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AVAV.OQ - Q1 2025 AeroVironment Inc Earnings Call

EVENT DATE/TIME: SEPTEMBER 04, 2024 / 8:30PM GMT

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the AeroVironment fiscal 2025 first quarter conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Jonah Teeter-Balin. Please go ahead.

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### Jonah Teeter-Balin - AeroVironment Inc - Investor Relations

Thanks, and good afternoon, ladies and gentlemen. Welcome to AeroVironment's fiscal year 2025 first quarter earnings call. This is Jonah Teeter-Balin, Vice President of Corporate Development and Investor Relations.

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. These statements involve many risks and uncertainties that could cause actual results to differ materially from our expectations.

Further information on these risks and uncertainties is contained in the company's 10-K and other filings with the SEC, in particular in the Risk Factors and forward-looking statements section portions of such filings. Copies are available from the SEC on the AeroVironment website at [www.avinc.com](http://www.avinc.com) or from our Investor Relations team.

This afternoon, we also filed a slide presentation with our earnings release and posted the presentation to the Investors section of our website under Events and Presentation.

The content of this conference call contains time-sensitive information that is accurate only as of today, September 4, 2024. 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, Chief Executive Officer

Thank you, Jonah. Welcome, everyone, to our first quarter fiscal year 2025 earnings conference call. I will start by summarizing our performance and recent achievements, after which Kevin will review our financial results in greater detail. I will then provide our expectations for the remainder of fiscal year 2025 and finally, Kevin, Jonah and I will take your questions.

I'm pleased to report another quarter of excellent results, in line with our expectations. Our key messages, which are included on slide number three of our earnings presentation are as follows. First, first quarter revenue rose to \$189.5 million, a 24% increase from the same quarter last fiscal year and set a new first quarter revenue record for the company.

Second, we're now starting to book key Switchblade opportunities such as our recent US Army \$1 billion IDIQ contract and anticipate funded backlog to increase in coming quarters. Third, our Loitering Munition Systems segment continues its upward momentum toward record first quarter revenues of nearly \$52 million, a 68% year-over-year increase. And fourth, given our strong execution, key program awards and a robust pipeline, we are reaffirming our previously stated guidance for fiscal year 2025.

These first quarter results position us for another record fiscal year as demand for our autonomous systems continues to rise. We remain focused on our core strength and agile innovation, manufacturing and customer relationships, which is allowing us to extend our leading position in this dynamic and growing market.

We were able to achieve strong revenue growth in the quarter while retaining high levels of product quality, performance and profitability. As our pipeline expands, we continue increasing our production capacity to ensure we meet our customers' urgent needs through fiscal year 2025 and beyond. We believe AV is the strongest company in the defense tech sector.

We have unrivaled battle-tested solutions, an unparalleled and large install base, industry-leading technology, trusted customer relationships and robust manufacturing capacity equipped to handle urgent growing demand across the globe.

In short, we are well positioned to meet our US and international customers' growing needs. Our Uncrewed Systems and Loitering Munitions remain our key franchises, and we're proud to serve our customers in their vital missions.

While we are pleased with our first quarter results, we're even more excited about what lies ahead for the remainder of fiscal year 2025 and beyond. I would like to now discuss result from each of our three business segments, starting with Loitering Munition Systems or LMS.

As I mentioned earlier, LMS was our strongest growth driver for the first quarter of fiscal year 2025. LMS revenue grew 68% from the same quarter last fiscal year to \$52 million. Demand for both Switchblade 300 and 600 remained strong as demonstrated by recent wins, many of which are not yet reflected in our funded backlog.

During the first quarter, Switchblade 600 was selected for tranche 1 of the US DoD's Replicator initiative. And because of our robust manufacturing capacity, we were able to begin deliveries almost immediately. Additionally, the US DoD announced the approval for an FMS sale to Taiwan for Switchblade 300.

Just last week, we received a \$128 million award under the US Army's directive requirement for lethal unmanned systems, which is not reflected in our first quarter funded backlog. This award is the first task order that is part of a five-year sole source IDIQ contract with a ceiling value of nearly \$1 billion. New terms will also allow for progress payments that will help improve our cash flow and working capital usage and deliveries for this last quarter will begin shortly.

As a reminder, this is the large multiyear IDIQ contract I discussed on prior earnings calls. These important and significant wins validate our competitive positioning in the market, demonstrate the urgent need for our solutions and active conflict zones and highlight our ability to deliver in volume as demand rises.

Demand for Switchblade continues to rise both domestically and abroad, and AV is committed to meeting our customers' increasing expectations. Our manufacturing capacity is expanding to support more than \$500 million in annual Switchblade product revenue in fiscal year 2025, and we're prepared to support additional capacity growth in the future.

We are also in the process of selecting an additional location where we can expand our Loitering Munition manufacturing beyond fiscal year 2025. We're confident that the LMS business is only at the beginning stages of this strong growth cycle, and we anticipate continued momentum beyond this fiscal year.

Now on to our Uncrewed Systems segment. Revenue for the first quarter was \$120 million, an increase of 22% from the same quarter last year. Our Uncrewed Systems segment remains our strongest revenue and profit driver due largely to our Puma franchise and JUMP 20 platforms.

Puma has continuously demonstrated its importance and effectiveness in current conflict as the dominant ISR workforce. And in fact, we just recently completed our 475th delivery to Ukraine, and we anticipate booking additional orders as part of the recently announced Ukraine aid package.

We're also optimistic about the advantages and capabilities of our latest small UAS variant called the P550. This enhanced Group 2 platform is purpose-built for long-range reconnaissance missions and features advanced AI and autonomous capabilities with maximum payload versatility. The P550 is part of our recently submitted proposal for the US Army's Long Range Reconnaissance program or LRR. We anticipate strong global demand for this product beyond the US Army's program of record.

In addition, our JUMP 20 system continues to make progress in this market, and we're still actively engaged on multiple domestic and international opportunities. Given favorable feedback on our Puma, JUMP 20 and P550 platforms, we anticipate domestic international demand for USS solutions to increase in fiscal year 2025 and beyond.

Moving now to our MacCready Works segment. Technology developments within the MacCready Works continue to drive our long-term growth opportunities. This past quarter, we made meaningful progress toward developing next-generation solutions and expanding our AI and autonomous capabilities.

For example, during our Investor Day this past June, we had a live demonstration highlighting our ability to send mission objectives from Nasdaq headquarters in New York City to Uncrewed Systems operating in California and Kansas, thousands of miles away. Our UAS were then able to complete those missions fully autonomous without any user intervention.

This live demonstration showcases our ability to task hundreds of Uncrewed Systems from thousands of miles away while these systems operate autonomously in contested environments. This demonstration was a powerful example of how we're pushing the boundaries of what's possible in autonomous systems.

Another key priority for MacCready Works is DARPA's ancillary program focused on UAS design for ship-based operations. As maritime emissions become more important to our customers, MacCready Works will continue to focus on developing next-generation solutions for this market.

And finally, MacCready Works was awarded a \$25 million follow-on contract from SoftBank to continue the development of the HAPS platform. HAPS continues to make good progress on developing systems for both commercial and defense applications.

In summary, the innovative solutions generated by this business segment create significant advantages for our customers and play a critical role in fueling our growth well beyond fiscal year 2025. MacCready Works continues to fulfill its mission and we look forward to multiple exciting announcements later this fiscal year.

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

**Kevin McDonnell** - AeroVironment Inc - Chief Financial Officer, Senior Vice President

Thank you, Wahid. Today, I'll be reviewing the highlights of our first quarter performance during which I will occasionally refer to both our press release and earnings presentation available on our website.

Overall, we had another outstanding financial quarter with record first quarter revenue and the second highest quarterly revenue in the company's history. Adjusted gross margin and adjusted EBITDA were also strong. As Wahid mentioned in his remarks, revenue for the first quarter of fiscal 2025 was \$189.5 million, an increase of 24% as compared to the \$152.3 million for the first quarter of fiscal 2024.

Slide 5 of the earnings presentation provides a breakdown of revenue by segment for the quarter. Our largest segment during the quarter was Uncrewed Systems, or UxS, which is a combination of our small UAS, medium UAS and UGV businesses.

UxS had revenue of \$120 million in the quarter, which is up 22% from last year's total of \$98.2 million. Puma demand remained strong, accounting for 78% of UxS revenue, but we also saw meaningful contributions from our ground vehicles, Raven and JUMP 20 products during the quarter.

Our Loitering Munition Systems segment, or LMS, recorded revenue of \$52 million, a 68% increase as compared to the \$30.9 million in last year during the first quarter. Most of the LMS product revenue recognized during the quarter is for orders in which the contract has not been definitized, meaning the customer has placed the firm order for the equipment or services without a final price. The price will be determined when the contract is finalized, which we expect to occur in the next couple of quarters.

LMS margins were negatively impacted by the undefinitized orders during the quarter; however, we still expect full year improvements in LMS adjusted gross margin and adjusted EBITDA margin over last year. More than half of the LMS revenue came from Switchblade 600 products and services, while the remainder is primarily from the Switchblade 300 products.

Revenue from our MacCready Works segment came in at \$17.5 million, a decrease of 24% as compared to the \$23.2 million for the first quarter of last fiscal year, driven partially by US government-related approvals impacting order timing.

In slide 5 of the earnings presentation, there's a breakdown between product and service revenue. Specifically, during the first quarter, product revenue accounted for 84% of total revenues, which is higher than the 78% we saw in the corresponding quarter of the previous year, primarily due to the strong product revenue from both our small UAS, LMS and ground vehicle businesses. We expect product revenues as a percentage of revenue to remain above 80% for the foreseeable future.

Moving to gross margins. 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.

In the first quarter, consolidated GAAP gross margin finished at 43%, in line with the first quarter of last year. In terms of adjusted gross margins, first quarter adjusted gross margins were 45%, which is consistent with the same period last year. Adjusted product gross margins for the quarter were 48% versus 49% in the first quarter of last fiscal year.

We had strong UxS revenue in both the first quarter of last year and this year which contribute to high adjusted product gross margin. We do expect adjusted product gross margins to decline in coming quarters as we see increased product revenues from LMS.

In terms of adjusted service gross margins, the first quarter was at 29% versus 28% during the same quarter last year. We expect overall adjusted gross margins to be approximately 40% for the year.

In terms of adjusted EBITDA, slide 13 of our earnings presentation shows a reconciliation of GAAP net income to adjusted EBITDA. In the first quarter of fiscal 2025, adjusted EBITDA was \$37 million flat from the first quarter of last fiscal year as higher revenue gross margin were offset by increased investments in R&D and incremental SG&A expenses.

SG&A expense, excluding intangible amortization and acquisition-related expense for the first quarter was \$33 million or 17% of revenue compared to \$22 million or 15% of revenue in the prior year. The increase in SG&A expense is primarily a result of an increase in sales and marketing expense, primarily driven by increase in bid and proposal activity along with employee-related costs due to an increase in the average head count to help support the growth and expansion of our global sales teams.

R&D for the first quarter was \$25 million or 13% of revenue compared to \$15 million or 10% of revenue in the prior year. The increase of R&D expenses in both dollar terms and percentage of revenue is due to increased development activities regarding enhanced capabilities for our products, development of new product lines in support of our acquired businesses.

Over half of our R&D expenditures during the quarter related to our UxS business and includes the next-generation Group 2 UAS, the P550, and the maritime version of the JUMP 20 and the incorporation of the Tomahawk controller into existing AV products.

LMS continues to make investments across the Switchblade product line, including new variants. We still expect R&D for the entire company to be in a range of 12% to 13% for fiscal year 2025 as a result of continued investment in our long-term growth initiatives.

Now turning to GAAP earnings. In the first quarter, the company generated net income of \$21.2 million versus net income of \$21.9 million recorded in the same period last year. The decrease in net income of \$0.7 million can be attributed to several factors, namely a \$10 million increase in SG&A expenses, including intangible amortization and \$9.1 million increase in investments and R&D. These were partially offset by a \$15.8 million increase in gross margin, a \$1.8 million decrease in interest expense, a \$0.9 million decrease in equity investment activity and a \$0.7 million decrease in deal and integration costs.

Slide 10 shows the reconciliation of GAAP and adjusted or non-GAAP diluted EPS. The company posted an adjusted earnings per share of \$0.89 in the first quarter of fiscal 2025 versus \$1 per diluted share for the first quarter of fiscal 2024.

Lastly, turning to our balance sheet. At the close of the first quarter, our total cash and investments now amounted to \$103 million compared to \$94.3 million at the end of the fourth quarter of FY24. Free cash flow during the quarter was \$23 million, which was largely a result of decreased inventories.

We continue to carry a high amount of unbilled receivables largely attributable to our LMS business segment. With the recently announced IDIQ from the US Army for Switchblade products, we'll start to see progress payments on new orders and anticipate that we will see a reduction in unbilled receivables in the coming quarters.

We anticipate working capital uses to fluctuate quarter-to-quarter but expect an overall reduction for the year as we collect revenue under the new Army payment terms. We also paid down an additional \$10.5 million in the first quarter on our term loan facility.

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

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**Wahid Nawabi** - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Thanks, Kevin. Given our strong execution, key contract awards and a robust pipeline, we are reaffirming our previously stated guidance for fiscal year 2025, our healthy backlog and recent order rate visibility to 80% of the midpoint of our fiscal year 2025 revenue guidance. We continue to expect first half revenue to represent about 45% of the full fiscal year. We're confident in achieving our full year guidance and are focused on converting these awards and other opportunities in our pipeline into orders and revenue.

In summary, as global demand increases for our autonomous AI-enabled Uncrewed Solutions, we anticipate strong revenue growth to continue across our business segments. Our strong start this quarter supports our belief that fiscal year 2025 will be a great year for our investors, employees and customers.

We're well positioned to benefit from US DoD budget priorities and are encouraged by an increase in international demand, especially for Switchblade and our JUMP 20 solutions. Our strong anticipated growth lends itself to shareholder value creation that extends well beyond fiscal year 2025.

Before turning the call over for questions, let me summarize the key takeaways from today's call. First, first quarter fiscal year 2025 revenue grew to \$189.5 million, setting a new first quarter record. Second, we are now starting to book key Switchblade opportunities, such as our recent US Army \$1 billion IDIQ contract and anticipate funded backlog to increase in coming quarters.

Third, our Loitering Munitions Systems segment continues to be the key growth driver for the company throughout fiscal year 2025. And fourth, the fundamentals of our business have never been stronger, and we anticipate that fiscal year 2025 will be another record setting year for the company.

I would like to thank the incredible AeroVironment team that provides our customers with the solutions they need to achieve their vital missions. Thank you also to our shareholders and customers for your continued support. We're excited for what's ahead and grateful to serve our country and ally at this critical time.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Ken Herbert, RBC Capital Markets.

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### Ken Herbert - RBC Capital Markets - Analyst

Wahid, maybe just first, I wanted to ask, you obviously maintained the full year guide with the IDIQ contract you were able to sign last week or announced last week, how should we think about the task order timing and amounts under that in fiscal '25? And I'm guessing, it's fair to assume that a lot of the IDIQ initial visibility or funding was basically already factored into the '25 outlook?

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### Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Ken, that's correct. So overall, we're very pleased with the \$1 billion sole-sourced IDIQ contract. Just this past week, we were able to book the first task order for approximately \$128 million against that. There's several really key benefits for this new contract. One, the ceiling of it is very high, a record for the company ever before. Second, there is also better payment terms in terms of mild progress payments in terms of the cash flow equation.

And lastly, yeah, some of this was baked into our guidance. And then there is a lot of still -- this is only our first quarter, so we got three more quarters ahead of ourselves, number one. Number two, there is an election coming up and there's also a possibility of potentially a CR, continuing resolution, for the US DoD's budget.

We do expect additional contracts and task orders under this IDIQ although the timing of that again is questionable based on the customers' ability to be able to convert these things to contract and the level of workload that is upon our customer. Overall, I think we had a fantastic quarter, and we're looking forward to keeping you updated for the rest of the year as well.

**Ken Herbert** - *RBC Capital Markets - Analyst*

And if I could, you made a few comments regarding some uncertainty on pricing for some of the Switchblade contracts that are yet to be finalized. Is it possible to maybe range or bracket some of the discussions you're having around pricing? And how should we think about maybe pricing on the 300 and the 600 moving forward, considering some of the uncertainty around some of these more recent contracts?

**Kevin McDonnell** - *AeroVironment Inc - Chief Financial Officer, Senior Vice President*

Well, hopefully -- it's Kevin, that certainly will be cleared up here in the next quarter or two. And as I said, when we look at the possibilities, we think overall for the year, both our adjusted gross margins and adjusted EBITDA margins for that business will show improvement. So we're optimistic that will all turn out the right way for us. But we can't really speak to specific dollar amounts and things like that.

**Operator**

Peter Arment, Baird.

**Peter Arment** - *Robert W Baird & Co Inc. - Analyst*

Wahid, you mentioned you released that regarding like the Replicator LASSO and Organic Precision Fires, that only initial funding was released. So do you expect other releases or tranches during this fiscal year out of those programs?

**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

We do. We still have, if you recall, last quarter I specifically mentioned that there's close to \$300 million worth of potential orders for Switchblade alone that we're expecting. We just booked, for example, the first one, which was the \$128 million cash flow against the \$990 million IDIQ.

There's more coming. We definitely expect a lot more throughout this fiscal year, and we believe that this fiscal year, again, will be another record year for our Switchblade segment and our Loitering Munitions. The timing of those is, again, it's a very difficult thing to predict the exact timing. Although, I believe that within this fiscal year, we expect multiple additional Switchblade orders that is in the process with our customers to be converted into a task order under the existing contract umbrella ceiling or additional new contracts. They're both possibilities that we expect this fiscal year.

**Peter Arment** - *Robert W Baird & Co Inc. - Analyst*

And then you mentioned also in your prepared remarks that there's a pretty healthy pipeline or other opportunities. Maybe is that on the international front, maybe could you talk to the demand signals you're getting from an FMS perspective, I guess, maybe tied to LMS in particular?

**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So we believe that as the year progresses, not only the demand for Switchblade and orders for Switchblade will continue to come in from our domestic customers, we also have a growing pipeline of potential opportunities that we're actively working and engaged with on the international front.

I mentioned [finances] specifically on the call earlier in my remarks, Taiwan's announcement by the state department that US approved for Taiwan. There are several additional countries beyond and besides just Taiwan that we're engaged in. Again, it is incredibly challenging to predict the exact timing of when those opportunities are going to convert to an order but it's more a matter of when versus if.



We believe that these customers have a very, very strong desire. They're actively engaged with us in the State department and with our military side as well, US military. And they've got budget lined up to be able to eventually procure this. It's just a matter of going through the process. The process is long and it takes time. But we do expect those to come in throughout the year and even beyond the fiscal year as well.

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**Operator**

Louie DiPalma, William Blair.

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

What programs are associated with the \$990 million Switchblade IDIQ? Should we think of it as the successor to the LMAMS program? Or is LMAMS going to be a separate contract that you could be awarded next year? And is LASSO and Replicator also outside of the \$990 million IDIQ vehicle?

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**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Great question, Louie. Let me try to elaborate a little bit and clarify some of these. So the \$990 million contract, IDIQ, sole-sourced, essentially is similar to the previous IDIQ contracts that we received under the terminology called LMAMS.

So the US Army calls it now LUS or Lethal Unmanned Systems. And so this category of Lethal or Loitering Unmanned Systems is really the category that replaces the LMAMS acronym that we used to use before. The umbrella contract is intended to be such that multiple different opportunities and needs of our customers can be contracted and procured under this contract.

So examples of those are the US Army's own need for Loitering Munitions, both Switchblade 300 and 600. Need for the US aid packages to Ukraine could be also fulfilled through this as a USAI, it's called United -- Ukraine Security Assistance Initiatives. So those potential opportunities are also -- if Ukraine request them and the US wants to give them, can be procured under this.

The Replicator initiative is another one. For the US Army specifically, the Replicator initiatives needs could also be procured under this contract through the US Army. However, if US Marine Corps and US Air Force and other services have needs, they can also place orders with us under additional separate contracts outside of this IDIQ.

So what the IDIQ gives us is a vehicle for the US Army and DoD to buy a lot of stuff, but it doesn't limit us just to that. We have multiple other opportunities besides that and avenues that we can secure orders going forward for the Loitering Munitions. And our portfolio has grown our -- the demand has grown and the request and opportunities that we're engaged with for our Loitering Munition actually keeps expanding. It's a very, very robust pipeline that continues to expand besides the fact that we continue to book actually really sizable orders so far, in the first couple of quarters so far.

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

Wahib, that is helpful. And Kevin, just to clarify, did you say that the margins for the new Switchblade contract are higher than the traditional margins so you were able to successfully negotiate better pricing terms?

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**Kevin McDonnell** - *AeroVironment Inc - Chief Financial Officer, Senior Vice President*

Well, I'll speak [to that], you could kind of say that. But basically, I was speaking if you're looking at last year's margin based upon the volumes we had and this year's margins, either adjusted gross margins or EBITDA margins, and because of additional volume, new contracts, et cetera, we expect improvement in both the adjusted gross margin and the EBITDA margins.

And Louie, as our volume grows, and as this business continues to grow at a very high pace, we do think that the overall profitability profile of our Loitering munitions should improve and will improve over time. But on a quarterly basis, you'll see fluctuations primarily because of the lumpiness of the business and the size of these contracts that are coming in.

In addition to that, I also mentioned on the call on my remarks that the payment terms is much more favorable. Because our customers prefer for us to deliver quickly and they have very urgent needs and the contracting process takes time, we have to, a lot of times, plan things in advance.

And to do so, we wanted to make sure that the government recognizes that and actually pays us based on progress payments rather than just revenue and payments at the end of the whole process when they receive the product.

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**Wahid Nawabi** - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

It's all more in favour of the revenue recognition.

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**Kevin McDonnell** - AeroVironment Inc - Chief Financial Officer, Senior Vice President

That's right. So as we recognize revenue, we're going to be able to actually invoice our customers based on progress payments, and that's a very favorable term for us in this \$990 million contract. I believe that our customers recognize the value that we deliver to them for the speedy delivery that we are doing and the ability for us to turnaround and shift things to them quickly. And that -- and obviously, they recognize that and allowed us to get progress payments on them.

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

So those progress payments, those should be positive for the working capital dynamic, is that what you're saying?

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**Wahid Nawabi** - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Exactly.

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**Kevin McDonnell** - AeroVironment Inc - Chief Financial Officer, Senior Vice President

Very much. It's not all going to happen overnight. But over the next several quarters, we should start seeing the reduction even with increased volumes in the unbilled receivables.

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**Operator**

Pete Skibitski, Alembic Global.

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**Pete Skibitski** - Alembic Global Advisors LLC. - Analyst

A couple of program questions. Just to ask further on the whole LUS versus LASSO area, is it correct to understand -- will the LUS contract basically be largely your legacy Switchblade 300 and 600 variants as opposed to LASSO? Maybe the Army has kind of updated requirements coming out of Ukraine and so you'll have newer Switchblade variants delivered under LASSO? Is that the right way to think about it? Or would you color that a little bit different?

**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

So slight tweak to that, Pete. What I would say is that LUS is what the terminology that US army uses to fulfill their immediate urgent needs. Today, if they have needs to have some Loitering Munitions and have them for the force structure, LUS is the terminology they're using.

Long term, they have actually publicly announced a promo record type specific requirement called LASSO, which stands for Lethal Aerial Stalking and Strike Ordinance. I believe that's what it stands for, LASSO. And so LASSO is their long-term intention of acquiring Loitering Munitions both Switchblade 300 and 600 type or maybe even additional variants of it, that goes beyond just the next year or two. It goes up to a 10-plus year cycle.

And so they have already decided to procure AeroVironment Switchblades for the initial purchases under the terminology of LUS. Long term, it will be called LASSO according to the US Army today, and that's a multiyear program of record for multiple variants of Switchblade that goes on for a decade plus over time.

So the good news is that we're in a great position. A, US Army recognizes the need and the requirement; B, they've already selected us for the initial purchases and C, they have put a blanket purchase order in place for us at an IDIQ ceiling with close to \$1 billion so it allows them to procure a lot more Switchblades over the next several years.

And so all of that really is a very positive indicator to the strength of our relations with the US Army, their satisfaction with us and our product performance in the battlefield.

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**Pete Skibitski** - *Alembic Global Advisors LLC. - Analyst*

Second question for me is coming out of Ukraine, you hear this term, FPV, a first-person view, I think, for some of the small UAS. And I'm just -- it seems like a newer saying, I'm just trying to find out do your current small UAS has that capability? And I saw DIU has this Blue UAS refresh challenge, and they talk about first person view, but they also talk about bigger UAVs, 1, 2, 3.

So I just wonder if you can maybe give us some color there in terms of what you guys possess with FPV. Is that kind of a new requirement or -- and if you guys expect to play there in addition to some of the other DIU opportunities?

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**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Sure, Pete. So FPV, our first-person view drone that is either armed or unarmed is essentially a category that has existed for a while. It is a very different set of capability and different sets of missions that are in Loitering Munition. What Switchblade can do is very, very different than what an FPV drone can do. And Switchblade is considered a much more sophisticated, much more capable system in terms of its Loitering capability, et cetera, cetera.

An FPV drone, whether it's armed or not, most of the time it's armed in Ukraine nowadays, essentially is a manual process of taking a quadcopter, a multi-rotor, attaching some kind of a munition or warhead or explosives to it, and then essentially flying it manually to a target. And there are lots and lots of challenges with that. Although it is a capability that will most likely remain for the long run, but it's not the type of mission that Switchblade is designed for or it's used. Switchblade addresses a whole bunch of other more sophisticated and complicated missions that an FPV drone or armed drone can't really address at all.

And so -- and there's lots of things that I can go into detail in terms of its range, endurance, loitering capability and precision and -- but the most important thing is mission success. The effectiveness of Loitering Munitions such as Switchblade is much, much higher than what you see on FPV drones.

And so A, that is a category. We intentionally decided not to play in that initially, although we're keeping an eye on it. But the missions that Switchblade address is much larger and the market for that is incredibly robust long term.

**Pete Skibitski** - *Alembic Global Advisors LLC. - Analyst*

Okay. Yeah. Sounds like FPV or COTS-type or a modified COTS type -- almost, I see what you're saying.

**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Taking an unarmed drone and essentially strapping up a bomb or an explosive to it returns them into an FPV drone that is really a low level of complexity and mission capability.

**Operator**

Andre Madrid, BTIG.

**Andre Madrid** - *BTIG, LLC - Analyst*

Hey, guys. Thanks for taking my question. Kind of wanted to go back and talk about the FMS pipeline in particular for Switchblade. I think on the last earnings call, Wahid, you mention that roughly half a dozen countries right now are in various stages of acquisition. Has this figure grown or is it roughly still around the same? And how could we expect it to trend moving forward? Again, I know the timing is uncertain, but any color there would be appreciated.

**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Andre, so it is very true that we are engaged with a half a dozen plus different countries. The list of countries that we've been approved to engage with is close to 50 countries, actually over 50 countries internationally. So that's a very, very strong positive start to begin with, because as the US government allows us and gives us approval to engage with them, it gives those countries and those allies a huge confidence that if they were to engage and invest energy in this process, they will get a positive outcome, which is they can acquire Switchblade eventually. Number one.

Number two, the list of active engaged customers that actually have a program or requirement and are in the process of getting authorization and approval is about a half a dozen plus. And the number keeps growing. It is not shrinking, it's actually growing. And the pipeline keeps progressing forward in a very positive manner, meaning that there's a very long process by which we engage these customers to get them from, when they ask they want a Switchblade until they actually receive Switchblade.

And that's a two-plus year, three year process in many cases. And we're engaged in different levels of that with each customer and each ally. And all of those are actually in general moving positively in the right direction. What's really difficult to do is to predict the exact timing of when these contracts actually become an order.

The most recent one was the Taiwan approval from the US government that was announced. We've had other countries such as Australia who publicly announced, France has publicly announced, and a few others like Lithuania has publicly announced as well. The process, for example, for Lithuania was roughly about 18 months, just to give you an idea.

So, in general, A, we've got a growing number of countries, B, they're moving in the right direction, C, we're very optimistic that over the next year or two, many of those, if not all of those, will convert to actual contracts and awards. And that's why I say that this momentum that we have in our Loitering Munitions category will continue well beyond fiscal year 2025.

We believe that we have a franchise here that is going to be very large over the next several years because we've just basically created a whole new category in the entire operations or doctrine of military warfare. And force structures are going to be all potentially equipped with Loitering

Munitions if you look forward to the next decade or so. That's a very, very large and robust shift -- seismic shift in the marketplace for us, very capable.

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**Andre Madrid** - *BTIG, LLC - Analyst*

Definitely. No, I appreciate the color there. Thank you. And I guess following up on that even further, I know that this IDIQ was something that you had highlighted previously multiple times over, and it said that not only would this help facilitate international sales to Ukraine, but also possibly to other foreign countries. Could this IDIQ vehicle that was provided by the US Army, could this help be -- could this be used for that? And is the expectation to still do so?

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**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Absolutely, yeah, Andre. I'm glad you brought that up because one of the reasons why the US Army placed this contract, not the only reason, but one of many reasons, was to also allow and accommodate for any international FMS sales of Switchblade to be able to be placed under this contract as an acquisition purchase.

Whether it's a foreign military funded program or a foreign military sales program, FMF or FMS, they all could be procured under this umbrella contract. And historically, we've performed really well. And in general, if you look at the history of AeroVironment with the US Army and these types of sole-sourced IDIQ contracts, we've always achieved the limit, the ceiling limit, or even the customers increased the limit.

Once you have a contract like this, it allows the customer in a much easier way to either increase the time frame or increase the ceiling as we go forward. So it's very exciting and the short answer is yeah. It definitely can accommodate international customers and it could actually help improve the speed of that process as well.

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**Operator**

Thank you. (Operator Instructions) Peter Arment, Baird.

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**Peter Arment** - *Robert W Baird & Co Inc. - Analyst*

Yeah, thanks. Wahid, given that all these different partners can basically kind of use or leverage the IDIQ contract, it sounds like you're going to be bumping up against potentially your capacity sooner than kind of expect or at least you're going to be close? So when do you expect to make a move and how much of an additional capacity do you need to put in place to support that? That's my first question.

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**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

So great question, Peter. I'm glad you asked me, because I made a specific comment on my remarks about the fact that currently in fiscal 2025. We have the capacity and the ability to deliver close to \$0.5 billion worth of Switchblades on product revenue this fiscal year itself. But we're not sitting still for that alone. We've been planning on this for a while and we've been always in general ahead of the demand curve or cycle.

And as I mentioned on the call, we're already actively engaged in multiple different other states in selecting the next site to build our next large factory for Switchblade. And I want to also add that we're still, in the current factories that we have, one of the fundamental features of our production facilities are that they're very flexible. Meaning we can easily modify and accommodate scaling up or tweaking some of the production capacity of our non-legal UAS factories to Loitering Munitions.

So, in general, we've got a lot of flexibility as part of our planning process when we design these things and we design our factories. In fact, it's one of our biggest, biggest, what I call, competitive advantages in the market, because we're the only ones we are aware of who can deliver \$0.5 billion worth of Loitering Munitions at US DoD's reliability and performance levels with a battle-proven product line.

And B, we're not sitting still. We're already looking at additional capacity in multiple ways and C, I would say that, overall, the capital requirements for those expansions are not going to be monumental. They're going to be very affordable. We do this very much within our existing CapEx, a sort of percentage spend per year as a percentage of revenue, which is roughly around 5% or so on an annual basis.

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**Peter Arment** - *Robert W Baird & Co Inc. - Analyst*

Okay. And then, just for clarification -- go ahead, Kevin. Sorry.

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**Kevin McDonnell** - *AeroVironment Inc - Chief Financial Officer, Senior Vice President*

I just said, improved payment in terms of capital --

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**Peter Arment** - *Robert W Baird & Co Inc. - Analyst*

Right. And just for clarification, the Taiwan FMS order that was cleared, is that not in your funded backlog yet, or just trying to get some clarification there?

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**Wahid Nawabi** - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

That is correct, Peter. So as I mentioned, the only thing that we booked that's down or that's added to our funded backlog at the end of the Q1 was the \$128 million past quarter award from the US Army for their LUS requirement. That's for the US Army's own needs.

The order for Taiwan and many other additional Switchblade orders, both for example OPF or Replicator or Ukraine -- additional demand for Ukraine that has been publicly announced by the US DoD is not reflected on our backlog.

All of those potential orders, we're working them and eventually they're going to make its way into an order backlog, which we expect to book most of those, if not all of those, throughout this fiscal year. So our pipeline, as I said, for Switchblade remains quite robust and we're just at the beginning of booking these additional demands that we've talked about, but we have not -- it's not reflected in our backlog yet.

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**Operator**

Thank you. I'm showing no further questions in the queue at this time. I would now like to turn the conference back to Jonah for closing remarks.

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**Jonah Teeter-Balin** - *AeroVironment Inc - Investor Relations*

Thank you and thank you once again for joining today's conference call and for your interest in AeroVironment. As a reminder, an archived version of this call, SEC filings and relevant news can be found under the Investors section of our website. We hope you have a good evening and look forward to speaking with you again following next quarter's results.

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**Operator**

This concludes today's conference call. You may now disconnect.

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