnight aircraft. The idea behind this strategy is to fly many of the same test points that will be needed during 4 credit flight testing in order to validate the aircraft before the FAA witnesses and participates in the testing. This is a standard practice in aircraft certification programs. This first midnight aircraft has essentially the same geometry and powertrain as the conforming aircraft will have and thus, will provide valuable data on our production hardware and software. As Adam highlighted, component manufacturing is already underway on the conforming aircraft. I want to reiterate that update, component manufacturing for our initial conforming aircraft is already underway.

Again, this is a testament to our world-class team and our aerospace supply base partners. To allow us to do that, we are targeting completion of our initial conforming aircraft in Q4 2023. Our current plan is to build at least 6 of these aircraft. We are targeting to begin piloted flight test operations with our conforming aircraft in early 2024. In preparation for this and the flight test of our controlling midnight aircraft, our team is in the midst of expanding our flight facilities down in Salinas, California, where we conducted our Maker-Flight test program last year.

These conforming aircraft will all be built at our San Jose, California manufacturing and integrated test lab facility located strategically just around the corner from our HQ. The team is literally able to just walk over to the facility. The facility is capable of producing multiple aircraft at one time and will also house a number of the labs we will use as part of our 4 credit certification testing, including our Iron Bird, material process lab, electric propulsion and system integration labs. -- Lock is on behind the scenes to make this type of tremendous progress on reality. I started off by highlighting the great work for supply base. Now I want to talk about a few key highlights of the work being done by our in-house engineering teams. We recently completed an extensive full aircraft Winton test campaign for the Midnight aircraft.

The team was actively testing in the tunnel for 6 weeks in wind tunnel at RUAG's state-of-the-art facility. This test campaign is the third in a series of wind tunnel test campaigns that Artis performed to collect valuable data to inform and validate the night's design. We successfully collected critical data that further validated a number of key items on the midnight aircraft, including our aerodynamic models, load predictions, aircraft performance and stability and control characteristics. The team has also now completed key builds of the high-voltage batteries and electric engines that make up the electric propulsion system on midnight. As a reminder, we have over 100 employees at Archer working on our powertrain. The powertrain leadership team alone has over 200 years of powertrain engineering experience. The team has been working hard on these key builds of our proprietary electric propulsion system that's optimized for safety, efficiency, power density and commercialization and mass manufacturing.

Key tests on the battery included pack [global charge] and discharge at flight representative power levels, the engines [under watt testing] at power levels up to 100 kilowatts and have been tested with our in-flight propeller on a static test stand at our integrated propulsion test lab. I'm very proud of what our team continues to accomplish our strategic approach of using known building blocks to enable safe and achievable powertrain manufacturing and certification has significantly derisked our path to certification and mass manufacturing. These are just 2 of many examples of component and system validation that are occurring now as part of our company testing in advance of 4 credit certification testing

that will occur over 2024. Let me now provide you an update on our certification progress. Our team continues to work collaboratively with the FAA on advancing our program through the certification process.

As Adam highlighted, it was a great host administrator billing on and Director of Certification Lirio along with others from the FAA at our HQ in January. But that's just a glimpse of the collaboration and support we are seeing from the FAA. The teams are meeting almost daily to advance the program. Since our last update, many more of our means of compliance have been agreed to with the FAA. While the majority of our MSCs have been agreed to, based on our technical discussions with the subject matter experts at the FAA, we don't see any significant design risks with the remaining needs of compliance areas that have not yet been formally agreed to with FAA. Over the coming weeks and months, we will continue to work through this process with FAA in an effort to close out on our remaining MOC. As we've discussed previously, we are parallel processing the work to review and agree on our subject specific certification plans or SSCP with the FAA.

If you recall, SCPs provide precise detail on each of the specific tests and analyses that will be completed during the implementation phase of our certification program. We have now submitted a number of our SVPs and are targeting to submit the remaining SCPs on a rolling basis between now and the end of April. The high-level takeaway is that we continue to make progress on all of the necessary certification efforts, and that's why we are laser-focused on building our conforming aircraft to support for credit testing next year.

Now I'll turn it over to Mark.

Mark Mesler

Chief Financial Officer

Thanks, Tom. The 2022 milestone achievements that Adam and Tom have articulated outlined the exemplary program execution by our world-class team. The technical certification, manufacturing and commercial decisions and progress that we have made in 2022 continue to unlock our ability to achieve our goal of commercialization in 2025. I -- and while we still have many more milestones across these areas to check off, we have to also ensure that we can make the jump from a program-centric development company to an operating company generating revenue in 2025. At Archer, we have a lot of smart and experienced people who are working daily in parallel to our technical development and certification efforts to a Archer to capture the full commercial benefits of our industry-leading aircraft upon commercialization. As we transition into 2023, I'd like to provide a little more insight into the business model that we target executing at that time.

Our target business model is to go to market with 2 business segments: one through Archer Direct, which is the direct sale of our eVTOL aircraft to operators similar to an OEM relationship and one through Archer Air, which is where we will operate our aircraft in urban environments similar to a ridesharing model. We anticipate the revenue mix to be roughly 50% for each in the early years of commercialization. The goal of Archer Direct's revenue stream is to recognize revenue with the sale of each aircraft. So we would generally recognize revenue for the ASP or average selling price of the aircraft at approximately the time of delivery to the operator. As an example, our current agreement with United contemplated a selling price of \$5 million per aircraft for up to 200 aircraft or \$1 billion of revenue.

The goal of Archer Air's revenue stream is to recognize revenue for each flight. So rather than a selling price for each aircraft, we recognize revenue per flight and price those by smile. On our last earnings call, I outlined a framework to understand this revenue model for the route that we announced last fall from Manhattan to Newark Ravi National Airport. With our 4 passenger payload and pricing that trip a typical ridesharing pricing in the New York City area of around \$6 per seat mile, our Midnight aircraft could generate up to \$3.2 million of revenue per year, assuming full load capacity, 25 trips per day and operating 365 days per year. We believe that the hybrid business model is beneficial for scaling our business because we can potentially fund part of the Archer Air UAM side of the business with proceeds from our Archer-Direct business. With the recent deepening of our relationship with Stellantis, we have bolstered our liquidity, which has strengthened our path to commercialization.

The partnership we announced with Stellantis, in addition to the manufacturing relationship also provided Archer the ability to draw up to \$150 million of equity at our option over the next 2 years. The first \$25 million is available at any time. The remaining balance is available over 2 tranches of \$70 million and \$55 million based on achieving certain business milestones, which we expect to occur in 2023. This construct allows us to be opportunistic to draw on that capital, if needed, but also allows us to do so by taking market conditions into account. Switching gears to our financial performance for Q4 2022 and FY 2022, our Q4 '22 non-GAAP total operating expenses were \$76.8 million, which was just above the midpoint of our estimate range of \$75 million. This led to an adjusted EBITDA loss of \$76 million.

For the full year FY '22, our non-GAAP total operating expenses were \$227.5 million. Operating expenses continue to generally be characterized by investments in people and materials to develop and mature the technology for our EV to aircraft and are focused in 2022 transition from work on our maker demonstrator aircraft to our production aircraft midnight. In addition, we made investments across a number of functions to shore up capability needed to scale our operations. On a GAAP basis, total operating expenses for Q4 '22 were \$108.1 million, which included \$26.5 million of stock-based compensation and \$4.8 million of warrant expenses for our warrant issued unit. These results were also above the midpoint of our estimate range of \$105 million. For the full year FY '22, GAAP total operating expenses were \$347.4 million, which included \$102.8 million of stock-based compensation as well as \$13.7 million in noncash foreign expenses.

We exited FY '22 with \$531.2 million of cash, cash equivalents and short-term investments on our balance sheet. We used \$69.4 million in cash for the quarter and \$215.4 million for the full year 2022, primarily tied to funding the \$227.5 million of non-GAAP operating expenses for the year. Our ending cash balance, combined with \$150 million Stellantis equity option previously discussed provides us with very strong liquidity heading into 2023. We -- we're remaining highly disciplined on our cost structure, in line with our stated objective to get to commercialization in the most capital efficient way possible. With approximately 500 full-time personnel, we have less than half the headcount of other leading companies in our industry. We continue to focus on executing a capital-efficient business model.

Finally, let's take a look at our Q1 '23 estimates for spending. Recall that per plan, we have seen a short-term uptick in spending to support nonrecurring engineering costs related to the bring-up of midnight suppliers and increased spending on parts and materials for our midnight aircraft. Further included in net spending is the capital to support our manufacturing build-out. More concretely, this spending uptick supports the delivery of the 2023 goals that Adam and Tom had discussed. -- a supply base that can provide parts for confirming the night aircraft, a fleet of 6 or more conforming aircraft for FAA testing and piloted testing and a manufacturing and integrated Tesla facility in San Jose, California, which will come online shortly.

In support of those efforts, as well as our ongoing business requirements, we anticipate total GAAP operating expenses of \$110 million to \$120 million, which includes expected stock-based compensation and warrant expenses of approximately \$35 million. Our total non-GAAP operating expenses will be in the range of \$75 million to \$85 million. We continue to be very active with our investor outreach to share the Archer story. We'll be participating in a number of conferences engaging with the financial community to discuss this sector and Archer's leadership in it. We have provided a detailed calendar on our website and in our shareholder letter.

And with that, operator, we can now open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of David Zazula with Barclays.

David Michael Zazula

Barclays Bank PLC, Research Division

Just on the means of compliance, certainly, you're not the

[Technical Difficulty]

Operator

It looks like David's line has dropped. Our next question comes from the line of Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

Mark, maybe I could start with you given your final remarks, but it looks like the kind of the 1Q guide is not significantly different than what you saw in the fourth quarter were just kind of seeing pretty meaningful step-ups in the past few quarters. And I'm just kind of curious, is that due to timing of some of that nonrecurring engineering spend and how we should kind of think about the progression through the year?

Mark Mesler

Chief Financial Officer

Savi, that's exactly right. The components of the spend, especially in Q4 and as we transition into Q1, you can think about that spend that we're in the range of around \$15 million to \$17 million of nonrecurring costs as well as a cost for parts and materials. And that will persist over the next couple of quarters. So, as I said in my comments, with -- as we sit here today, we remain pretty confident around liquidity through the certification process with the \$531 million of cash on our balance sheet that I talked through as well as this incremental \$150 million from Stellantis so we have available. We're in -- we think we're in very good shape with respect to liquidity. But that's the component and how you can think about our spending over the next couple of quarters on how NRC and spending on parts and materials related to that.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

That's helpful. And just since you mentioned on the silane capital, are you able to provide a little bit more color on the milestones that you expect to kind of achieve in 2023 to be able to task that and what the kind of the share count dilution is as you tap it?

Mark Mesler

Chief Financial Officer

We talked -- I don't think we're going to go any further than what was discussed in the 8-K, they are tied to some business milestones that we plan to achieve this quarter -- or sorry, this year. And so, it's pretty straightforward. But other than that, we won't comment any further on it.

Operator

Our next question comes from the line of Andres Sheppard with Cantor Fitzgerald.

Andres Juan Sheppard-Slinger

Cantor Fitzgerald & Co., Research Division

Congrats on the quarter, and I wanted to maybe touch on certification. Just wanted to clarify. Can you just maybe give us an update on -- particularly on G2, kind of where that stands and when we might expect an update on that front?

Thomas Paul Muniz
Chief Operating Officer

Yes. Andres, this is Tom. Thanks for the question. Like we said on the call, at this point, we've reached agreement with FAA on the majority of the means compliance for their -- complying to the or criteria. They're in the G1. So, when you talk about G2, it's really that compliance stuff. We also said that our goal is to submit all of our cert plans by the end of April. So -- we don't really want to get into percentages for these sorts of things because it's not really a linear process. At this point, really, the way we're working with the FAA is kind of blending across med compliance and cert plans just because of the nature of the technology. Things are pretty tied together. So having said that, though, teams are working super close last week, our battery team was out in D.C. meeting with the subject matter experts. -- next week, a big team from the LAAC is going to be in our office for a couple of days. So, we're continuing to make a lot of progress on there. In general, we're feeling really good about where we are super proud of the progress.

Andres Juan Sheppard-Slinger
Cantor Fitzgerald & Co., Research Division

Got it. I appreciate the color there. So still on track for Q4 '24. I think that was the last update. Just wanted to confirm that.

Thomas Paul Muniz
Chief Operating Officer

Yes. So, on the side for our own deliverables, we're feeling really good. We don't think about it more in terms of entry into service in 2025. So, we talk about the type cert side a lot, but the reality is we need the operational side to come together. We need all the infrastructure in to SFR. So as far as looking at entering to service 2025, we feel really good. For everything that's in our control for types, we also feel really good, but we're reliant on the FAA, obviously. And so, we're delivering against our plans. I can't really speak to what the at will be able to do, but we feel good about where we are.

Andres Juan Sheppard-Slinger
Cantor Fitzgerald & Co., Research Division

Got it. Wonderful. And maybe a quick follow-up. In terms of the production capacity, right, in Georgia, you've outlined here kind of expecting that initial annual production to be around 650 aircraft. -- and then ramping up to up to 2,300 aircraft. I guess what is kind of that time line look like, like in terms of transitioning from the 650 aircraft initially to north of 2,000. Do you foresee that kind of taking place over a few years? Or is that kind of longer dated throughout the decade, I guess?

Adam D. Goldstein
Founder, CEO & Director

Andres, this is Adam. So, the factory is being built across 2 phases. The Phase 1 of the factory, which is what we've recently announced is the first 350,000 square feet, and that's where we broke ground recently. And that first phase has the ability to build up to 650 aircraft per year. That certainly does not mean 650 year 1 that just has the sort of capacity to do that. There is a second phase that we would have to build out, which would require an additional 500,000 to 800,000 square feet.

And between Phase I and Phase II, the factory would then have the ability to build up to 2,300 aircraft per year. So, while the factory is being built to produce a lot of vehicles, even in year 1, there's still a lot of moving parts that we have to connect in order to really make that happen. And so, we are going to balance our production against many other factors and to really just ensure that the vehicles that come off the line are immediately put into service. So for example, we need to have infrastructure in place to deploy vehicles. We need to have local municipalities on board, et cetera. So, as we get closer to commercialization, we will provide more details.

Operator

Our next question comes from the line of David Zazula with Barclays.

David Michael Zazula

Barclays Bank PLC, Research Division

I apologize for getting disconnected earlier. I hope I'm not repeating. If I could just ask a little bit about the testing process, specifically what you're gaining out of the testing and component testing process right now that's going to feed into the 4 credit testing process and how that works, how you're able to leverage the data, the dialogue with the FAA for the eventual 4 credit testing process?

Thomas Paul Muniz

Chief Operating Officer

David, this is Tom. It's a great question. So the way to think about testing, right, and certification is -- at the end of the day, what really matters is that you've got a design that meets all the errors and its requirements, right? And then that you've got data that shows, you've tested all of those components and systems and ultimately, the aircraft to verify the design performs as expected. So one way to think about it is how mature is the design and then how much risk have you removed essentially from that design. So, our strategy at the aircraft level here that we outlined in the shareholder letter was to initially build a nonconforming midnight aircraft -- that we will be flying in the middle of this year, which is representative in many ways of the aircraft will certify.

So the geometry is very similar. The aero performance will be very similar, powertrain components. It's all essentially the same as it will be on the certified aircraft. So, all of the testing we do there gives us confidence that we will be able to go efficiently through the 4 credit testing with FAA. So, it's really traditional in aerospace, right, to do company testing, verify the designs for yourselves and then do that do the testing again with the conforming aircraft with a for credit. Hopefully, that makes sense.

David Michael Zazula

Barclays Bank PLC, Research Division

It does. And then if I could squeeze one in for Mark on the relationship with Pilatus and line you're getting there. I know it's commercially sensitive, so you probably don't want to give the specific milestones, but can you give us any more color on the milestones and why you have confidence that you'll achieve them this year? And then as far as the pricing mechanism, whether that will be a market-based pricing mechanism or the pricing is preset.

Mark Mesler

Chief Financial Officer

Yes. So, with respect to the milestones, they are -- I mean they were ones that you would expect us to deliver as we roll out the midnight aircraft. So, I mean, they were already on our radar and in our plan to achieve for the year. And so we just solidified them in the form that we have finalized with Stellantis. With respect to the pricing, I think we disclosed in the 8-K that it will be priced around when we draw down based on sort of evaluated approach to what the market -- where the market is at the time that we draw down. So that would be typical in something like this.

Operator

Our next question comes from the line of Xin Yu with Deutsche Bank.

Xin Yu

Deutsche Bank AG, Research Division

First off, you put some pretty clear timing on getting initial build-out for midnight and then flying a fully conforming aircraft. I think there's about a year, maybe less in between. And I noticed that you're only building on nonconforming midnight, whereas I think others are building several nonconforming aircraft

on the way up to getting that for credit testing. So what gives you the confidence, I guess, that you have done enough flying testing and getting up data that you can push forward on this time line.

Thomas Paul Muniz
Chief Operating Officer

Xin, this is Tom. I think a lot of it just goes back to the strategy we've taken here, right? So, if you put it all into context, we started with Maker and we went through a very rigorous flight test campaign. We generated a lot of invaluable data that validated our design tools, validated a lot of our system architectures and then we carried that forward into the design of midnight. And we've taken this really rigorous development approach, right, following the traditional kind of phase gates, right?

And that's positioned us to a spot where we just have a lot of confidence that the design we have today is ultimately very close to the design that's going to be certified. So, the idea with building the one non-confirming aircraft, as you mentioned earlier, was it's a way to accelerate our ability to get data to just continue increasing our confidence. But then on the 6 confirming aircraft that we've just started manufacturing on, I think it just speaks to the confidence that we have in the design and that it's ultimately very close to the design that's going to be certified. So, we're happy to proceed with the conformity on those parts...

Xin Yu
Deutsche Bank AG, Research Division

Understood. And then looking out, how should we think about the transition of production from the San Jose to Georgia? I think you indicated that the first those 6 will obviously build sort of the smaller production line. But I guess the timing -- what's the timing to kind of move things out to Georgia? And is it conceptually kind of just a much bigger version? Or is it like a completely new sort of method that you're kind of working on with talents?

Adam D. Goldstein
Founder, CEO & Director

Xin, this is Adam. So maybe I'll take a crack at that, and Tom can chime in here. So, as you mentioned, we have been building out 2 manufacturing facilities. The first one is in San Jose, and that one is located strategically directly next to our HQ where the bulk of our engineers are sitting every day. And so that facility, which is coming online here very soon, can produce like tens of conforming aircraft per year. It also contains our integrated test lab, which we're using for conducting the credit for testing as well. So that facility will come online in April, and we'll build really like the first 6 to 10 planes out of that facility. We'll then take those planes and move them to flight test, which we're doing at Salinas.

Then there is a second facility as well, which we have built in Georgia. So that one is going through a build-out process today. And that one will come online likely in '24. And so you can think about sort of the kind of low rate or medium rate production facility will be located here next to the engineers, where we can work. We can iterate really quickly the engineers can kind of go back and forth between the production facilities and where the engineers sit. And then we have a shift over to the larger facility once the vehicles are getting closer to the type certificate and our commercialization time line is about to...

Xin Yu
Deutsche Bank AG, Research Division

And just a follow-up. Is the -- I guess for the Georgia one, are you in Stellantis kind of working on some, I guess, NextGen or the sort of proprietary kind of production process that will enable you guys to scale up more than the traditional aerospace?

Thomas Paul Muniz
Chief Operating Officer

Yes. So, this is Tom. The way to think about that is maybe more traditional, let's say, in the sense that we're working closely with the states team to design the production system for the vehicles out there. But at these rates, it's relatively traditional, right? It will be a pulse manufacturing line with -- on the order of

50 or 60 stations where the aircraft spends several hours per station and then advances kind of for the next chunk of work. So if you compare that to what we'll be doing here in San Jose at our -- you think of it like a pilot line, it's all the work content and processes will be the same.

We'll just have more space to optimize the line flow and essentially like resource level, all the work out in Georgia. So it's not too dissimilar from what [once] already does, optimizing the flow and the labor content in their manufacturing plants today. If you think further down the line to these much higher volumes, right, talking about 1,000 of aircraft then there's more opportunity to leverage automation more heavily and start to get to processes that are more similar to what you see in automotive and those sorts of scale, but it's going to be a step-by-step process to get there.

Operator

Our next question comes from the line of Bill Peterson with JPMorgan.

William Chapman Peterson

JPMorgan Chase & Co, Research Division

I wanted to talk about the 4 credit testing in 2024. I guess if you think about a year, roughly, if you were to be able to start early to 2024, trying to get a feel if that's enough time for certification. And I guess is that the point why you have 6 or more aircraft? Are they all going to be doing the same testing or different types of testing? Just trying to get a feel for the timing and how realistic a year is for that type of credit testing.

Thomas Paul Muniz

Chief Operating Officer

Yes. Good question, Bill. This is Tom. So if you think about the 4 credit testing holistically, that's not going to wait until 2024 to start at the component and system level. We're already doing a lot of lower-level tests that will build up to that. So really in 2024, it's all about the flight testing of the conforming piloted aircraft. And yes, you're spot on. The reason why we have -- we are building multiple conforming aircraft to support getting through that flight test campaign as efficiently as we can. So, we actually think the 4 credit flight test campaign is probably on the order of 5 to 6 months, not a whole year, but it relies on us having a lot of company testing under our belts out of time to be able to execute efficiently on the whole process. Hopefully, that helps.

William Chapman Peterson

JPMorgan Chase & Co, Research Division

Super helpful. I believe, Mark, just switching over to more like spend. I think Mark talked about OpEx, but how should we think about CapEx for this year? It sounds like you saw some lab build out still to go in San Jose. And then for Covington, how much would be your contribution for this year?

Mark Mesler

Chief Financial Officer

Yes. If we start with Covington, we've got an agreement where we really won't put any capital down until early next year with our current construction partner there. So it's minimal on the Covington side. On the San Jose side, it's embedded in sort of the non-GAAP OpEx that I talked about as well as for this quarter, you can think about \$5 million to \$8 million of capital spend that would go into not just that factory, but in general. So, for Q1, that is what we've got in our current budget.

Operator

Our next question is the follow-up from the line of Savi with Raymond James.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

Okay. Just curious on the commercialization side work that you're doing, you've identified that first route with United, when do you start kind of looking at the infrastructure that you need to kind of operate that first route and making sure that's in place.

Adam D. Goldstein
Founder, CEO & Director

Thanks, Savi. This is Adam. So, we've had 2 exciting updates regarding infrastructure that took place during the quarter. The first was that we built out what we called our first Archer portal. So, we did this at HQ. And so we just take a minute to explain what this is and how this kind of plays into the infrastructure strategy. So, we know we need to find the places to pick off and land, and we know they need to be near where people are located and where they want to go. But we also need to make sure that customers have a really great user experience.

And so we had to find a solution that was practical, but also really affordable. And so we came up with this concept of the Archer portal, which we showed a snapshot in our shareholder letter of what it looks like. So we designed these portals to be modular, stackable, movable. And we are trailing like the entire user experience from when a customer books a flight to how they check in to really just their entire user journey. And so we went through this process, and that process actually led us to really working on flushing out the entire concept of operations. And so, we then have roped in United's team as well. And so, we really started working with them to go through this. And this has led to a bunch of the conversations at Newark, where we are currently in the process of selecting the sites to which where the vehicles will land.

So United had offered up several different potential locations, and we narrowed it down to the final few -- and I think actually next week, we're doing a walk-through with the United team where we will ultimately make a selection where we think these vehicles can go. So, the whole goal, though, is really to reduce friction so that travelers save as much time as possible. That's the whole goal. You want to have a really seamless process. And then at the same time, we're also working with United on announcing additional locations at United hubs in the very near future.

Savanthi Nipunika Prelis-Syth
Raymond James & Associates, Inc., Research Division

That's great. I appreciate that color. And then just -- I might have missed this, but have you talked about like the critical parts from a supplier contract standpoint, just where you are and kind of when you'll have kind of 100% of that contracted.

Thomas Paul Muniz
Chief Operating Officer

Yes. Savi, this is Tom. So, as it stands today, we've got a little over 80% of the bill materials with Spire selected. There are still a few contracts that are kind of just getting over the finish line there. But with that content, we've essentially locked up all of the really critical parts that you're getting at. So, in the last remaining bit, those are more, let's say, commodity check components, things like machine parts, forged parts that will go into electric engines and things like that, where it's maybe a little less time critical you can think of it as. But we feel really good at where we are with the supplier selection today.

Operator

There are no additional questions waiting at this time. I would like to pass the conference back to CEO, Adam Goldstein for any closing remarks.

Adam D. Goldstein
Founder, CEO & Director

Thank you for attending our call. This has certainly been the most exciting quarter to date from our perspective. We're nearing completion of our midnight aircraft. We're starting to produce our conforming aircraft and 2023 is really shaping up to be an incredible year. It has been a pleasure working with our team. It is the best team that I've ever worked with, and I couldn't be prouder of the work that we're doing together. Thank you for joining us today.

Operator

That concludes the Archer Aviation, Inc. Q4 2022 Financial Results Conference Call. I hope you all enjoy the rest of your day. You may now disconnect your lines.

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