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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AeroVironment Fourth Quarter and Full Fiscal Year 2022 Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded for replay purposes. (Operator Instructions)

I would now like to hand the conference over to Jonah Teeter-Balin. Thank you. Please go ahead, sir.

Jonah Teeter-Balin - *AeroVironment, Inc. - Senior Director of Corporate Development & IR*

Thanks, and good afternoon, ladies and gentlemen. Welcome to AeroVironment's Fourth Quarter and Full Fiscal Year 2022 Earnings Call. This is Jonah Teeter-Balin, Senior Director of Corporate Development and Investor Relations for AeroVironment.

Before we begin, please note that certain information presented on this call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements and may contain words such as believe, anticipate, expect, estimate, intend, project, plan or words or phrases with similar meaning. Forward-looking statements are based on current expectations, forecasts and assumptions, which involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control that may cause our business strategy or actual results to differ materially from the forward-looking statements.

For further information on these risks, we encourage you to review the risk factors discussed in AeroVironment's periodic reports on Form 10-K and our other filings with the SEC, along with the associated earnings release and safe harbor statement contained therein. This afternoon, we also filed a slide presentation with our earnings release and posted the presentation on our website at avinc.com in the Events & Presentations section. The content of this conference call contains time-sensitive information that is accurate only as of today, June 28, 2022. The company undertakes no obligation to make any revision to any forward-looking statements contained in our remarks today or to update them to reflect the events or circumstances occurring after this conference call.

Joining me today from AeroVironment are Chairman, President and Chief Executive Officer, Mr. Wahid Nawabi; and Senior Vice President and Chief Financial Officer, Mr. Kevin McDonnell. We will now begin with remarks from Wahid Nawabi. Wahid?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Thank you, Jonah. Welcome to our fourth quarter and full fiscal year 2022 earnings conference call. I'll start by summarizing last quarter and full fiscal year performance and discuss our recent achievements. Then Kevin will provide a more detailed summary of our financial results, after which I will follow up with a discussion of goals for fiscal year 2023 before Kevin, Jonah and I take your questions.

Let me emphasize a few key messages, which are included on Slide #3 of our earnings presentation. First, our team executed well during the fourth quarter, enabling us to meet our guidance for the year despite continued supply chain constraints, elevated material costs and tight labor markets. Second, we're confident that fiscal year 2023 will be a solid organic growth year for the company, given our backlog and visibility for the year. And third, the world has changed considerably since we last spoke. The war in Ukraine has brought increased focus to our most innovative solutions, including small UAS, medium UAS and Tactical Missile Systems. We anticipate benefiting from strong and sustained demand from multiple domestic and international customers going forward.

Before I provide greater detail on these themes, let me summarize our financial results for the quarter and fiscal year. We delivered fourth quarter revenue of $133 million compared to $136 million last year and an increase of about 47% sequentially from $90 million in the third quarter. For the full fiscal year, we achieved record revenue of $446 million compared to $395 million last fiscal year. As previously discussed, our growth in fiscal year 2022 was primarily due to higher sales of our median UAS product line as well as the impact from strategic acquisitions which more than offset lower shipments of our small UAS product line. Gross profit for the fourth quarter was $48.6 million compared to $59.7 million in the prior year period, and our gross margin decreased to 37% from 44% in fiscal year 2021.

This expected reduction primarily reflects product mix and the impact from ongoing supply chain inefficiencies. However, our performance improved significantly from Q3's 24%, and we anticipate this improvement to continue into this fiscal year. We reported non-GAAP adjusted net income of $7.3 million or $0.29 per diluted share as compared to $10.9 million or $0.44 per diluted share for the fourth quarter of fiscal year 2021.

In summary, our results for the quarter were in line with our expectations and largely met our guidance for fiscal year 2022. Looking ahead, we're quite optimistic about our fiscal year 2023 and beyond. We believe recent world events and demand dynamics will further enhance our ability to grow and deliver more value to our shareholders even as we manage through continuing macroeconomic headwinds. Since last quarter, we have continued to take steps to manage supply chain constraints in a tight labor market. With regards to supply chain, we're now in direct contact with component manufacturers such as Intel and NVIDIA to improve material lead times. We're also working directly with the Office of the Secretary of Defense to prioritize our raw material orders due to the Ukraine conflict.

Finally, we've decided to buy inventory well ahead of our current forecasted needs to ensure stability of supply for this year and beyond. While we expect supply chain constraints to persist through this coming fiscal year and even longer, we believe these additional steps and those we've previously taken will improve our ability to meet increasing customer demand for our innovative solutions. In regard to tight labor markets, it's still a challenge to find and hire the top talent we need to support our continued growth.

In addition to the steps I outlined last quarter we're reprioritizing certain development activities to ensure the most important and urgent programs get the resources they need. That said, with the passage of the fiscal year 2022 defense budget, we now see some increased urgency in the U.S. DoD's acquisitions and contracting for the remainder of the government's fiscal year. This is a result of 2 primary factors currently in play. First, there is an urgency within the U.S. Department of Defense to obligate the remaining funds on approved programs and task orders now that an omnibus budget is in place. The government is no longer constrained by a continuing resolution and at the same time, has approximately 3 months to finalize and fund numerous programs. And second, AeroVironment has received increased attention lately because of the relevance of our innovative solutions in relation to the war in Ukraine.

Now before turning the call over to Kevin, I would like to provide an update on current developments within our individual product lines. I'll start with our Tactical Missile Systems product line, where we have experienced significant heightened interest recently primarily due to the war in Ukraine. Switchblade is highly relevant to the current conflict in Ukraine, given its unique advantages compared to any other weapon or missile system, including its longer range, significant loitering time on target, precision strike capabilities and patented wave-off capability to name a few.

In April, I met with the Ukrainian ambassador and Defense Attaché. Since then, Ukraine has effectively used our Switchblade Loitering missiles, which they have received through the U.S. Department of Defense as part of the presidential drawdown orders. Not surprisingly, Ukraine has asked for many more and recent congressional legislation authorizing $40 billion of military and humanitarian aid signed by the President on May 21 should help provide additional quantities.

While the timing of such task orders is still being finalized, we anticipate a significant positive impact to our fiscal year and beyond given the U.S. Army's plan to procure Switchblades for the European theater, particularly within NATO countries in Ukraine's proximity. I'm also pleased to inform you that we have been successful at attaining the U.S. government's approval to sell Switchblade 300 and Switchblade 600 to more than 20 of our allies around the world.

We are now fielding FMS and DCS requests for Switchblade 300 and 600 from several allies seeking these innovative solutions. We're also experiencing increased demand for the Switchblade 300 sensor-to-shooter solution and our other small and medium UAS platforms such as Puma, Raven, Wasp and the JUMP 20. Further, we're seeing increased interest from industry partners such as Northrop Grumman to develop additional variants of Switchblade for new and expanded mission sets.

In summary, all these positive and encouraging developments will take some time to mature and translate into orders and backlog. We expect global supply chain constraints will soon remain our primary challenge in converting all this demand into game-changing solutions ready to be shipped to our customers.

Overall, we remain committed to assisting the U.S. and our allies in Europe and elsewhere to provide for -- to prepare for threats and to combat them effectively. We're proud of this assistance we've already provided to the Ukrainian citizens in defending the country this year, and we expect strong double-digit growth in Tactical Missile Systems in fiscal year 2023.

Now let me turn to our small UAS product line. As I mentioned last quarter, our domestic customers are focused on developing requirements and initiating new acquisition programs for the next generation of small UAS. While we work with our U.S. DoD customers on these upcoming programs, we continue to expand the adoption of our small UAS within our growing international customer base. As an example, last quarter, we announced a $20 million order for our Puma systems for Ukraine. Additionally, we recently donated over 100 of our Quantix Recon unmanned aircraft systems and operational training services to the Ukraine Ministry of Defense. These Quantix Recon systems are already performing life-saving missions for the Ukrainian military.

We continue to invest in our small UAS solution portfolio with the intent of breaking several new products to the market over the next few years. These solutions are targeted to address both future U.S. DoD and expanded international customer requirements. With these R&D investments, we will also continue providing enhanced capability to our installed base of tens of thousands of systems globally. Based on current trends, we believe our small UAS product line will grow in fiscal year 2023, primarily driven by an uptick in international demand.

I will now move on to our medium UAS product line. We continue to stay engaged with the U.S. Army in anticipation of its future tactical UAS or FTUAS Increment 1 award. While the U.S. Army has not officially awarded this contract to anyone yet, we believe AeroVironment is well positioned to win. We expected an award announcement by now but suspect that the award timing is being negatively impacted by the war in Ukraine with the U.S. DoD resources allocated to more urgent contracting needs. As a reminder, the U.S. Army's FTUAS program in aggregate is expected to be valued at more than $1 billion over a 10-year period. We remain optimistic about this major opportunity going forward.

On the international front, we continue to engage with several countries who are interested in our JUMP 20 medium UAS solution. To date, we have provided proposals to multiple international allies in Europe and the Middle East. We also remain the market share leader in the USSOCOM MEUAS IV program while providing intelligence, surveillance and reconnaissance services with our JUMP 20 system. Overall, we believe our median UAS product line should achieve solid growth in fiscal year 2023.

Regarding our unmanned ground vehicles or UGV product line, we're seeing strong customer interest in Asia and Europe and are actively working to expand into additional markets. Some of this interest is related to the war in Ukraine, where our UGVs are becoming more relevant with the need to remove mines and other explosive devices. Similar to the overseas sales potential for the JUMP 20, we believe our UGV product line should continue to grow in fiscal year 2023.

Within our HAPS product line, we continue to work on the next-generation Sunglider solar aircraft under the terms of our master design and development agreement, MDDA with SoftBank.

During the term of the MDDA, AV has exclusive rights to design and manufacture Sunglider solar HAPS and any of its future variants based on certain terms. As was stated previously, the current phase of this partnership involves building a third aircraft and performing additional flight testing, demonstrating longer-duration flights and making progress towards FAA certification. We are now in negotiations with SoftBank on the second tranche of funding to advance the next steps of Sunglider's commercial development, which we expect to generate between $25 million to $35 million in revenue this fiscal year. As we discussed previously, we have also been evaluating restructuring and financing options for HAPSMobile. In furtherance of this effort, AV sold at 7% minority stake this past quarter back to SoftBank, which already owned a 93% majority share of the JV. We will now work directly with SoftBank to fund the development and demonstration of solar-powered HAPS. Regardless of the sale, both companies remain fully committed to our partnership and realizing the market potential for delivering stratospheric telecommunications services.

And finally, our MacCready Works Advanced Solutions Group is actively engaged with several customers to develop next-generation autonomous multi-domain robotic solutions. Notably, we're now engaged with NASA's Jet Propulsion Laboratory on a future diversion of the Mars Helicopter, following Ingenuity's incredible success. Additionally, this past March, the Ingenuity Mars Helicopter and our team of engineers received the 2022 Collier Trophy. As a reminder, the Collier Trophy is considered the most prestigious industry award in the field of aviation. We are very proud of our talented team's accomplishments in this incredible history-making achievement, but we're not stopping there. Our team is also working on future-defining capabilities that enable our solutions to operate in highly contested battle spaces in the presence of heavy jamming and electronic warfare.

In summary, AeroVironment is well positioned for organic growth as we experienced continued robust demand for our portfolio of intelligent multi-domain robotic systems. At the same time, we remain committed to actively managing the headwinds facing our industry and economy. We're excited to continue building on this momentum to drive greater shareholder value in fiscal year 2023 and beyond.

With that, I would like to now turn the call over to Kevin McDonnell for a review of fourth quarter financials. Kevin?

Kevin Patrick McDonnell - *AeroVironment, Inc. - Senior VP & CFO*

Thank you, Wahid. Today, I will be reviewing the highlights of our fourth quarter and full year fiscal 2022 performance, during which I will occasionally refer to both our press release and earnings presentation available on our website. Overall, our revenue in the quarter was in line with expectations despite continued supply chain headwinds. Adjusted gross margins reached a high for the year. Our adjusted EBITDA was solid and we also have some other positive income items during the quarter. As Wahid outlined, revenue for the fourth quarter of fiscal 2022 was $132.6 million, a decrease of 2% from the fourth quarter of fiscal 2021 revenue of $136 million.

Slide 5 of the earnings presentation provides a breakdown of revenue by segment for the quarter. Our largest segment during the quarter was small UAS with $59.2 million of revenue. While this was down from last year's $70.9 million, it was the largest revenue quarter for the year for sUAS and included a $20 million FMS Puma order for Ukraine, as Wahid mentioned.

Our medium UAS segment had a solid quarter with $23.1 million of revenue. Most of our medium UAS revenue is classified as service revenue. We anticipate growth in this segment in future periods to come from product sales, including the Army's FTUAS program and international demand. Our Tactical Missile Systems, our TMS segment contributed $20.9 million of revenue during the quarter compared to 32 point -- $39.2 million in FY '21. TMS continue to be impacted by ongoing supply chain issues. Our HAPS segment contributed $13.1 million in Q4, a strong increase from $7.1 million in the comparable prior year quarter. Revenue from the Other segment, which includes our acquired Telerob and Progeny ISG businesses, increased year-over-year to $17 million versus $3 million in fiscal 2021 fourth quarter. Revenue for the fiscal year ended at $445.7 million as compared to $394.9 million for fiscal year 2021, representing an increase of $50.8 million or 13%. In FY '22, we saw a shift in our product service mix from approximately 70% product revenue in fiscal '21 to 54% product in fiscal '22. This shift is largely a result of the acquisition of Arcturus in FY '21, which is mostly a service business today and also a decline in sUAS revenue, which is mostly product revenue. This had a significant impact on our adjusted gross margins as a result of the lower percentage of higher margin product revenue.

Speaking of gross margins, Slide 5 of the earnings presentation shows the mix of product versus service revenue. For Q4, we saw an increase in the product mix to 56% compared to 47% in Q3, but this is down from 71% in the fiscal year 2021 fourth quarter. Slide 6 of the earnings presentation shows the trend of adjusted product and service gross margins while Slide 12 reconciles the GAAP gross margin to adjusted gross margins, which excludes intangible amortization expense and other noncash purchase accounting items.

I'll now speak to the adjusted gross margins. Overall, adjusted gross margin for the fourth quarter were 40%, up sequentially from 29% in the third quarter of FY '22. This increase was a result of higher product revenue, including higher-margin SAS product sales. Adjusted product gross margins for the quarter were 49% versus 37% in the third quarter due to the favorable product mix. In terms of adjusted gross, service margins, we also saw an increase to 28% in the fourth quarter versus 23% in the third quarter of the year. We ended the year with adjusted gross margins of 35.8%. We expect adjusted gross margins for next year to be in line with FY '22 with some improvement from product mix, but this improvement will be muted as a result of continued supply chain costs.

Next, turning to operating expenses. SG&A expense for the fourth quarter was $21.9 million, down $2.9 million from last year's fourth quarter. SG&A includes intangible amortization and acquisition-related expenses of $4.3 million in Q4 fiscal 2022 and $6.7 million for the fiscal 2021 fourth quarter. Excluding intangible amortization and acquisition-related expenses, SG&A for the fourth quarter was $17.6 million or 13% of revenue compared to $18.2 million, also 13% of revenue in the prior year period.

For the full fiscal year 2022, SG&A, excluding intangible amortization and acquisition-related expense, was $73.5 million or 16% of revenue compared to full fiscal year 2021 of $56.4 million or 14% of revenue. We expect SG&A expense, excluding intangible amortization to be 15% to 16% of revenue in FY '23. R&D expense for the fourth quarter was 10% of revenue and 12% for the full year fiscal 2022. R&D as a percentage of revenue was in line with our guidance of 11% to 12% for the full year. We will continue to run R&D in the 10% to 11% range as we invest in new products and upgrades to existing products to meet the evolving needs of our customers.

Looking at the bottom line, our GAAP net income for the fourth quarter of fiscal 2022 finished at $7.3 million or $0.29 per diluted share compared to net income of $10.9 million or $0.44 diluted share for the fourth quarter of fiscal 2021. Q4 net income benefited from a $6.5 million gain on the sale of our stake in the HAPSMobile JV and equity investment income of $4.4 million related to both the HAPSMobile JV sale and other investment gains. However, we did some catch-up on the tax provision during the quarter, resulting in a $15.5 million expense, which represented over 80% of our pretax income.

For the full year of fiscal 2022, we generated a GAAP net loss of $4.2 million or negative $0.17 diluted share compared to net income of $23.3 million or $0.96 per diluted share for fiscal 2021. The $27.5 million reduction in net income was primarily due to a decrease of $53.2 million in operating income, which was largely the result of an increase in intangible amortization expense from acquisitions and other noncash purchase accounting adjustments of $29.2 million and a decrease in gross margin due to changes in sales mix mentioned previously. We also had increased interest expense of $4.8 million and an increase in other expense of $2 million compared to FY '21.

The lower operating income and additional interest expense was partially offset by a tax benefit for the full year of $10.4 million versus a tax expense of $539,000 in FY '21. Also, the gains on the sale of the HAPS JV equity stake of $6.5 million and the income from our equity method investments of $4.6 million versus a loss of $10.5 million in FY '21.

In terms of adjusted EPS, Slide 10 of our earnings presentation, shows the reconciliation of GAAP and adjusted or non-GAAP diluted EPS. The company posted adjusted earnings per diluted share of $0.30 for the fourth quarter of fiscal 2020 versus $1.04 per diluted share for the fourth quarter of fiscal 2021. We have excluded a $0.26 per share gain from the sale of our HAPSMobile JV equity stake in our adjusted EPS. Looking at the full year, the company posted adjusted earnings per diluted share of $1.25 for fiscal 2022 versus $2.10 per diluted share for fiscal 2021.

Before moving to the balance sheet, I'd like to note that we have added additional visibility on our stock-based compensation expense. Our adjusted EBITDA will now exclude stock-based compensation expense, which is more consistent with our peers and more representative of cash flow. On Slide 14 of the earnings presentation, we have provided the historical adjusted EBITDA calculation for the last 8 quarters.

Now turning to the balance sheet. Total cash investments at the end of the year was $117.4 million, which represented a $16 million increase from the end of last quarter. This increase was a combination of proceeds from the sale of our interest in the HAPSMobile JV and operational cash flow. In terms of working capital, we see inventories increasing while unbilled receivables should decline so that working capital should remain around the same level for the next couple of quarters. However, we anticipate that inventories will continue to increase throughout the year because of increasing demand for our products and supply chain headwinds that requires us to buy some inventory ahead of demand. We continue to have a strong balance sheet with over $100 million of cash and investments in the $100 million working capital facility.

I'd like to conclude with some highlights of our backlog metrics. Slide 8 of the earnings presentation provides a summary of our current fiscal 2022 visibility. Our funded backlog at the end of the fourth quarter of fiscal 2022 was $210.8 million and our visibility today is at 57% of the midpoint of our guidance range.

Now I'd like to turn it back to Wahid.

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Thanks, Kevin. Looking ahead into fiscal year 2023, we have a healthy funded backlog and total visibility of 57% as described on Slide #8 of our earnings presentation. Additionally, given the increasing global awareness and demand for our innovative solutions, the U.S. government's urgency to spend 2022 appropriate funding and our continued management of headwinds, I'm pleased to share with you our guidance for fiscal year 2023, which represents another strong growth year for the company.

As summarized on Slide #7 of our earnings presentation, we anticipate revenue of between $490 million and $520 million in fiscal year 2023, representing double-digit organic growth, and net income of $11 million to $18 million or $0.42 to $0.72 per diluted share. We anticipate non-GAAP adjusted EBITDA of between $82 million and $92 million, and non-GAAP earnings per diluted share, excluding acquisition-related costs, amortization of intangible assets and other one-time expenses of between $1.35 and $1.65. We anticipate about 60% of revenue in the second half of fiscal year 2023 compared to 40% in the first half, particularly as we benefit from orders placed at the end of the government's fiscal year and rapid turnaround shipments related to Ukraine.

As Kevin mentioned, fiscal year 2023 adjusted gross margin should end up at or slightly above our fiscal year 2022. This is mainly driven by favorable product mix, higher volumes and some are offset by unfavorable impact of supply chain costs. We continue to emphasize careful control of expenses, and we expect to deliver adjusted EBITDA of between 16% and 18% of revenue. We expect internal R&D investments to be about 10% to 11% of revenue in fiscal year 2023.

While we actively manage through the supply chain, material cost and labor market headwinds we discussed earlier, we are quite bullish about our potential for solid and sustained organic growth driven by increased global demand for unmanned robotic solutions. Given such dynamics, it is likely that our inventory levels will remain elevated in the near term as we work to meet customer requirements and ship as efficiently as possible.

Before turning the call over for questions, let me just reiterate 2 key takeaways on which our investors should focus. First, we met our revised guidance for fiscal year 2022 overcoming many challenges, including the pandemic, supply chain constraints, inflationary pressures, a tight labor market and the prolonged continuing resolution. As we enter fiscal year 2023, we will continue to work towards improved results that drive sustainable long-term value.

And second, the future looks bright for AeroVironment. While we are entering fiscal year 2023 with a healthy backlog, we anticipate increasing orders in the quarters to come, driven by strong global demand across many of our platforms. We're particularly encouraged by the growth anticipated within our Tactical Missile Systems and medium UAS product lines. Our products and services by and large, enjoys strong bipartisan support in Congress, and we anticipate several orders prior to the end of the government's fiscal year with even higher shipments in calendar year 2023. An improving product mix should also increase gross margins going forward, leading to overall improved bottom line results.

I would like to again thank you, our employees for their incredible hard work and focus throughout a very challenging year. Their steadfast dedication to AeroVironment and our innovative solutions have made us a leading brand in defense industry, not just in the United States, but all over the world. I am proud of their accomplishments and the assistance we have been able to provide our military, Ukraine and our other allies during a very difficult time. I'm also grateful for our long-standing shareholders who support us and share our passion for our mission. We are dedicated to making sure that our investors as well as our customers and employees benefit from everything we do in the years to come.

And with that, Kevin, Jonah and I will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Austin Moeller with Canaccord.

Austin Nathan Moeller - *Canaccord Genuity Corp., Research Division - Associate*

Wahid, Kevin and Jonah, congratulations on getting the approval for the 20-plus U.S. for Switchblade.

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Thank you, Austin.

Kevin Patrick McDonnell - *AeroVironment, Inc. - Senior VP & CFO*

Thanks, Austin.

Austin Nathan Moeller - *Canaccord Genuity Corp., Research Division - Associate*

So my first question is just essentially around that. You talked about the backlog visibility for next year. We've got 20-plus countries that have been approved now and it the bottleneck here is around the supply chain. So if the supply chain issues ease, maybe there's less cryptocurrency mining or something and so there's more GPUs available I guess, how much visibility do you have for TMS into next year? And could that change?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure, Austin. So you're absolutely right that one of the gating factors for our fiscal 2023 will remain to be the supply chain constraints. I believe that the timing of the contracting is going to be resolved and addressed sooner rather than later. Our proposal activity for our Switchblade and Tactical Missile Systems and other products in general, is fairly healthy and strong. And we believe that it also is going to represent a very long-term growth opportunity for us. Supply chain remains to be the biggest challenge, in my view. And as I said in my remarks, because we have the most innovative solutions that uses the latest greatest technology in terms of components, semiconductors, graphic processors, et cetera, that is very, very tough to get in general.

And we're not a very large consumer of these relative to other players in the consumer industry and other industries. So it is really difficult. We are tackling that on a daily basis. We have a heavy, heavy focus on that. The numbers could really change quite significantly in both directions as a result of that because it's a very unpredictable environment. However, we have taken pretty much every single measure that we think it's possible. And that's in our control to mitigate those risks and make sure that we can deliver another growth year. We feel confident that we will as I provided the guidance, and it will be another double-digit top line growth for us.

But more importantly, we're going to hopefully also build a very strong backlog that we will benefit from in the years to come.

Austin Nathan Moeller - *Canaccord Genuity Corp., Research Division - Associate*

Great. And just a follow-up on that. Is -- how does being a direct contact with like NVIDIA, Intel compared to having like a DX or DU order status? And is that still potentially in the cards?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Yes, absolutely. So the deal orders, we currently do receive them. The challenge with DO orders are from the U.S. DoD is that we're not the only ones who are getting those, and there are others who are also getting the deal SO. So DX, however, would be significantly, significantly a positive impact. We're currently working with the U.S. Department of Defense, the Office of the Secret Defense directly on that. They have been very actively engaged with us. We're in a very, very frequent communication with them, literally on a weekly basis. And they've tried to mitigate many of those risks so far, and they'll continue to do that in the future. However, a Dx rated order, we have not received those yet, and we're still working on that. If that were to be the case, the situation could change significantly for us because that will put us right in front of the line.

The number of orders in the U.S. DoD's ecosystem, that has -- that receives the DX rating is very, very minimal, extremely small relative to any other type of order. So that will obviously put us much higher in the prioritization list, Austin.

Austin Nathan Moeller - *Canaccord Genuity Corp., Research Division - Associate*

Okay. Fantastic. Congrats.

Operator

(Operator Instructions) Our next question comes from Ken Herbert with RBC.

Kenneth George Herbert - *RBC Capital Markets, Research Division - Analyst*

Wahid, maybe just a follow-up on the previous question. Can you quantify what you expect sort of the supply chain headwinds to be in fiscal '23 from a revenue standpoint?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Ken, it is a very, very fluid subject or topic and issue because on a regular basis, daily basis, the supply chain challenges change in one direction or another. We -- they range from issues related to the microelectronics, the semiconductors, the components, but also now it started to lately, it actually has even gone into some of the material that we use in composites. As you know, many of those material is oil based. So the issue and the issues with supply of oil and the prices of oil has affected composites. And I believe that's going to continue going into fiscal year '23 and even calendar year '23 as well.

In terms of the size of that for us, I mean, it could be significant, tens of millions of dollars. Our ability to make product and deliver product remains quite strong, quite good. But it's really the 2 challenges that is related to contract timing, how fast can the U.S. DoD and our allies can move through the process of acquisitions and convert those requests and demands into actual contracts and secondly, being able to secure the parts and material.

Currently, we've already for many, many months placed at risk orders for supplies of materials for supply chain. But since those are at risk, they're at commercial rating. So they don't have a priority with our suppliers because we're buying those components at risk today unless there is a DoD order associated with it that has a rating. So that makes it a little bit challenging. However, we expect this year to be another growth year despite all those factors.

Kevin Patrick McDonnell - *AeroVironment, Inc. - Senior VP & CFO*

I mean we've included that in our numbers. I mean we've already included the thought of supply chain headwinds into our guidance range.

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

That's right. And so we expect another (inaudible) this year as well.

Kenneth George Herbert - *RBC Capital Markets, Research Division - Analyst*

Okay. No, I would imagine you've effectively or at least tried to derisk the guide for '23 to reflect these headwinds. I guess one other question. What do you expect in terms of timing? And I guess it's related, but as the U.S. looks to rebuild inventories perhaps of the Switchblade 300, do you get a sense that those inventory levels will be completely rebuilt. And is the issue just about your ability to obviously deliver those, and -- or what should you expect in terms of timing of the inventory restocking?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

So the answer -- the short answer, Ken, is definitely yes. We see all the signs and signals from our customer, which we're very closely in contact with that the U.S. DoD is planning on replenishing all the inventory levels that they have pre-Ukraine war, maybe even higher, maybe even higher because the efficacy and the relevance of our Switchblade family of systems have been extremely positive, given the conflict that's going on out there in the usage of it. And so in general, that's one factor.

The second factor that we should take into play also is that there are several, several countries, primarily in Europe, that have all made requests both through FMS and DCS cases for proposal and request for acquiring Switchblade, and some of our other small UAS systems and medium UAS systems too.

So I see it not only the demand from the U.S. domestic DoD customers, but also to fulfill and backfill the existing depletion of inventories but maybe even increasing that to some extent. But additionally, on top of that, we've got approval for 20-plus countries to be able to sell Switchblades to. And many of them have already made requests and those will eventually convert into orders, we believe. The difficulty is exactly when. That timing is very difficult to predict. But we're engaged with them, and they're all moving in the positive direction. It will take some time for that to convert to actual orders.

Operator

Our next question comes from Louie DiPalma with William Blair.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

For the 20-plus export approvals for the Switchblade, does that cover the Switchblade 600 in addition to the Switchblade 300?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Yes, Louie. Almost every request that we've received includes both Switchblade 300 and 600 and the approval from the State Department and the U.S. government is for both Switchblade 300 and 600 sales for international allies, 20-plus countries.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Great. And Wahid, can you speak in general about the progress for the Switchblade 600 as the media report seems to suggest that for the shipments that Ukraine, the vast majority have been for the 300. So has there been any limitations in terms of shipping the 600? And is it fully ready? Or do more trials need to be done for it to be fully ready for service?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Yes. So it is true that majority of the presidential order drawdowns for Ukraine so far has been for Switchblade 300. The main reason for that has been not the readiness of the product, mostly has been the availability of inventory in the U.S. stockpile of Switchblade in general. So that's been the driver for it. In terms of the product readiness, absolutely, the product is ready. We are a strong believer in it. Ukrainian military has requested more of both Switchblade 300 and specialty 600s. And Switchblade 600 is very unique in its capability. It's one of the very, very few missile systems that have much longer standoff distances 20x further than a Javelin missile with essentially the same warhead that allows the Ukrainian military to take positions and target Russian military at distances where they're not in harm's way. And that unique feature of Switchblade alone makes it extremely strategically important to the Ukrainians and we're ready to provide them more. Obviously, contracting and supply chain continue to be the 2 top limiting factors.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Great. And you referenced how several countries are looking to acquire the Switchblade through a foreign military sales type transaction. I think there was a report last week about France, potentially acquiring the Switchblade. How long do you expect it to take for some of our allies to evaluate Switchblade procurement? I know you just mentioned how -- like the big question is when. But how long does it take allies in general to be comfortable with like doing trials?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So we believe, based on our interactions and communication and engagements, both for the U.S. DoD as well as with these foreign militaries, all allies, is that they're pretty much convinced and sold on the efficacy and the capability of Switchblade. They have -- these are -- most of them already are existing customers for small UAS, 50-plus countries. And so they understand and know Switchblade quite well. In addition, during the last 15 years and the Persian -- the Middle East as well as Afghanistan, most of our allies have been with the United States witnessing the efficacy of Switchblade in those theaters.

So there is very little, in my view, concern or doubt in their mind that Switchblade could be valuable to them or they have to evaluate it. For them so far, it was really an awareness and the ability for the U.S. to provide approval. I believe that this is going to move through the process. You are correct that France, there was a public news about it, and they made some statements that they were going to acquire Switchblade. They are engaged with us. They are requesting that. We're engaged in that process. It's not going to be overnight. These things do take time. It takes -- there is a process that they've got to go through the U.S. DoD. And they understand that. And it's never fast enough for anybody's buyers really, in my view, except our adversaries.

So other than that, we believe that majority of this is going to convert to orders and backlog in the next, not only few quarters but maybe a couple of years even. And to me, these are all initial customers. Just like the U.S. DoD, I believe that longer term, once they establish a program and requirement and uses for this, that will continue to become a line item for them that they would continue to fund and acquire more over the years to come as we progress through the process with them.

Operator

Our next question comes from Pete Skibitski with Alembic Global.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

Wahid, your -- Guys, your guidance for TMS in fiscal '23, can you give us a sense for your -- how firm your expectations are for what that split is between domestic and international revenue?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Pete, so we don't provide specific guidance to each product line or to the mix between international versus domestic. What I can tell you is this, that our overall demand signal for Switchblade is both domestic and international, and it's a fairly large sort of basket of countries. Western European -- Eastern European, the Baltics. A lot of different countries around the world have an interest in that. Now that we've received the export approval -- I'm sorry, the sale -- the approval for sale of the product internationally, I think this is going to encourage even more countries to engage coupled with the conflict that's going on in Ukraine. Overall, though, this year, by far, the biggest factor in Switchblade's growth is going to be sooner not contracted timing, but rather supply chain constraints. And how much we can address that and how much more we could solve that, and that will improve over time, that will help us throughout the year.

And we'll keep you updated as that changes. But right now, we feel good about our confidence -- our guidance. We feel good about our business, another year of growth and our Switchblade in our other product line will continue to grow, and we're in a good spot in that regard.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

Okay. Let me ask you on this, $40 billion Ukraine funding initiative that you referenced. Have you guys been able to get any fidelity into specifically maybe how much small UAS might be in there? How much TMS might be in there? Are you able to see any kind of specific line items?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Pete, yes and no. Yes, we are very engaged in that, and we're very aware that we want to make sure that there's a reasonable amount for our Switchblade. We do know that the Ukrainian military expressed -- specifically expressed more Switchblade 300 and 600 that they need for their conflict. And we could see from today's conflict and what's going on in the news that capabilities such as Switchblade 600 is actually vital to their success. It's imperative for them to have it. The specific details are not really disclosed yet publicly. And for confidentiality reasons, I need to be cautious of that. for the sensitivity and safety of our customers.

Operator

Our next question comes from Brian Ruttenbur with Imperial Capital.

Brian William Ruttenbur - *Imperial Capital, LLC, Research Division - Research Analyst*

Yes. Thank you very much. Nobody's really asked -- anybody has been hitting you with a lot of questions around Ukraine and things like that. But nobody has talked about the sale of the solar HAPS and the joint venture and what the future lies there because that had a large potential of millions of dollars potentially of the solar high altitude joint venture, what happens going forward now that you sold your interest?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So great question, Brian. I'm glad you brought that up because I mentioned it in my remarks. First and foremost, we both remain very committed to the long-term and short-term prospects for the solar HAPS and Sunglider's next phase. We have been funded, as you know, for the last many years, through SoftBank through the JV, we did sell our shares now as primarily a request from our partner. They were already a very large majority shareholder of the joint venture. And for various reasons, their own reasons, they wanted us to sell that minority share to them. However, in no way that should impact our commitment on both sides to the short- and long-term prospects of working together and be committed to the long-term value creation opportunities that represents for us. We're right now actively engaged with negotiating the next tranche of the contract with SoftBank directly.

So it really means just a difference a contract vehicle for us in that regard. There are several other value-creation opportunities with the solar HAPS business venture for us. We are still the exclusive designer of the airplane. We're still the exclusive manufacturer of the airplane for the joint venture with specific terms. We're still -- we still have exclusive market access to that platform for defense applications, globally except Japan. So those things do not change.

I feel very good about it. We are -- it is not the most urgent thing because of the war in Ukraine, we have reprioritized some of our resources because of talent needs that we have to other more urgent programs and projects, but we expect that to be a business that we're going to do, as I said in my remarks, between $25 million, to $35 million of revenue this year. customer-funded R&D from SoftBank directly rather than the JV. So overall, we feel very good about it, and we'll continue to stay the course.

Operator

(Operator Instructions) Our next question comes from Ken Herbert with RBC.

Kenneth George Herbert - *RBC Capital Markets, Research Division - Analyst*

Just a quick follow-up. Can you provide any more color on FTUAS? And is there any concern that with delays in timing that this slips further to the right that it could potentially negatively impact the probability of that contract for you or the competitive dynamic?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Ken, great question. Short answer is always delays are not good. We don't view any delays to be positive. However, we're in very frequent communication with the Army's program office for FTUAS. We believe that our odds of succeeding in that program is quite strong. We were surprised that they did not award this yet. Our suspicion is that mainly that's because of the heavy, heavy urgency that is put on U.S. DoD is contracting resources, to shift resources towards the Ukraine conflict and contracting for those. And we feel that, urgency, and we feel that from the other side, of course, because we have Switchblade needs our customers do, that affects it.

So delays are never good in my view. However, we're committed to that program. The Army is very committed to that program. That does increase the risk a little bit, but we like our chances and we like our position in that. We believe that our solution is the best solution amongst all the competitors. And we have performed quite well so far with the Army of at 2 years of competitions and different flyoff that they've had. So when exactly when they're going to be able to get this done it's really difficult to put a specific timing on it. We'll keep you updated. Based on their latest, they're really trying hard to do that as soon as they can.

Kenneth George Herbert - *RBC Capital Markets, Research Division - Analyst*

Okay. That's helpful. If I could, just one quick follow-up as well. There's been a lot of press on other companies that have had success in selling loitering munitions into Ukraine recently. Are you at risk of losing share because of some of the supply chain disruptions? Or how would you characterize the competition now? It seems to be getting -- there seems to be more competition perhaps in this marketplace. And what's the risk that supply chain holds you back as you look at that environment now?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Great question, again, Ken. I'm glad that you asked that question. We think about that on a very, very daily basis almost. We take competitors very seriously. And as you know, from our track record, we've done quite well there. We do not believe that the products that are out there really are the same as Switchblade 300 to 600. The technical performance, the actual operational performance of Switchblade 300 and 600 is incredibly unique and compelling and unmatched. And further to that, we actually have some specific patents that defend competitors in that space. So for example, the wave-off capability of Switchblade is patented. We own the patent on that. And so that's one thing.

The second thing is you are absolutely right that this higher awareness and demand for loitering missiles in general, has increased the number of competitors and investors to go after this market more aggressively. I think that, that's going to generate more competition, no question. But we, as a company, as a team are very aware of that. And we're -- we like our odds and our track record really bodes well for us. The last thing I would say is that the war in Ukraine has also demonstrated that U.S. technology such as our Switchblade 300 and 600 is by far better performing and superior and most of our allies would prefer -- highly prefer to get the U.S.-made U.S. design products such as Switchblade and our other systems. So those are some of the advantages we have, but it is an open market more larger awareness, larger market does sort of increase the number of competitors, but we like our chances.

Operator

Our next question comes from Pete Skibitski with Alembic Global.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

Just to kind of follow up on Ken's question, guys. We talk about a follow-on to the Army LMAMS competition kind of an LMAMS recompete. And I think a Sources Sought notice came out last month, I believe. When do you guys think overall that LMAMS recompete might kind of crystallize? I guess that's my question.

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Great question, Pete. Let me just share with you what we do know and what we think of this. Number one, historically, the -- throughout my 12-plus years of tenure here at AV, there's been several such competitions for LMAMS with the U.S. Army. And we have won them essentially all for LMAMS. Yes, you're absolutely correct that there was a public announcement. And the reason for that is because the U.S. Army needs to have a new contract vehicle, multiyear contract vehicle in order to be able to continue to procure capabilities such as Switchblade called LMAMS capability for the U.S. DoD. Anytime they do that contract based on rules, they have to put it as an open competition. And we expect that no different this time.

And -- but our track record is pretty strong and our position is very strong because our product has performed really, really well. There's always a risk for that and a chance, however, I think the likelihood is very, very low in my estimation. Our customer satisfaction and product track record is extremely good. And we like our chances, but there's all competition as part of the game, and we're used to that.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

Yes. I mean -- should people be nervous at all about the fact that the Marine Corps chose a different system. I think once upon a time, you said that the Army is going to be watching kind of the Marine Corps experience there. What should be our takeaway there?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So the Marine Corp opportunity that we did not win wasn't for a different solution that was a larger multipack -- I think you're referring to the OPF-M opportunity, Organic Precision Fires-Mounted and that was different than the Switchblade 300 LMAMS specific contract and acquisition and competition, although similar but it was for the larger vehicles. You're absolutely correct that, that probably the only one that we know of that we have not won. And the outcome of that is still to be determined with the Marines. The U.S. Army does have its own sort of a similar requirement that we're tracking. And we're also going to be sort of pursuing that separately. And we like our chances there, too, and we're working on those with other variants of our Switchblade, as I mentioned in my comments. But in this particular case, I'm not -- I don't believe that our customers and shareholders and others should be that concerned with the LMAMS competition for the U.S. Army. We always take that very seriously, but we like our chances. There's always a risk, but we like our chances.

Operator

Our next question comes from Louie DiPalma with William Blair.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Wahid and Kevin, one final quick one. Do you still expect to ship your third Sunglider to SoftBank this calendar year? Or has your focus on Ukraine delayed production of that third aircraft?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

We are not expecting to deliver the third aircraft this year, Louie. We are working on that airplane and the development of it as well as the improvements that we've learned from the first 3 flights. So the funding that we currently have from SoftBank and the funding that we expect to get in the next several months, that will fund us throughout fiscal year '23 will not get us to the full delivery of that airplane. That will be further out beyond this fiscal year.

And yes, you're right. It's mostly because of 2 reasons. One is that we have to reprioritize resources based on engineering talent and catered to more urgent needs. And second, that is more of a longer-term play. Delivering an airplane quickly for that is not going to really move the needle much. What's more important is that we get the right airplane design, test it and get it certified through FAA and other agencies like that, which we're working with SoftBank on, and that will take more than 1 year to get achieved, as I said before. So overall, though, we're committed, SoftBank's committed, but the delivery of the airplane is not planned for this year.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. And is there any time line on when you expect to potentially receive the FAA certification?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Louie, that is -- definitely it's going to be further than this fiscal year. That certification process is a pretty long process. It's the first time in the history of aviation, to our knowledge that FAA is going to certify a stratospheric airplane, especially an unmanned airplane of this nature. We are engaged with them. It's going to require a lot of testing, but it will be beyond -- in my view, it well beyond fiscal year 2023.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Do you need the third aircraft to get that certification? Or are they able to certify the second aircraft and that would also be applicable for the third aircraft?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

No, you would need it because the FAA is going to test the airplane flight. We have to do a lot of testing, and they also have to approve the manufacturing process besides the design process of the airplane, both and then there's going to be extensive flight testing as well, Louie.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you again for participating, and we look forward to speaking with you again next quarter. You may now disconnect.

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Thank you.

Kevin Patrick McDonnell - *AeroVironment, Inc. - Senior VP & CFO*

Thank you.