

Archer Aviation Inc. NYSE:ACHR

FQ2 2024 Earnings Call Transcripts

Thursday, August 8, 2024 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.29)	(0.27)	NM	(0.26)	(1.08)	NA
Revenue (mm)	0.33	0.00	▼ (100.00 %)	0.33	2.05	NA

Currency: USD
Consensus as of Aug-09-2024 2:32 PM GMT

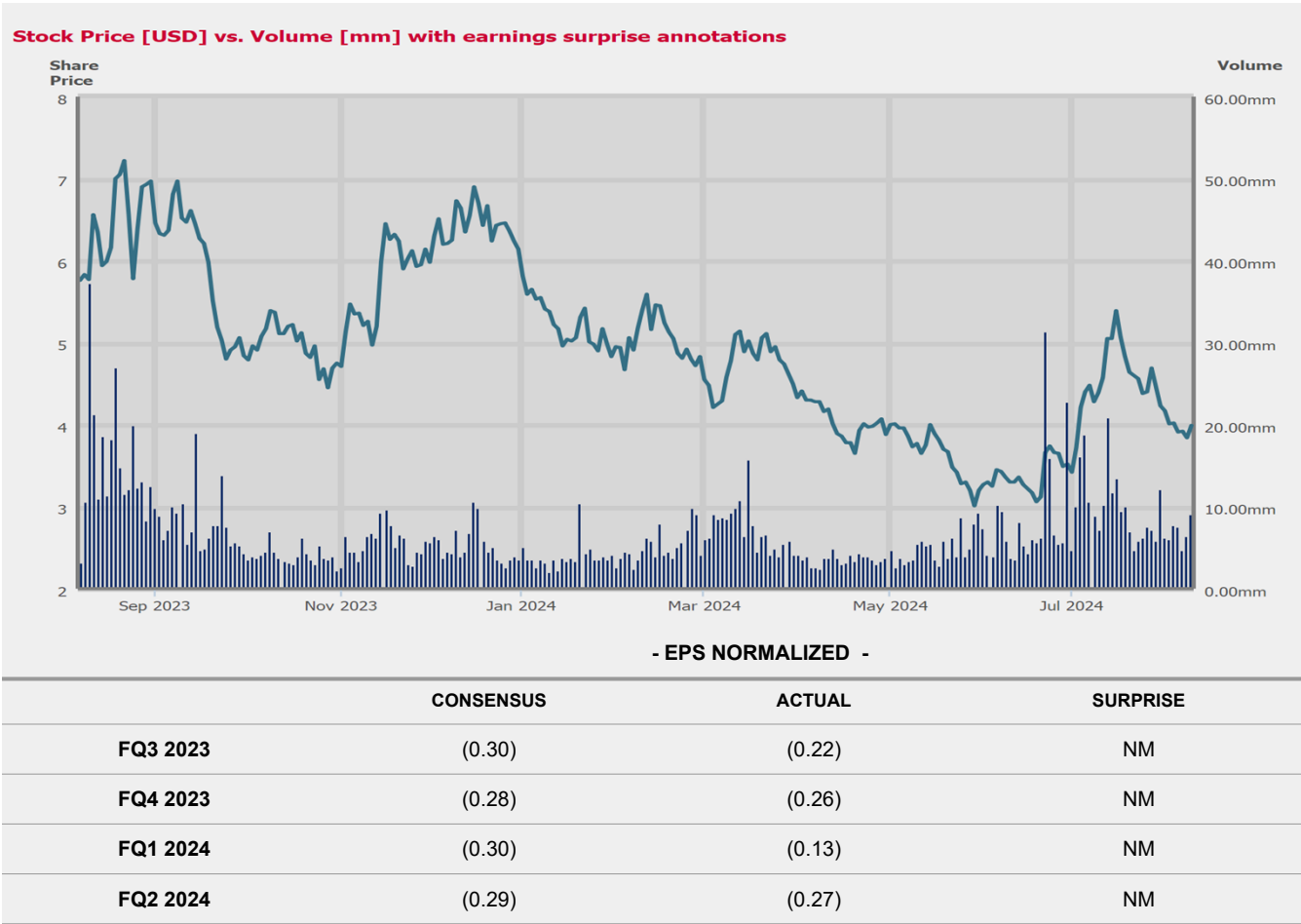


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Call Participants

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Presentation

Operator

Good afternoon. Thank you for attending today's Archer Aviation Q2 '24 Operating Financial Results Conference Call. My name is Bethany and I will be the moderator for today's call. [Operator Instructions]

I'd now like to pass the conference over to our host, Eric Lentell with Archer Aviation. Please go ahead.

Eric Lentell

General Counsel & Secretary

Good afternoon, and thank you for joining Archer's earning call. This is Eric Lentell, Archer's General Counsel. On the call with me today are Adam Goldstein, our Founder and CEO; Mark Mesler, our CFO; and Tom Muniz, our CTO.

On the call, we will be making forward-looking statements. Those forward-looking statements are based on assumptions as of today and we undertake no obligation to update the statements as a result of new information or future events. These statements involve risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. For more information about those risks and uncertainties, please refer to the risk factors in our SEC filings.

We will also discuss both GAAP and non-GAAP financial measures on today's call. A reconciliation of those GAAP to non-GAAP financial measures is included in our shareholder letter and earnings release from today.

And with the legalese out of the way, I'll turn the call over to Adam.

Adam D. Goldstein

Founder, CEO & Director

Since founding Archer, we've been focused on finding the most capital and time efficient path to bringing electric aircraft to market. Our team is unified around the same goal of commercializing our Midnight aircraft, which is designed to safely and quietly carry passengers above traffic on short, emissions-free flights across cities all over the world.

Over the last few years, our team has been hard at work putting in place the building blocks to make those flights an everyday reality. On this call, I will focus my discussion on the maturity of our engineering, the expanded manufacturing partnership with Stellantis, and our go-to-market progress, all centered around the goals commercializing Midnight over the next 18 months. This quarter, we accomplished so much, so please take the time to read our shareholder letter we released earlier today.

In June, we completed Midnight's first transition flight. Let's remember, Midnight is an approximately 6,500-pound maximum takeoff weight aircraft. It is, I believe, the largest eVTOL aircraft ever successfully transitioned. It's one thing to accomplish this with an approximately 4,000-pound aircraft. We've done it for years with Maker, but it's far more challenging to do this with a 6,500-pound vertical takeoff and landing aircraft, which we think is critical to supporting a sufficient payload for aerial ride sharing and other use case economics.

As Midnight continues to mature, we are rapidly advancing our certification efforts. In the U.S., we've reached 2 key regulatory milestones this quarter, both of which are necessary to unlock a viable path to achieve FAA certification. First, the FAA finalized Midnight's airworthiness criteria, enabling us to move forward with the final stages of the type certification process. Alongside this, we have shared that we have started to build our fleet of 6 aircraft with systems that conform to these requirements so that we can continue for credit testing with the FAA.

Second, we received our Part 135 certificate, which enables us to operate eVTOL airlines in the United States once Midnight is type certified. This will enable Archer to deploy aircraft in key markets on behalf of our domestic airline customers, such as United and Southwest.

In parallel, we are also rapidly advancing our certification efforts in certain international markets, including India, Korea, and the UAE, where we see a unique opportunity for expedited deployment, potentially even in advance of the U.S. I'm super proud of the progress that we've made, and I believe the commercialization of electric aircraft is further ahead than many people realize.

As we've shown significant technical progress through our flight testing and manufacturing buildout, the investment community and our strategic partners continue to support Archer. Today we announced an additional equity capital raise, taking the total we have

raised since the end of Q2 to \$230 million. Combined with our \$360 million of cash at the end of Q2, this raise maintains our strong capital position as we advance towards commercialization and industrialization.

Today's fundraise was led by institutional investors, as well as our partners, United Airlines and Stellantis. Stellantis continues to be a cornerstone partner, with over \$300 million invested in Archer to-date, including \$55 million just last month. In 2019, when we first started working with Stellantis, or Fiat Chrysler at the time, our collaboration was focused on conceptual designs for our aircraft's interior and cockpit. And now, after almost 5 years of demonstrating our advanced technology and proving our capabilities to the Stellantis management team, we are honored to have Stellantis as our largest investor. And I'm lucky to have Stellantis CEO, Carlos Tavares help me navigate the challenges of commercializing this business.

Together, our teams have been hard at work constructing our high volume manufacturing facility, which we anticipate completing by the end of this year. We chose to partner with Carlos and his team because of their vast experience in manufacturing vehicles affordably at scale all over the world. We always envisioned a future where Stellantis would spearhead manufacturing, allowing Archer to focus on designing, engineering, and bringing to market the best aircraft possible. Today, we're announcing that we've agreed in principle on the key terms that will cover the next phase of our partnership with Stellantis, a multifaceted contract manufacturing relationship, which strengthens our capital light strategy.

As part of this, in addition to the approximately \$300 million that Stellantis has invested in Archer to-date, under the contract manufacturing relationship, Stellantis would fund up to nearly \$400 million in labor and CapEx to help us scale Midnight manufacturing of up to 650 aircraft annually. This is expected to cover our labor cost for the planned manufacturing ramp through 2030. In exchange, on a quarterly basis, we would issue Archer shares to Stellantis based on the labor cost incurred in that quarter.

This also includes Stellantis contributing up to \$20 million towards the initial incremental manufacturing CapEx needed to scale production. I'm confident that this evolution of our relationship will increase the odds of us being successful while simultaneously reducing our capital needs over time. This is an exciting new chapter with Carlos and the Stellantis team.

Once we've manufactured these aircraft, we'll need to ensure each has a home. You'll see in our shareholder letter that we've made tremendous progress on that front. We continue to see strong demand for Midnight across the world. And today, I'm excited to announce the newest addition to our now nearly \$6 billion indicative order book, a planned purchase of 116 aircraft from Future Flight Global.

Future Flight Global was founded by members of the core leadership team at Titan Aviation, which has been operating business jets worldwide for over 2 decades. This planned purchase represents the potential for over \$0.5 of revenue. Future Flight Global made an initial deposit when we signed the MOU, and it is anticipated that they will make significant pre-delivery payments when we sign the definitive aircraft purchase agreement, which we expect to complete this year.

We're excited to work with Future Flight Global to bring a new solution to market for their passengers, which include prominent executives and celebrities to provide connectivity across destinations in Europe, Southeast Asia, and the Middle East.

It's not enough to just build our order book. We also need to lay the foundation for where these aircraft will fly. Earlier this quarter, we showcased a detailed plan for our air taxi network in the San Francisco Bay Area. This network predominantly leveraged relationships we've built with existing aviation infrastructure operators across Silicon Valley, Napa, and the East Bay, including our partners Signature Aviation and Atlantic Aviation. In addition, we revealed our plans with Kilroy Realty for bespoke on-water vertiport in the heart of South San Francisco, near some of San Francisco's largest tech companies, including Genentech and Stripe.

We also announced plans to develop operational concepts for a joint air taxi network with Southwest Airlines, California's largest air carrier by passenger and flight volume, operating at 14 airports across the state. By combining Southwest California airport hubs and frequent interstate flights with Archer's planned network, the goal is to offer Southwest passengers even faster door-to-door journeys. Routes like Santa Monica to Napa could take less than 3 hours, nearly half of what they can take today.

Today, we unveiled our plans for our air taxi network in Los Angeles. LA commuters spend over 100 hours every year stuck in traffic, and that's not counting the drives they decide to skip because they didn't want to spend the time in traffic. This planned network includes takeoff and landing locations at Los Angeles International Airport, USC, Orange County, Santa Monica, Hollywood Burbank, Long Beach, and Van Nuys, alongside our partners Signature and Atlantic Aviation, as well as United and Southwest Airlines.

We're also working closely with the Los Angeles Rams and Hollywood Park, the 300-acre district centered around SoFi Stadium. This is particularly exciting with major sporting events coming to the area, the World Cup in 2026, the Super Bowl in 2027, and of course, the Summer Olympics in 2028. Each of these is expected to bring unprecedented levels of traffic to LA in the coming years.

The University of Southern California is also engaged to be part of Archer's planned LA network. Over the next 2 years, Archer and USC will develop plans for converting USC's existing teleports for Midnight and other vertical takeoff and landing aircraft. We are very excited about the progress we're making on our domestic air taxi routes and networks. Our focus, as you can see, has largely been on leveraging existing infrastructure as an extension of our overall capital-led approach to getting to commercialization.

I also want to share more about how Archer is planning to deploy the aircraft that we plan to manufacture next year. We increasingly see an opportunity for expedited launch internationally, where we have decided to partner with key players in each market.

In the UAE, we have continued working closely with the country's aviation regulatory agency, the GTAA, who has already spent significant time with our team and at our California facilities to chart a pathway for expedited commercialization across Abu Dhabi and Dubai as soon as 2025, under the same final airworthiness criteria that the FAA published early this year.

In parallel, we are making rapid progress on infrastructure across the country, working together with the Abu Dhabi Investment Office and our partners, Falcon and Air Chateau. Together, with our progress in India and Korea, the team continues to work all over the world to establish the routes, infrastructure, and government support necessary to ensure that we're ready to deploy Midnight aircraft as soon as they come off the line.

Finally, I want to share more about our progress with the United States Air Force. Last year, we announced the largest eVTOL contract yet by the U.S. Department of Defense, for a maximum value of up to \$142 million. Today, we're announcing that as part of that, we recently delivered our first Midnight aircraft to the United States Air Force. In order to unlock this delivery milestone, our Midnight aircraft first had to pass the DoD's required military airworthiness assessment.

Following the delivery, a team of U.S. Air Force personnel worked alongside Archer to perform flight operations, including executing simulated medical evacuation, cargo, intelligence, surveillance, and reconnaissance flights. This is just the beginning of how we can unlock our ability to do more with the U.S. government over time. And I personally believe that 6 to 9 months from now, the industry will be heavily leaned into the opportunities at large here to offer the military avenues to augment their fleet.

I'm proud of the work our team has accomplished this quarter, and I'm grateful for the continued support from our partners. Advancing a new industry is not easy, because there's no playbook to do so. We're building the playbook here at Archer as we race towards a future of electric aviation. Thanks for joining us on this journey.

And with that, I'll hand it over to our Chief Technology Officer, Tom.

Thomas Paul Muniz
Chief Technology Officer

The Archer team continues to execute at an impressive pace. As Adam discussed, in June, we successfully completed Midnight's first transition flight. The team accomplished this goal in a little over 7 months from Midnight's first flight last fall. This was almost twice as fast as the time it took us to transition Maker. Having helped to lead 8 full-scale of eVTOL programs over the course of my career, I can confidently say our rapid progress is a testament to the talent and experience of our team.

The transition flight was just one of many test flights our team completed this past quarter. Year-to-date, we've completed over 230 flights, and we're on track to reach our goal of 400 flights this year. In fact, in a recent week, we completed 26 flights.

The team is also working towards our goal of demonstrating a commercial operations-like flight cadence with Midnight. That means flying upwards of 15 times in one day. As Adam mentioned, we also delivered our first Midnight aircraft to the United States Air Force as part of our AFWERX contracts signed last year. The American aerospace industry has a long and storied history of working with the U.S. military to progress key technologies that go on to benefit consumers here and around the world. Our flight test efforts with AFWERX are a key step towards exploring different use cases for the aircraft and are just a subset of our broader contract with AFWERX, working towards leveraging our technology and aircraft to ensure the United States DoD continues to lead the way with the world's most advanced technology.

On the certification front, this past quarter has been especially productive for Archer. The FAA not only issued our Part 135 Airline Ops Certificate, they also published Midnight's Airworthiness Criteria as a final rule in the Federal Register, making us one of only two eVTOL companies to have reached this stage in the certification process with the FAA. To my knowledge, the FAA has not published a final or draft set of airworthiness criteria for any other eVTOL program besides those two.

The FAA continues to be engaged across our certification program. We recently completed two back-to-back multi-day workshops with the agency at our California headquarters. First, we hosted the FAA for a formal extensive safety review where the regulators

evaluated detailed safety analysis deliverables for multiple systems on Midnight. The FAA left impressed by the work our teams have done over the last year.

We also just completed a multi-day FAA on-site meeting at our facilities to review details of our battery certification and testing process. This was a productive session with all of our in-house subject matter experts and the regulators examining our battery hardware.

On the testing front, we are nearing completion of our 4-credit certification testing on our composite airframe structural materials. We are also wrapping up environmental testing of the system hardware on the aircraft to support our upcoming first piloted flight with some of those tests being done for certification credit. We are also continuing to complete 4-credit audits for various hardware and software elements of our aircraft.

The FAA is also making good progress towards finalizing the operational rules for our aircraft with the Powered-Lift SFAR, or Special Federal Aviation Regulation, now at the Office of Management and Budget for review. Our understanding is that this indicates the FAA will likely publish the final rule by the end of October. This is a big step for us and the industry because it establishes the road map for commercial operations once the FAA issues Midnight's type certification and we add it onto our existing Part 135 certificate.

On the final assembly of our first piloted Midnight aircraft, we recently received the bonded wing assembly at our production facility here in California. The team is now integrating systems into the wing and preparing to mate it to the fuselage in the coming weeks. We are also making progress on the bring-up and functional testing of the aircraft systems. All of these activities are being performed using the manufacturing systems and processes that we plan to use for high-rate production in Georgia, enabling us to pressure test and improve these key elements ahead of ramping production.

We've made tremendous progress on the construction of our high-volume manufacturing facility in Georgia, with the walls and roof now constructed and interior framing underway. As a reminder, the first phase of this facility is a 330,000 square foot final assembly building and a 60,000 square foot production flight test facility, both located on our 100-acre site at the Covington Municipal Airport just outside of Atlanta, Georgia.

We expect Phase 1 of this facility to support production volumes of up to 650 aircraft per year when fully operational. We remain on track to open the facility later this year, and we are targeting a modest initial production rate of roughly one aircraft per month. Following this, our goal is to both increase our production velocity and stand up additional manufacturing lines to accelerate to a rate of 4 aircraft per month and then 20 and ultimately 54 aircraft per month in subsequent years. The initial years, as we scale, give us a critical opportunity to improve and speed up processes at relatively low volumes as we prepare for higher volumes in the outer years.

From there, we have an opportunity to triple the manufacturing capacity at our existing location in Georgia and also replicate the facility in other parts of the world to localize manufacturing. In summary, the team is continuing to execute strongly as we ramp up testing and certification activities on midnight. In parallel, our manufacturing capabilities are coming online and being put through their paces, with the goal of being ready to start production as soon as next year to support our initial commercial aircraft deployments. All of this progress is thanks to our extraordinarily talented and experienced team executing what we believe is the optimal business strategy and path to commercialize our aircraft. Each milestone that we hit continues to demonstrate and solidify our leadership position, bringing this new technology to market.

And now I'll turn it over to Mark.

Mark Mesler
Chief Financial Officer

On our last earnings call, I discussed how capitalization and liquidity are top priorities for us and how the strength of our liquidity position is being driven by our ability to raise capital in the public markets and our strong relationships with our partners. We've been thoughtful in implementing capitalization mechanisms, and today's announcements of our capital raise and the key contract manufacturing arrangement terms with Stellantis are testaments to our ability to continue to ensure we have the funding necessary to secure our path to market.

As Adam mentioned, we are focused on finding the most capital and time efficient path to market. A major part of this is our efficient R&D path driven by our partnerships with Tier 1 aerospace suppliers. However, today I want to dig into the key details of our relationship with Stellantis to help show the capital-wide aspect of our manufacturing strategy.

The capital-wide approach to manufacturing includes considerations across the manufacturing footprint, CapEx, and labor cost. The way you should be thinking about the contract manufacturing framework that we have put in place with Stellantis is that the goal is for Stellantis to cover a majority of our capital needs across our manufacturing operations through our ramp to 650 aircraft, substantially de-risking our ability to ramp production.

Importantly, this is not just about the financial contribution for us. Stellantis produces 6 million vehicles a year and brings extensive experience in scaling manufacturing across complex systems. It's hard to put a value on that.

Tom spoke about our goal for ramping the factory, and I will provide some color on how we plan to achieve profitability in that scenario. Assuming a \$5 million ASP on our direct aircraft sales, our target gross margin is in the 40% to 50% range at a production volume of 250 units. As our volumes increase, we project that we will be able to drive costs lower while at the same time improving manufacturing efficiencies.

At this rate, we believe we'll be able to achieve positive operating margin depending on how much we choose to invest in operating expenses for R&D, sales and marketing, and G&A at that time.

Our pathway to reducing unit costs over time will be primarily driven by supply chain and manufacturing engineering efforts, such as reducing pricing with key vendors at volume production rates. And designed for manufacturing that will simplify Midnight's production processes and parts so that the aircraft can be manufactured, at lower costs with reduced cycle times. Again, this is all typical work that is done once a new hardware product gets to production and Stellantis and the Archer team are already working closely in this regard.

Since the end of Q2, we've raised the total of \$230 million to enhance our liquidity position. In addition, our key terms with Stellantis on contract manufacturing provides for up to approximately \$400 million of labor and CapEx offsets in exchange for Archer equity in the future when those costs are incurred. The way to think about this framework is much like the Stellantis forward equity purchase agreement structure that has served us well over the last couple of years and will directly reduce our cash burn between 2025 and 2030.

With respect to the quarter, we ended Q2, '24 with \$360.4 million of cash and cash equivalents on our balance sheet, and another \$6.7 million of restricted cash. This did not include the \$55 million that Stellantis invests in July 1, which coupled with \$175 million funding that we announced today ensures we continue to be one of the best capitalized companies in the industry.

Switching to expenses, on a GAAP basis, total operating expenses for Q2, '24 were \$121.2 million, which included approximately \$24.8 million of non-cash equity-related expenses, including \$22.8 million of stock-based compensation and \$2 million of warrant expenses.

Non-GAAP operating expenses, which are a proxy for cash expenses, because they don't include non-cash equity-related expenses, amortization depreciation, were \$96.4 million and slightly above our estimates range of \$80 million to \$95 million, due to the timing of materials received to build out our conforming aircraft, on which we have begun production.

Within the non-GAAP operating expenses, we incurred approximately \$17 million of non-recurring costs, and material expenses with our suppliers during the quarter, as we continue to invest in the maturation of our supply chain for Midnight and to procure parts for the manufacture of our Midnight aircraft that we will use for FAA, for credit flight testing.

Finally, for Q3, '24, we anticipate total non-GAAP operating expenses of \$90 million to \$100 million. This range represents a slight uptick in spending, as we expect to incur a substantial portion of the costs of materials to support the manufacture of our Midnight aircraft that will support our certification program.

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

Question and Answer

Operator

Thank you. [Operator Instructions] Our first question comes from a line of Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth
Raymond James Ltd., Research Division

This is quite the update with a lot to digest here, but maybe I can ask you on the Midnight flying that you've done. Could you talk about how many of those flights, you've done are on the Midnight aircraft, and a little bit more color on the kind of the type of flying that you've done and - if that's leading to any learning that as you build the next aircraft here?

Adam D. Goldstein
Founder, CEO & Director

Yes. Hi Savi, I'll be happy to chat about that. As I mentioned earlier on the call, and we put in our shareholder letter, we've really ramped up the flight test cadence, these last couple quarters. So you can see - we've flown a couple hundred times so far already. Those flights are across both maker and Midnight. Most of the flying we're doing today is with Midnight. That's where all the lessons are coming from.

As an example, today we actually did 6 flights on Midnight. So as to why we're doing the flying and what we're learning from that, there's really 2 main goals. The first is gathering data to support our upcoming pilot flights. We are learning a lot about the aircraft as we fly, its handling qualities, control laws, those sorts of things. But then the other thing we're learning, both from maker and Midnight, is the operational learnings.

So as I talked about, we're working to ramp up the cadence of operations even further, with the goal of demonstrating, the type of operation we do commercially, which will be flying up to 15 times per day. So in order to do that we have to put a bunch of systems through their paces. Our battery cooling infrastructure, working to pull data off the aircraft super efficiently, all those things and all that sports both piloted flight testing, as well as the certification and ultimate operations. Hopefully that helps.

Savanthi Nipunika Prelis-Syth
Raymond James Ltd., Research Division

If I might ask Mark just on today's capital raise that you're able to talk a little bit more about who the participants are and just how you are thinking about now with the capital raise, and the contract manufacturing kind of agreement and principle. Just how you're thinking about capital needs over the next kind of maybe year or 2?

Mark Mesler
Chief Financial Officer

Yes, I'll let Adam provide some color on it, and then I can give you some details.

Adam D. Goldstein
Founder, CEO & Director

Sure. Savi, so the capital raise participants were a bunch of institutional investors, as well as some of our strategic partners, including Stellantis and United Airlines. So think kind of some of the big funds that exist across the U.S. and the globe. When I think about the just overall frameworks for capital raising, really I'll give you a high level framework to how we're managing the business. And I think that will help you understand the cash burn and ultimately even the manufacturing ramp up.

So Mark talked about historically the core expense base here at Archer, and that's around \$75 million to \$80 million per quarter. When you exclude the one-time expenses from materials and upfront non-recurring engineering costs that are required to stand up the supply chain. And so this relationship with Stellantis was designed so that they will cover the manufacturing labor costs and CapEx to scale production.

So my goal is, that unless we start a new aircraft program, which we do not have any plans to do, the cost structure will not materially increase. And then, when we think about the manufacturing ramp, and how that really impacts cash flow, the goal is really to start from a modest perspective. And we provided a chart in the shareholder letter that shows a few aircraft where we'll start with.

And we stay at the several dozens of aircraft level for the first couple of years, deploy them and then ultimately scale up. And Mark also mentioned at the 250 aircraft level, it's our goal to hit a target gross margin of 40% to 50%. So if you assume a \$5 million ASP, a 50% gross margin at the 250 volume level, Archer should be cash flow positive at that point. So really the key to all of this has been about Archer just starting and getting launched. Hopefully that gives you a sense for how we're thinking about it.

Operator

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

William Chapman Peterson

JPMorgan Chase & Co, Research Division

Thanks for providing all the details, including how to think about the future financial model and commercialization plans. My first question is on the GCA. I just want to get a sense, do you still feel like UAE might be the first market? And what does the GCA do in terms of, I'd say resources towards certification? How might that vary versus the FAA? I mean, are they looking at every top programs? I mean, we're aware of at least one other program, but how should we think about the certification in that region?

Adam D. Goldstein

Founder, CEO & Director

Hi Bill, this is Adam. So yes, we do think there is an interesting opportunity to launch internationally, particularly in the UAE. So just to kind of step back for a second, we've been supported directly by the national government through the Abu Dhabi Investment Office, as well as the regulators. And they've spent time with us here in California, working on the right pathway to launch commercially as soon as next year.

And then, we have really strong partners there as well. So Falcon, Aviation Air Chateau are 2 of the, are the only 2 urban air mobility operators in Dubai and Abu Dhabi. So both of them today fly helicopters in the 2 cities, as well as the corridor in between them, but they charge thousands of dollars on those routes. So it's really expensive just due to the high operating cost of helicopters.

So collectively those 2 plan to deploy a large number of Midnight aircraft, and they can slot those directly into the routes that they're operating today. So, we're working to electrify and ready the infrastructure there in Abu Dhabi and Dubai. So our strategy is really to work with the leaders of the international markets, and that's been paying off. We've also previously announced a relationship with Etihad on the training side to work with some of the local partners on simulators and training pilots via their academy.

We've had a lot of support at the highest level there, and that support through the Abu Dhabi Investment Office, has really unlocked our ability for the aviation regulator there, the GCA, to start working with us, on an expedited deployment path under the same airworthiness criteria that the FAA published earlier this year. So the whole goal is to get through that, and maybe I'll let Tom give a sort of little bit more color as well.

Thomas Paul Muniz

Chief Technology Officer

Yes, I would say the way to think about this is, we've got a really well-established certification framework and pathway that the U.S. FAA has put together. We've been executing on for the last several years. And so, our state of design of the aircraft is still the United States, still working with the FAA, but the GCAA is one of the regulators that's come to us interested in working on how, could they essentially validate the data that we're already generating, based off of our existing FAA-CERT program.

So, we're engaged with them now, on where we are in that process and the one thing that I think we're really aligned on with them is, regardless of those details, we'll only take a safe airplane to market. And so, right now it's just us continuing to execute, and get the data and it's just another place to share the data with.

William Chapman Peterson

JPMorgan Chase & Co, Research Division

I wanted to also follow-up on the test flight campaign. So especially I think you're between, I guess, what needs to happen or what needs to be completed between now and piloted flights. Are there more modifications to the powertrain, motors, rotors, things like that? And then I guess when we think about the flight testing, what are they, just could you elaborate more on what you're doing beyond the transition flights that you did in June?

Thomas Paul Muniz

Chief Technology Officer

Yes, of course. So to your first question, there's no modifications that need to be made. We're essentially in the process of integrating and bringing up the aircraft we will use, for those first piloted flights. So as I mentioned, we had the delivery of the first wing for that aircraft. We started to integrate systems. We're starting to do the functional testing. The next phase will be shipping the aircraft to Salinas where we do our flight testing campaign, completing ground tests.

Basically the whole context there is, this is like real deal piloted flight testing. So again, safety comes first. We're going to be flying these aircraft thousands of feet above the ground, a hundred miles an hour. These are not like demo flights or tethered flights we're doing. This is like real deal, flight testing. So in terms of the flight testing we've done to-date with Midnight, now that we've completed expanding the transition envelope, the learnings are, as I mentioned, 2 categories.

First is engineering focused that's largely around aircraft controls. So things that will feed into the final software that goes on the airplane, how we control through transition, how we control different speeds. And then, the other main learnings, as I mentioned, to Todd's question are operational. So getting our ground support equipment spooled up, able to recharge the aircraft very quickly in between flights, all those things that matter, both when we get into the certification flight test, and then also in commercial ops.

Adam D. Goldstein
Founder, CEO & Director

Hi Bill, this is Adam. Yes, maybe if I can just add one more piece of color. The area I think that's most important in these aircraft programs is being really mature in your design. And that's been the key. And so what we have felt comfortable with and what we've talked about building these 6 conforming aircraft, is that we feel very comfortable in the design and maturity of that design.

And so, I know a lot of the programs you get stuck in this loop where you're constantly trying to figure out, how to close your design and that can cause large, large delays. We feel comfortable in the design we're at today. And that's why we feel confident in the flight test program ahead and going forward. And we've shown already what the capabilities of this aircraft can do.

And now it's really just an execution game for us to get through putting the aircraft through all the paces, to bring it up and ultimately start flying the piloted conforming aircraft.

Operator

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

Xin Yu
Deutsche Bank AG, Research Division

Hi, thanks for taking my question and congratulations on the progresses. So my first question is, about the land use funding, the labor and the catalyzed cost. Can you walk us through like operationally how this works? Like, for example, who's conducting the hiring of workers and setting volume schedules? And how will that cash flow like, flow through the income statement? Is that will be kind of SVC in a COGS or?

Adam D. Goldstein
Founder, CEO & Director

Sure. This is Adam. I'll start. From a high level perspective, the way you should be think about this launch relationship is kind of twofold. One is reduce cash burn as we ramp production at the factory. And then 2, is to increase the likelihood that we reach our target production levels that allow us to get to profitability. So, I think we saw - we've all seen with the startup EV industry, they struggled to ramp volumes.

And so, I think this relationship here is set up to help us reduce risk there. So we focused on 2 key areas, which were labor and CapEx. The good news is that we've already absorbed a lot of the CapEx that was needed to build out the factory. So there's not a ton left that helps us get through that initial ramp. And then, there will be additional opportunities to spend more CapEx as we look at, introducing things like automation.

So that's kind of the primary function, how we started it. Now, Stellantis has had people working at Archer here for quite some time. So there are dozens of Stellantis employees that are already mixed into the Archer team across engineering, manufacturing, design, supply-chain quality. And what we're doing here is really looking at the next step, which is on the manufacturing side.

So, we are working together to really spool up a lot of the manufacturing plants, which we have been doing now for quite some time. But then ultimately what's going to happen from the labor perspective is that Stellantis will help pay for the labor and Archer will

reimburse Stellantis with stock over time, as those expenses are incurred. So effectively, it's a way for Archer to reduce its cash burn needs and increase the odds of success.

I think that the net of that is extremely impactful to us at this point. You can think about it like an Apple Foxconn type relationship, where Archer will be Apple in that scenario where we are focused on design of the aircraft and Stellantis will focus heavily on the labor side of scaling.

Mark Mesler
Chief Financial Officer

Hi, this is Mark here. Your specific question around the accounting of that, we're still working with our - I mean we just came to these key contract terms recently with our partner Stellantis. So we're still working also through the accounting for those with our accounting partners. So, we can give you more data as that becomes available.

Xin Yu
Deutsche Bank AG, Research Division

Yes, I think the second question is, you have a lot of announced orders now. So could you give us a sense of how many deposits will be paid this year and how much that will ramp up in 2025 to 2026?

Adam D. Goldstein
Founder, CEO & Director

Sure. So this is Adam. The way we have structured a lot of our aircraft sales has been there's an initial 1% to 2% down payment. And then the goal is to collect up to 50% in pre-delivery payments, as we get close to the delivery of the aircraft. And so, the way we're going to slot and go to collect those different payments, really have to do on a market-by-market basis in terms of our ability to work with the local regulator, and get through the certification process.

So you can think about it like the increase in pre-delivery payments will ultimately really result in a placement, or a slot that these different orders will be connected to. And so, as it becomes more clear the different geographies, I think that will become much more clear of when those pre-delivery payments will get paid.

So as we've mentioned the UAE is a good example of this, where there is increasing level of transparency, or an increasing path to us getting to market. So I would expect the level of pre-delivery payments to start to pick up, considerably as we get closer to the launch dates.

Operator

Our next question comes from a line of Austin Moeller with Canaccord.

Austin Nathan Moeller
Canaccord Genuity Corp., Research Division

My first question here, when we think about Los Angeles, how many aircraft just sort of ball parking, are you expecting to scale to in the LA area by either like the 2028 Olympics or the Super Bowl, just when we think about operations?

Adam D. Goldstein
Founder, CEO & Director

Hi Austin. So what's interesting about Los Angeles is when Billy Nolen was the administrator at the FAA, he put out a goal for the, what he called Innovate 2028, which was for the mass use of eVTOLs at scale at the LA Olympics in 2028. So that was a goal that the FAA had put out there. And so what's really cool about this announcement, is we're starting to work towards that goal, especially with some of those key assets that will likely be involved in the LA Olympics.

And so, the way that Billy had framed it, was the goal was to be able to use hundreds of eVTOLs at a given time. Now that doesn't necessarily mean it'll just be Archer that would be the only one that's doing that. So the way that we're going to really target this is, stand up a lot of the operations from the infrastructure perspective, work with the different local communities, to get their buy-in and support as we go do this.

And then ultimately deploy as many aircraft as we can. But the way I would think about it is - it is a global showcase of America's leadership in aviation at a point that I think will be extremely well received. But that's really the 2028 time frame. But even in 2026, you have the ability to showcase a similar type of scenario at the World Cup, which will be held in Los Angeles.

And then you even have a Super Bowl that will likely be - it will be in LA even before that. So lots of opportunities to showcase the aircraft across that network, to get a lot of community involvement and support for the industry. And of course, LA is probably the number one place for traffic in the U.S. And so, there will be likely a very large demand for the aircraft.

Austin Nathan Moeller
Canaccord Genuity Corp., Research Division

Great to see Innovate 2028 coming to life. Another question, what kind of decibel levels are you recording in the latest test flights of the Midnight? And has it improved since the prior prototypes like Maker?

Thomas Paul Muniz
Chief Technology Officer

Sure. Hi, Austin, this is Tom. Basically, all the acoustic testing so far has been in line with predictions. I forget the exact number off the top of my head, so I don't want to provide it right now. But essentially, our models that we tuned with Maker are yielding estimates in line with what we expect for Midnight. And we still expect it to be significantly quieter than helicopters.

We have data to show that both in takeoff and landing. And then, obviously in forward flight where I've heard Midnight by myself, it's practically silent when in cruise. So it's super cool.

Operator

Our next question comes from the line of Josh Sullivan with The Benchmark Company.

Joshua Ward Sullivan
The Benchmark Company, LLC, Research Division

With 10 aircraft anticipated here in '25, and 50 and '26, how's the pilot training certification framework coming together?

Adam D. Goldstein
Founder, CEO & Director

Sure. Well, I mentioned on the call that the FAA is making good progress on the SFAR. And that's really the main piece of data that we need to give you a firm answer on that in the sense that, that regulation will define the training requirements. On the Archer side, though, we on our airline team are standing up our own formal pilot training capability. So there's an entire team that's focused on developing the training syllabus for that, as well as doing the work, putting together simulator hardware to support that program. But until the SFAR comes out, it's a little bit hard to say all the details.

Joshua Ward Sullivan
The Benchmark Company, LLC, Research Division

And then just switching over to the order book, looking at the order book versus the production schedule, what percentage of the book, are you leaving open for new customers entering the backlog, or for the first couple of years here booked out at this point? And then what percentage of production are you thinking about dedicating to Archer versus direct sales and the partnerships?

Adam D. Goldstein
Founder, CEO & Director

Hi, Josh, it's Adam. So the direct sales model is quite compelling, because it gives us an ability to generate cash flow relatively early in the company's life cycle. And so, I think that's really important to building the long-term Archer Air platform that can be scaled globally. So that was really key to the beginning part of the entire strategy that we had here at Archer.

So, we've been working to partner with really the most prominent and largest companies and groups in the international markets. And as we have made those connections and formed those agreements, it's been - really quite helpful to be introduced really to those countries at such a high level. And so, what I think will really play out, is there will be an opportunity to introduce aircraft across many different countries at relatively low levels, take time to learn, and then ultimately scale them up.

So I actually think by putting a handful of aircraft in many different countries will ultimately lead to a much faster ramp, than just targeting one or 2 places in the very beginning. So that's been the strategy on how to do that. And there has been some countries that have leaned in very heavily. So example, UAE, we've obviously talked a lot about, but the broader GCC has also leaned in pretty heavily as well.

So you've seen a lot of action and support from Saudi Arabia as well as an example. So as these countries continue to lean in, we will continue to form more partnerships that can allow us to put the just base level frameworks, in place to allow us to scale to these larger numbers in the outer years.

Operator

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

David Michael Zazula

Barclays Bank PLC, Research Division

Adam, I mean, this is a pretty monumental step in the relationship between you and Stellantis. Obviously, they've been a critical partner up until now, and this only further enhances that relationship. What can you say publicly about your conversations as a shareholder with them, as far as how comfortable they are in taking the increased equity stake in Archer. And how much of a stake they're willing to take, and then how comfortable you are with the portion of the company owned by strategic investors?

Adam D. Goldstein

Founder, CEO & Director

David. So when I started Archer, what was just absolutely critical to me was that I was able to build a vehicle and deploy it. And so, there's a lot of founders out there that will build hardware companies, and there's ways to generate a personal financial return from doing that and never actually get a product to market. But that's been not my goal at all.

My entire goal has been to deploy a product that can have global scale, and just create real impact. And so that's really what I've been optimizing everything towards. And so, the relationship with Stellantis has been geared towards helping us get to market. And it's really focused across those 2 areas that I talked about, which was a capital light way to get to market, and while finding the fastest path to commercializing.

So increasing the likelihood that we could reach our production levels and ultimately get to profitability. That's what this does. And so for me, really, everything is about just increasing those odds. So that really means we need more capital. And so, that helped by doing that by offsetting a lot of the cost we have here going forward. And then, also increasing just the production capabilities.

So this was a huge, huge announcement for us, and at least for me, from my perspective, and dramatically increases the odds that we get to market. If you just take a step back and look at what's happened, David, we went in, and Archer's a relatively newcomer into the industry. We started in 2018. A lot of the competitors started 10 years before that. And you look at what we've done from the pacing of, even just engineering accomplishments.

I mean, we've now built and flown, that's our second generation aircraft that's been through a full transition. I mean, a lot of the companies that even started before us have still yet to even fly in aircraft. So that was, I'm super proud of that. Now we're building this fleet of piloted conforming aircraft. I don't see anybody else in the world, saying they're building piloted conforming aircraft even right now.

And then we have the factory that's put in place that can ramp and scale. We have a partner that's going to help pay for all of that. And then, we have a pretty clear path now and how to get to market, with a huge indicative order book, backlog. So, we're ready. And this is the time. This is the point where I think Archer assumes a leadership position in the world.

And I think people are going to wake up, and really see in the very near term here that eVTOL is coming to market and will be scaled up here. And I think Archer leads that charge.

David Michael Zazula

Barclays Bank PLC, Research Division

That is helpful color around the announcement. Tom, can I follow-up on one of Bill's questions earlier? Could you put maybe a finer point about what for credit testing you're doing? What types of components you've done for credit testing on and what the plan is for kind of system level for credit testing this year?

Thomas Paul Muniz

Chief Technology Officer

Yes, absolutely. So if you go to our shareholder letter, we've got a chart in there that I've been updating the last couple of quarters. So the areas that we're doing for credit testing are obviously areas where we have certification plans that are approved, and we're just

executing with that. So the like main category of things there, just broad brush strokes, are the system components that are coming from our supply base.

So as we've talked about over and over, our whole strategy was to make as much of the aircraft, as simple and low risk as possible. And we've done that by partnering with all the companies who've mentioned Safran, Garmin, Honeywell, et cetera. So just kind of pointing you to the chart, you can see in which of these systems we are in which stages. And then in those areas, there's some examples of things we're doing like, SOI to hardware and software audits with Honeywell.

All or a big chunk of the environmental for credit testing completed, for most of our flight control system and flight tech avionics. So that's kind of where we're in. If I take a step back, this is really that system and component level testing that all needs to be done, before we ultimately get to for credit flight testing. So the goal is to be doing that next year with these piloted aircraft that, we've mentioned are in production.

Operator

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

Adam D. Goldstein

Founder, CEO & Director

I'd like to thank everyone who joined today's call and also the entire Archer team and our partners that have really helped us relentlessly execute and maintain our leadership position in the industry in bringing electric aircraft to market as early as next year. Our capital efficient approach has helped us maintain a strong liquidity position. As we enter the second half of 2024, I am really excited about the quarter ahead. Thanks again for joining us today.

Operator

That concludes the Archer Aviation Q2 '24 operating financial results conference call. I hope you all enjoy the rest of your day. You may now disconnect your line.

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