Archer Aviation

Q1 2022 Financial Results

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8:30 AM

Operator: Hello, everyone and thank you for joining the Archer Aviation end Q1 2022 financial results. My name is (inaudible) and I'll be moderating your call today. Before I hand you over to your host, Andy Missan, I would like to remind you that if you would like to ask a question during our Q&A session at the end of the call, please press * followed by 1 on your telephone keypad now. I now have the pleasure of handing you over to Andy Missan. Please go ahead, Andy.

Andy Missan: Good morning, everyone and thank you for joining us today to review Archer's first-quarter 2022 operating and financial results. My name is Andy Missan, the Chief Legal Officer of Archer. 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 Q1 2022 operating and financial results to our IR website. This call is being recorded and an archive will be available on our IR website.

Before we begin, I would like to remind everyone that during today's call, we will be making forward-looking statements. These forward-looking statements are subject to

risks and uncertainties that could cause the 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 for the year ended December 31, 2021, filed with the SEC on March 14th, 2022, and our quarterly report on Form 10-Q for the three months ended March 31, 2022, which is expected to be filed with the SEC later today, 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 that on this call, certain financial measures are presented on a non-GAAP basis. Reconciliations of these non-GAAP financial measures and the most directly comparable GAAP measures are included in our shareholder letter posted on our investor relations website. We will begin with commentary and then we'll open up the call to questions. And with that, I'd like to turn the call over to Adam.

Adam Goldstein: Thank you for joining us today and for your continued interest in Archer. Our operating and financial performance were consistent with our expectations, and we are on track to achieve all of our 2022 milestones. We remain well capitalized and well-positioned as a leader in the eVTOL sector,

with key strategic relationships; a growing team of dedicated, experienced, and committed designers, engineers, and operators; and with a business plan and strategy that is unique, compelling, and clearly differentiated. Since we just spoke on our fourth quarter and year-end earnings call, we've continued to advance on many key initiatives, which I will discuss later.

But first, I'd like to start by reiterating our vision and strategy for commercialization. Archer is enabling a new form of transportation and our commitment to our goal is unwavering, bringing sustainable, safe, quiet, and accessible, urban air mobility to the masses. We are building a transportation solution that will enable people to move freely, whether it is commuting to work or taking time to explore places previously inaccessible because of traffic limitations.

From day one, we've anchored our business plan on driving to commercialization, and with the support of our key strategic partners, United and Stellantis. The aim of our production aircraft is to balance the performance necessary to be economically viable against the complexity that allows us to achieve certification and scale operations. That's why we chose to build a piloted, plus four-passenger vehicle that is designed to perform continuous, rapid, 25-to-50-mile missions throughout the day with minimal charging time required on the ground in between trips.

This vision has never changed. To make this vision a reality, our strategic development program uses our full-scale demonstrator aircraft, Maker, to prove out our 12-tilt-6 configuration, advances our key enabling technologies, and set the roadmap for our production aircraft certification program. Maker has proven that our configuration was the right choice. Our flight test program began in December, and we have and will continue to use the data from Maker to inform the design of our production aircraft.

In parallel, we are rapidly advancing our production aircraft through the preliminary design phase, while working with the FAA to finalize our G-2 means of compliance to the G-1 certification basis we agreed to last year. Our executive team and board are fully aligned behind this approach, which is about efficiency, effectiveness, and safety as we drive to commercialization. Since the beginning of the year, we have made significant progress on our production aircraft design.

We have finalized key system architectures, advanced the development of our critical propulsion and flight control technologies, and matured our supply base, including the selection of several key suppliers. A major technical achievement this quarter was defining our aircraft OML, or outer mold line. This was a critical milestone that involved extensive aerodynamic design optimization, using computational

fluid dynamics to verify that our performance targets will be met with some margin.

Having the OML defined unlocks detailed structural part design, and the release of long-lead tooling to build our certification test aircraft. We also made significant progress on meeting our aircraft structural and system weight targets. This is extremely important as weight is the most critical factor in meeting our performance requirements. It's the only parameter that shows up in every performance equation. And eVTOL aircraft are especially unforgiving when it comes to weight creep.

Our weight status shows our design closing with sufficient weight margin. This means that we're hitting our payload weight target for a pilot, plus four-passenger vehicle. We can also carry enough battery energy to meet our range requirements and maintain sufficient weight margin to absorb the inevitable weight growth that occurs as the program reaches maturity. Since the success of our first hover, Dr. Geoff Bower, our Chief Engineer, who was the Chief Engineer for Airbus Vanhana, and the engineering team have been analyzing the valuable data from that flight and have been making a number of updates to the aircraft, as well as conducting numerous ground tests.

This has included installing and testing the tilt rotor system to ready Maker for our first transition flight this year.

We plan to fly routinely through the remainder of the second quarter and the rest of the year. We will share the results of those flights with the Air Force as part of our deliverables under the Agility Prime agreement. With respect to overall plan and timing, we remain on track for completing our first transition flight before the end of the year, as we previously announced, which will result in the full flight envelope expansion in less than 12 months.

This would be a significant accomplishment for the industry, demonstrating our technical leadership and our team's ability to deliver on our development roadmap. Tom Muniz, our COO, who has experience with taking six different aircraft from design concept all the way through the transition flight, is here today to discuss more in the Q&A section. As we mentioned in our shareholder letter, we have established with United Airlines a joint eVTOL Advisory Committee.

This committee is focused on advising, on maintenance, and operational concepts to recommend to Archer for its all-electric aircraft, aimed at driving towards best-in-class operational standards. We believe United's outstanding track record in airline operations and their existing collaboration with Archer make them an ideal stakeholder to advise the company about the scope and build-out of maintenance and operational plans.

Finally, I'd like to close by sharing just a little bit about my philosophy as CEO. As we grow, my goal is to ensure we continue to operate as an engineering-led company with a unified goal of commercialization. Critically important to commercialization is that we all work together for progress as an industry. Certainly, we compete, but we are really pioneers, breaking new ground and blazing new trails in the air together. So, industry success also depends on collaboration. As our peers make progress, look for us to congratulate them and champion them.

We remain on track to meet our 2022 goals. We are a well-capitalized, growing company with a singular mission to advance the benefits of sustainable air mobility for all. With that, let me turn it over to Mark for an update on our financials and then we'll take questions.

Mark Mesler: Thanks, Adam. And thanks to everyone participating on the call. As Adam just discussed, and as we have outlined in our shareholder letter, Archer is making significant progress in a number of critical areas that are advancing our efforts to achieve our commercialization goals. While clearly we are focused on our aircraft technology and certification, we are also maturing the capabilities that we will need to engage in commercial operations, such as with our

supply chain manufacturing, as well as operating an urban air mobility network.

We're making excellent progress. Externally, it's very compelling to see that the overall eVTOL industry is starting to be recognized as more than just an interesting technology experiment, and in fact, as a significant business sector. Since we last convened, there have been a number of events and publications specific to the industry. For example, there have been eVTOL-specific financial conferences that have brought many of the eVTOL companies together with other industry players and investors to share ideas and discuss issues common to all companies and we are scheduled to participate in additional ones later this year.

Research analyst coverage is expanding for the industry, with a couple of new industry reports recently initiated. And finally, there was a 60 Minutes piece on the eVTOL industry, highlighting several of our peer companies in the FAA regulatory environment. All of these developments continue to educate stakeholders and investors on the critical drivers for the industry. And that definitely helps each of us as industry participants to tell our individual stories better. Our market is projected to be very large in the future.

And that market will be supported by a number of companies. So, we need to continue to support and do more on the education

front to expand investor and consumer understanding and interest in our space. As we think about what it will take to support a fast-growing company tackling a large market opportunity, we are also making strides to further build operating infrastructure and financial discipline that will help the company establish an operating rhythm that is married with financial rigor around planning, budgeting, and capital allocation.

Since our last call, we've made several key leadership hires across our accounting and finance function. In our accounting team, we have onboarded leaders to support our financial-close process, procurement process, and SEC reporting. Additionally, we have hired key financial planning and analysis leaders to drive our five-step planning process, to continue to build out our financial and operating model, and to help drive the execution of the business to achieve our target business model.

We are very pleased with the progress that we are making to build a world-class accounting and finance team, and the critical financial processes to enable the business. With the build-out of our finance team, we have worked with our engineering and operating teams to continue to align on how to allocate investment across our critical differentiating technology development areas, such as power train, batteries,

software, our technical and production aircraft, the certification process, and our data science capabilities.

As we focus on the execution of our 2022 goals, these remain critical areas that we are clearly continuing to invest in throughout the year. Pivoting to our financial performance for Q1 '22, non-GAAP total operating expenses were $39.6 million, which was slightly above the upper end of our outlook range of $39 million, primarily due to accelerating some engineering program spending from Q2 '22 into Q1 '22.

Non-GAAP operating expenses increased sequentially by $6.5 million, as expected, as we hired more people to staff our engineering programs and build out the requisite infrastructure to support the growth of the business, as well as invested in engineering development materials for both our technical demonstrator and production aircraft programs. We incurred a loss on adjusted EBITDA of $39.1 million.

And the sequential expansion of that loss, relative to Q4 '21 of $6.7 million, was primarily driven by our increase in non-GAAP operating expenses. On a GAAP basis, total operating expenses for Q1 '22 were $65.3 million, which included $24.5 million of stock-based compensation and $1.2 million of warrant expenses for our warrants issued to Stellantis. These results were $1.3 million above the high end of our Q1 '22 outlook of

$64 million, primarily because of the acceleration of some engineering program spending and stock-based compensation.

We ended the quarter with $704 million of cash and cash equivalents on our balance sheet. We used $39.8 million of cash in the quarter in addition to moving $2.6 million to restricted cash to support various letters of credit for commercial leases. Annualizing our Q1 '22 burn rate and comparing that to our cash balance, our cash to burn ratio is 4.4 times. We continue to lead the sector based on this metric. Clearly, we remain well capitalized.

Finally, let's look at our Q1 '22 outlook estimates. We anticipate total GAAP operating expenses of $80 million to $86 million and total non-GAAP operating expenses of $47 million to $53 million. This reflects expected, stock-based compensation, one (ph) expense, and other one-time expenses of approximately $33 million. To close out, the business is focused on delivering on our 2022 goals, on our path to commercialization. And we are investing in the key areas of engineering, certification, and product development to support those goals.

Beyond that, we have a financial and operating team with the experience, financial discipline, and processes to efficiently and appropriately allocate capital. Archer continues to be well-positioned to execute on our business plan and achieve the kind of growth that will further solidify our

position as a leader in the eVTOL sector. With that, operator, let's open it up for questions.

Operator: If you would like to ask a question, please press * followed by 1 on your telephone keypad now. If you change your mind, please press * followed by 2. When preparing to ask your question, please ensure you (inaudible). Our first question comes from Peter (ph) Peterson from JP Morgan. Please go ahead, Bill.

Bill Peterson: Yeah. Hi, it's Bill Peterson from JP Morgan. Thanks for taking my questions. First, on certification, I was hoping you can comment on a -- there was an article published earlier this week by Air Current and it talks about potential shift in certification from small aircraft to power -- powered lift.

And the article made it appear that the eVTOL companies were caught off guard. I'm wondering if you've had any discussions with the FAA on the shift, or, you know, if there is a shift. What are the next steps? And how we should think about the potential ramifications if there is a sort of, a shift in the certification requirements.

Adam Goldstein: Thanks for the question, Bill. This is Adam Goldstein. So, we actually support the FAA's effort to put a more comprehensive certification framework in place for the industry. We don't actually believe the rule transitioned,

which what you're referring to is the transition from 2117A to 2117B. We don't believe that this will have a material impact on our certification timeline.

But this is a complex process. So, maybe what I can do is just level-set here on exactly what happened and try to explain it in a digestible way. So, part 21 contains the overarching procedures for how aircraft are certified. 2117 talks about which regulations are applicable for the vehicle being certified. 2117A handles traditional aircraft and 2117B handles special aircraft, for which there are no standard airworthiness regulations. Therefore, the applicable regulations can just be efficiently pulled together from other rule parts.

So, the change from 2117A to 2117B was really done in order to more easily tie the vehicle airworthiness regulations, so like the things you need to do for airplanes to be safe, to the operational regulations, so things like pilot training. So, our vehicle and other eVTOLs will now be classified as powered-lift aircraft under 2117B, and the FAA is going to publish operating rules for powered-lift, tying the aircraft to the operating regulations.

So, the rationale for doing this was really to streamline policy framework to support the commercialization of these vehicles. So, hopefully that gives you a sense for what's happening. So, our strategy has always been to design an

aircraft, in parallel, with establishing and agreeing to our G-1 Cert Basis and our G-2 means of compliance, really ensuring that the regulations that we're designing to are comprehensive and have been pulled from the applicable rural parts for our particular aircraft design.

So based on this change, we actually don't see any material impact on our airworthiness rules or regulations, or on our timeline. So, we're still working with the FAA to understand the full extent of the change, but in our view today, this is largely just an administrative change. And in fact, we think this could streamline important aspects of the efforts to bring these vehicles into commercial service.

Bill Peterson: Thanks for that color there. Appreciate it. Second question. It's something we haven't really talked about in a while, but it's related to the, sort of the ecosystem and the infrastructure. Things like charging infrastructure, you know, where these things can take off and land.

I was kind of hoping you could help us understand, you know, what cities are more likely or maybe what parts of the cities, things like airports to downtown, that going to be -- come to market first, in terms of infrastructure. Frankly, the conversations I have pointed infrastructure, maybe even potentially being a gating item as we move into the back half of the decade.

Adam Goldstein: It's a good question. So, there have been a lot -- there's been a lot of interest from cities, not just in the U.S., but really all of the world, in wanting eVTOL to come to their market. So, I think there is a, you know, a real push for sustainable forms of transportation and different forms of transportation that can come help alleviate traffic and congestion. And so, we've seen it really all over the country, just different inquiries from, you know, different local municipalities and different groups reaching out.

You know, I do believe the industry will have a big presence in the beginning, with airport routes, and we saw that in the traditional rideshare in the terrestrial transportation. So, I think today the rideshare, you know, on the ground market -- trips to the airport really still represent 20% to 30% of their total business. So, I think it makes sense that airports will likely represent a good starting place and a decent chunk of the business as we, you know, mature the industry.

The good news about that, is there is already infrastructure at the airports to support, you know, these vehicles. There would need to be additional charging infrastructure that would need to be put in place, but there's a lot of infrastructure that's already in place at airports. So, it is early in the development of the infrastructure market as it relates to the urban air mobility.

But we do believe that existing helipads, land parcels, and really retrofitted rooftops do make logical places for real estate and infrastructure to be built. And we're having ongoing discussions with different large infrastructure providers, as well as looking at infrastructure opportunities on our own.

Bill Peterson: Thanks for that color. In fairness now, I'll pass it on, but certainly will re-queue if there's some more questions that don't get asked.

Adam Goldstein: Thanks, Bill.

Operator: Our next question comes from Edison Yu from Deutsche Bank. Please go ahead. Go ahead, Edison.

Edison Yu: Thank you for taking our questions. First, it seems like there's a lot going on in the second half of the year. Was wondering if you could go into a little bit more detail on timeline for flight testing and sort of how you define a successful campaign?

Tom Muniz: Yes, absolutely. Hey Edison, this is Tom. Thanks for the question. So, as you know, we had a really successful, first hover flight back in December. And at that flight, we got a lot of really valuable data we used to validate the aero model and other performance of the aircraft. So, since then, we have not been flying because we made the strategic decision to upgrade the aircraft in preparation for transition flights later this year.

Specifically, we have been focused on installing our tilt rotor system, which is used to control the vehicle through that transition flight. For the past couple of months, we've been focused on getting through ground tests and we've gotten lots of data and are now in the final preparation to return to flight later this quarter, into the second half of the year.

So right now, we plan to be back in here late this month into early June. And then, the second half of the year, we'll be working into a much more relocating to flying.

You know, up to multiple times per week, just to give you a sense for what to expect. As Adam mentioned earlier, this is actually the sixth aircraft that I'll have taken from concept through to transition flight over the past decade. So, I've been super happy with the progress of the team and just want to reiterate that we're on track for our first full transition this year. And I'm super-confident we'll get it done.

Edison Yu: Understood. And then, on the more production side, could you maybe update us on the progress of the pilot line and also how you're thinking about components, subsystems, procurement, and assembly.

Tom Muniz: Yeah, so, one of the goals that we laid out for this year was to announce our site selection for our manufacturing facility. And so, we have been in extensive talks and going through that process. We've been working with

Stellantis, in terms of everything from manufacturing site selection through the setup of the factory itself and really trying to make that as efficient as possible.

We started with hundreds of different locations across the country and have narrowed that down to just a few. And so, we are still on track to announce that, and so we're making, you know, really kind of, the final selections here as we're down through the last couple of sites that we've been looking at. So, that's what's on track from the manufacturing side. On the pilot line side, we are building out a new lab space here in North San Jose, and we will be -- in that lab space, we will be manufacturing our low-rate initial production facility there, where we will produce ten vehicles to really start to be used in the certification process.

So, that lab will be built out through this year, and we will start the production of those vehicles next year. So, as it relates to just overall supply chain, you know, I think just maybe reading into your question a little bit, we are, you know, at the stage of our development cycle where we're not really a mass consumer of parts today. We're building technical demonstrators. We're designing the production aircraft and we're negotiating long-term agreements with the supply base. So, today we're not really seeing material impacts on the business that I think you're hearing across, really kind of the

rest of the world and other industries with big supply chain delays.

But what we're doing is getting ahead of any of the long lead time items just to reduce risk. So, you know, as we look at our manufacturing operations, our goal is to really lock in quantities and pricing through the RFX process. But at this point, we're not seeing any major delays -- any of the foundational suppliers that we're speaking with.

Edison Yu: Understood. Appreciate the insights.

Operator: That next question comes from Andres Sheppard, from Cantor Fitzgerald. Please go ahead, Andres.

Andres Sheppard: Hi. Good morning, guys and congrats on another great quarter. I just wanted to follow-up on that last question regarding the kind of, the timeline for the test flights. I just want to make sure I understood that correctly. So, in the past, you had referenced the second half of the year. Now it sounds like the next -- the first cruise flight that's expected next month.

I just want to make sure I got that right. And then, kind of, going forward, Tom, I think you alluded to the frequency at which you expect to, kind of, keep conducting test flights for the remainder of the year and for early next year. I'm just wondering if you can maybe add a little more color there if you don't mind?

Tom Muniz: Yeah. Sure, happy to clarify, Andres. So, we are planning to continue our flight test campaign, resuming in hover, but then going into flights where we, you know, translate and fly around, working up towards a complete transition flight, meaning taking off vertically, accelerating forward, then flying with lift only generated by the wing. That's what we consider a full transition flight, before the end of this year, as we've previously said.

So, in the coming weeks here, we'll get back to our flight-test campaign and then it will be a progressive ramp-up, where we do expect to be flying very regularly with akins (ph) of several flights per week. Again, working up to that first, full transition flight end of the year. So, a little context -- right? -- flight test is a very step-by-step, rigorous approach. We take the envelope expansion, is what it's called, in very small increments, you know, increasing speed and other capabilities, in working towards that full transition flight.

Adam Goldstein: And hey, Andres. This is Adam, just, kind of, adding in here. If you took a step back and looked at the industry over the past 10 years, we've seen several groups transition vehicles. And, you know, from -- my understanding from, far from some of those groups, it's taken between 18 and 24 months for most groups to be able to transition an aircraft.

And some groups have been at it for years and still are trying to transition aircraft.

Our stated goal to transition the aircraft this year would put us at a transition timeline at 12 months. And so, I think that will be probably the fastest anyone has done it in the eVTOL industry. And so, it's quite a technical feat. So, sort of, you know, the zoomed-out version of what we're stating here is actually a very aggressive flight test campaign that we feel really confident in really being able to achieve this year that we will show our, really, technical capabilities off, what we're very excited to do.

Andres Sheppard: Got it. Thanks guys. No, that's very helpful and thorough. Quick follow-up. Can you just remind us, what are some of the key KPIs from the advisory committee that you announced with United last month? Like, what are some, maybe things that we can look for or what are some of the things that you, kind of expect from that joint committee?

Adam Goldstein: Yes. Sure. So United has been a really great partner to Archer and it really goes beyond just being a, you know, an investor and buying planes. They're helping us with all the, you know, the operational side too. So, the most important area of focus for Archer will always be safety. But we also want to consider cost of maintainability. So, we set up this committee, really to leverage the expertise of United's,

you know, really deep history in maintenance and operating strategies.

So, I believe our direct operating cost is going to be major factor in eVTOL, you know, and maintenance will be basically the driver of direct operating cost. So, one aspect of the committee will be focusing on reviewing the production aircraft design for maintainability. So, we're going to look at things like anything from access panels, charge port locations, or commonly placed components, things like that. And United is participating in our design reviews to help us focus on improving these areas.

So, if we think about just, you know, stepping back, we have a big direct operating cost that we're going to be heavily focused on. Direct maintenance costs will be a large component of our direct operating cost. So that's really, kind of one of the areas of focus is for us, is to make sure that we can drive the long-term profitable business. And, you know, this committee is really set up to help guide us through, you know, best practices.

Andres Sheppard: Wonderful. Thanks, Adam. Maybe one last one if I may. You guided OpEx for next quarter of $86 million on a GAAP basis. And most of that is due to the stock-based compensation, looks like, but there are some one-time expenses.

So, I'm just wondering if maybe you can elaborate on what those are?

Mark Mesler: I think it's primarily one -- sorry. Hey, Andres, this is Mark. It's primarily one, one-time expense, and that has to do with the separation of Brett from the company. We -- it reflects the 8-K that was issued.

Andres Sheppard: Got it. Understood. Great. Thanks so much, guys. Congrats again. I'll pass it on.

Adam Goldstein: Thanks, Andres.

Operator: Our next question comes from David Zazula from Barclays. Please go ahead, David.

David Zazula: Hey. Thanks for taking my question. Following up on that, you did have a board member resign recently and he put out a statement saying that the vision of the board was different from his vision. I guess, Adam, can you comment on the current state of vision for the -- of the board and, you know, how it's progressed and how any kind of delta might have developed there?

Adam Goldstein: Hey, David, this is Adam. So, you know, the vision of the company, you know, really has always been intact and unwavering since day one. And so, you know, I tried to make that really clear in the remarks today, and the, you know, really in the opening here. You know, the goal was really to build a vehicle, take it to commercialization, that's safe,

that's quiet, and that's affordable, really to the masses. And so, we are on track to complete that vision.

And the goal is to, you know, get a vehicle into service by the -- get certified by the end of 2024. The board supports that, the executive team supports that. So, there's really been no change there, you know, to that at all. So hopefully, you know, that really clarifies that.

David Zazula: Thanks. And then, Tom, you've worked really hard towards having the first flight in December, and it seems like it can be probably about six months between then and the next flight. Can you help us out what data you were trying to achieve, that's helped you in the follow-on tests, you know, in between -- such a gap in between the first and the follow-on flight, like why was it important to get that flight, you know, then and then not fly again until now? Thanks.

Tom Muniz: Yes. Sure. Happy to add more context there. So, the flight we did in December was a hover and basically gave us enough information to validate that the aircraft was performing as expected in that flight condition. But at that point, we did not have the aircraft in a physical state and with the software where it was capable of flying the full mission envelope, you know, through transition.

So, when we looked at the data from that first flight, we could have chosen to keep doing more hover flights in that

configuration. But we were confident enough that we just decided to move to the next phase of the program, which was installing the tilt rotor system, as I mentioned earlier, along with some software upgrades that make the vehicle capable of the full transition envelope. So, you know, there was a process getting all of that hardware and software completed and installed. And then the last couple of months have been all about testing and preparation for more flying.

So, like I mentioned earlier, we're really close to continuing the flight-test campaign. End of this month, early June, that's what's looking like today. And then, based on where we stand and the maturity of the vehicle, we are in great shape to get through first transition before the end of the year.

David Zazula: Great. Thanks, Tom.

Operator: As a reminder, if want to ask any further questions, please press * followed by 1 on your telephone keypad now. Our next question comes from Josh Sullivan from Benchmark Company. Please go ahead, Josh.

Josh Sullivan: Hey, good morning.

Adam Goldstein: Good morning, Josh.

Josh Sullivan: Just on the manufacturing site selection. You know, how has your view evolved, or your needs evolved? You know, you've got Airbus. They've announced they're going to do

some contract manufacturing with Spirit, and, you know, it's a traditional, aerospace sort of relationship.

And obviously, eVTOLs are going to be more automotive-like in volumes, but curious on what Stellantis is saying, or what they're advising? You know, what needs to be more automotive, what needs to be more traditional aero manufacturing? And then, just kind of your thoughts on contract manufacturing in general.

Adam Goldstein: Yeah, so, it's a good question. So, a big part of the site selection really goes down to our broader strategy of our volumes. When, where, how much, how do we move these vehicles around? Because the range of the vehicles are, you know, less than 100 miles. It's not like we're going to fly them to, you know, their final location. So, we'll typically transport them through some other mode.

So, lots of considerations, in terms of how that rolls up to our site selection for manufacturing. So, a lot of the core focus, though, you know, that we have was based around the volumes that we're trying to build. So, you know, we put out there, you know, the volumes which will start in the low hundreds and scale up to a few thousand here, by the end of the decade. So, we are finding a, you know, a factory that we can build and design around those stated volumes.

And then, shift our focus, also to thinking about the different components we want to manufacture in-house versus

stuff we want to get out-house. So, we have been working with Stellantis to leverage some of the automotive capabilities that you don't traditionally find in aerospace. So, a good example of that could be things like paint. So, it might take you five to seven days to paint a general aviation aircraft of a similar size, but the autos can paint a vehicle in closer to seven hours.

And so, we have spent time with Stellantis, gone out to their factories, see how they do it, see the type of automation that they have, and really try to figure out where it makes sense for investment in automation that will be economical for us and not overspend in areas that don't make sense for automation. And so, that's really been a lot of the, you know, focus for us. So, there are other things like high-scale composite manufacturing, where the autos do a great job and they manufacture a lot of vehicles, and so it's another, kind of, area that we've looked at.

So, we'll do a lot of the assembly of the vehicles, in-house, and we'll focus on manufacturing, just some of the, you know, kind of key, kind of really key pieces of IP, so parts of our power train or different kind of key, in-house stuff that we'd like to focus on.

Josh Sullivan: Got it. And then just on a real transition from 2117A to B. You know, what are your broader thoughts on

the readiness of the FAA for passenger eVTOL transport? You know, maybe if you could put it in the baseball inning kind of context, just where you think the regulatory environment is at this point?

Adam Goldstein: Yeah. Part of Archer's strategy, really since the beginning, was to design a vehicle that could be certified in a time frame that made sense. And we really tied our capital strategy to that as well. So, we've raised enough capital that could get us through the timeline that we thought was estimated that it would take. So, I don't think anybody thought it would be a clear, straight line and that this would be an easy process.

But at the same time, we are certifying a vehicle that, you know, I don't think is so, you know, outrageous that there's going to be gigantic twists and turns. So, for us, this change from 2117A to 2117B is one of those, you know, I would say not necessarily expected, because you don't know what you don't know, but in a sense, a minor change like this, in our view, there's going to be a bunch of them.

So, the whole goal in Archer's strategy, from the very beginning, was making sure that we designed an aircraft in parallel with establishing our G-1 Cert Basis and G-2 and really making sure that, you know, we could design around the existing

regulations and not do things that would make the FAA uncomfortable.

And so, to date, that strategy I think has been very effective and changes like this we don't think impact us, and there likely could be more changes down the road. I mean, I think that would be probably expected, but given our strategy, I think we'll be able to continue to navigate those changes and stay within our timeline.

Josh Sullivan: Got it. Thank you for the time.

Operator: And on follow-up question from Bill Peterson from JP Morgan. Please go ahead, Bill.

Bill Peterson: Yes. Thanks for taking the follow-up question. I think you spoke to it a bit and there's certainly some in the shareholder letter, but in terms of the preliminary design interview, you mentioned the OML being the major achievement, one of the longer lead-time things. But what other milestones were accomplished? And then I guess, can you share any more specifics on what is left to be done in the second half?

Tom Muniz: Yeah, absolutely. So just to give it a little context. You know, we're following a very traditional aerospace development process that involves these phase gates. Right? Conceptual design review, CPMC, ORD, preliminary design review, PDR. Next one after that will be critical design review, CDR.

At each of these milestones, the vehicle maturity, maturity of the design, and the production system around it is continuing to increase.

So, they're just really good markers in time to assess, holistically, how the program is developing. So, the OML was a really great accomplishment. Yeah, as we mentioned earlier, that unlocks our ability to kick off tooling, in support of manufacturing our first aircraft, for our production aircraft next year. But in addition to that, like Adam mentioned in his opener, we've also just made a lot of progress maturing the design, to the point where we're now shifting, after PDR, which is coming up in a couple of months, we're now shifting into the detailed-design phase, actually producing the drawings, in detailed engineering definition, that we'll build off of.

So, the great news at this point is, the design has come together really well and we're on track, actually in a better spot than we hoped even, for key performance metrics like the vehicle weight, payload, range. So overall, the design is coming together great, with sufficient margin and just really happy with all the work the team has done.

Bill Peterson: Yeah. Thanks for the additional color. Maybe this last one. More housekeeping, but in terms of spend OpEx and CapEx, wondered how we should think about the trajectory beyond the quarter. I know you -- one quarter at a

time, but how to think about the trajectory, I guess maybe within that what -- on OpEx side, what's related to personnel versus tooling or materials? Really in this market environment, you know, investments are really keen to understand, you know, the cash, but I know you provided like a snapshot of what -- you based off the first quarter, but any additional color you can provide will be helpful. Thanks.

Mark Mesler: Yeah, Bill. This is Mark. So, with respect to -- I think your first question was thinking about how the trajectory of OpEx for the rest of the year. Is that correct?

Bill Peterson: Well, I mean, OpEx and CapEx, I mean, as it relates to cash burn, but then, you know, good OpEx, how to think about more one-off, onetime in nature versus, let's call it fixed OpEx and personnel and personal growth and things like that.

Mark Mesler: Yeah, sure. So, I think that we're -- while we -- while we would see some OpEx being lumpy, for the most part, we've gone through a very detailed, bottoms-up budget for the year, and I don't -- I think -- I don't think there's going to be significant one-off items. However, they could be lumpy from quarter to quarter, depending on if we're doing a big buy for some, you know, parts for engineering or something like that.

So, I would continue just to model, you know, the payroll and OpEx, you know, more in a linear fashion. With respect to CapEx, you know, the CapEx that we've had for the first quarter was pretty light. You can see it was less than a million bucks. You should expect something more significant than that in the second half of the year, especially when we start thinking about breaking ground on a factory, for putting CapEx into that. So, happy to talk a little bit more detail around that, but that's how I'd think about it.

Bill Peterson: Thanks for the additional color, and we'll look forward to following the progress.

Operator: Our final question comes from Andres Sheppard from Cantor. Please go ahead, Andres.

Andres Sheppard: Hey guys, thanks again for taking my follow-up as well. Adam, I'm just wondering if you can maybe comment on what are some of the kind of the best practices that you guys are putting in place to try to help mitigate some of the increasing cost of batteries as a result of supply chain disruptions? I know we've addressed this in the past, but maybe just, kind of, remind us -- your thoughts on the macro there.

Adam Goldstein: Yes. So, our goal really, you know, I guess from a big picture of inflation perspective, our goal is really to have the majority of the suppliers that we need for the aircraft under contract this year. So, we started the RFX

process early in the year and have been getting RFPs from the supply base. And we've actually seen a lot of interest from suppliers, as really many of them view urban air mobility as this big potential market.

But that being said, we are seeing costs come back, higher-than-expected in many areas. We do have a strong market position and we do have a strong capital position. And that's really enabled us to still negotiate, I think, pretty favorable terms, both on the upside case and on the downside protection case. So, for example, in many of the negotiations that we're seeing now, we are able to put in NTEs or Not to Exceed Prices. But at the same time, we're able to tie the price of, let's say, like raw materials to an indicie (ph).

So, when prices eventually do come back down, we can see the benefit from that as well. So, it gives us both the upside protection and the downside protection. And then, as it relates to batteries, we have this partnership with Stellantis and, you've probably seen in the news they are very active on the battery cell side. And so, they give us a very large potential to help us mitigate costs. The buying power of a top auto OEM in the world have the ability to significantly move the needle in price negotiations.

Andres Sheppard: Got it. That's super helpful. Thanks again, guys. Congrats on the quarter.

Adam Goldstein: Thank you.

Operator: Today's Q&A session has concluded I will hand over to Adam Goldstein, CEO for any final remarks.

Adam Goldstein: Okay, we'll thanks again for joining us today, and I really want to just reiterate the principles of Archer delivering on our 2022 goals. I look forward to speaking with everybody again on our next quarterly update.

Operator: This concludes today's call. Thank you for joining. You may now disconnect your lines.