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# EDITED TRANSCRIPT

AVAV.OQ - AeroVironment Inc To Acquire Bluehalo LLC

EVENT DATE/TIME: NOVEMBER 19, 2024 / 1:00PM GMT

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## CONFERENCE CALL PARTICIPANTS

**Greg Konrad** *Jefferies - Analyst*

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**Andre Madrid** *BTIG - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to AeroVironment conference call announcing their acquisition of BlueHalo. (Operator Instructions) Please be advised that today's conference is being recorded.

I would like now to turn the conference over to Jonah Teeter-Balin. Please go ahead.

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

Thank you and good morning, everyone. We appreciate you joining us on such short notice to discuss this exciting event for AeroVironment and BlueHalo.

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 materially differ 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 the Risk Factors of such filings, and the Forward-Looking Statement portions of the press release we issued earlier this morning. Copies are available from the SEC on the AeroVironment website at [www.avinc.com](http://www.avinc.com) or from our Investor Relations team. The forward-looking statements made during today's call are based on our current expectations, forecasts, and beliefs and we do not intend nor do we take any obligation to update any forward-looking statements whether as a result of new information, future events, or otherwise.

Joining me on today's call are AeroVironment's Chairman, President, and Chief Executive Officer, Wahid Nawabi; AeroVironment's Chief Financial Officer, Kevin McDonnell; and BlueHalo's President and Chief Executive Officer, Jonathan MoneyMaker. Presentation materials along with our recent press release can be found in the Investor section of our website under Events and Presentations.

We will now begin with remarks from AeroVironment's CEO, Wahid Nawabi. Wahib?

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

Thank you, Jonah. Good morning, everyone. I'm excited you could join us today to discuss our transformational acquisition of BlueHalo, a leading defense technology provider of mission critical space, counter-UAS, electronic warfare, and cyber solutions.

As I have discussed before, the nature of warfare is evolving and our customers need solutions that are effective in this new landscape and threat environment. Our customers want partners who are agile and innovative but also have the experience, track record, and resources to deliver at scale. It has been our long-term future state objective to be our customers all-domain solutions provider for these critical and emerging defense technologies.

Acquiring Blue Halo allows us to take a major step towards realizing our future state. The BlueHalo team has built a fantastic business. They have developed expertise in the high growth markets of space technologies, counter-UAS, directed energy, electronic warfare, and cyber security, all of which are critical to the defense of the United States and our allies.

These businesses powered by AI and autonomy are widely respected for deep domain expertise, leading its intelligence in autonomy and often viewed as national treasures by their customers. Further, these businesses support several of the most critical national security priorities. In support of these efforts, BlueHalo currently employs more than 200 PhDs in relevant fields and has over 105 patents.

As a testament to their capabilities and similar to AV, Blue Halo has competed against much larger prime contractors to win a number of high profile opportunities such as the Satellite Communications Augmentation Resource, or SCAR program, of RCO; the LOCUST Laser Weapon System program; and delivered thousands of their counter-UAS systems around the globe, including to the US SOCOM program of record to name a few.

Supported by these wins and many others, the company now has nearly \$600 million in funded backlog, \$2.5 billion in total backlog, and a pipeline of nearly \$30 billion. On a pro forma, always owned businesses, the company has grown for seven consecutive years at an 18% compound-average growth rate, driven by strong organic investments and execution.

As you can see, BlueHalo has a great track record of innovation, execution, and growth, and is similar to AV in many ways. We both have provided industry-leading disruptive capabilities and key defense technology markets. We both have a track record of winning programs against large, well-funded competitors. And both companies rapidly innovate to deliver technology-driven solutions that support our customers' most critical missions. It is for these reasons that we believe combining forces will lead to great outcomes for our customers, employees, and shareholders.

Key benefits of the transaction include significant expanding our total addressable market, or TAM, through the addition of the space, counter-UAS, electronic warfare, directed energy, and cyber markets, opening new doors for growth; leveraging core capabilities including autonomy, lasers, communications, artificial intelligence, and machine learning across our combined portfolio to provide leading edge defense technology solutions that are critical to our customers; strengthening our company through the addition of a highly complimentary workforce and leadership team, extending the reach of BlueHalo solutions by offering them to our international customer base and over 55 allied countries; and creating a combined company with more than \$1.7 billion in revenue and more resources to invest, scale, and grow.

This acquisition is also an all-stock transaction, which means both parties are convinced of the long-term value creation opportunities for all of our stakeholders, especially our combined shareholders. We believe this acquisition will generate significant value and we're excited to execute our plan.

In summary, this acquisition clearly positions AV as the leading pure play mid-tier defense technology solution provider. A company that is best positioned to innovate rapidly to support our customers' evolving challenges, but with the scale, resources, and demonstrated track record to deliver highly reliable solutions at high volume. And sure, exactly the type of partner the US DOD and our allies are seeking as an alternative to larger defense primes.

With that, I would now like to turn the call over to our AeroVironment CFO, Kevin McDonnell, who will go into more detail on the transaction specifics. Kevin.

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

Thank you, Wahid. To start, I'll summarize the details of the transaction, which can be found on slide 4 of the investor presentation. At the conclusion of this all stock transaction, AV shareholders were on approximately 60.5% of total outstanding shares with BlueHalo shareholders supporting approximately 39.5% based upon AeroVironment's shares outstanding as of November 15, 2024, and subject to certain closing adjustments.

This split implies an enterprise value of \$4.1 billion, including Blue Halo's debt, and \$100 million of tax assets. We expect substantially all BlueHalo shareholders will be subject to a lockup agreement with 40% releasing 12 months post-close and the remaining 60% to be released in equal tranches 18 and 24 months after close. We expect the closing to occur in the first half of calendar 2025, pending regulatory and AeroVironment shareholder approvals and customary closing conditions.

In connection with the transaction, AV expects to refinance about \$770 million in debt with a new term loan. This would put our combined company's gross leverage at 2.9 times to 3 times adjusted EBITDA at closing. Our goal is for the gross leverage to be less than 1.5 times adjusted EBITDA.

We expect the transaction to be accretive to revenue, adjusted EBITDA, and non-GAAP EPS in the first full year after closing. We don't expect significant cost synergies in this transaction given the lack of overlap between the two companies' portfolios, but are targeting about \$20 million in net cost synergies realized over time.

Wahid will continue to serve as the Chairman and CEO of the combined company and Jonathan will serve as the Strategic Advisor to the combined organization. The company will remain headquartered at AeroVironment's perfect location in Arlington, Virginia. BlueHalo majority shareholders will have nominating rights for two Board of Directors seats subject to regulatory requirements. We believe this transaction will allow us to combine the best people, processes, and technologies to create an even better outcomes for our stakeholders.

I would now like to turn the call back to Wahid for closing remarks.

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

Thanks, Kevin. In closing, we could not be more excited about this transformational acquisition. We are a highly complimentary organizations with similar cultures, strategic visions, and a shared commitment to innovation. We have both developed industry-leading capabilities in some of the most critical defense technology markets and continue to push the boundaries of innovation with an unwavering focus on delivering for our customers.

Both parties believe this is a highly accretive transaction which will drive significant long-term value for our combined organization. We look forward to sharing additional details over the coming months and appreciate your continued interest in support of air environment.

With that, we will now take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Greg Konrad, Jefferies

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**Greg Konrad** - Jefferies - Analyst

Good morning and congratulations.

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

Thank you, Greg.

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**Greg Konrad** - Jefferies - Analyst

Maybe just to start. I mean, I think both you and BlueHalo has a strong position on kind of the prime side but have also been very efficient at partnering where necessary. You didn't mention revenue synergies, given the different markets. But how do you think about acceleration of growth and potential revenue synergies?

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

Thanks, Greg. Absolutely, there's significant potential synergies here that we are all expecting to execute on and capture those synergies specifically on revenue growth. As you know, AeroVironment exports to 55 different countries around the world. BlueHalo hardly -- primarily, majority of their business is all US domestic markets. So there is a tremendous opportunity for us to cross sell their solutions, innovative solutions to our customers internationally.

Additionally, solutions that we offer in the area of small UAS, medium UAS, and motoring munitions are things that they don't have in their portfolio where they can offer that to their customers. There's very little overlap, if any, in our two businesses and both sides are incredibly complementary in terms of customers, markets, products, technologies, and to IP. So we look forward to all the synergies in the long term. That's why we're really excited about this transaction.

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**Greg Konrad** - Jefferies - Analyst

And then, just as a quick follow up, I mean, you called out comparable growth and margin for BlueHalo. Just to help us with kind of the modeling and accretion. I mean, should we think about that EBITDA margin as similar to AeroVironment? Just to confirm.

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

So, Greg, we're going to provide you more details. The combination of these two businesses is going to be the golden standard for pure play mid-tier publicly traded defense technology companies out there. We are going to be the leader in that space and the revenue combination will be roughly about a \$1.7 billion and we're expecting roughly around \$300 million or so of total combined EBITDA, adjusted EBITDA. So you -- we're talking about a very, very profitable, sustainable two entities that are going to combine and create a lot of value for all of our stakeholders, especially our shareholders.

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**Greg Konrad** - Jefferies - Analyst

Well, I appreciate it and congratulations again.

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

Thank you, Greg.

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**Operator**

Peter Arment, Baird.

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

Hey. Good morning, Wahid, Kevin, and Jonah. Congratulations on the transaction.

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

Morning. Thank you.

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

Hey, just on the net leverage, 2.5 turns expected to close. Can you kind of walk us through, kind of the pro forma target? Roughly the timeline you're thinking on that to get down to 1 turn.

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

We're not going to speculate on how long that will take, but obviously the combined business will generate significant cash flow. So we'll do that and look at other opportunities to reduce leverage.

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

Okay. Thanks for that. And then just as a follow up, maybe just to Jonathan, can you talk a little bit about you had -- you've had a tremendous amount of success with your counter-UAS programs that just about the -- I think there was thoroughly success in Ukraine. Just about the potential growth for that particular product line. I think that's going to be important for the pro forma company.

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**Jonathan Moneymaker** - *Bluehalo LLC - Chief Executive Officer*

Yes. Peter, thanks. As we look at the counter-UAS market, as you'll recall, we've always looked at that as an integrated layer defense strategy ranging from kind of passive detection to RF defeat into our LOCUST Laser Weapon System and now entering the kinetic market. I think the combination with AV accelerates that and broaden that offering to our customer base.

And to Wahid's point, I think allows -- as we've been expanding internationally, allows us to pull through the presence that they exist today. And again, I think solidify ourselves as the leader in that domain.

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

Appreciate it. Thanks, guys. Congratulations.

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

Thank you, Peter.

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**Operator**

Andre Madrid, BTIG.

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**Andre Madrid** - BTIG - Analyst

Hey. Good morning and thanks for taking the time to take my question. Looking at SCAR --

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

Good morning, Andre.

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**Andre Madrid** - BTIG - Analyst

Looking at some of the large program wins at BlueHalo, I mean, what do you think should be the implied growth trajectory on a combined basis across those? And are there any on the horizon that are yet to be announced that we should be looking out for?

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

Andre, thank you. Yes. Similar to AV, BlueHalo has a tremendous track record of actually competing successfully and winning large multiyear, multibillion dollar program record. The SCAR program in the space domain as well as the LOCUST program that I mentioned in the EW space are just two examples.

Both parties are growing. As I said on the remarks, BlueHalo has been growing in the last seven consecutive years at about 18% CAGAR, for the size of the company there. And this is -- that's an impressive growth rate and it's very similar in lots of attributes to AV and AV's performance. So the combined entity are going to continue to go after very large programs.

This is a need, as I said on my remarks, that our national security community, our military, and our country and our allies desperately need. They need an enterprise, an organization that has the ability to innovate fast, to deliver in volume with high level of reliability, and it's sustainable. It's a business that can produce profits and be sustainable business long term. And that's precisely what this combination delivers. We are very excited about it and we're looking forward to that future.

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**Andre Madrid** - BTIG - Analyst

Thank you, Wahid. And if I could follow up with one more, I mean, if I'm looking at the business now, the mix of BlueHalo kind of looks like a third space tech. I know this is kind of outside of the wheel -- the traditional wheelhouse of our environment no longer. But, I mean, how should we look about this combined mix moving forward and maybe talk to a bit more of the growth trajectories of the single, independent lines of business for the combined entity now, especially space given that it's something that, like I said, traditionally AV has not necessarily dealt with.

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

Sure. So Andre that's another key reason why we're so excited about this combination. Not only are we the leaders in these domains and markets that we play in, and we have built a tremendous track record. There's literally no overlap and it's incredibly complementary. It's been our strategy at AV and it's consistent with the strategy that Jonathan and his team has had at BlueHalo, which is to become a multi-domain provider of an integrated open system architecture of solution set to our customers. So that's what the threats of the future demands and requires.

And so it's actually incredibly amazing that the areas that we have expertise in is complementary to their portfolio on customers. Similarly, the areas that they are experts, and they have really strong positions is equally complementary to our markets, our solution set, and our customers. So the combination is really -- it's amazing.

In my career, it's rare to see something like that. Very, very rare, if not impossible. And so we're really excited about that.

**Jonathan Moneymaker** - Bluehalo LLC - Chief Executive Officer

Yeah. The only thing I'd add to that, I think, as you look at the strengths of the individual companies, obviously, focused on achieving a very similar strategy through kind of adjacent areas of focus to what each point, very little overlap. Yeah, as you look at, I think what we've individually communicated about our organic roadmaps. I know what he has previously communicated areas like space being ultimately part of the destination for AV. And similarly, on the BlueHalo's side, advancing further into the kinetic world or even the UAS world has been part of our organic roadmap. So I think this transaction allows us to come together in a kind of one plus one equals five type of scenario where we can take that, the dominant position, as the leader in the global technology realm.

**Andre Madrid** - BTIG - Analyst

Appreciate it. Thanks so much, everyone.

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

Thank you, Peter.

**Operator**

(Operator Instructions) I am showing no further questions at this time. I would now like to turn the call back to Jonah for closing remarks.

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

Thank you for joining this morning's call and for your interest in AeroVironment. As a reminder, an archived version of this call, SEC filings, and relevant news can be found in the Investor section of our website. We hope you have a good rest of your day. Thank you.

**Operator**

Thank you. This does conclude today's conference call. You may now disconnect.

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