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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Third Quarter 2022 Sarcos Technology and Robotics Corporation Earnings 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, Ben Mimmack, Head of Investor Relations. Please go ahead.

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

Thanks, Amy. Good afternoon, everyone, and welcome to the Sarcos third quarter earnings call. Joining us on the call this afternoon are Sarcos President and Chief Executive Officer, Kiva Allgood; and Chief Financial Officer, Drew Hamer. Kiva will start the call with an overview of the first quarter and recent events, and Drew 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, cost and liquidity. In addition, any statements about future performance related to our acquisition of RE2, including our expectations regarding the benefits we 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 actual results to differ from what we have predicted.

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 this press release 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 third quarter of 2022, and 8-Ks 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.

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

Thanks, Ben. Good afternoon, and welcome to everyone joining us on the call today. The third quarter has been one of milestone celebrations and significant product and market developments for Sarcos. But before I update you on the third quarter, I wanted to welcome Drew Hamer to his first Sarcos earnings call. I'm delighted to have Drew on board as our new Chief Financial Officer.

Drew has over 25 years of financial leadership in the high-growth technology world. He has led teams at companies such as Velodyne Lidar, ON24 and Keynote. Drew's experience and skills will be invaluable as we work to bring our products to market. So welcome to the Sarcos family, Drew.

Following my remarks on the quarter, Drew will provide the financial update. We will then open up the call to questions from analysts.

During the third quarter, Sarcos celebrated the 1-year anniversary of our public listing on the NASDAQ global market. To celebrate this milestone, I was honored to stand alongside our Co-Founder and Executive Chairman, Ben Wolff as he rang the NASDAQ opening bell on July 25. For me, it was a real delight to see our team members, their families and especially our products on the NASDAQ Tower in Times Square. And it reinforces the importance of our mission, to improve worker safety, productivity through robotics.

During the quarter, our engineers and development teams were in the field with partners and customers, demonstrating the capability of our robotic system. One of the most involved in demanding field tests was our participation in the Navy's Repair Technology Exercise or REPTX. This took place at Port Hueneme, California.

Over almost a week, 4 Sarcos robotic systems were put to work. These included the Defense version of our teleoperated dexterous robots, the Guardian DX, the Sapien 6M and the Sapien Sea Class. We also demonstrated the capabilities of a remote visual inspection robot, the Guardian S.

Our robotics systems were required to take on various jobs, both on and off ship, including at dock, on ground, at height and underwater. A critical part of this exercise was the element of surprise. To demonstrate the field readiness of each robotic system, the team was required to execute previously unknown job to validate the agility of our robotic systems.

The robots carried out jobs, including rust and paint removal at height, off-shelf tools, laser ablation, plasma ablation and cold spray tools. The Sapien Sea Class performed tasks underwater, including inspections and object retrieval.

Successful execution in the field is vital as Sarcos continues to design and develop robotic solutions for unstructured environments. This is especially critical as we integrate field experience back into the product design and road map and prepare for commercialization of Guardian XT, Sapien 6M and Sea Class products.

Although the field trials took place in Navy property, and the Navy is a valued partner of Sarcos, the jobs that our robotic systems executed are applicable to work done on commercial ships and at commercial shipyards throughout the U.S. and across the globe. We believe Sarcos robotics systems can play a huge role in the development of commercial shipyards.

REPTX also provided a perfect opportunity for the first field test of our combined product line. Our newly integrated One Sarcos team brought the best of the best from Salt Lake City and Pittsburgh to ensure that the daily requirements and the dirty and dangerous jobs were executed collaboratively across the portfolio.

Similar collaboration has been taking place across the business as we have successfully completed the integration of several IT and infra systems and standard operating procedures, eliminating many of those initial integration pain points and creating synergies across the 2 locations. There's more work to do, of course, but we just celebrated our 6-month anniversary as a combined company, and I'm delighted by how much we have achieved and the opportunities in front of us.

As I usually do on these calls, I'd like to give you an update on the development of our combined product line and where we stand on the path to commercialization. Our expanded product line now comprises of 3 different offerings. The first of these is our range of teleoperated robotics system. These solutions are designed to allow humans to use robots to undertake tasks in unstructured environments.

In many cases, such environments put people at risk of injury, will require them to undertake dexterous tasks that are difficult or unpleasant. By using teleoperation and task autonomy, our products can retain the skills and dexterity of the human worker and allow them to be deployed in a safer location.

The first of these solutions, the Sapien 6M system is an intelligent robotic solution capable of control by both teleoperation and supervised autonomy. The other teleoperated solution is our Guardian XT which is designed to have more dexterity and effective and also could be expected to be equipped with capability for supervised autonomy.

I'm happy to let you know that we have completed the final build of our pre-commercial system of the Guardian XT and have allocated these units for additional customer engagement, developing our manufacturing revenue and reliability testing as we prepare for initial production of commercial systems and commercial release. We continue to expect to start initial production of commercial systems with the Guardian XT for the end of this year to be available for delivery to customers in early 2023.

I am equally as delighted to be able to tell you that we actually began production of the commercial 6M units ahead of schedule in the third quarter. Beginning production ahead of schedule was a real testament to the hard work of our entire team and demonstrates the energy and commitment of everyone at Sarcos to bring the workforce of the future to life. Potential customers continue to express strong demand for commercial versions of both these products, and we believe initial customers for our teleoperated systems will most likely come from shipyards, aviation and vegetation management industries.

In addition to the 6M, the Sapien line also includes the Sea Class, a 1 or 2-armed highly dexterous robotic system suitable for complex underwater environments. The Sea class can be used for commercial applications, industrial tasks or military operations and reduce the need to put divers in the water and explore depths that are unsafe for humans. From inspection of ships underway to oil rigs and offshore wind farms and many other use cases, we believe the potential demand for a robotic system such as Sea Class which can stay submerged at depths for up to 2 hours and operate autonomously or via teleoperation is significant.

The second product line is the powered full-body exoskeleton, the Guardian XO which will be a strength and productivity multiplier designed to eliminate fatigue and injury. We continue to make advancements in the development of this groundbreaking system. During the quarter, we implemented a new piece of control architecture in the software that improves the accuracy and responsiveness of the arms and legs by including a new development called feedforward control. This leverages the power of predictive models into the way the motors and joints behave and enables faster and more accurate responses to differences between request and action. These changes will not only benefit the exoskeleton but they can be implemented in the Guardian XT and Sapien systems.

The third product line is our supervised autonomy, software-as-a-service capabilities, which we intend to offer as additional services to customers of our robotic systems.

Therefore, depending on the product, our commercial production time line expectations are ahead of or unchanged from the guidance we gave on our last call. But we continue to see challenges on these expectations from supply chain constraints and the availability of skilled employees, both in-house and at development partners.

At Sarcos, meeting our projected time line is a core focus as we firmly believe that there's a significant and unmet demand for the products that we are about to bring to market. We also believe that this demand is growing consistently in several new areas.

The most critical example is the availability of workers to fill positions in growing segments like renewable energy. The Inflation Reduction Act was signed into law in August 18. Among other measures, the Act authorizes significant funding and incentives for U.S. companies to enable

decarbonization of the power grid, with the ultimate goal of moving the U.S. on 100% carbon solution free electricity by 2035. This is a significant development for the entire industry and companies like Sarcos that aim to provide the tools to assist with this transition.

The decarbonization of the U.S. economy is a massive undertaking and will require significant investments. [First] estimates of public and private climate spending could total \$1.7 trillion over the next 10 years.

One of the challenges facing the power generation industry is a lack of workers to undertake the installation of new generating sites like solar arrays. Commercial solar farm installation is hard work and often takes place in inhospitable or remote locations. Finding a sufficient workforce to accomplish solar installation is a significant problem for solar installers.

The number of people employed by the solar industry fell significantly during the pandemic and haven't recovered. In order to meet this target of 100% electricity generation in 2035, the solar industry is expected to have to fill 900,000 new positions, a 380% increase on the number of people employed by the industry today.

For an industry that is already impacted by hiring challenges, this will be difficult, if not impossible. As a result, solar installation firms need solutions that improve the productivity of workers and make employment in the field more desirable.

In 2021, RE2 began working with the Department of Energy on its O-AMPP program to develop a system to deliver and install PV modules autonomously. We have made tremendous progress in this area, and we are increasing our efforts given the significant opportunities. The Renewable Energy segment is just one example, whether it be solar, wind, where Sarcos is focused on bringing to market the robotic systems that allow customers to do more with less.

This is just one area of developing demand. We continue to be focused on aviation, work at height and construction.

I'll end it there for now. But before I do, I'd like to thank the entire 280 strong Sarcos team members for a job well done this quarter. Some of the integration work was disruptive as we moved through the quarter, but we adapted and we moved forward, and the progress achieved was significant. To meet our product development time lines was a huge accomplishment, especially given the supply chain challenges and war for technical talent.

I'm extremely proud of the team that despite these external challenges, we are still on target to start initial production of the Guardian XT by the end of the year and ahead of schedule on the Sapien 6M commercial unit. The team did so by living up to our core values, trust, respect and teamwork. You are all brilliant. Thank you.

With that, I'll turn it over to Drew for his Sarcos earnings call debut.

Andrew Dunn Hamer - *Sarcos Technology and Robotics Corporation - CFO*

Hello, everyone. I'm Drew Hamer. It's an honor to be speaking with you today, and thank you, Kiva, for the warm welcome. I'm delighted to be joining the Sarcos team.

Obviously, I'm relatively new to the business, and there's a lot for me to get my arms around. But what has struck me so far is just how much knowledge and enthusiasm there is throughout the company for the transition to commercial availability of our products. I joined Sarcos to help make a difference in the world of work and to bring products to market. I can't wait to start doing that.

Kiva just outlined the excellent progress the business made during the third quarter. I'm now going to update you on the numbers behind the business performance.

This afternoon, we released our third quarter earnings and filed our 10-Q. Please note that our results for this year include the financial performance of RE2 from the close of the transaction on April 25. The 2021 results do not include results from RE2.

Now turning to the actual results. For the third quarter of 2022, quarterly revenue was \$4.7 million compared to revenue in the third quarter of 2021 of \$1.1 million. This increase was primarily due to the addition of revenues from RE2 following the acquisition.

The primary impact of revenue was an increase in revenue from research and development services to \$4.5 million in the third quarter. This was an increase of \$3.8 million as compared to the third quarter of 2021.

We expect future R&D revenues to continue to be higher year-over-year in the near term, but a focus on accepting only those development contracts that are aligned with our product commercialization efforts may cause these revenues to fluctuate over time.

Revenue derived from product sales in the third quarter was \$179,000, down from \$435,000 in the equivalent period of 2021. All product sales in the current and prior year periods were related to sales of our Guardian S and HLS products. As we have mentioned before, sales of these legacy products are not expected to form a material part of our revenue in the future as we focus on the commercial launch of our Guardian XT, Sapien 6M, Sapien Sea Class and Guardian XO lines.

Total third quarter operating expenses were \$31.9 million, down from \$41.6 million in the third quarter of 2021. This decrease was primarily due to a \$21.9 million decline in stock-based compensation expense. The comparative quarter in 2021 reflected the impact of stock grants divested upon the closing of the business combination last year.

General and administrative expense was \$14.6 million in the third quarter representing a 57% decline from the equivalent period in 2021. This decline was due primarily to the reduction in stock-based compensation, offset in part by the impact of increased headcount and related expenses following the RE2 acquisition.

Research and development expenses increased by \$6 million to \$10.5 million in the third quarter. This increase was driven primarily by increased headcount from the addition of RE2, driving related expenses higher, as well as increased third-party service provider costs focused on the development of our Guardian XT, Sapien 6M and Guardian XO products.

Sales and marketing expenses for the third quarter were relatively flat on a year-over-year basis with a current year expenses of \$2.4 million. Lastly, the company incurred \$800,000 of intangible amortization expense in the third quarter of 2022 due to the recognition of amortization expenses of certain intangible assets with definite lives that were identified as part of the RE2 acquisition.

Excluding stock-based compensation expenses, we continue to expect year-over-year increases in G&A, R&D and sales and marketing expense for the remainder of the year as we work on the commercial release of our products next year, public company compliance efforts and incur additional costs relating to the acquisition of RE2.

During the third quarter, we booked a \$1.5 million benefit from the change in the valuation of our warrant liability as well as a deferred tax benefit of \$2.5 million due to an adjustment to our previously recorded valuation allowance resulting from the acquisition of RE2.

Our third quarter net loss on a GAAP basis was \$22.5 million or \$0.15 per diluted share down from a net loss of \$37 million or \$0.35 per diluted share in the third quarter of 2021.

As we have noted on previous calls, we are required to report the change in the value of certain of our warrants on our statements of operations and comprehensive loss. Since changes in the value of this liability are driven by changes in our stock price, this obligation will introduce volatility into our 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 on our financial statements.

Excluding stock-based compensation expenses, changes in the value of our warrant liability and certain other items related to the closing of the acquisition of RE2, including the deferred tax benefit, our third quarter 2022 non-GAAP net loss per share was \$0.12. Excluding the same items from the third quarter of 2021, our non-GAAP net loss per share was \$0.08. Our earnings press release filed this afternoon contains a full reconciliation of the non-GAAP net loss calculation.

The fully diluted weighted average number of shares for the quarter was 150.9 million. As of October 28, our outstanding share count was 154.7 million.

During the third quarter, our monthly cash used in operating activities was \$16.5 million or an average operating cash burn of approximately \$5.5 million a month. In addition, we used \$1.1 million during the quarter to pay tax obligations related to the withholding of shares upon the vesting of equity awards.

Overall company inventory increased by \$1.3 million during the third quarter, which included the purchase of approximately \$1 million of parts and components related to the 2023 production of our commercial systems.

As a result of these expenditures, our unrestricted cash, cash equivalents and marketable securities totaled approximately \$135.4 million at the end of September. We continue to believe that the cash we have available as of today will be sufficient to enable us to continue initial production of commercial systems of our Sapien 6M robotic systems and begin initial production of our Guardian XT teleoperated robot and to meet other operating needs for at least the next 12 months.

As we guided previously, our quarterly cash burn has been more heavily weighted towards the latter part of 2022 as we prepared for the commercial release of our products and made investments in that process. We continue to expect this trend to hold true in the fourth quarter and anticipate that our monthly cash burn from operations will average approximately \$7 million.

This number includes lump-sum payments that are only expected to impact the fourth quarter. In addition, we anticipate an additional total quarterly impact to cash of approximately \$1 million to pay tax obligations related to the holding of shares upon the vesting of equity awards during the same period. The stock-related cash impact is not expected to continue at the same rate in 2023.

I mentioned earlier in my remarks that we have prepurchased approximately \$1 million of materials and components for the manufacture of our commercial systems next year. We continue to estimate the total impact of 2022 cash burn for these purchases will be approximately \$3 million.

We now anticipate that our full year revenue for 2022 will be between \$13 million and \$15 million. This revenue forecast is slightly lower than the guidance we gave in our last quarterly call, as the delivery of services on certain contracts is expected to move from the fourth quarter into Q1 of 2023.

While we are still confident of ultimately realizing this revenue, the availability of key technical staff, both in-house and at third-party providers, continues to be a concern and is a risk to our ability to generate revenue in the near term.

That concludes my remarks on the financial performance of the company. On a personal note, I would like to thank Kiva and the rest of the Sarcos team for making me feel so welcome over the past few weeks. I have met many of the team in person already, and I look forward to meeting the rest of the team very soon.

Sarcos has the technology and opportunity to transform the way physical tasks get done, and I joined the company to help take full advantage of that opportunity. I look forward to continuing the positive momentum that we all achieved in the third quarter.

We will now open the line for questions. Operator, please, will you repeat the instructions to ask a question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Vraj Patel with Jefferies.

Vraj Patel - *Jefferies LLC, Research Division - Equity Associate*

A quick question around the supply chain. In prior quarters, you mentioned the lack of component availability delayed the development of the XO and XT units. Is that largely behind you? And do you have a clean path to commercialization now?

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

Great question. Thanks, and also appreciate you joining. As we have also mentioned in previous calls, we have done a lot of prepurchasing, which is also noted by Drew. So we do have nice solid line of sight to commercialization and product production for the 2 targeted products XT and Sapien 6M.

That doesn't mean -- clearly don't have a crystal ball. But as of right now, we really have put a lot of effort into making sure that we have all the preproduction parts required.

Vraj Patel - *Jefferies LLC, Research Division - Equity Associate*

Understood. And a quick follow-up. You laid out a variety of end markets and industries that could benefit from Sarcos' products. How many of these industries have customers that are currently testing either the XO or XT? And have we seen any orders from them?

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

Yes. Great question. So we're very focused, as you know, laser-focused on the aviation market. So as we communicated earlier, we've been in-field and testing the trials which is part of our development cycle. So if you remember, as you walk through that process, typical first step is making sure that we have proof of concept and then that drives to commercial trials.

So in the segments that we've highlighted, vegetation management at height, the port and construction and aviation, those are where we're really focused right now getting to those commercial trials.

Operator

Your next question comes from Guy Hardwick with Credit Suisse.

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

Could you expound a little bit on the comments regarding the contract manufacturer and how that kind of tallies with the kind of long-term gross margin guidance? I imagine that a ramp in the contract manufacturer has some impact on the profile of gross margin.

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

Exactly, yes. So we have identified our contract manufacturing partner. They've been on site. We've been ramping. They've had their technicians on. They were actually really helping us, providing some great input and insights on how we can scale more quickly. But you are correct in the sense that as we manufacture on prem, that does have an impact on gross margin. But as we grow in scale, our hope is that with the contract manufacturing partner we'll be able to see increased scalability which clearly will impact gross margin.

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

And just as a follow-up, obviously, you've begun commercial production of the Sapien 6M. So in terms of numbers of units, are you building an inventory there? And that suggests you have confidence in making sales in at least the next month, a few months, surely? I'm understanding that correctly?

Andrew Dunn Hamer - *Sarcos Technology and Robotics Corporation - CFO*

This is Drew. I'll take a stab at this one. So as Kiva mentioned earlier, there is a sales process that we go through, which leads up to and includes what we call field trials. Field trials is one of those kind of last 2, 3 steps before we get to that commercial contract with the customers. As those -- the pipeline has formed in a number of these different industries, as Kiva alluded to earlier, and so the production of these units is now in anticipation that we should see some contracts closing, but we can't announce anything until we've got them signed and in hand.

So we'll continue down this road. We are advance purchasing the components. We are building the units, and we're looking forward to some successes and the pipeline continues to fill at the back end of the funnel as well as on the front end of the funnel.

Operator

And I'm showing no further questions at this time. I would now like to turn the conference back to Kiva Allgood for closing remarks.

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

Thank you, Amy. I hope the update today has you as excited about the future of Sarcos as we are and our expanded portfolio. We've begun manufacturing our first commercial robotic system, redesigned human possibilities while enabling the safest most productive workforce.

This is a huge milestone for the Sarcos team and looking forward to sharing more with you about it later in the year. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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