

10-Nov-2022

Archer Aviation, Inc. (ACHR)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending today's Archer Aviation, Inc. Q3 2022 Financial Results Conference Call. My name is Bethany 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 with Archer Aviation. Please go ahead.

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 third 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 Q3 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'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.

These risks and uncertainties are described in the Risk Factors section of our annual report on Form 10-K, our Form 10-Q for the quarterly period ending March 31, 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'll begin with the 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 Goldstein

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

From day one, Archer's strategy has always been about finding the most efficient path to commercializing eVTOL aircraft. That translates to, one, designing for certification, which is why we are confident that we do not have any design gaps, and we believe that we have a clear path to certifying Midnight them in late 2024.

Two, building an aircraft that fits our business case. That means 1,000 pounds of payload to enable a pilot plus four passenger aircraft, low direct operating costs, and the ability to conduct rapid back-to-back 20-mile trips.

And three, focusing our in-house development on only the key enabling technologies that cannot be sourced from the existing aerospace supply base.

Under this approach, we rely on partners to supply components that are already being used on certified aircraft today, dramatically reducing our certification risk as well as our development timeline and cost. We believe this strategy and our team's ability to execute on it has allowed us to establish our leadership position in the market, and it's why we are confident we will be the first company to certify eVTOL aircraft in the US with the FAA.

You've seen the success of our execution in our Maker flight test program and our progress on Midnight. Over the coming months, you can expect to hear about further advancements on our path to commercialization. We strongly believe that these achievements will further solidify our leadership position.

Earlier in the year, we announced three goals that we aim to achieve in 2022. One, make a transition flight. Two, FAA acceptance of our means of compliance. And three, selecting our site for manufacturing.

As we sit here in November, we are on the doorstep of achieving all three goals. First, Maker transition flight. Transition is the phase of flight between hover and cruise, where the aircraft transitions from the lift generated by the propellers to lift generated by the wing, which is called wing-borne flight. I'm happy to announce that, on November 2, we conducted Maker's first wing-borne flight. Over the coming weeks, we expect to conduct a full transition flight where the tilt propellers will be locked in the cruise position.

Second, FAA acceptance of our means of compliance. Archer has submitted its means of compliance, and the completion of this goal by the end of the year will depend on the FAA's ability to review and accept them. We believe we are very close.

Third, selecting our manufacturing site. We have selected our site and are finalizing the agreements with the state and local governments involved. We expect to make an announcement on this in the very near term.

Next, I will highlight the key areas of progress we made last quarter on our go-to-market efforts, our aircraft technology and certification. In terms of our go-to-market efforts, we believe we must start planning now for the launch of our UAM network in 2025. This is an effort that spans across many stakeholders, including our business partners and federal, state and local government authorities.

As you saw from our announcement this morning, we have identified our first point to point route that we will operate with United between the Downtown Manhattan Heliport, one of the world's most advanced and well-known heliports, and New York Liberty International Airport, one of United's largest hubs.

In the lead up to this announcement, our team spent a lot of time talking to the relevant constituents, including members of Congress, from both New York and New Jersey, the Port Authority and Mayor Adams who I spoke with at length.

One of my biggest takeaways from those conversations was the excitement. Excitement for what this new form of safe, sustainable, low noise transportation can mean for the Tri-State area. It's this type of validation that makes all the hard work worth it.

Recall that we announced on our last earnings call that we received a \$10 million pre-delivery payment from United, representing a deposit on the first 100 aircraft we've agreed to deliver as part of their 200 aircraft order. We anticipate that they will deploy some of those aircraft on this first route.

We will continue to announce additional routes supported by our proprietary data-modeling platform, Prime Radiant, which is helping us determine the optimal takeoff and landing locations for these routes. Expect more exciting route announcements in the weeks and months ahead.

Next, I want to highlight our progress on our aircraft technology. On November 2, Maker flew its first wing-borne flight. It flew above the stall speed generating lift from the wing. We believe we are one of a very small group that has done this with the vectored thrust eVTOL configuration, and we did this with impressive speed and execution, having started Maker's flight test campaign less than one year ago.

I believe the reason we continue to execute well against our goals is that we have the best team in the industry. Today, we have almost 500 employees with the vast majority working exclusively on the development, certification and commercialization of Midnight.

We believe we have the most experienced engineering leadership in the industry. For example, Tom Muniz, our COO, has played a major role in leading the design and development of eight full-scale eVTOL aircrafts since 2010. He has been instrumental in implementing our design for certification approach,. And Dr. Geoff Bower, our Chief Engineer, has also played a major role in leading the design and engineering of eight full-scale eVTOL aircraft over the past decade plus. It is incredible to see what these two and the rest of the team accomplish on a daily basis. We will highlight more of our team's impressive experience at our upcoming Open House event.

As to certification, Tom will cover that in-depth during his remarks, but I do want to highlight another key leader on the team that is making a huge impact as we work towards certification. Dr. Michael Romanowski, our new head of government relations, joined us in August after 14 years at the FAA. Dr. Romanowski served most recently as the FAA aircraft certification Director of Policy and Innovation. It's not an exaggeration to say that Dr. Romanowski has been the go-to person within the FAA on eVTOL over the past several years.

Now, let's transition to our upcoming Open House. While we originally planned to unveil our production aircraft Midnight in 2023, we were able to pull it forward to 2022, given our confidence in the program. On November 16, we will show a live audience the amazing progress we have been making. And on the 17th, we'll be making it available to the public. We will start with a flight test in the morning where we will show Maker flying a high-speed windborne flight.

The analysts, investors and partners will get to witness firsthand the performance capabilities of the aircraft and how quiet it is. As Archer board member and former United CEO and Chairman, Oscar Munoz, always says proof, not promise. I can't wait to share the test flight experience with many of our great suppliers, investors, business partners and other supporters of Archer's that will be in attendance.

After flight test, we will take attendees through a series of presentations covering our commercialization strategy, our proprietary powertrain development and a detailed look at our certification progress. The powertrain segment will be especially exciting as we will be showing off sample hardware and explaining how it has enabled our 1,000 pounds of payload. To cap off the day, we will take attendees to a hangar where we will unveil Midnight.

I also want to highlight the continued work we are doing with our strategic partner, Stellantis. Stellantis is one of the largest global auto OEMs, with brands including Jeep, Ram and Maserati. And they've played a critical role in our manufacturing journey to-date. Building millions of cars annually, Stellantis has a core competency in high volume manufacturing. We have been working with Stellantis since 2019 across different engineering projects, and we continue to leverage their deep manufacturing and design expertise. Importantly, Stellantis is fully committed to EV and are investing tens of billions to advance electrification across its portfolio. We look forward to maturing our relationship as we transition into production.

In summary, we have made great progress in 2022, and look forward to sharing our 2023 goals in more detail on our next call. We believe the hard work we're doing now to advance our go-to market efforts, our aircraft technology and certification will put us in a position to be first to market and win substantial market share once we get there. I'm confident we have the plan, the tools, and most importantly, the team to do that.

Now, I'll turn it over to Tom Muniz.

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

Thanks, Adam. It's an exciting time to be at Archer as our momentum continues to build. Today, I'm specifically going to talk in detail about our aircraft technology development and certification progress.

On the aircraft technology development front, we are really excited about the progress on Maker's flight test campaign that Adam highlighted earlier. One of our critical milestones for 2022 is to achieve our first full transition flight with Maker. We are close to that goal and recently achieved wing-borne flight on Maker, with aircraft flying at speeds where the vast majority of the lift required for flight is generated by the wing. This ongoing testing is part of our transition to envelope expansion test campaign, where the aircraft transitions from lift generated by the propellers at low speeds, to lift generated by the wing at higher speeds. We are on track to complete our full transition milestone on schedule before the end of the year where the tilt propellers will be locked in the cruise position.

It's important to remember that the reason we chose our tilt propeller aircraft configuration is because of the substantial benefits it offers in the form of energy efficiency and longer range, first aircraft that have separate lift and cruise propulsion systems or aircraft without a wing that use propellers to generate lift in all phases of flight.

The data we have gathered from flying Maker is a critical advantage and has resulted in a major derisking for the Midnight program.

I think it's important to emphasize the relationship between Maker and Midnight. Our strategy from the beginning was to validate key aspects of our aircraft configuration, including the aerodynamics, flight controls, and tilt propeller system on Maker first, then leverage these lessons learned in the development of Midnight.

Midnight has the same aircraft configuration as Maker, but it's slightly larger in order to support the 1,000-plus pounds of payload and carry a pilot with four passengers. We are confident this is a winning strategy. The invaluable technical data for Maker has given us confidence in the aircraft configuration and our ability to execute the Midnight program to plan, which is exactly what we've done with Maker.

As Adam outlined earlier, our strategy from day one has been to take the most capital and time-efficient path to developing, certifying and commercializing our eVTOL aircraft. The key aspect of this strategy has been to focus our internal development efforts on the key technical enablers like the batteries, motors, and flight control software.

For those areas that aren't differentiating technologies, we leverage the existing aerospace supply base to provide us with components that are already being used in certified aircraft today. This has enabled us to further derisk the program, but it's not impacted our ability to maintain the 1,000-plus pounds of payload necessary for our business model.

At this stage, we've selected suppliers for approximately 64% of the bill of materials for Midnight and we look forward to announcing several other of our major key supplier partners over the next few weeks.

Another key element of our strategy has been to sync the design of Midnight with our certification efforts. Our design for certification approach is based on understanding the detailed regulatory requirements for our aircraft early enough in the program, so that the aircraft is designed to be FAA compliant from the start. We believe this is translating to a more efficient certification timeline. Because of this process, we currently don't see any certification gaps in the Midnight design.

As we discussed last quarter, the FAA's change to certify eVTOL aircraft under its special class process in Part 21.17(b) has for us proven to be largely administrative. Since our last quarterly update, the FAA has added certain new requirements to our certification basis as a result of the change, including one change addressing the robustness of our aircraft to bird strikes and another change covering the safety features of our aircraft related to complete loss of propulsive power in flight. Both of these new regulatory requirements are already addressed in Midnight's design and thus we don't anticipate they will have any impact on Midnight's development or timeline for certification.

As a reminder of how the aircraft certification process works, the first step is agreeing to the G1 certification basis where the airworthiness criteria are set. The second step is then to agree on the means of compliance, which is the detailed list of design, analysis and testing standards that will be used to demonstrate that the aircraft is safe and complies with all of the airworthiness criteria.

We have been told by the FAA that the airworthiness criteria from our amended Part 21.17(b) G-1 Certification Basis will be published in the Federal Register in the coming weeks. We submitted a comprehensive proposal for Midnight's means of compliance to the FAA back in December of 2021. We've made lots of progress discussing the means of compliance topics with the technical experts at the FAA over the past year.

Because of the shift to 21.17(b) that we just discussed, the FAA decided to review again all of the previously accepted means of compliance to ensure that they remain applicable to the updated G-1 Certification Basis. With an amended and accepted G-1, this unlocks the FAA to formally accept the means of compliance that we've been discussing over the past year. Just like we saw with the G-1, we anticipate the reacceptance of the means of compliance to be largely administrative.

In parallel with efforts around our means of compliance, our team has been hard at work on our subject-specific certification plans or SSCPs. The SSCPs provide precise detail on the tests and analysis that will be completed during the implementation phase of the project, which will require that we demonstrate to the FAA that Midnight meets all relevant FAA requirements necessary to receive type certification.

We expect to have approximately 18 SSCPs, each of which we plan to submit to the FAA for review and acceptance over the coming months. We recently submitted our first SSCP to the FAA, and our goal is for the FAA to accept all of our SSCPs by the time of our next program development milestone for Midnight, the critical design review, which is scheduled to occur during the first half of next year.

We remain highly engaged, working in partnership with the FAA at all levels from the administrator and head of aviation safety down to our day-to-day contacts throughout the administration. We are working to progress on certification as efficiently as possible, and the dialogue to-date has been highly constructive. Our goal continues to be achieving type certification by the end of 2024, putting us on track for our first aircraft deliveries in early 2025.

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. Q3 2022 was clearly a significant quarter for us as our world-class team continues to execute on the milestones we've laid out. Last quarter, we discussed extensively how much of the company's focus is on our efforts to commercialize our business. And to be clear, commercialization means generating revenue.

The rapid advances we have made in such a short time validate our capital efficient approach to developing proprietary technology, where we focus on key differentiating technologies like batteries and propulsion, and leverage our supplier partners to augment our technology with their world-class products. This capital efficient approach has allowed us to develop our proprietary twelve-tilt-six aircraft configuration and other key enabling technologies in an expeditious manner, thanks to strong supplier relationships, but with a relatively modest amount of personnel. We have almost 500 FTEs currently, which is less than half of the head count of others in our industry.

We continue to focus on investing our capital in a very disciplined manner across all aspects of the business – head count, research and development expenses, capital expenditures, and other discretionary spending, and the forecasting and planning systems that we have instituted help ensure we have the infrastructure to support that financial discipline.

Given we just announced our first urban air mobility route in New York City, I wanted to provide some further details on how our payload impacts our UAM unit level economics [indiscernible] (19:09) of our UAM business model.

Let's take a sample UAM route like the one we just announced. This is approximately a 15-mile route that our modeling shows could support 25 trips per aircraft per day. From a top line standpoint, assuming indicative pricing similar to current ridesharing services, revenue would be \$90 per seat per trip. That is roughly \$6 per seat mile.

Revenue clearly scales as the aircraft capacity is filled, from \$90 for one seat to \$360 for four seats. At 25 trips per aircraft per day, operating 365 days per year, a 1,000-pound payload aircraft capable of carrying four passengers would generate approximately \$3.2 million of revenue per year. That is 50% more potential revenue than the smaller payload two-seat aircraft. This is approximately \$1.6 million more potential revenue per aircraft.

From a cost standpoint, the direct operating costs between two passenger or four-passenger capacity are directionally about the same because their weight and ancillary fixed costs are very similar. Given that, simply put, we believe payload unlocks the potential for greater profitability.

Given the density of these routes, our modelling confirms that high load factors are expected on this particular route and the aircraft would likely operate at or near capacity. We will share more specific details around the unit level economics of our urban air mobility networks in the future, but we wanted to provide an example to indicate why payload matters so much.

Now, let's turn to our financial performance for the quarter. We ended the quarter with \$600.6 million of cash, cash equivalents, and short-term investments on our balance sheet. We netted \$54.2 million of cash payments in the quarter. For the nine months ended September 30, 2022, our cash used in operations and the purchase of PP&E was \$136.8 million. 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 \$61.1 million, which was below the lower end of our estimates range due to the timing of certain non-recurring supplier costs and spending for materials related to our R&D efforts. Non-GAAP operating expenses increased sequentially by \$11.1 million, as expected, as we hired more people to staff our engineering programs and build out the other areas necessary 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 program.

We incurred a loss on adjusted EBITDA of \$60.1 million. The sequential expansion of that loss by \$10.9 million relative to Q2 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 Q3 2022 were \$93.8 million, which included \$26.2 million of stock-based compensation and \$6.5 million of warrant expenses. These results were below the low end of our Q3 2022 estimates of \$95 million due to the timing of certain non-recurring supplier costs and spending for materials related to R&D.

Finally, let's look at our Q4 2022 estimates for spending. Recall that we completed our preliminary design review for Midnight last quarter and, as a result, we will continue to see a temporary uptick in spending to support non-recurring engineering costs related to the bring-up of the Midnight suppliers and increased spending on parts and materials for our Midnight aircraft, per our plan. Some of that planned spending in Q3 2022 has shifted into Q4 2022.

We anticipate total GAAP operating expenses of \$100 million to \$110 million and total non-GAAP operating expenses of \$70 million to \$80 million. This reflects expected stock-based compensation and warrant expense of approximately \$30 million.

We had a very active investor outreach calendar in Q3 2022 and we will continue that into Q4 2022. We will be participating in a number of conferences, meeting with investors, and engaging with the financial community to discuss this sector and Archer's leadership in it. We've provided a detailed calendar on our website and in our shareholder letter.

Finally, we look forward to seeing many of you next week at our Open House.

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. As you can see from the progress that we achieved in Q3, our capital efficient approach to advancing our go-to-market efforts, aircraft technology, and certification is progressing according to plan and I am excited with how our team is executing.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Savi Syth with Raymond James. Please go ahead.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Hey. Good morning. Good afternoon, everyone. Mark, I don't mean to get a little greedy here, but you talked about 2024 cash burn. Could you talk about, as we head into 2023 and the kind of progress you're thinking about, what the puts and takes might be in terms of cash burn rate?

Mark Mesler

Chief Financial Officer, Archer Aviation, Inc.

Yeah. So when we think about capitalization, Savi, nothing's materially changed from our last conversation on it. We continue to invest in head count as well as parts for our programs, our engineering programs, as well as – a big chunk that you see impacting this quarter is the NRC, or non-recurring costs, with our foundational vendors. Those are costs to stand up certain operations around our subsystems, tooling, et cetera. So, you'll see those to be fairly lumpy.

So, if you look at our progress from Q2 to Q3, our non-GAAP operating expenses went from \$50 million to \$61.2 million. A portion of that was for some NRC and parts and materials. We'll see that expand more in the guidance that I just gave, in the \$70 million to \$80 million. But in general, you'll see a steady uptick in our head count. It's a pretty modest uptick. And you'll see some lumpiness in our NRC and parts, as we start to build the first Midnight prototypes, and then inflect into actually building out the first test vehicles for the certification program.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

That's super helpful. And I appreciate all the kind of the clarity or a little bit more color on the certification side since it's been so kind of confusing a little bit. Just – you pointed out that the FAA added a couple more requirements there. What happens if the FAA kind of converges to EASA? Does that stretch out the time line more? Or is similar to these kind of recent updates, a lot of it is already built in into Midnight.

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

A

Yeah. Hey, Savi. This is Tom. Happy to answer that. The way we see it, it's actually maybe the other way from what you're stating. Today, it's looking like most of the leading eVTOL companies are here in the States, and we're the groups that are highest capitalized, farthest along. We think it's much more likely that global regulators standardize on the FAA's position with regards to these vehicles. But circling back to your point earlier, we feel like our cert basis is super stable, and we have a signed updated G-1 under 21.17(b). So, we're just ready to keep executing to our program and that's how we're thinking about it.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Q

That's helpful. Thank you.

Operator: Thank you. Our next question comes from the line of Bill Peterson with JPMorgan. Please go ahead. Apologies. It looks like his line has dropped. Our next question goes to the line of Andres Sheppard with Cantor Fitzgerald. Please go ahead.

Andres Sheppard

Analyst, Cantor Fitzgerald & Co.

Q

Hello, everyone. Good afternoon and thank you for taking our question and congrats on the quarter. Maybe in regards to the first announced route, I'm just wondering, Adam, maybe can you give us a little more color as to kind of how this came about? I know in the past you had mentioned that you were targeting Florida and California as the first target markets, but just kind of curious how this New York route came to take place. Thanks.

Adam Goldstein

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

A

Thanks, Andres. So, when we look at the different markets that we can launch into, there's definitely several considerations that we considered. We're looking for cities that have heavy congestion, cities that are tech forward, cities that have – the local municipalities want these services. And especially with our partner United, New York became a very attractive market to look at. It's a market that is very densely traveled. And when you think about the go-to-market strategy we've laid out, the airport to city center route, what we call our trunk routes, it's probably one of the most dense routes in the country. Between JFK, LaGuardia and Newark, I think it's something around 27 million, 28 million people per year are taking that trip.

I lived in New York for almost 20 years and I sat through that traffic. So I know that's a brutal 90 minutes that you typically spend going 15, 20 miles. So, we know there is willingness to pay because rideshare is taking these trips every day. We know there's known demand. And so, we worked with United, with the Port Authority, with the mayor, and we saw a lot of excitement specifically around this route. And so, we saw a really clear path to make it happen.

And so, it's not a route that we have to like force in. It's something that we're now working together with all those constituents to actually make it happen. And we think it's going to be the first route that eVTOL probably sees globally.

Andres Sheppard

Analyst, Cantor Fitzgerald & Co.

Q

Got it. Thanks, Adam. No, that's very helpful. Maybe just a quick question just in regards to certification. So if I'm understanding correctly, you are reaffirming your expectation to get that full certification in the second half of 2024. And so, if that's the case, unless I'm missing something, you'll be the first eVTOL company to get certification with the FAA. So, I guess my question is, how important do you expect that to be, particularly in terms of kind of quickly capturing market share? Thanks.

Adam Goldstein

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

A

Well, I think it's important. But when we think about it, it's really a result of the strategy that we've laid out from the beginning, which was to hire people with the most experience that align with our strategy of simplicity in order to get to market – first to market, fast to market, right? And that was all about bringing Tom Muniz on and Dr. Bower on as well from – on the aircraft side.

The second one was to build a vehicle that was certifiable from day one. So, we didn't just build an aircraft and bring it to the FAA and say, here, certify this. We designed the aircraft alongside of the FAA and really matched that design progress along with the certification process.

And now, you can really see it in our trajectory, in our pace of progress across the technology and certification side. So, nobody thought we would be transitioning Maker in less than a year, but here we are.

So, I think really the – kind of all of this coming together is really just the plan we've laid out. And you can even see it on the FAA side. Earlier this week, Mel Johnson, the Director of Aircraft Certification at the FAA, at the European Rotors Conference in Germany, he said that there are other projects, I'm assuming he's referring to Joby, that are at identical or nearly identical spots in the certification process and that there's – that he's referring to Archer, right? And so, he's basically saying the FAA has effectively indicated that we're at very similar spots and we've done this in a really short period of time. And so, he also went on to say that, simultaneously, they plan to disposition the comments to both of our airworthiness criteria.

So, here we are neck and neck in the certification process. We've done it with – I think really in a pretty quick and efficient manner, and we're doing it exactly how we laid it out.

Andres Sheppard

Analyst, Cantor Fitzgerald & Co.

Q

Got it. Thank you. And maybe if I could just squeeze one last one, a quick question for Mark. In the quarter, you – it looks like you shifted about \$488 million of your unrestricted cash into short-term investments. So, what was the reason here, just help me understand. Thanks.

Mark Mesler

Chief Financial Officer, Archer Aviation, Inc.

A

Yeah, that's just prudent capital management, Andres. The rate environment clearly is an attractive environment to put your money to work for us. So, we invested a preponderance of our cash in an investment management account with our bank. We're earning – you can say that we're earning an average of just over 3.2% or so on that money. We invested fairly early on as the markets are a little different – the rates are a little different now. But that was the purpose behind doing that. Just really good prudent capital management.

Andres Sheppard

Analyst, Cantor Fitzgerald & Co.

Q

Got it. Fair enough. Okay. Thank you very much. Congrats on the quarter. I'll pass it on.

Mark Mesler

Chief Financial Officer, Archer Aviation, Inc.

Thanks, Andres.

A

Operator: Thank you. Our next question comes from the line of Bill Peterson with JPMorgan. Please go ahead.

Bill Peterson

Analyst, JPMorgan Securities LLC

Hi. Good afternoon. Hopefully, you can hear me okay this time. I wanted to come back to the certification. I guess, is there any color you can provide on what remains to be accepted in terms of means of compliance? I'm not sure if it's appropriate to quantify in terms of percentage of completion or maybe even better at just like specific areas that you still work with the FAA that needs to be agreed upon?

Q

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

Yeah. Hey, Bill. It's Tom. It's a good question. So, the way to think about it is, back when we were certifying under Part 23, we had submitted basically a complete set of proposed means of compliance. And over the last year, we've been working with the FAA kind of step by step through all those topics.

A

Getting into the areas that have been interesting that we've been focusing on, kind of giving you some more context there, the reality is about two-thirds of the means of compliance are pretty standard de novo stuff that, under Part 23, the FAA just kind of blanket accepts.

So, if we focus on the, like, remaining one third, which are more interesting, they're all in the new novel areas. So, you're talking about batteries, you're talking about electric engines, that sort of stuff. So, the vast majority of our discussions with the FAA have been focused on exactly those areas.

Today, we feel like we've got really good alignment with all of the experts at the FAA, but just – again, to be really transparent, as part of this 21.17(b) process, the formal signoff or acceptance of those is something that we're now just kind of going back through and that's been unlocked by this final agreement of our 21.17(b) G-1. So hopefully, that answers your question.

Bill Peterson

Analyst, JPMorgan Securities LLC

Yeah. No, thanks for providing that color. On this United agreement, just to follow-up on Andres' question, you mentioned that the heliport already exists in Manhattan. I'm not sure what's on the Newark side. But I guess, how are you guys thinking about it at that particular site? Will that be exclusive? Will that be open to the public, similar to presumably the heliport in Manhattan would be? And in both cases, how do you – how would you expect Archer's involvement in terms of, I don't know, charging equipment or CapEx or things like that?

Q

And then, really maybe more importantly, like what else remains to be done in both sites in terms of approvals, permitting, readiness? And I'm asking this because it seems like this could be a blueprint for other city – airport to city routes, there's other heliports in the New York area, and what you can kind of learn from this to, I guess, cookie cutter throughout the rest of the area and perhaps in other cities.

Adam Goldstein

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

A

Thanks, Bill. This is Adam. So, the first step really was taking a look at routes that we think could be viable, routes that made sense to both Archer and United. And we identified this route specifically because it met so much of our criteria.

On the Newark side, I think, obviously, United is the largest customer at Newark. We had conversations with the Newark airport. And so, it is an important part of United strategy to help bring sustainable forms of aviation to market. And so, that's really what we're working towards in launching this route. So there certainly is a lot of work that will need to get done to electrify the vertiports and basically bring the basic infrastructure that's needed to get this done.

But to start, there are already existing helicopter routes. And there already is known demand for routes like this from New York City going to Newark Liberty International. So there's definitely work to be done there. But we agree, we think this can become one of the blueprints for other cities. And it's certainly one that we're going to work on together. And that's how we started so far in advance. Right? I said in my remarks, in order to launch the routes in 2025, we were going to start in 2022 to get this done. So, I think more to come on that.

Bill Peterson

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks.

Operator: Thank you. Our next question comes from the line of Edison Yu with Deutsche Bank. Please go ahead.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Hey, thanks for taking the questions. First, you mentioned in the letter that you source about 64% of the BoM. Can you just remind us what are the key remaining parts left to do?

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

A

Hey, Edison. This is Tom. Sure, happy to do it. So, the 64% we've already done is most of the big things. So, our composite materials coming from Hexcel, we announced the partnership with Honeywell where they're going to be supplying actuators, a lot of big systems, things like that. Landing gear, we announced recently with Mecaer. Excited about that.

So, the remaining areas are mostly smaller components. So, in a couple of areas, one is avionics, so think sensors and smaller things like that. And then, the other big chunk is in our powertrain area. So, these are mechanical parts, metallic parts, things that go into the electric engines and some of the battery system components. That's what we've still got outstanding working on over the next few months.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Curious, have you decided on some of the battery cells? And so, has that all been decided upon or are you still in the – still looking around?

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

A

Yeah. So, we haven't announced who our battery supplier is yet, but we're feeling very confident and in a good place with the supply essentially secured. We'll be announcing a lot more of the details around this at our Open House, which is coming up next week. We'll do a deep dive in there on our powertrain technology, both motors and batteries, so I hope you can make it. We'll share a lot more at the event.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Sure. And then financial question, I know you've got the deposit from United. How do we think about future deposits? What milestones should we be on the lookout for?

Mark Mesler

Chief Financial Officer, Archer Aviation, Inc.

A

Hey, Edison. This is Mark. Yeah. Typical commercial milestones. Clearly, the deposit is one. The next one, depending on the counterparty you're negotiating with, could be anywhere from three to six months from shipment. And then shipment is clearly where the preponderance of the payment milestones would come in. And, oftentimes, there's a little small, 5% or so, that's held until the aircraft are delivered. But that's loosely how you can think about it. That's how we're going to market with talking to customers. And those would be more typical milestones [indiscernible] (41:31).

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. If I could sneak in one more on United. Have you thought about the interface in terms of what the consumer sees? Is this going to be your own app? Is this going to be integrated with the United app, which, I've got to say, they have improved a lot upon. Any thoughts there?

Adam Goldstein

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

A

Hey, Edison. This is Adam. So, we have thought a lot about this, and we're actually working on this on our end. It is our expectation that we will develop our own app, but we also will integrate with some of our partners. So, I would expect there to be an ability to book a flight on an Archer aircraft through an Archer app, as well as the ability to book through a United app as well.

Edison Yu

Analyst, Deutsche Bank Securities, Inc.

Q

Go for it. [indiscernible] (41:31).

Adam Goldstein

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

A

Thanks, Edison.

Operator: Thank you. Our next question comes from the line of Josh Sullivan with The Benchmark Company. Please go ahead.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Hey. Good afternoon.

Q

Adam Goldstein

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

Hey, Josh.

A

Josh Sullivan

Analyst, The Benchmark Co. LLC

With Michael Romanowski joining Archer – fairly interesting hire – and having been there for a couple of months now at this point, how has he contributed to your approach to certification so far?

Q

Adam Goldstein

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

Hey, Josh. This is Adam. So, Dr. Romanowski has played a pretty large role at the FAA in helping develop frameworks that eVTOL aircraft will go through in a certification process. And so, he's been really helpful on our end as we really ramp up our government relations group. So we have been much more involved and engaged with different congressmen and different other officials that are very supportive of eVTOL and other regulators that we think will help bring the entire ecosystem to market. So, I think it does go beyond just looking at the FAA.

A

But as we get closer to the certification time line, it is important for us to ramp up the government affairs because we will have to bring together different parties across the infrastructure, across the airline side and across the aircraft manufacturing side.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Got it. And then, the final question on your relationship with suppliers. How has that changed as you get closer to certification? Are they more willing to financially support you as you hit milestones?

Q

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

Yeah. It's a good question. It's Tom. So, we've actually found really strong engagement from the supply base kind of throughout our developments program here. We also choose to partner with suppliers who are excited about the space and the big opportunity. I think a lot of them have seen or kind of missed the boat, I would say, in some other opportunities. And they really see Archer and our strategy resonates with them, right? And so, everything that we're doing is focused on commercialization and go-to-market.

A

So, having said that, we're focused on building long-term relationships with these groups, getting long-term supply agreements in place, such that we can be successful in our program and our suppliers can be successful too.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Got it. And just one last one. Just following up on the announcement of United in New York. Obviously, it's a dense, valuable route. But how are you addressing – or how are you thinking about colder climates with regard to

Q

operational scope? And then, do you think Archer has any advantages in colder climates other eVTOLs don't at this point?

Adam Goldstein

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

A

So, we are building the vehicle to be able to fly into all conditions outside of known icing. And so, that's the one condition that we are considered of when looking at – one of the big conditions we look at when considering different geographies. So, we certainly will be open to looking at colder climates. And I do think it is helpful – in fact, there are some big advantages. So, you can imagine, in New York City, it snows. And then, the next day, the city is a mess. And there's snow everywhere, and it's very difficult to get around. Yet the air conditions have all cleared. So, we actually think it can be a really valuable mode of transportation in cold weather, but it does come with some limitations.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Got it. Thank you for the time.

Adam Goldstein

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

A

Thanks, Josh.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of David Zazula with Barclays. Please go ahead.

David Zazula

Analyst, Barclays Capital, Inc.

Q

Hey. Good afternoon and thanks for taking my question. I wanted to see if I can get a little more color on the subject-specific certification plans, kind of what you think the pace of submit will be next year, what you think the critical areas are because it seems like that might end up being the next real high-level item that we'd want to tracking?

Tom Muniz

Chief Operating Officer, Archer Aviation, Inc.

A

Yeah, absolutely. Hey, David. This is Tom. So, the way to think about it is we've got 18 subject-specific cert plans that we'll need to agree with, with FAA on for project. As we wrote in our shareholder letter, we've submitted the first one. They're looking at that now. The 17 others are completely drafted and we're essentially just waiting for the FAA to be ready to review them. If you kind of go back and think about it in context, right, we had made all this progress on cert basis back in 2021 and the means of compliance this year. But, again, because of this 21.17(b) reset, the FAA is kind of going back through this administrative step of checking the box. So, that – so these are kind of what's next and that's what the team has really been focused on for the next few months in terms of getting them agreed to with the FAA.

To your question of which are the most interesting or harder ones, they're probably pretty obvious, right? It's again around the new and novel technologies. So, propulsion integration on the aircraft, that's an interesting one. The engine certification plans, those are interesting. They're based on existing ASTM standards, but it's still newer for

the FAA than some of the more – or I would say the super straightforward ones, right, like material process stuff, right, and more simple flight controls, things like that.

So, if you come to our Open House, which I hope you do next week, we'll cover this in detail in the deep dive. Got a whole chart of the of cert plans, exactly what they are, what areas they cover and thoughts on each one. Hopefully that's some good color for you.

David Zazula

Analyst, Barclays Capital, Inc.

Good. Definitely helpful. And then if I could just follow-up on, I think, Bill's question earlier, I think he fell out a little bit, but the route out of Newark, it sounds from the description like it is going to be a combination of the Archer UAM network and some Archer direct that is going to United. Is that set? Is that kind of the plan? Am I misconstruing that?

Adam Goldstein

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

Hey, David. This is Adam. Yeah. That is the plan. The way we've thought about it is United is more than just a customer. They're even more than just an investor. They've really been a true partner with us throughout this whole journey. In a way, if you think back to when we first went public, United was a big part of that announcement, which sort of unlocked – we're the first company that – first eVTOL company that did announce we were going to be going public, which led to several other companies announcing they were going public. So, that is really – United has really been there with us since the beginning of that announcement. And we've been working through these different challenges and opportunities to be able to build these routes and get it to market. And so, we think about it as we'd operating and going to market, like, together.

But one follow-up on that, too, is we do think it's important that other groups get to market as well. And so, I do think there are going to be opportunities for other groups to share and utilize some of this infrastructure because, as we've been saying for a long time now, we think collaboration in the industry is critical, and we want there to be a big supply base. We want there to be collaboration around certification standards. And ultimately, we want there to be collaboration around infrastructure as well.

David Zazula

Analyst, Barclays Capital, Inc.

Right. Thanks, Adam. Appreciate it.

Adam Goldstein

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

Thanks, David.

Operator: Thank you. Our next question is a follow-up from the line of Bill Peterson with JPMorgan. Please go ahead.

Bill Peterson

Analyst, JPMorgan Securities LLC

Yeah. Thanks for taking the follow-up. I wanted to ask about any current engagements you might have with the DoD or Agility Prime. And I guess I'm asking in the context of, suppose there's further delays in the FAA that has

nothing to do with you, but just similar to – maybe it's not launching early 2025, it's sometime later. Do you have the opportunity to work with them? Or is there other applications you could work on, like cargo or something else, that would not limit you from – or, I guess, would allow for some revenue in the 2025 timeframe even if the passenger business did not start on time?

Adam Goldstein

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

A

Hey, Bill. This is Adam. So, the answer to that is yes. We have opportunities with the DoD, and we have been working with the DoD through Agility Prime, and looking at several different larger programs that have come out. And so, that is certainly an opportunity that we're dual tracking. But I do want to add that working with the DoD is very resource heavy. And so, we do have to evaluate each one of those opportunities and be very selective. There are very heavy systems requirements that you have to put in place, there's personnel limitations. And in the end, it's likely pretty low margin business because they're all competitively bid.

So, there are opportunities and we are assessing those, and it could provide an interesting off-ramp. But we do want to stay very focused, very focused on our ability to get to market with our commercial vehicle with the FAA. And so, that's where we really have really stayed laser focused and have put majority of our efforts.

Bill Peterson

Analyst, JPMorgan Securities LLC

Q

Well understood. Yeah. Thanks for the color there.

Operator: Thank you. Our next question is a follow-up from the line of Savi Syth with Raymond James. Please go ahead.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Q

Hey. Thanks for the follow-up. A quick question. I know last quarter, you talked about potentially adding some partners. You have this strong relationship with United. I was curious what aspects would you want from a new partner? Like, what could they fill where maybe that's different than the United partnership?

Adam Goldstein

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

A

Hey, Savi. This is Adam. So, I think there's a couple of ways that we think about partners. On the airline side, United has done an incredible job in helping us think about operationalizing a lot of the work we're doing on the OEM side.

And so, at this time, a lot of the conversations that we have are, I would say, through more sales potentials rather than partnership potentials, and that's how we thought a lot about it. But on the OEM side, we have been working with Stellantis in terms of on the manufacturing side.

And so, I do think there are opportunities for other partners. But I think, on the airline side, we've mostly been engaged with the other folks more as traditional customers rather than partners in the same that way we work with United.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Q

So, this would be for their operations if somebody wanted to kind of buy aircraft and operate them?

Adam Goldstein

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

A

That's correct.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Q

Okay, thanks.

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

Adam Goldstein

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

The advancements that we've achieved across our aircraft technology with Maker's wing-borne flight; our certification traction, which was reinforced by the FAA's public comments earlier this week; and our go to market efforts visible with our joint announcement with United for the first-ever eVTOL route has really increased my conviction that we have the right strategy and we have the best team that will allow Archer to get to market.

Thanks for joining us.

Operator: That concludes the Archer Aviation, Inc. Q3 2022 Financial Results Conference Call. I hope you all enjoy the rest of your day. You may now disconnect your line.

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