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Archer Aviation, Inc. (ACHR)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for attending today's Archer Aviation Second Quarter 2022 Conference Call. My name is Daniel and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Andy Missan, Chief Legal Officer. Please proceed.

Andy Missan

Chief Legal Officer, Archer Aviation, Inc.

Thank you, operator. Good afternoon, everyone, and thank you for joining us today to review Archer's second quarter 2022 financial results. My name is Andy Missan, the Chief Legal Officer of Archer Aviation Inc. With us on the call today are Adam Goldstein, our CEO; Mark Mesler, our CFO; and Tom Muniz, our COO. We posted a shareholder letter detailing our Q2 2022 financial results and business overview to our IR website. This call is being recorded and an archive will be available on our IR website.

Before we begin, I would like to remind everyone that during today's call, we will 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. These risks and uncertainties are described in the Risk Factors section of our Annual Report on Form 10-K or 10-Q for the quarterly period ended March 31, 2022 and other filings with the Securities and Exchange Commission available on the SEC's website and on our Investor Relations website. Except as required by law, Archer disclaims 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 Investor Relations website. We will 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 Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

Thanks, Andy. We are excited to share with you all today the continued progress that we have made. We are now at an inflection point in the company where we are advancing our commercialization efforts. This includes the development and certification of our production aircraft, building out the supply chain, and manufacturing infrastructure needed to produce the aircraft and kicking off efforts to prepare for our initial launch markets and routes for commercial operations.

The proof points and the confidence of our development can also be seen by the actions of our partners. As we announced earlier today, we have received a \$10 million pre-delivery payment from United Airlines on 100 aircraft as part of their purchase agreement for up to 200 aircraft. We believe this is the first such pre-delivery payment of its kind in the eVTOL space, and it reflects the maturity of our aircraft development program and the confidence United Airlines has in our commercialization efforts.

The technical progress of the Maker aircraft has been outstanding. It is an important aircraft for us because it has validated many of the key capabilities of our 12-tilt-6 configuration, software, flight control, and other key design decisions. The advancements we have made with Maker have proven we have chosen the right aircraft configuration that can balance performance against complexity. Archer's goal has always been to develop an aircraft that can perform rapid back-to-back 10 to 50-mile flights while maintaining the lowest level of complexity possible to ensure the vehicle can be certified, mass manufactured, and operated in a cost-efficient manner.

Its performance since its first hover flight in the summer of last year has demonstrated the engineering excellence of our team. I believe the progress we have made with Maker has been nothing short of incredible and industry-leading in terms of time to execution. It's important to remember that the purpose of Maker is to be a testbed to support the development of our pilot plus four-passenger production aircraft that we are working to certify with the FAA. The advancements we have made in the Maker program have enabled substantial progress in the development of our production aircraft, and we are now at the point where we will shift the focus of our discussions towards the production aircraft.

Given this shift today, I'm excited to reveal the name of our production aircraft, Midnight. You can see a teaser silhouette rendering of Midnight on the cover of our shareholder letter, and we plan to do a more robust unveil of it in the near future. The design of Midnight was optimized around commercial operations with key performance requirements like payload, range, and speed intended to yield the best possible operating economics for the business. Today, the vast majority of our 400-plus employees are working day-to-day on the development and certification of Midnight as well as supporting go-to-market activities.

This past week, we completed Midnight's preliminary design review or PDR. The PDR is where we review and freeze the key design elements of the aircraft. PDR is not just another development lifecycle milestone. It's about ensuring that we are on track from program development timing standpoint, maintaining vehicle performance characteristics around speed, range of payload, and not introducing any design complexity that would cause unnecessary risk to the FAA certification process or to scale manufacturability. I'm extremely happy with where we are at this point in the program. The talent on the Archer team is truly exceptional.

As the aircraft development has matured, we are also building our go-to-market team. We have recently onboarded two leaders that are key to our commercialization efforts: Tom Anderson as our Chief Operating Officer for Urban Air Mobility, and Bryan Bernhard as Chief Growth and Infrastructure Officer. As Archer advances commercialization of our aircraft and launching our UAM network in major cities, Tom's deep experience in airline management, operation, and fleet maintenance will help us introduce and scale the UAM business utilizing Midnight. Tom has spent his career developing and scaling commercial airline operations, including taking JetBlue from concept to operation.

Core to the build-out effort is ensuring the necessary infrastructure is in place. Bryan will be here responsible for building and scaling up Archer's operational footprint across our target markets. He spent nine years at WeWork, expanding their infrastructure footprint as global head of development. He was responsible for launching a majority of their key markets and has built hundreds of physical locations spanning across cities around the world. Bryan brings to Archer expertise in not only scaling physical growth, but how to do so in accordance with all local and jurisdictional guidelines. We are looking forward to sharing more details on our go-to-market strategy with you on future calls.

I now want to take a few minutes to update you on our progress against the key milestones we've highlighted in our shareholder letters since February. Our 2022 milestones are focused on both Maker and Midnight. There's one Maker milestone and two Midnight milestones. Our first milestone is a Maker milestone, and that is to successfully complete the first full transition flight. The second milestone is a Midnight milestone, and that is agreeing with the FAA on our means of compliance with the Certification Basis established in the G-1 issue paper we finalized last fall. And the third milestone is also a Midnight milestone, and that is to select and break ground on our initial manufacturing facility.

Now, let's take those in order. As we announced two weeks ago, we have completed the first two phases of our Maker flight test program, hover and critical azimuth. We are regularly flying many times per week and sometimes multiple times per day. We are now shifting into the third phase of Maker's flight test program, during which we will evaluate its system performance at increasing forward speeds. We remain on track to complete our first full transition hover to fixed wing flight later this year.

With respect to our second goal, we continue to work closely with the FAA to facilitate agreement on our Means Compliance for our Midnight production aircraft. We believe we remain on track to achieve that goal.

Finally, to successfully commercialize Midnight, we have to manufacture it at scale. That's why our other 2022 milestone is focused on manufacturing. We've evaluated over 200 sites across the US in collaboration with Stellantis. We are on track to announce more details on our progress in this area later this year.

With that, I'm going to hand it over to Tom Muniz, our COO, to share with you some further insights into how the team has transitioned from the Maker to Midnight program.

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

Thanks, Adam. I'm very excited about Archer's progress in the second quarter and more recently with the successful completion of our PDR. We truly are at an inflection point. Our strategy from the outset has been to take the most capital and time-efficient path to developing our production aircraft and launching commercial operations. Maker was a key element of the strategy and it provides invaluable technical data and has served as a reference design point for establishing our production aircraft certification requirements.

We knew from day one that it was better to start by building a demonstrator aircraft, Maker, in parallel with our work with the FAA to set the certification requirements for our production aircraft. This is because it has allowed us to have greater certainty on the certification requirements before getting too far along the development of the production aircraft when changes to design due to certification requirements become more challenging and costly.

Our production aircraft, Midnight, has been designed and optimized around certification in our planned commercial operations. Midnight is designed for high throughput, urban air mobility flights. Midnight's designed to be able to complete back-to-back missions with minimal time charging on the ground while passengers load and unload between flights. This is a key driver to the bottom line of our operating model.

As Adam mentioned, our team successfully completed our PDR for Midnight earlier this week. This is a major milestone in any development program, and I'd like to share some of the key performance metrics for Midnight that came out of the PDR and why they're important for our commercialization of our aircraft.

One of the most critical metrics we track is payload, the weight of the pilot, passengers, and baggage that the aircraft can carry. For an eVTOL, payload is the hardest performance metric to achieve as it is the output from all other design decisions that affect the weight of the aircraft. Midnight is expected to have a payload of over 1,000 pounds, which we believe will be industry-leading. This field is important because it supports our operating model of generating revenue from up to four passengers per flight. We are extremely excited that output of our PDR has validated this key enabler to our commercial operations.

Another key metric is the minimum turnaround time needed to charge the plane, assuming it has completed a typical 20-mile flight. Our analysis is showing that only about 10 minutes is needed on the ground to charge between such flights. This metric is also critical to achieving our operating model, as this will facilitate fast turnaround times on the ground and enable higher aircraft and therefore passenger throughput.

I also want to touch on our metric of direct operating costs. The success of our PDR has given us even greater fidelity that these costs are going to land at or below our internal targets, giving us high confidence in our ability to make flying on our aircraft accessible, with prices comparable to ground-based ride-sharing options.

As we move beyond PDR, we are ramping up our manufacturing and supply chain activities as well as progressing the build of an initial Midnight aircraft that will enter flight tests next year. We anticipate parts for the Midnight aircraft will start arriving at our low rate initial production facility later this year. We have already discussed the status of our manufacturing site selection, which remains on track. When it comes to supply chain, as we've discussed before, we are focused on collaborating with and sourcing from proven aerospace suppliers.

We've selected suppliers for approximately 50% of the bill of materials for Midnight by cost. A couple recent examples are our selection of FACC to fabricate structural components for Midnight and Honeywell for our actuators and climate system technology. We will continue to announce relationships with key suppliers as they are finalized over the coming months.

With that, I'll turn it over to Mark to discuss the financials for the quarter.

Mark Mesler

Chief Financial Officer, Archer Aviation, Inc.

Thanks, Tom. This is an exciting time for Archer. As both Adam and Tom have just outlined, the successful exit of our PDR moves Archer into its next phase of development on our production aircraft and advances our commercialization efforts. PDR provided us confidence that Midnight can achieve the key operating assumptions

associated with our business model. This is important as we mature our go- to-market strategy. I'd like to briefly share with you how our confidence in three of those metrics for our Midnight aircraft, range, turnaround time, and aircraft costs enable our business plan to a top line and cost standpoint.

Let's start with the top line. As we have discussed in the past, our revenue model has two primary drivers: one, the direct sale of our aircraft to operators like the contract we have with United which we just received the \$10 million pre-delivery payment on 100 aircraft; and two, the operation of a UAM network in the top cities in the US and around the world, with target mission profiles in the 10 to 50-mile range.

As Tom discussed based on our PDR, our data supports Midnight's payload will be greater than 1,000 pounds. This is an extremely important metric for us as well as the industry. We believe the commercial feasibility and both of our revenue models is predicated on having the ability to transport up to four passengers. The PDR process has provided us greater confidence that Midnight will be able to transport four passengers plus a pilot and given that, we believe strongly that the Midnight aircraft can support these two revenue models.

Tom also discussed the validation of an approximate 10-minute charge time for Midnight following a 20-mile flight. Given our target missions are in the 10 to 50-mile range, that is also a very important metric as we try to maximize the number of flights our aircraft can perform on a daily basis. This approximately 10-minute charging time means our Midnight aircraft can spend less time in transition on the ground, which should allow for more flights on our routes than as it took much longer to charge. Again, this metric is a key enabler for markets with high customer throughput such as potential routes from Manhattan to JFK, LaGuardia or Newark.

Another critical metric that has been supported by Midnight's PDR was our aircraft cost. With approximately 50% of the suppliers selected for Midnight's bill of materials, we continue to track to our target cost to build our Midnight aircraft. As we think about unit level economics, hitting this cost target is very important. We have a target business model, ensuring we stay within cost parameters while maintaining rigor around safety and quality is essential. We are well on our way to doing this.

As the CFO, I'm very happy with how the teams' work getting through PDR has supported some of our top line revenue drivers in aircraft cost targets, providing us greater confidence to achieve our target business model.

At some point in the future, we will share more detailed information about the specific elements of our target business model and unit level economics so investors can better understand the key drivers and assumptions around that. We are in a competitive space and so we are sensitive to sharing too much while at the same time offering greater transparency.

As I discussed on the last call, in parallel to the significant technical and operational progress at Archer, we are making great progress in building a world-class accounting and finance team and implementing critical financial processes to enable the business. As we advance our commercialization efforts, our accounting and finance team is entrenched with our functional leaders to help make key data-driven decisions. Some examples are working with the supply chain team to ensure that the economics of the supply agreements we signed support our business plan; working with our data science team, running financial scenarios for potential initial launch cities and routes; and reviewing business cases for capital equipment to be installed in both our low rate initial production facility and full production scale facility to ensure we are tracking the fully burdened cost targets.

I continue to stress that Archer is and must continue to be a very fiscally disciplined company and having good decision support capability is a key part of our overall financial and data-driven rigor. It helps us to allocate our precious capital in an informed manner. In that context, let's turn to our financial performance for the quarter.

We ended the quarter with \$654.8 million of cash and cash equivalents on our balance sheet. We used \$49.4 million of cash in the quarter. At this cash balance and burn rate, we continue to be one of the most well-capitalized companies in the sector. Non-GAAP total operating expenses, which excludes stock-based compensation and warrant expenses, were \$50 million, which was right at the midpoint of our estimates range. Non-GAAP operating expenses increased sequentially by \$10.4 million as expected as we hired more people to staff our engineering programs and build out the requisite general administrative infrastructure to support the growth of the business. We also invested in parts and materials for both our Maker demonstrator aircraft and our Midnight production aircraft programs.

We incurred a loss on adjusted EBITDA of \$49.2 million and the sequential expansion of that loss by \$10.1 million relative to Q1 2022 was primarily driven by our increase in non-GAAP operating expenses for the reasons I just mentioned.

On a GAAP basis, total operating expenses for Q2 2022 were \$80.2 million, which included \$25.6 million of stock-based compensation, \$1.2 million of warrant expenses for our warrants issued to Stellantis and \$3.4 million of separation-related expenses for our former co-CEO. These results were at the very low end of our Q2 2022 outlook of \$80 million, primarily because of lower stock-based compensation.

Finally, let's look at our Q3 2022 estimates for spending. Now that we've exited our PDR, we will see an uptick in spending to support non-recurring development costs related to bring up of Midnight suppliers and increased spending on parts and materials for Midnight aircraft per our plan. We anticipate total GAAP operating expenses of \$95 million to \$103 million and total non-GAAP operating expenses of \$63 million to \$71 million. This reflects expected stock-based compensation and warrant expense of approximately \$32 million.

Finally, we'll be very active attending a number of conferences, meeting with investors, engaging with the financial community over the course of the coming months. A detailed calendar is available on our website and in our shareholder letter. Investor education on the eVTOL sector as well as Archer's progress and capabilities continues to be one of the primary focuses of our Investor Relations function. We plan to hold a series of teach-ins over the coming quarters to educate all stakeholders on key topics for the industry.

In summary, Archer continues to be laser-focused on doing what we say we are going to do with respect to our operating and financial goals. Successfully exiting our PDR phase gate milestone has provided us the data and confidence that we can further advance certification and commercialization efforts for our Midnight production aircraft.

Further, we are starting to validate many of the critical, technical, and cost variables that will enable our target business model. Customers see this as well as evidenced by the \$10 million pre-delivery payment that we received from United. We continue to execute all of this in a very financially disciplined and informed manner.

With that, operator, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from Edison Yu of Deutsche Bank. Please proceed.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Hey, thanks, and congratulations on the recent milestones. I had two questions. First, on the United pre-payments, I was wondering if you could provide some sort of road map in terms of future pre-delivery payments and also what kind of milestones would be associated with that.

Adam Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

Hey, Edison. This is Adam. Thanks for the questions and so United gave us \$10 million deposit for 100 aircraft. And they did this really because of the confidence that they have in eVTOL has and industry, the team that we've been building and really just the maturity of our technology platform that you've seen since PDR.

But I think the other thing that was really important here is that they're securing their spot here in 2025. And so there's going to be extremely limited supply in the early years of the eVTOL market. So it's really my belief that Archer will be one of if not the only company in 2025 to have aircraft that you can actually buy and operate in that year. And so given Archer will also be operating aircraft, it's going to be limited in terms of number of supply. So the first 100 aircraft, I think, are going to be really important for the go- to-market strategy.

Now, we are also evaluating different launch markets, different launch scenarios, different routes. So we had formed in back in April, the joint eVTOL advisory committee where we were working on operational matters and maintenance matters. And this has allowed us to really start to map out some of those early concepts here of our go-to-market strategy.

So as that starts to mature further, you will hear more updates and announcements around the different areas we will launch into and ultimately additional planes that will come online. So I think more to come on that. I'll turn it over to Mark to talk about payments and how the deposits work.

Mark Mesler

Chief Financial Officer, Archer Aviation, Inc.

Yeah. Hey, Edison. I think you can look at the deposits and any future payment milestones sort of on traditional aerospace payment terms. We haven't disclosed those publicly but you could assume that they'd probably be aligning with manufacturing and then ultimately deploying of the aircraft. So I think it's probably going to be pretty typical of what you see in the market.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Understood. Second question, wanted to ask about the kind of key learnings you've been doing, obviously ramping up on test flights. Do you have any sort of takeaway that you can maybe share on potential improvements or upgrades based on either the test flights and also post-PDR? Thanks.

Tom Muniz*Chief Operating Officer, Archer Aviation, Inc.*

A

Yeah. Hey, Edison. This is Tom. Thanks for your question. Just kind of answering that in context, right, Maker has always been part of our broader strategy to learn as early as possible about some of the key decisions that we've made with regard to the aircraft that we're carrying forward into the product. So the biggest thing there is the aircraft configuration itself, with the 12-tilt-6 propeller configuration.

We've been doing lots of flight testing with Maker over the past couple months. As Adam said, flying many times per week and each of those tests is really specifically designed to get us data that we can use to validate key elements of the system so flight control laws for the vehicle, the broader flight control system as well as the aerodynamic model and other features.

All of that data has given us great confidence moving forward with maturing the Midnight design. And as you said, we completed our PDR very recently and essentially all of those lessons learned have been incorporated. And now, we have high confidence that we'll be able to get through our certification and commercialization with as low risk as possible.

Edison Yu*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks. If I could sneak in one more very high level question. Do you worry at all about consumer adoption? I think the sort of UAM world that we're all sort of kind of looking at, one concern that we've heard among investors is, look, this is a – you're going to need some big changes in kind of the infrastructure, the way we kind of operate. How do you think about just that at a high level?

Adam Goldstein*Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.*

A

So I think – this is Adam. So I think there's two kind of perspectives to look at and the first one is will consumers want to take the vehicles. And then the second one is kind of the infrastructure that's going to be necessary, put in place in order to do that.

So what's interesting is that I think one of the early go-to-market strategies is going to be flying from airport to city center and those are what we call trunk routes. And so we already know that there is demand for people to take these routes as we've seen in ride share. So the rest of the world are showing substantial amounts of demand for these routes.

We also know there's a willingness to pay, for the same example, I'm using Lyft. And so I think the demand will be there and I think the cool factor of these vehicles on top of the convenience that the product gives will have a lot of early adopters be attracted to the market. If you take that and then you add a brand like United to the vehicle itself, which stands for safety, I think you have a high degree of confidence that there will be a lot of users that want to adopt the products pretty early.

The second phase of kind of the question really relates to infrastructure and so I think what we've seen really over time is demand of products drives the use case of products. And so, yes, infrastructure is certainly going to be very challenging. I think that's definitely going to be one of the tricks. We recently just hired a gentleman named Bryan Bernhard who was previously the head of global development at WeWork for the past nine years. He obviously had to battle through an incredible amount of challenges to stand up as much real estate as WeWork has in the most recent history. And so I am very optimistic that with the right team and with the right amount of

demand that we'll see for the product, that we will be able to get out there and really start to stand up infrastructure.

My last comment on it is the early infrastructure that likely gets stood up will be around airports and so having a partner like United where when you walk in to talk to the airport and you walk in with a big customer like United, it's a different dynamic. It's a different conversation than if you walk in by yourself. And so I think that gives us a really unique advantage to get to market here.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Great. Thanks a lot.

Operator: Thank you. The next question comes from Savi Syth of Raymond James. Please proceed.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Hey, good afternoon. On the supplier side, as you [ph] secure (29:12) these suppliers, I was curious what type of agreements you're putting in place and I'm trying to understand what your commitments are to them and vice versa.

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

Yeah. Hey, Savi. This is Tom. Thanks for your question. So the way we think about these supplier agreements is in the context of securing our first several years of supply essentially. So we're negotiating long-term agreements that support production up to the rates that we've published in some of our previous guidance material.

Strategically, we're focused on partnering with aerospace companies that have proven track records of delivering successful certified hardware because that's part of our broader strategy to minimize risk going to market. As part of that, we do have some commitments to fund non-recurring engineering for the development of materials to support us. What we've found is great partners in the supply base who are willing to really partner with us and drive to get these products and ultimately our aircraft to market on the timelines that we're tracking to. So we've been very pleased with the progress on supply chain.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

That's helpful. Thanks, Tom. And then if I might ask, and on the last earnings call, you talked about the kind of things that the joint advisory committee is looking at and you mentioned being able to maybe talk about in the future calls some of the maybe locations that you're targeting. But while it's still early days, I was wondering, if you have those conversations and you gained more confidence with Midnight, what Midnight can do. Have you had any kind of new learnings in terms of maintenance operations that are different from your earlier thinking?

Adam Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

Yeah. Thanks, Savi. This is Adam. So we have – the relationship with United I think is – it's pretty special. They're not just an investor or a group that's buying planes. They've dedicated a lot of time to helping us think through different operational matters and go-to-market strategies and maintenance strategies. So I would say somebody

at Archer is probably – counting myself included, is probably talking to United on if not weekly basis, every other day basis. And so we're pretty deeply integrated with them. They've been very helpful in doing that.

So it's an iterative process. It's not like necessarily a big aha moment that you have, but there's a lot of conversations and we each bring something different to the conversation. United's obviously operated and serviced vehicles for many, many years and so they can kind of guide us in some of our decisions that we're making. But also thinking about the way the world's going to work in the future and kind of different strategies allows Archer to help bring something unique to the conversation.

So the discussions with United have really led to the identification of locations and routes for our go-to-market strategies. And so we are – the deposits that we announced relating to 100 aircraft are around the high level conversations we're starting to have against very specific routes. And so those vehicles are being considered against very specific routes and I think very attractive go-to-market-specific cities. And so we are maturing that strategy with United and as we continue to mature, that we'll start to give more details here on that.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Can I clarify? Adam, is the plan for Archer to do the maintenance support or is that something that you would get some of your partners to do?

Adam Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

So we're evaluating different strategies there and so we have spoken with several different parties there. But I think it's a little bit early to give the kind of full understanding of that.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Makes sense. Thank you.

Operator: Thank you. The next question is from David Zazula of Barclays. Please proceed.

David Zazula

Analyst, Barclays Capital, Inc.

Hey. Thanks for the question. You churned out some really helpful operating metrics that you're planning on for Midnight ultimately. Can you confirm that the 100-mile range is with all of the planned flight systems onboard as well as the 1,000 pounds? And similarly, for the 10-minute charge time, is that at the end of battery life? Some numbers get thrown around in this industry, so I just want to make sure we're specific in talking about the same language.

Adam Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

Yeah. Thanks, David. This is Adam. I'll give you an opener and I'll turn it over to Tom.

So, going through PDR, we really have to start getting really specific about the design of vehicles. So it's not theoretical. It's not just [indiscernible] (34:37). We're actually starting to sign up suppliers and so the level of

fidelity that goes into the engineering is very high. And so we have a very good understanding of where we think the speed range and payload of the vehicle is going to be.

And so the main goal that Archer always talks about is our core nominal mission, which is a 20- to 30-mile rapid back-to-back mission where we can carry a pilot plus four passengers and that's what we've been designing around. And so the target payload that we have with that mission is around 1,000 pounds but that 1,000 pounds also comes with a degree of margin that we built into it. We do expect the vehicle to grow as we go through the certification effort. So that 1,000 pounds has an additional several hundred pounds of margin that we put on top of that.

So we feel very comfortable that we will land with a certified vehicle that has 1,000 pounds of payload. I also believe that's going to be industry-leading. And so the reason why that's been so important to us is you look back in history, payload, when it comes to aviation, is one of the critical drivers of economic viability. And so we do think the ability to carry at least three passengers is core to establishing a profitable long-term business.

As it relates to range, the kind of the numbers that we have always really thought about have been really focused on how many back-to-back missions can you do. And the Midnight vehicle has been designed to do upwards of around 45 missions back-to-back. Now, we don't necessarily model that because that would mean perfect execution every single flight and so you can take some sort of knock down number if you think about just the concept of operations around loading and unloading of passengers and people being late and weather and all different types of delays that can come into that. But that's what the vehicle is being designed around.

So in order to be able to do that rapid back-to-back missions at 20 to 30 miles, you need to design a vehicle that can go longer than 30 miles because you don't want to sit on the ground charging all the time. So a lot of these numbers can be changed around based on different assumptions that you have. So for example, you can charge faster but that just comes at the expense of using up your battery lifecycle faster. And so what we've done is looked at the [indiscernible] (36:55) operations and thought about a typical day where we might be charging at a higher rate during the peak operations and charging at a lower rate of during a slower period of the day where we have a typical charge time of between 10 and 11 minutes throughout the day of our operations. And then I'll turn it over to Tom to talk a little bit more about the range of the vehicle.

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

A

Yeah. Thanks, Adam. I think you summarized it well. We don't think of maximum range as really a design target for the vehicle as much as the direct operating costs and the real world use case just described.

So putting the numbers into context, right, while it's true the vehicle could fly up to 100 miles with a brand-new battery, in reality, what we care more about is this fast turnaround time, charge time between flights that lets us do tens of flights per day up to that theoretical maxim Adam mentioned of 45 flights per day. That's really the driver there.

The way we make money is by selling tickets, put as many people as we can in the vehicle, and then get the vehicle flying as many times as it can per day. All of that really boils down into our direct operating cost, which we touched on earlier. We're actually coming in better than our internal targets and that's why we have high confidence we'll be able to go-to-market with ticket prices that are comparable to existing rideshares, right, in that few bucks per passenger mile.

David Zazula*Analyst, Barclays Capital, Inc.*

Q

Thanks. Very helpful. Tom, can you discuss a little bit the testing program as it's come so far and why you're comfortable being able to talk about range assumptions without having transitioned to fuller flight yet?

Tom Muniz*Chief Operating Officer, Archer Aviation, Inc.*

A

Sure, absolutely. So as Adam touched on earlier, we completed on Maker the second phase or flight test campaign. So in that series of tests, we validated the robustness of the design to essentially crosswind landing capabilities because that's another, again, important piece of high utilization and uptime.

So we've demonstrated that the vehicle's robust up to very high crosswind limits. We've been flying sideways, backwards up to 15 knots. So that really validates the flight control system as well as the configuration of the aircraft that [ph] we came forward (39:29) into Midnight.

When it comes to validating range, though, that's not a primary driver on Maker. We will gather more validation data to support our aerodynamic model, which goes into estimating the drag of vehicle, et cetera. But really where we get a lot of our confidence for the Midnight aircraft is in ground tests both on the battery in terms of very extensive cell testing as well as wind tunnel testing. So we've completed some wind tunnel testing already. We are currently building our final high fidelity models to launch our final wind tunnel test campaign in the coming months. All of that data will come together to give us even more validation in our performance estimates. But all in all, where we are in the maturity of the design, we're looking really good.

Adam Goldstein*Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.*

A

And David, this is Adam. Just kind of chiming in here, I think the way that the industry will ultimately be judged will be the economic viability of these vehicles. And I think that's going to be a mix of speed, range, and payload, meaning how many people can you move, how fast, and how much is it going to cost to do that.

And so that's ultimately what we're solving for and that's what we're so excited about here. And that's why the results of the PDR have been so exciting. So that's why we felt very comfortable thinking about the advancement of our commercialization. I think that's what got United very excited about in that to the point where they said, okay, the maturity of this program warrants a deposit, a cash deposit, a significant cash deposit. And so that's kind of the way we think about this. It's not so much just about can you build the fastest, highest flying, farthest flying plane. It's can you build a vehicle for the mission and then how do you make that economically viable.

David Zazula*Analyst, Barclays Capital, Inc.*

Q

I guess for Mark, just a time to clean up on that. Based on the extension of your agreement with United, what you've disclosed in existing filings about United's stake in Archer is unchanged.

Mark Mesler*Chief Financial Officer, Archer Aviation, Inc.*

A

I missed the last part. This is Mark. Could you repeat that, David?

David Zazula*Analyst, Barclays Capital, Inc.*

Oh, sorry. Just – yeah. United's stake in Archer is unchanged from what you've previously disclosed, their ownership?

Q

Mark Mesler*Chief Financial Officer, Archer Aviation, Inc.*

Yeah, that's correct.

A

David Zazula*Analyst, Barclays Capital, Inc.*

Thanks. Appreciate it.

Q

Operator: Thank you. The next question comes from Andres Sheppard of Cantor Fitzgerald. Please proceed.

Andres Sheppard*Analyst, Cantor Fitzgerald & Co.*

Hey. Good afternoon, Adam. Good afternoon, Mark. Congrats on the quarter and thanks for taking my question. I wanted to maybe get a little more clarity on the \$10 million announcement that you've made today with United. I guess I'm just trying to understand. So will this eventually be recognized as revenue and I guess why now? Why not closer to commercialization or FAA certification? And sort of maybe the third part of that is where do you anticipate using this additional capital? Is it to fund CapEx, R&D, manufacturing? Just maybe give us some sense as to what the strategy is there and the timing. Thanks.

Q

Adam Goldstein*Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.*

Yeah. Andres, this is Adam. I'll start with the why now and then I'll turn it over to Mark.

A

So I think this really has to do, just back to my earlier comments, with the confidence that United really has around eVTOL the category but also Archer specifically. And so I think those are two of the really big drivers of this. But then the third kind of big driver is we have limited supply and so if you go back to our stated manufacturing levels, we said we would build 250 planes in 2025 and that's what we're on track to do so.

And so Archer is going to be operating vehicles and then we also have United. There also has been a lot of excitement around orders in the industry. We've seen lots of announcements out there and Archer has been engaged with many other different groups. And so I think there is this interesting balance here where Archer has matured the program. You could see it in the Maker flight test. You could see it across PDR, and then you can see it in a lot of the work that we're doing with United where we're starting to think about the specific routes and concept of operations. And so it made sense for them to commit here to lock in their spot, to make sure they will get access to planes in 2025 and as a strong corporate sponsor to Archer as well. And so I think it's a big signal of them doing that now. So I'll turn it over to Mark.

Mark Mesler*Chief Financial Officer, Archer Aviation, Inc.*

Hey, Andres. So again, I think you should look at this and because it is what it is, is a standard commercial arrangement. So this is a pre-payment or a cash deposit that'll hang up on our balance sheet as a cash deposit.

A

And yes, to your question, this would eventually turn to revenue upon delivery of the planes, right? So that's the most simplistic way to think about it. That's how the contract is structured.

In terms of cash use, I mean this is going to be for general corporate purposes which, for us, is R&D and all of the things we've been talking about for commercialization. It will go towards the advancement of Midnight. It will go towards CapEx on new factory, et cetera, et cetera.

Andres Sheppard*Analyst, Cantor Fitzgerald & Co.*

Q

Got it. Okay. No, that's really helpful. Thanks for the additional color there.

Maybe for my follow-up question for Adam, there's been a lot of macro conversations in the industry about – in regards to certification and the possibility of the FAA certification somewhat consolidating or mirroring the certification process in Europe, which as you're better aware than we are, is a little bit more stringent, I think, to have the 10 to the negative 9 degree of safety requirements. I'm wondering, would love to get your thoughts. Do you see that consolidation taking place? And if so, what impact, if any, might that have on your certification timeline? Thanks.

Adam Goldstein*Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.*

A

So we are speaking with the FAA at the engineering level on a daily or almost daily basis and then we're speaking with the FAA at the highest levels as well. And so I have had conversations all the way up to the top with the acting administrator and have been reassured the confidence that the FAA will take a leading position in bringing eVTOL to market.

And so I don't see anything that tells me today that the FAA is going to back away from their existing stance on bringing eVTOL to market. And I do not see them adopting the [ph] OPA (47:01) standards. But I'll let Tom chime in as well.

Tom Muniz*Chief Operating Officer, Archer Aviation, Inc.*

A

Yeah. Obviously, I agree with what Adam said. The thing that I can add too is even since this 2117A to 2117B change, the FAA has reiterated we should expect no changes [indiscernible] (47:18) requirements. And I can say over the last few months, that's what we've seen, just reconfirmation of what we had been already designing to so we don't expect anything to change. Even they had to make an administrative change to our G-1 issue paper, essentially just pointing at 2117B and so in that document, we have seen no changes. So just further confirmation that we're on the right path.

Andres Sheppard*Analyst, Cantor Fitzgerald & Co.*

Q

Wonderful. Thanks so much, guys, and congrats again on the quarter. I'll pass it on. Thanks.

Mark Mesler*Chief Financial Officer, Archer Aviation, Inc.*

A

Thanks, Andres.

Operator: Thank you. [Operator Instructions] The next question comes from the line of Bill Peterson of JPMorgan. Please proceed.

Q

Hi. This is [indiscernible] (48:13) on for Bill Peterson. [indiscernible] (48:16) United deposit again. As you look ahead to your production, does this put United at the head of the line and potentially ahead of Archer's planned network operations? And then can you also elaborate on your latest thinking on the mix between direct sales as well as the passenger network?

Adam Goldstein*Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.*

A

Thanks, [indiscernible] (48:39). This is Adam. So Archer has always said the goal is to build a long-term UAM network and the path to do that is going to require capital. And selling planes is a good way to help fund the long-term business. And so as we've said to date, we think 50% of our production or base case we sold, then 50% of our production will be used. And so United is a great go-to-market launch partner.

And so we're evaluating different scenarios in terms of working together on these markets. But I think the real goal here has to do with finding the best way to get eVTOL to market, set up with infrastructure at the core trunk routes from airports to city centers and get all this operational in 2025. We understand that there is a big lift to get there but again, doing this with large partners, I think, helps make that considerably easier.

So, the sort of the theme and like kind of the feeling that we've had over the past quarter is this advancement of commercialization is really been exciting. And I think that's what everybody is feeling. And it's not just internally at Archer. It's not just at United either, but it's also with some of the local municipalities that we're starting to talk to, with some of the strategies around our airports that we've been speaking with. And so there's this kind of momentum that we're all starting to feel and I think that's what's gotten everybody excited with where we're at today.

Q

Okay. Thank you for that color. Maybe I'll just touch on batteries in terms of certification. We heard from the [ph] air current (50:43) that there's a difference between pouch and cylindrical batteries. So can you share a little bit more on the details on the types of batteries that Archer is using today and then the ones you plan to certify with? And then as you see it today, what are the key risks and challenges as well as areas you'll need to convince regulators on that the batteries are safe.

Tom Muniz*Chief Operating Officer, Archer Aviation, Inc.*

A

Yeah, absolutely. Great question. This is Tom. I'll be happy to answer that. So for competitive reasons, we don't want to disclose exactly what batteries we're using but what I can say is that they're commercially available, off-the-shelf cells manufactured by well-established companies, so cells that come with extremely high reliability and the data to back that up. So our approach has been essentially lower performance in terms of range and energy, but much higher reliability, much higher safety and ease of certification, commercialization. That's the strategy we're taking there.

In terms of risks and the way we think about this, the FAA has a well-established certification requirements for batteries, right? DO-311A is an accepted means of compliance to get these systems certified, and we've designed to meet that standard. So essentially, we're doing our best to make this as easy as possible for the FAA and just make it not one of the main things that we're worried about or trying to push the envelope on. And the nice thing is we can do that and still achieve all of our commercial targets with the aircraft because that's really what it's all about [ph] and it's there (52:20).

Adam Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

A

And if I can add on there, this is Adam. Since the beginning, what we've always said is our goal is to find an efficient path to getting to market. Archer has always been about commercialization and what we did was design an aircraft around a business case, which is these 20- to 30-mile rapid back-to-back missions where we can do multiple of these trips per day. And then from there, it's just reduce the risk everywhere, reduce the risk to certification, and reduce the risk to mass manufacturing. We've made a lot of decisions around that and you can see that across a lot of our announcements. So I think that message will be consistent across all parts of the aircraft.

Q

Thank you. I'll hop back in the queue.

Operator: Thank you. There are currently no additional questions registered at this time so I will pass the conference back over to Adam Goldstein, CEO, for closing remarks.

Adam Goldstein

Co-Founder, Chief Executive Officer & Director, Archer Aviation, Inc.

Thanks for attending our second quarter call. We are really excited about the progress in advancing our commercialization efforts. The success of Maker flight test campaign, the results of the Midnight PDR, and the United Airlines deposits are really strong proof points that we're on track to realize our commercial vision. This is really a generational opportunity and it's now you get to see why I'm so excited, why the team is so excited, come to work every day. Midnight does have the opportunity to transform the world and I can't wait to share more details with everyone over the coming months. Thank you.

Operator: Goodbye.

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