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PRESENTATION

Operator

Good afternoon, and thank you for standing by. Welcome to the Sarcos Technology and Robotics Second Quarter 2022 Earnings Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ben Mimmack, Head of Investor Relations.

Ben Mimmack - Sarcos Technology and Robotics Corporation - Head of IR

Thanks, Denise. Good afternoon, everyone, and welcome to the Sarcos second quarter earnings call. Joining us on the call this afternoon are Sarcos’ President and Chief Executive Officer, Kiva Allgood; and Chief Financial Officer, Steve Hansen. Kiva will start the call with an overview of the second quarter and recent events, and Steve will then talk in more detail about our financial results before we take questions from analysts.

Before we begin, we must state that today’s call will contain forward-looking statements, including statements concerning future commercial availability of our products, market trends, revenues, costs and liquidity. In addition, any statements about future performance related to our acquisition of RE2, including our expectations regarding the benefits to be achieved, the financial performance of the combined company, future market or revenue opportunities, integration plans and other statements regarding the combination of the 2 companies are forward-looking statements. These statements represent management’s beliefs and expectations as to future events as of today, but there are many risks and uncertainties that could cause the actual results to differ from what we have projected.

Among those risks and uncertainties are those described in our quarterly report on Form 10-Q filed today with the SEC and those mentioned in today’s earnings press release. We encourage you to review the risks and uncertainties described in these press releases and in our filings with the SEC for further information regarding these actual and potential risks and uncertainties. We also encourage you to review the special note regarding forward-looking statements included in our earnings release and 10-Q for the second quarter of 2022 in each case filed with the SEC this afternoon and which will be posted in the Investors section of our website at sarcos.com and on the SEC’s website.

In addition, we will be discussing certain non-GAAP financial measures on our call today. Throughout this call, all financial measures will be GAAP, unless otherwise noted. A reconciliation of any non-GAAP measures to their most directly comparable GAAP measures as well as the description, limitations and rationale for such measures are included in the earnings release filed with the SEC this afternoon and which is available on our website and on the SEC’s website.

A recording of this call will also be archived on our website. The information that we’re giving you on the call is as of today’s date, and we undertake no obligation to update the information subsequently.

So thanks again for joining us. At this point, I’d like to turn the call over to our President and CEO, Kiva Allgood.
Thank you, Ben, and welcome to everyone joining the call today. This afternoon, I will give you an update on the second quarter as well as our expectations for the rest of 2022. After that, I will hand the call over to Steve Hansen, our CFO, who will give you a financial update on the company. And then I’ll open it up for questions from our analysts.

The second quarter has been extremely productive and one of significant adjustment for everyone at Sarcos. We started the quarter working to close the acquisition of RE2 that we announced at the end of the first quarter. Thanks to the hard work of the teams across both companies, we closed the acquisition as scheduled on April 25. While the closing of the transaction and the integration has been a large part of the focus for the quarter, we’ve had some other notable success since our last earnings call.

I am particularly delighted to be able to host many of you at the Capital Markets Day back in May in Salt Lake City. I’ve always maintained that the best way to truly understand the potential of Sarcos Technology is to experience it first-hand. So it was great to be able to demonstrate the latest iteration of our Guardian XT as well as Sapien 6M and Sea Class to the group of analysts and journalists as well as showcasing reduction in the Guardian XO’s weight and development (technical difficulty) of the Guardian XO. The demonstrations were very well received and were a great showcase for the development work we have been doing this year.

Also in May, we announced the Air Force Research Laboratory has awarded us the new contract for the development of a collaborative sensing platform. We believe this research will benefit our commercial robotics products, including our CYTAR AI platform. In June, we announced the Pittsburgh team had achieved a significant technical milestone in its Strong Tactile mARitime hand for Feeling, Inspecting, Sensing and Handling, which you will probably be relieved to hear, we usually termed the STARFISH. The team successfully assembled and lab-tested a complete gripper capable of grasping and holding a variety of different objects, including freezers.

With the milestone achieved, STARFISH significantly advanced the capabilities of underwater robotics across a variety of military and commercial applications and increased the capabilities of our Sapien 6 Sea Class underwater arm. The Sea Class is an important project for Sarcos and I’m very proud of the hard work the team has put into getting us this far. Look out for more news on the Sea Class product here.

Also in June, we were delighted to be added to the Russell 2000 Small Cap Index. This is a recognition of the progress we have made as a public company and will improve the ability of Sarcos as we continue on the path towards the commercialization of our products. With all this positive momentum, it was an honor to stand on stage alongside our Founder and Chair, Ben Wolff, as he rang the NASDAQ opening bell 2 weeks ago.

Sarcos has come a long way since Ben co-founded the present form of Sarcos alongside his wife Julie, Fraser Smith and Marc Olivier. We still have work to do to bring the product to market, but it was a great opportunity (technical difficulty) on our significant achievements since then, including the closing of the acquisition of R2 and the execution of several integration milestones over the last 3 months.

As part of our initial integration (technical difficulty) we have worked aggressively to integrate the teams and realize the significant value we believe this transaction will bring. R2’s Founder and CEO, Jorgen Pedersen, has joined my senior leadership as the Chief Operating Officer of Sarcos. So he will continue to – we will continue to benefit from its expertise, relationships as we move into a crucial second half of the year and work towards the commercial release of our product.

I think everyone on this call will know that mergers bring unique challenges along with the opportunities they present. But while our integration is still at an early stage, I have been delighted by the way our teams have pulled together and worked (technical difficulty) a combined vision and culture. Our integration plan is aggressive, but focused on our team members. We have already merged the teams under a new leadership structure with critical leadership positions being filled by both locations in Salt Lake and Pittsburgh. Cross-company training and sessions were (technical difficulty) sure we are performing as one unified team with shared performance metrics and quarterly goals that focus on the initial commercial release of our product portfolio.

Our product line following the acquisition include solutions for a broader range of (technical difficulty) industrial companies as they move into Industrial 4.0, offering products capable of direct control, teleoperated control and supervised autonomy. Our teleoperated solution in the form
of the Guardian XT and the Sapien 6M systems are designed to allow users to carry out dexterous task next test in (technical difficulty) unstructured environment. Both systems are designed to remove the (technical difficulty) from dangerous situations and keep them out of harm’s way, but each system offers different attributes and features.

The Guardian XT (technical difficulty) designed to have more dexterity and precision in its end effectors with a higher lift capacity than the Sapien arm. In addition, the XT is being developed with an expectation of offering to provide autonomy in future iterations. The Sapien 6M system is an intelligent robotic arm that can come packaged with intellect and detect features that make it more suitable for supervised autonomy tasks that require less dexterity.

As we have assessed our product range today, we are determined that the Guardian XT and Sapien 6M system are closest to commercial release and thus will be focusing our commercialization efforts on these 2 products in the near-term. I'm happy to announce in line with the timeline we've guided to previously, we have started to deploy units to potential customers for field tests in aviation, shipyard and vegetation management. We believe there are work-at-height use cases in these industries for which we can (technical difficulty) initial production of commercial units by the end of 2022. We are also in the process of developing solar field construction solutions for both the Sapien and the Guardian XT arm, which we anticipate we’ll start testing later this year.

Engagements with future customers for these solutions have been very effective. We hope we will be able to share more details with you soon. The Sapien line also includes (technical difficulty) the Sea Class, which I mentioned earlier, is capable of teleoperation (technical difficulty) supervised autonomy and can be integrated with existing ROVs to carry out dexterous tasks at depths of up to 1 kilometer. The Sea Class is undergoing trials currently and in addition to a successful first (technical difficulty) carried out a successful demonstration of its Maritime Mine Neutralization System or M2NS, for its project sponsor, the U.S. Navy Office of Naval Research earlier this year.

We anticipate that trials and development of the Sea Class continue through this year and into (technical difficulty) before we start commercial production later in 2023. It’s important to note that while the Sea Class development is focused on defense capabilities, we will see several (technical difficulty) use cases products and we’ll be marketing it to those commercially.

As a result, focusing our resources, both human and material on the commercial (technical difficulty) of the Guardian XT and the Sapien (technical difficulty) we have made the tough decision to delay the commercial release of the Guardian XO powered exoskeleton. The Guardian XO remains core to our long-term plan (technical difficulty) development will continue. But as we focus the team on commercializing the Guardian XT and Sapien 6M, we do not now expect to start initial production of commercial units of the Guardian XO until the second half of 2023. This is disappointing news for us convey to not only to our investors, but also to our customers who consistently express excitement and enthusiasm for the product, increasing lead times in many cases by 2x, 3x or 4x and driving significant price increases for hard-to-locate items.

To give just one example, we recently received a quote for electronic components that quoted a lead time of 150 weeks for a single part. The war in Ukraine has also had an impact by making it extremely difficult to get parts anodized, for example. And it’s not just the availability of component, finding partners with the capacity to help with the development of our products is also a significant challenge.

In this (technical difficulty) environment, difficult decisions had to be made and the delay of the XO was one that we didn’t take lightly. I want to reassure everyone on this call that we continue to make progress on the XO, work to improve the adjustability of the (technical difficulty) allows the XO to be offered it by users (technical difficulty) which importantly puts me in the group that’s now qualified operators. The XO data also continue as we work to bring the weight of the product down to the level which will be appropriate for commercial release. It’s also important to note that due to the commercial -- the commonality between the Guardian XT and the upper body of the Guardian XO, any improvements we make on the Guardian XT as we finalize its commercial rollout would easily be transferable to the Guardian XO.

Finally, before I move on from the discussion of our product line, I want to mention our CYTAR AI machine learning program, which continues to make great (technical difficulty) and enabling past autonomy (technical difficulty) products. I’ve mentioned on calls before how the CYTAR program has enabled self-balancing for the Guardian XO. We have also demonstrated to customers how CYTAR (technical difficulty) to train robots to complete tasks used such as cutting, branding, standing autonomously.
As we can (technical difficulty) develop the CYTAR program, we are also incorporating learnings from the Intellect and Detect systems that can be bundled with the Sapien 6M products and advanced supervised autonomy and the incorporation of machine learning and artificial intelligence into our products. In light of the new go-to-market plan I outlined earlier on the call, I want to give you some high-level projections on our manufacturing capabilities in 2023. At this stage, we believe we will have the initial capability to manufacture a total of between 300 and 500 units of a combination of Guardian XT, Guardian XO and Sapien 6M and our existing (technical difficulty) products depending on the mix, but we do not believe we will use all of the capacity in 2023, especially as we believe we (technical difficulty) contract manufacturing partners engaged to produce a high percentage of our commercial units.

Given their relative commercialization date, we anticipate that the Guardian XO will be a small minority of our 2023 manufacturing total. We are working to sign an agreement with a contract manufacturer we hope to bring online in 2023. And any invest that we do, we anticipate the majority of these (technical difficulty) under arrangement. I also want to give you an update on the (technical difficulty) the list pricing of each of these units. We have surveyed companies around the willingness to pay for our technology in 2019. And obviously, the world has changed significantly since then.

In light of the macroeconomic impact from COVID, the war in Ukraine, inflation, the tightening labor market and the continuing demographic changes in the developed economies, we now anticipate this prices to cart at $15,000 a month for the Guardian XO and $10,000 a month for the Guardian XT on a robot-as-a-service. We expect the majority of the Sapien 6M robotic system will be shipped as a direct sales basis at a volume less price of $185,000. In addition, as part of our repricing analysis, we have updated our estimates that the cost to manufacture our initial commercial units. In his remarks, Steve will update you on our expectations for the margins we believe we can achieve once we are producing our products at scale.

In conclusion, I'd like to pay tribute to the team for the work that they have put in this quarter to align all the projects, products for the combined company goal. It has been a huge effort to integrate 2 teams and a high number of programs, while at the same time, aligning resources, capabilities and expectations to ensure we can continue to meet our goal of commencing the initial production of (technical difficulty) units of the Guardian XT, Sapien 6M (technical difficulty) by the end of the year and start shipping to customers early in 2023. In the macroeconomic disruption that continues to impact us all, while these issues remain a concern, we will make every effort to meet the deadlines we have guided to today.

Finally, a big thank you to the 280 brilliant Sarcos team members. I'm happy to be working with you on our mission to make workflow safer and more (technical difficulty) few people get to work on cutting-edge technology every day, and I'm lucky to be doing it alongside all of you.

With that, I'll turn it over to Steve to go through the financials.

Steven Q. Hansen - Sarcos Technology and Robotics Corporation - Executive VP & CFO

Thanks, Kiva, and good afternoon to everyone listening today. This has been an extremely busy and (technical difficulty) quarter for Sarcos. As Kiva mentioned, we have made great (technical difficulty) integrating our Salt Lake City and Pittsburgh offices, not the least of which is produced in a combined long-range plan and financial model, the results of which I will talk about later in my remarks. But first, I will comment on the financial results for the second quarter. This afternoon, we released our second quarter earnings, and we will be releasing shortly our 10-Q. Please note that our results for the second quarter of this year include the financial performance of RE2 from the close of the transaction on April 25 to the end of the quarter. The 2021 results do not include results for RE2.

Turning to the actual results for the second quarter of 2022. We reported quarterly revenue of $3 million compared to second quarter of 2021 results of $1.1 million. This change in revenue was due to the acquisition of RE2, partially offset by a reduction of work efforts and related revenues for various projects during the quarter as we continue to focus on accepting only those development contracts that are aligned with our product commercialization efforts.

As a result of these factors, revenue for research and development was up by almost $2 million to $3 million in the second quarter of 2022 compared to results in the same quarter (technical difficulty) We intend to continue to accept only those development contracts that are fully aligned with
our commercialization efforts and anticipate that quarterly development revenue for the combined company may continue to be lower on a year-over-year basis in the near-term for this reason.

Revenue derived from the product sales in the quarter was $56,000, down from $113,000 in the second quarter of 2021 (technical difficulty) Guardian S and parts and accessories. As I mentioned before, sales of the Guardian S and other legacy products, including the Guardian HLS products are not expected to form a material part of our revenue in the future as we focus on the commercial launch of our core Guardian XT, Sapien 6M and Guardian XO lines.

Total operating expenses were $32 million in the second quarter, up from $8.8 million in the second quarter of 2021. (technical difficulty) of this increase was related to stock-based compensation expense, mainly from stock grants that began investing upon the closing of our business combination in September of last year and shares issued upon the closing of the RE2 acquisition. In addition, the company incurred approximately $1.1 million of expenses related to the acquisition of RE2.

Substantially, all these expenses were included in general and administrative expenses. Other G&A expenses, including business insurance and legal expenses were also higher year-over-year as a result of compliance with listing rules and security (technical difficulty) of operating as a public company. Company headcount impacting G&A expense also increased, primarily as a result of the acquisition of RE2.

Sales and marketing expenses for the second quarter increased by $1.4 million on a year-over-year basis to $2.6 million. Much of this increase was due to the engagement of our (technical difficulty) services from a third-party vendor to assist with the data management of our products and services and increased headcount as a result of the acquisition.

Research and development expense (technical difficulty) in the quarter of this year compared to $4.1 million in the June quarter of 2021. We incurred additional expenses from an increase in engineering, production and supply chain headcount, including team members added as a result of RE2 transaction and third-party services provided cost to prepare for the development and commercialization of our products. We do expect R&D expenses as well as general and administrative and sales and marketing expenses to be higher year-over-year for the rest of this year as we work to develop our product line for commercial release and adjust to life as a public company.

The purchase account (technical difficulty) to the acquisition of RE2 that was initiated during the second quarter, resulted in the recognition of approximately $21 million of (technical difficulty) of goodwill. The intangible assets triggered the recognition of deferred tax liabilities, which were then offset against some of the Sarcos pre-exists (technical difficulty) which were fully valued, triggering a deferred benefit of (technical difficulty) recorded during the second quarter. As a result of these increased operating expenses, offset by warrant liability gains and by the deferred tax (technical difficulty) our second quarter net loss on a GAAP basis was $23.1 million or $0.16 per diluted share, an increase from a net loss of $5.3 million or $0.05 per diluted share in the same quarter of 2021.

As I’ve mentioned previously, some of our warrants are accounted for as liability and we are required to report the change in value of this warrant liability on our operations and comprehensive loss. Since changes in the value of this liability are driven by the changes in our stocks, this obligation will introduce volatility (technical difficulty) earnings each quarter until the warrants are fully exercised or expired and will make it difficult for us to forecast the effect of warrant accounting (technical difficulty) of operations and comprehensive loss.

Excluding stock-based compensation expense, warrant liability and certain other items related to the closing of the acquisition of RE2, including the deferred tax benefit, our non-GAAP net loss per share for the second quarter of this year was $0.12. Please see our earnings press release filed today for a full reconciliation of non-GAAP net calculation.

Fully diluted weighted average number of shares for the second quarter of 2022 was (technical difficulty) As of July 29, our outstanding share count was 154.8 million. Our net cash (technical difficulty) operating activities in the second quarter was $15.5 million or on average cash burn of approximately $5.2 million a month. In addition, we used $1.3 million to purchase shares as payment for tax withholding on our cash balance (technical difficulty) is also reduced by $30 million as a result of the payment of the cash component of the RE2 acquisition.
Capital expenditures during the second quarter were $0.2 million, primarily as a result of construction work and the purchase (technical difficulty) As a result of these expenditures, the balance of our unrestricted cash, cash equivalents and marketable securities (technical difficulty) approximately $153 million at the end of June and we continue to believe that the cash we have on hand today will be easily sufficient to enable us to begin initial production of commercial units of both our Sapien 6M robotic system and Guardian XT teleoperated robot and to meet our needs for at least the next (technical difficulty) months.

We believe it is (technical difficulty) to forecast our revenue and cash burn for the rest of (technical difficulty) last call I promised to update our forecasted cash burn for 2022, including RE2. Thus, we continue to anticipate the monthly (technical difficulty) from operations and capital expenditures for Sarcos including the impact of RE2 will average approximately $5.5 million for 2022. We continue to believe that this number is likely (technical difficulty) more heavily weighted towards the latter months of the year as we focus on the commercial release of our products and continue to make investments in that process.

In addition, as I mentioned in our previous call, we continue to estimate an additional impact averaging approximately $1 million per month from the cash -- from the purchase of stock to satisfy certain tax obligations on the vesting of employee stock awards through the end of 2022. As we mentioned on our last call, to address some of the supply chain challenges we are seeing in the market, we have decided to pre-purchase materials and components for the manufacturing of our commercial unit.

As I mentioned last time, most (technical difficulty) is not expected to impact the P&L until 2023, but we continue to expect the purchase will increase cash burn to the current (technical difficulty) by a total of up to $3 million depending on the (technical difficulty). As a combined company, we currently anticipate our full year revenue for 2022 will be between USD15 million and USD17 million. This is lower than the revenue produced by the combined company in 2021. We focus our work on pursuing opportunities in line with the commercialization of our core products.

I should also highlight that while this revenue forecast is our expectation as of today, we will view the available technical effect in-house (technical difficulty) third-party providers as a risk to our ability (technical difficulty) in the second half of this year.

Finally, as Kiva mentioned in her remarks, we have been busy integrating our 2 teams and producing a combined road map and long-term plan. Taking into account the updated anticipated pricing for our product line and the latest analysis costs (technical difficulty) from conversations with our potential manufacturers and suppliers, we are targeting long-term gross margin, which includes (technical difficulty) service revenues between 25% and 30% once we (technical difficulty) production and sales and can take advantage of volume manufacturing and purchasing economies of scale. However, for the next few years until we (technical difficulty) production and sales, we expect our gross margins to be lower than this perhaps significantly.

That concludes our remarks. I too would also like to join Kiva in thanking the Sarcos team (technical difficulty) they put in during the quarter to continue to develop our products (technical difficulty) our company. We are very excited to complete the commercialization of our products and begin the process of transforming the world of physical work.

We will now open the line for questions.
Robert W. Mason - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

I was just curious, what is your visibility on just the revenue for this year, the 15% to 17% as you're incorporating RE2? And how much of the revenue as you look forward is related to commercial? Again, looking in the second half of the year is related to commercial activity versus I guess contractual or development work?

Steven Q. Hansen - Sarcos Technology and Robotics Corporation - Executive VP & CFO

Yes, it's interesting, right? Our mix is with a lot of service revenue we have currently in our pipeline and the work on that effort will continue throughout the balance of the year. Right now, it's roughly about a 30% commercial side, 70%, what I'll say, government services side (technical difficulty) working on these projects and we finished them out. That will roll into 2023 as well. Of course, that's all dependent of insurer bond, as I mentioned, the (technical difficulty) and ability to get certain labor in place as well as the use of third-party vendors to support this.

Robert W. Mason - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

I see. And the cash burn guidance that you've provided was effectively unchanged I believe and consistent with how you've thought about RE2 coming in, not really materially impacting that number. So I guess, this may be an elementary question, but it's fair to assume then that RE2 is kind of breakeven from an EBIT level or a cash level. There's no offset I'm missing there?

Steven Q. Hansen - Sarcos Technology and Robotics Corporation - Executive VP & CFO

No, you're right. It's fairly neutral as we begin to integrate the 2 companies, we start to blur the lines of what was distinctly RE2 to our Pittsburgh office and what Salt Lake is. So there's a combination. But as I kind of track against that, it's fairly neutral. But as we invest, like I said, to get additional headcount, to get some of the revenue streams and some of our commercialization needs, that lined improvement were blurred of where the cash has been drawn from. But yes, you're right, we do continue to expect what I said last quarter in terms of (technical difficulty) going to come out on cash for the year.

Robert W. Mason - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Just one last question and then I'll hop back in the queue. The expectations around the gross margins both long-term and then what potentially may transpire in the interim. You said they could be significantly below that long-term until you scale up your volumes. Would you anticipate those being just initially on the commercial volumes -- initial commercial volumes being positive or negative?

Steven Q. Hansen - Sarcos Technology and Robotics Corporation - Executive VP & CFO

Well, it's -- I think essentially -- and initially, we are obviously (technical difficulty) the production levels, our costs will come down, and that's built into the model of forecast we have. So initially, when we come out of the gate, those expenses will be higher. It's hard to say at this point whether they will be neutral or even possibly a loss, but we are anticipating (technical difficulty) expense in terms of nailing this thing out for the initial term and expect that to drop down where we get to that 30% level in the outer terms.

Kiva A. Allgood - Sarcos Technology and Robotics Corporation - President, CEO & Director

And it is also product dependent.

Operator

(Operator Instructions) Our next question comes from Guy Hardwick with Credit Suisse.
Guy Drummond Hardwick - Crédit Suisse AG, Research Division - Research Analyst

Can you give us a bit of color around that, the puts and takes about how you arrived at those numbers?

Kiva A. Allgood - Sarcos Technology and Robotics Corporation - President, CEO & Director

The last study we did was 2019. And since then, as (technical difficulty) rates have gone up on average by 15% and cost of goods on average by 5% depending upon which component (technical difficulty) and in discussions with our current test partners and lighthouse customers, we increased the price as well as the service that goes along with it. So as I mentioned, we’re doubling down on autonomy and the (technical difficulty) services that go along with. So it’s a combination of those.

Guy Drummond Hardwick - Crédit Suisse AG, Research Division - Research Analyst

And just as a follow-up. My math is based on the cash flow and if it continues at the same rate into 2023, you should be fine. I mean, is there a -- can you give us some clue as to what the cash flow could be in 2023? If not, could you -- what are the key kind of levers which could alter it in next year versus this year?

Steven Q. Hansen - Sarcos Technology and Robotics Corporation - Executive VP & CFO

We currently expect to obtain financing to help cover production costs for product orders. In addition, we also believe we have sufficient capital (technical difficulty) in our business for at least the next 12 months, but we expect to see additional financing during that time to bolster our cash reserves and ensure our ability to continue. We believe that our cash, cash equivalents, our marketable securities on hand (technical difficulty) to support operations, working capital and capital expenditure requirements for at least the next 12 months from the date of the report. However, we will need to secure additional financing prior to achieving positive operating cash flows. And we do not anticipate achieving positive cash flows through at least 2024.

Operator

At this point, we have no more questions. I would like to turn the session back to Sarcos management for closing remarks.

Kiva A. Allgood - Sarcos Technology and Robotics Corporation - President, CEO & Director

Thank you, Denise. We’re extremely excited about where we stand and find ourselves today. The combination with RE2 means Sarcos is in an even stronger position to develop products to enable the most safe, productive and cost-effective workforce (technical difficulty). We’re excited by our mission and look forward to keeping you up-to-date on our progress. Thank you for your interest, your support, your questions. And any additional questions, please reach out to Ben. Thank you.

Operator

Great. Thank you for your participation in today’s conference. This concludes the program. You may now disconnect.