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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	8

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Presentation

Operator

Good afternoon. Thank you for attending today's Archer Aviation Q1 2025 Financial Results Conference Call. My name is Cole, and I'll be the moderator for today's call.

[Operator Instructions] I'd now like to pass it over to Eric Lentell. Please go ahead.

Eric Lentell

General Counsel & Secretary

Thank you for joining Archer's earnings call. This is Eric Lentell, Archer's General Counsel. During today's call, we will be making forward-looking statements. These statements are based on assumptions as of today, and we undertake no obligation to update them as a result of new information or future events. There are risks and uncertainties that may cause our actual results to differ materially from those contemplated. For more information about these risks and uncertainties, please refer to the risk factors in our SEC filings. Today, we will also be discussing both GAAP and non-GAAP financial measures. A reconciliation of those financial measures is included in today's shareholder letter and earnings release. And now I'll turn it over to Adam. Adam?

Adam D. Goldstein

Founder, CEO & Director

Thanks, Eric. All right. Let's dive in. Archer is pushing the boundaries of what's possible and reshaping the future of aviation for years to come. Today, we're going to talk about how we're making that future happen. As I've talked about before, 2025 is an inflection point for Archer. On the commercial front, after years of engineering work and flight tests, the team is focused on transitioning to piloted operations and early commercial deployment. We remain on track to launch later this year in the UAE and are preparing for subsequent deployments with Midnight Launch Edition customers in several other international markets.

The Archer Defense team is deeply integrated with their counterparts at Anduril through our exclusive partnership to build the next-generation hybrid electric VTOL for the U.S. and its allies. All of this is complemented by the work we are doing to build an AI-based aviation software platform of the future in partnership with Palantir. Our progress speaks for itself, but it's made even clearer by the caliber of the companies who have chosen to partner with us. Anduril selected Archer to jointly shape the next generation of defense aviation. Palantir chose Archer to pioneer AI-driven aviation technologies. And soon, we'll be announcing what I think will be one of the industry's most important partnerships. Stay tuned.

Today, I'll share more about this quarter's progress and what you can expect to see over the remainder of 2025. At the risk of sounding like a broken record, our #1 goal remains to bring Midnight safely to market as quickly as possible. This is the impetus behind our Launch Edition program. We are doing something that has not been done in decades, bringing a new type of aircraft to market. The launch program creates a scalable commercialization framework for safely deploying aircraft in early adopter markets. The goal is for us to demonstrate the aircraft's capabilities, drive public acceptance, build operational excellence, and generate early revenue. We remain on track to deliver our first piloted aircraft as part of that program to Abu Dhabi Aviation in the UAE later this year.

We have already started the flight test program for that aircraft here in California, and we expect piloted flights to begin in the coming days. I think it is important to revisit how we got here. We started with Maker, a sub-sub-sub-sub-5,000-pound aircraft with a 40-foot wingspan. It was clear to us that the size of that aircraft platform would not support the payload necessary for the business case. So we chose not to take that aircraft through to certification and mass production. Instead, we designed and built Midnight around the same configuration, but scaled up to 6,500 pounds with a 50-foot wingspan. We believe the industry will consolidate around that size of aircraft in order to support a pilot plus 4 passenger pay-load.

The second key decision we made was to shift away from pouch cells, which we used in Maker to cylindrical cells used in Midnight's battery pack. We made this decision for multiple reasons, but primarily because of the concerns about the safety and reliability of the pouch cells that were available when we were building Maker, and because the readily available sources were Chinese suppliers. Those concerns obviously would have presented a number of problems from a safety, certification, defense, and tariff perspective.

That's what led to our decision to partner with Molicel on an aviation-specific variant of their cylindrical cell that offers both high power and energy density while also being exceptionally safe, reliable, and scalable. This has been key to putting us in a position to certify our battery pack and scale our powertrain manufacturing. This cylindrical cell is being used by others across the industry, including Beta. The advantage we, the FAA, Molicel, and Beta get from this joint effort is the sharing of test and reliability data across programs.

We were deliberate about both of these choices as aviation has long design and development cycles, and the need to redesign for these types of reasons can result in years of delay. Focusing on a commercially viable product has been core to the mission of Archer. The aircraft testing we have been doing, leading up to our planned early deployment in the UAE, is critical for ensuring safety, and it's just one of the facets of the larger team effort we have underway in the UAE to support our launch plans.

In addition to the aircraft, our team is working with local government and industry partners across the other 5 key building blocks for launch. Building block #1, government support. The government of Abu Dhabi has been incredibly helpful in launching in the UAE, in particular, the Abu Dhabi Investment Office in 2 of the country's largest sovereign wealth funds, which have invested in Archer.

Building block #2, regulatory pathway. This support from Audio and those investors has helped us forge a great partnership with the nation's regulator, the GCAA, to carve out a regulatory framework to certify Midnight. Our teams are collaborating through joint working sessions in both the UAE and California, and the GCAA is closely tracking all the progress we are making with Midnight as they work with us on the pathway to begin flying passengers in the country.

Building block #3, operating partner. Earlier this year, we announced that Abu Dhabi Aviation, the region's largest helicopter operator, was signing on to be our first launch edition customer. Over the last quarter, our teams have been working together hand-in-hand to map out our initial network operations within the country. We are close to having alignment on the first dozen nodes, and we'll be sharing more on this soon.

Building Block #4, pilot training. Archer and ADA are working together with Etihad, one of the world's leading operators of aviation training, to recruit and train pilots and prepare local MRO facilities. In fact, we just delivered the first midnight flight simulator to Etihad. The plan is for it to reside at their headquarters in Abu Dhabi, as we are jointly training pilots for our aircraft in the region.

Building block #5, infrastructure. Finally, we're collaborating with numerous partners to ready a handful of Abu Dhabi's 70-plus existing helipads for eVTOL operations. This is an example of how we can rapidly stand-up takeoff and landing infrastructure without significant spend or regulatory work. Stay tuned for a lot more excitement to come as we continue to gain momentum in the UAE.

Other potential early adopter markets are taking stock of what they are seeing from us in the UAE, and we're seeing demand in a number of other countries for our Launch Edition program. For example, earlier this quarter, we announced our second launch edition customer, Ethiopian Airlines, one of United's key partners in the Star Alliance, with the plan being to establish UAM's first foothold in East Africa's rapidly growing aviation market. Expect to see more of these strategic partnerships from us.

In parallel to our tremendous progress overseas, we continue to see strong momentum here in the U.S. Just last month, in New York City, we jointly hosted an event with United, bringing together key regulatory, municipal, and industry leaders to unveil our shared vision for our initial New York City network. Thank you to the Port Authority of New York and New Jersey, as well as the New York Economic Development Council, for their continued support and partnership.

As a long-time New Yorker, I'm deeply passionate about the impact our Midnight aircraft could have on the commutes for those who live in and visit Manhattan. We designed our network to take advantage of the existing aviation infrastructure in the New York area, including all 3 major international airports, Manhattan's 3 urban heliports, including the newly dubbed Downtown Skyport, and important regional hubs such as Terborough and Westchester. To support our launch plans, we continue to ramp up manufacturing across our facilities in Silicon Valley and Georgia, both of which are now fully operational. I look forward to sharing more milestones as we continue to scale those capabilities.

This quarter, I spent a significant time in Washington, D.C. with senior lawmakers, including Secretary of Transportation, Sean Duffy, and acting FAA administrator, Chris Rocheleau. Just in the last few weeks, we've had important conversations with key members of the House and Senate leadership, including Senator Ted Cruz, who leads the Congressional subcommittee on aviation safety, operations and innovation as well as important White House leaders, including Michael Kratsios, Director of the Office of Science, Technology and Policy.

With all the recent announcements from this administration, it is clear that they are committed to rapidly upgrading America's commercial and defense aviation technologies to ensure we retain our global leadership. I'm proud that Archer is in a position to play a leading role in that effort. This comes in the form of ramping up our aircraft manufacturing here in the U.S., safely launching commercial air taxi operations in major cities across the U.S. designing and building the next generation of defense aircraft here in the U.S. and utilizing AI to build the future systems that will power our country's airspace. I'm also grateful that Secretary of Defense, Pete Hegseth, and his team are supportive of modernizing our fleet through efforts such as our Archer Defense initiative. We continue to deepen our exclusive partnership with ADL as we work in earnest to mature the design for our first joint product, a hybrid electric autonomous VTOL that is targeting a program of record.

As I've indicated before, because of the nature of this work, I cannot share more at this time, but will as soon as I'm able. What I can share is that this technology's compelling dual-use potential is already attracting significant interest from leaders across both civil and defense sectors. Additionally, we recently executed on 2 strategic acquisitions that we believe will help accelerate Archer Defense. First, we acquired a key IP portfolio from an industry player. Second, we acquired a specialized high-performance composite manufacturing facility tailored for defense applications, significantly strengthening our capabilities.

This quarter, we also took a decisive step forward on our software plans, partnering with Palantir to jointly architect the AI foundation for what we believe can be the next generation of aviation systems across manufacturing, operations, movement control and route planning. This collaboration has the opportunity to be a key contributor to our country's ambitious vision, modernizing our aviation ecosystem in record time so that we can ensure that we continue to safely manage the ever-growing volumes of air traffic we are seeing and lay the foundation for the scale we plan to achieve with urban air mobility. We end Q1 maintaining over \$1 billion of liquidity, the highest cash balance in the industry. As I said last quarter, we still remain in the early innings of a generational opportunity. Our team is relentless in its commitment to build. I can't wait to continue to showcase it for all of you. Over to Tom.

Thomas Paul Muniz
Chief Technology Officer

I'll kick off with the most exciting news. We're entering the next phase of our Midnight aircraft program, operating with a pilot. We have already begun Midnight's piloted testing as we complete the ground test campaign and are on track to start piloted flights with our latest Midnight aircraft over the next week. This milestone is the culmination of years of effort that has gone into verifying that the hardware and software on our Midnight aircraft are safe to fly with people on board.

I'll walk you through what has gone into getting us here, highlighting that most of this testing needs to be done once in advance of piloted flight rather than being repeated for each airplane we build from here on out. To prepare Midnight for piloted flight, the team first executed an extensive lab and ground test campaign covering all core aircraft functionalities, including high-voltage battery and propulsion systems. Over the last couple of months, this has included weeks of incremental restrained ground tests,

methodically ramping engine power, refining propeller balance and achieving maximum thrust while the aircraft remains safely tethered.

We then moved into ground handling tests, again, taking an incremental approach, validating braking, handling and incrementally increasing speeds towards flight readiness, putting us firmly on track to begin piloted flights imminently. Our test aircraft are extensively instrumented with a custom-built specialized flight test instrumentation system composed of a myriad of sensors and software to capture critical data for testing and certification. For example, we've equipped Midnight with hundreds of strain gauges, measuring structural integrity, accelerometers capturing vibration data and an extensive array of temperature sensors, all supplementing the data gathered by the core systems on the aircraft that will be utilized in normal commercial operations.

In total, Midnight now measures over 40,000 data parameters. The ability to capture and process this data is critical to our company testing and certification flight testing. It's crucial to recognize that our transition to the piloted phase of our flight testing program builds upon extensive unmanned and transition testing with Midnight, validating the safety of the aircraft in all stages of flight prior to putting a pilot on board. Over the past several years, we've completed hundreds of Midnight flights, rigorously evaluating everything from crosswind hover performance and complex transition trajectories to severe failure scenarios.

Notably, last year, we successfully demonstrated Midnight's ability to complete a flight during our propulsion system shutdown in one of the engines, showcasing the redundancy we get from our proprietary 12 tilt 6 configuration. We shared a photo of that in our shareholder letter today, and we'll soon be sharing footage of that test flight later this week, where you'll be able to see how the aircraft responded to this failure mode, flawlessly performing a smooth transition and landing exactly as designed.

The safe and successful testing of Midnight is what gives us confidence in our path ahead on early deployments and FAA certification, particularly for our upcoming plans with our Launch Edition program in the UAE and other countries. As Adam mentioned, we plan to send one of the aircraft from our California facilities to the UAE later this summer for region-specific testing and deployment later in the year. On the certification front, we've made continued progress alongside the FAA to finalize the remaining compliance areas that I've highlighted in previous quarters.

I'm pleased to report the FAA has now aligned industry standards addressing total propulsion loss that's covered in our Rule 2105G. These clarified standards were as we expected, meaning they do not result in any necessary modifications to Midnight's design. This was not an Archer-specific rule, but rather an industry rule that everyone was waiting for closure on. As we transition into piloted flight and prepare for formal TIA testing, expect a marked acceleration of compliance validation with both the FAA and GCAA regulatory bodies.

Scaling up our ability to build aircraft also continues to advance rapidly. We have multiple aircraft being assembled across both our Georgia and California facilities scheduled to begin piloted flight testing later this year. During our aircraft builds, we have leveraged many of the manufacturing systems we've put together to enable the scaling of our manufacturing and are taking the time to learn and improve these so that we have a stable foundation to support our production ramp in the future.

Lastly, on the new hybrid aircraft program with Anduril, our engineering teams are integrated and working well together. We've recently passed key milestones that give me confidence we're on a great path to build an amazing product. As my ninth VTOL aircraft under development, this new platform leverages core powertrain and software innovations we've perfected at Archer. We remain bullish on this initiative's potential and believe it can be a substantial component of Archer's business portfolio moving forward. And now I'll turn it over to Priya to talk about the financials for the quarter.

Priya Gupta

Acting CFO, Acting Principal Financial Officer & VP of Finance

Thanks, Tom. So as Adam discussed earlier, our focus this year remains on investing in the rapid development and commercialization of our business while staying disciplined with cash management as

we work to get to significant revenue-generating operations as soon as possible. As you know, during the first quarter of 2025, we closed on an additional approximately \$300 million of equity capital. That round of financing enabled us to exit Q1 2025 with our highest ever quarter end balance of \$1.03 billion in cash and cash equivalents, putting us in the strongest cash position in our industry.

This cash position excludes the additional funding of up to \$400 million that Stellantis has preliminary agreed to fund to support the scaling of Midnight aircraft production. With regards to our spending for the quarter, we maintained strategic investments across 3 critical focus areas: first, advancing the development, certification and testing of our Midnight aircraft; second, scaling our aircraft build capabilities; and third, establishing in-country presence and operational infrastructure in the UAE to support our launch activities there later this year and into next. These investments support our commercialization road map.

Our Q1 2025 financial results were in line with our guidance. We reported an adjusted EBITDA loss of \$109 million, falling within our guided range of \$95 million to \$110 million. This represents a \$14.2 million increase from the previous quarter, reflecting planned investments in personnel and material spend for aircraft build and components to support those critical focus areas. Our GAAP operating expenses for Q1 '25 were \$144 million, which increased \$20 million over previous quarter due to the increased headcount and material spend mentioned earlier. This included approximately \$30 million of noncash stock-based compensation.

With regards to cash burn, our cash used in operations and investing activities for Q1 '25 was \$104.6 million. This included approximately \$5 million of remaining spend from the work to complete the build-out of our ARC facility, excluding which our quarterly cash burn stayed consistent around the \$100 million per quarter estimate as previously discussed. Despite these core investments, we increased our quarter end cash position by \$196 million compared to year-end 2024 and more than doubled our cash balance year-over-year. Notably, this marks our third consecutive quarter of simultaneously growing our cash reserves while advancing our strategic business objectives.

Looking ahead, our 2025 priorities will remain focused on the following key initiatives: advancing Midnight aircraft certification, testing and manufacturing capabilities, rapidly progressing our defense aircraft and software platform development and successfully rolling out our Midnight Launch Edition program in the UAE and beyond. We approach these objectives with confidence backed by exceptional internal talent, strong strategic partnerships and a secure capital foundation. For the upcoming quarter, Q2 2025, we estimate an adjusted EBITDA loss between \$100 million to \$120 million to support the focus areas I talked about earlier. As highlighted in previous earnings discussions, our strong financial position is enabling us to accelerate strategic investments in these areas, helping us create what we believe is a defensible moat between us and our competition.

We are making marked progress on several of these high-value projects, such as the acquisition of the composites-related assets and the IP portfolio acquisition that Adam mentioned earlier. And given the strength of our cash position, we anticipate bolstering our Q2 2025 capital expenditures by approximately \$15 million to \$20 million beyond Q1 '25 levels to help strengthen our market leadership position. Our strategic approach to U.S.-based sourcing and manufacturing has significantly shielded us from the current tariff uncertainties affecting global trade. Our domestic-first approach to our supply chain helps us minimize the potential for disruption.

We continue actively monitoring policy developments to ensure we can respond appropriately to changes while maintaining business stability and cost efficiency in this developing macroeconomic environment. With that, I'll turn it back over to Adam for Q&A. Adam?

Adam D. Goldstein
Founder, CEO & Director

Thanks, Priya. We had a bunch of retail questions that were submitted, but most were answered in the prepared remarks. So after the analyst questions, any of those questions remain, I'll address them at that point. So for now, let's open up the call to Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question is from Andres Sheppard with Cantor Fitzgerald.

Andres Juan Sheppard-Slinger

Cantor Fitzgerald & Co., Research Division

Congrats on all the progress. Adam, I wanted to maybe touch on launching in the UAE by year-end. Just curious if you can maybe help share your vision as to what that might look like. So by now, we know some of the hybrid teleports, we know some of the routes. But just curious if you can maybe enlighten us as to how you see that launch developing and how we should think about as we get closer and closer.

Adam D. Goldstein

Founder, CEO & Director

Thanks, Andres. The UAE is really all about early commercial launch. It's a chance for the world to see the aircraft. It's a chance for the world to see how these aircraft will handle in different conditions. And it's a chance for us all really to learn. So you could expect this to be a low level of operations with a handful of aircraft going back and forth from established point-to-point operations and really a way for Archer to start deploying aircraft in a very safe but also a very efficient manner. I'll let Tom give a brief introduction on how we plan to get there and give a little more color on that.

Thomas Paul Muniz

Chief Technology Officer

Yes, sure. So the first thing to keep in mind, Andres, is the certification pathway there is really well laid out between us and the GCAA, and we've been executing on that over the last couple of quarters, which has been great. Much of that work overlaps with what we're already doing with FAA. And so it's really just giving us another source to deliver the data that we've been gathering for certification. Another thing to keep in mind is we're partnered with Abu Dhabi Aviation and the UAE. And so they're ultimately going to be the group operating these aircraft out there with us delivering vehicles, selling vehicles to them in this launch program.

So to give you a sense for what you can expect to see over the next several months is, first, we're going to deliver an aircraft to the UAE later this summer. We'll start by doing some incremental testing out there, mostly doing things like validating performance in the higher temperature environment. Then we'll move on to improving routes on our intended networks in Abu Dhabi and broader UAE and then ultimately working towards curing passengers again with Abu Dhabi Aviation.

Andres Juan Sheppard-Slinger

Cantor Fitzgerald & Co., Research Division

Wonderful. And maybe just as a quick follow-up. Regarding the launch edition. So Abu Dhabi Aviation will be the first customer as previously disclosed. You've mentioned now that Ethiopian Airlines will be maybe its second customer. Just curious if you can maybe share with us how you see that customer in that commercialization developing and maybe some timing around that.

Adam D. Goldstein

Founder, CEO & Director

Thanks, Andres. There are actually a lot of countries and partners that have been interested in the Launch Vision program. And so we are focused on balancing the deliveries to launch customers alongside our own testing here in California. So we'll have more to report on that coming in the next few months and quarters. And so I will save it for that.

Operator

We have a question from Edison Yu with Deutsche Bank.

Xin Yu

Deutsche Bank AG, Research Division

I had a follow-up just on Launch Edition. Any sense on how to think about the growth of that in terms of revenue over the next few years? Is that something that could be tens of millions of dollars per quarter?

Adam D. Goldstein

Founder, CEO & Director

Edison, this is Adam. So the launch of addition aircraft is really all about early adopter markets. And then, of course, we have the FAA big Western markets as well. And so it's a way for us to be able to deploy aircraft pretty much on a basis of us being able to manufacture them. So we'll turn into a manufacturing question here. And so yes, you can think about it in terms of the ability to generate a significant amount of revenue, but also really trying to get aircraft out into the wild and moving a bunch of their capabilities and learning from that in a very safe environment. So there are lots of countries around the world, lots of markets around the world that are interested in this, and it's a good way for us to get the aircraft out there.

Xin Yu

Deutsche Bank AG, Research Division

Understood. And then just on the AI-based efforts, I think you alluded to upgrading the infrastructure in the U.S. what could a potential go-to-market of that look like? Will you be working with the airlines that you're partnering with? Or is it more working directly with FA?

Adam D. Goldstein

Founder, CEO & Director

So Archer, of course, has a lot of partners in the airline industry, and we've been working with them to really understand the different capabilities that they have as we look to build out our own internal capabilities. So for example, movement control, we have our own movement control app that we've been building. As we've gone deeper into these discussions with our partners, it was very apparent that there is a great opportunity to involve in a much larger scale operation. So taking a lot of the software that we've built internally and finding different ways to actually monetize it with some of our partners or just the general broader aviation industry.

So we announced a partnership with Palantir, which kind of covers a couple of core areas. The first one is in scaling manufacturing. We are building a factory of the future that can scale to thousands and hopefully tens of thousands of aircraft or more, but this will require a new way of manufacturing aircraft that heavily relies on software. The second is building the aviation infrastructure of the future, which is what you're mentioning. And so we have several products in development that could have substantial impact to our business and to the broader aviation industry. And as we develop more and those products mature, we'll be happy to share those.

Operator

Our next question is from Josh Sullivan with the Benchmark Company.

Joshua Ward Sullivan

The Benchmark Company, LLC, Research Division

I know it's commenting on the Anduril partnership is sensitive at this point in time. But curious as we look at some of the initial skinny defense budgets or other items out there, any supporting programs we can see externally at this point?

Adam D. Goldstein

Founder, CEO & Director

As I've mentioned, Josh, I appreciate the question. We're limited just in the nature that we are able to say. But what I can say is the hybrid eTOL program has achieved several internal milestones that have really given us a lot of confidence internally that this will become a major part of our business. And it really fits into the messaging of a lot of what this administration talks about, building aircraft of the future. And so I think that this is going to be an exciting part of our business, but more to come on that.

Joshua Ward Sullivan

The Benchmark Company, LLC, Research Division

And then maybe as a related follow-up, as you deepen your relationships in the Middle East and with other international entities, what conversations are you having as it pertains to the defense aspects of either that partnership or generally?

Adam D. Goldstein

Founder, CEO & Director

We've actually had a lot of inquiries from a bunch of our partners in a bunch of the countries that we've been talking to. But as a reminder, the way the relationship with Andrew is structured, Archer is manufacturing the aircraft, and then effectively we'll sell the aircraft to Anduril, who is representing the customers. So all the customer-based conversations run through Anduril, and I think Anduril is very well equipped to handle those types of conversations. So it's probably a question that's better more directed towards them. And so I appreciate it, but there's not much more I can share.

Operator

Our next question is from Bill Peterson with JPMorgan.

William Chapman Peterson

JPMorgan Chase & Co, Research Division

In the last quarter, you had talked at the time that pilot flights would be coming soon. And I think there was an expectation might have been happening within that quarter. And now you're saying imminent. I'm just curious on maybe what kind of caused any sort of 1- or 2-month delay, if any? And maybe you could just elaborate on what's required now between pilot tests, final checks ahead of the milestone. Just basically elaborate the flight testing program from here.

Adam D. Goldstein

Founder, CEO & Director

Yes, absolutely, Bill. So we expect the first piloted flight to take place within days. And we've had the aircraft out on the airport doing piloted testing for weeks at this point, and we've got a lot of confidence that it will be in the air soon. Taking a step back, all of this testing we're doing now is really based off of the hundreds of flights over the last 1.5 years or so that we've done on the unmanned midnight aircraft. And now we're just putting a pilot on board and continuing the testing.

But to get to your question, one of the main differences between this aircraft and the previous one is how heavily we've instrumented it with flight test instrumentation hardware and software. And so I mentioned earlier on the call, we're measuring it's over 40,000 parameters on this aircraft. And so, just to be straight up, it was a lot trickier than we thought to get that system working, and that caused a modest delay. But the good news is we're through this now, and we've got a lot of confidence that we'll be in the air very shortly.

William Chapman Peterson

JPMorgan Chase & Co, Research Division

And maybe a bit of a mid- and longer-term question. It's also about the hybrid program, but potentially being positioned for passenger. I guess you mentioned earlier the potential use cases in civil. I guess on one hand, envisioning maybe with a more complex powertrain, it could represent a longer certain time. But on the other hand, with all the heavy lifting that you and others in the industry are doing on batteries, it perhaps it won't be as onerous. I guess just trying to consider if you would maybe consider a hybrid

variant or even maybe a short takeoff and landing within the passenger segment in the not-too-distant future, given I think some of the focus on fully electric may have had more, I guess, support in a different administration while hybrid certainly can open up the envelope, including for longer range.

Adam D. Goldstein

Founder, CEO & Director

You're very observant, Bill. And yes, that is a I'll just call it a good observation. We are considering lots of different potentials for the powertrain of that aircraft, including both civil and defense applications.

Operator

Our next question is from Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

If I might ask, I think on the last call, you had mentioned, Tom, that there were some issue papers that the FAA had to close out. Does the one that you talked about standardizing the propulsion was, does that address all of them? Are there still some pending? And does that then affect your planning on building additional certification aircraft?

Adam D. Goldstein

Founder, CEO & Director

Savi, thanks for the question. Yes, so we did, as I mentioned earlier in the call, resolve the total loss of prop tissue paper with FAA. And so that unlocks the vast majority of the remaining kind of small percentage of compliance items that have been open. And so with that now behind us, we can really kind of just get back and execute. And so that positions us really well with FAA for the next coming months. And I think you'll see a marked increase in performance over the rest of the year.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

So kind of on that production hasn't been something that's holding you back on production. So that's not tied to kind of waiting on that, and production is kind of going ahead.

Adam D. Goldstein

Founder, CEO & Director

I think I understand the nature of the question. You can always build at risk. I think the good news of the issue paper that Tom was referring to was it did not result in any changes that we had to make, and I think we had accurately built that. But it does give us more confidence to accelerate some of our plans. And so it's just a balance of what you want to build. Again, this was not something unique to Archer. This was an industry-wide issue paper. And so we're fortunate that it came out the way that we thought it would, but it is the unlock that we needed to keep things moving.

Operator

We have a question from Austin Moeller with Canaccord.

Austin Nathan Moeller

Canaccord Genuity Corp., Research Division

Just my first question here. So in the skinny budget, there was \$1.2 billion added to FAA spending for personnel additions and infrastructure upgrades. How might this benefit you, either from a cert perspective or support your plans with Palantir and air traffic management?

Adam D. Goldstein

Founder, CEO & Director

Austin, I think it's early to judge that at this point. I think we've had good traction with the FAA to date, through what it's been. So anything additional that gets added, I think, we'll be happy to receive that. But I think it's early to give any comments on that yet.

Austin Nathan Moeller

Canaccord Genuity Corp., Research Division

And can you comment on the production scaling? And is that still on track for 2 aircraft per month by end of the year?

Adam D. Goldstein

Founder, CEO & Director

So a lot of this has to do with us balancing our ability to do testing internally with delivering aircraft. And so we have a lot of aircraft that are in production right now as well as additional aircraft parts that are on order, and we're just really trying to balance that the ability to deploy versus the ability to manufacture. There's also a lot of lessons that are being learned in terms of manufacturing and really trying to refine the manufacturing process that will enable us to scale. So the goal really is to make sure that we can do it efficiently and then also do it in a very economical way. So we are ramping up those capabilities. But again, that's just all balanced against deployment.

Operator

We have a question from David Zazula with Barclays.

David Michael Zazula

Barclays Bank PLC, Research Division

Tom, just to piggyback a little bit on Savi's question earlier. You mentioned the loss of propulsion finalization unlocks some testing. Could you give us a preview on what sort of things that unlocks and what sort of progress you might be able to make based on that?

Thomas Paul Muniz

Chief Technology Officer

Sure, David. So as we showed in the shareholder letter, we have a picture from a test, actually from the end of last year, where we're testing the aircraft with loss of propulsion systems, so one of the engines. And you'll see in video we released later this week that, that aircraft reacted really well to that test. And so that's just one example, honestly, of the hundreds of tests we've done over the last couple of years on that vehicle. And so now we're getting back into this next phase of testing with pilots on board, repeating a lot of the same expansion, working towards TIA. And so it's kind of just business as usual execution mode.

David Michael Zazula

Barclays Bank PLC, Research Division

Very helpful. I think a couple of times you've used the word market progress towards certification. Can you expand a little bit or give investors some way that they can kind of monitor the progress towards this market improvement, both on the FAA and DCA side?

Thomas Paul Muniz

Chief Technology Officer

Well, yes, in general, our job is to build a safe aircraft that we can take to market. And it's up to the FAA for when the vehicle will be certified and all that. But we're making great progress. So we showed in our shareholder letter, FAA has now accepted about 15% of the final kind of B and B documents that support that certification. And with the opening up of that 2105G issue paper, now a lot of the remaining other areas are available to build conforming hardware and start executing all the tests for credit working towards TIA. And so I think it's really just the culmination of all these things coming together, along with the fact that as we've highlighted before, we've taken this, I think, really good strategy of leveraging parts

that have certification heritage from vendors that have certain experience and putting them in a vehicle that's certifiable and manufacturable and is heavy enough to carry a pilot and 4 passengers.

And so now we're just executing on that path. And the other part of your question that you mentioned is, yes, it's true. Now we also have UAE work going on. And so the team is very much balancing our focus across go-to-market and launch with the GCAA as well as with the FAA. But the good news there is that it's almost the same work, just sort of different customers for the data. So hopefully, that gives you some color.

David Michael Zazula

Barclays Bank PLC, Research Division

That is I mean, would we expect a potential quantification on the GCA side similar to what we're getting on the FAA side at some point?

Adam D. Goldstein

Founder, CEO & Director

David, this is Adam. I don't have a good answer to that today. I think there's just some sensitivities there and how that's all being collected, but we'll follow up and get back to you on that.

Operator

We have a question from Chris Pierce with Needham.

Christopher Alan Pierce

Needham & Company, LLC, Research Division

I know you can't comment on what you're building with Anduril, but can you talk about how should we feel about your confidence in ability to build it as you sort of figure out, flesh out what's actually going to happen? Like, is it supplemental to the production guidance you gave in the 2Q letter last year? Or is it related to the acquisitions you made on that you kind of flagged? Or like what's the right way to think about production to the extent you can talk about that?

Adam D. Goldstein

Founder, CEO & Director

Chris, So what we are looking to build is a vehicle that can have both dual use, civil and defense application that reuses as much as possible from the existing program we have today with a hybrid powertrain. And so that gives us the ability to be able to build a lot of vehicles because we already have a hotline that's running on the civil side, as we're using a lot of that. So hopefully, that gives you a perspective it's not something totally out of left field that we're building. It's something that makes sense based on like, what Stuff Archer is building and makes sense versus what the Midnight aircraft is. And yes, it is expected that we will be able to build these aircraft out of the Georgia facility, and we can flex between the civil side and the defense side and give upside to the ability to deliver more aircraft if we're able to build and there are programs that are in place.

Christopher Alan Pierce

Needham & Company, LLC, Research Division

Okay. On the so the longer flight time the greater mileage, is this something where I'm just trying to picture someone being a helicopter for an hour flight. Is that something that I guess, would you push back that that's what it would feel like? Or I just want to get a better sense of how this can sort of go into regional air travel candidate? Or is it the more modifications need to be made?

Adam D. Goldstein

Founder, CEO & Director

So, if you're asking about use cases that hybrid VTOL could potentially have, there are longer helicopter missions that are used today. So, for example, in servicing oil rigs is a good one that are typically further than typical eVTOL range. There are other examples that are more cargo-based that could have longer

ranges that are use case. There's also some civil cases. I do think the civil side will likely be limited by not range of the aircraft, but willingness of a consumer to sit in a vehicle for a certain period of time, meaning I don't think somebody is going to want to sit for 5 hours, but they may be willing to 2 hours. So I think there are limitations there that we will learn as we take products and go get them out. I do think there are good go-to-market use cases on the civil side that we will certainly explore, and it will just open up the ability to deliver aircraft.

Operator

Our next question is from Amit Dayal with H.C. Wainwright.

Amit Dayal

H.C. Wainwright & Co, LLC, Research Division

My question guys is around just the aircraft costs. Just wanted to see if you can share any color on how the aircraft build costs are tracking against expectations you might have had 12 months ago, especially in the context of all these tariffs, et cetera. Are you close to what you may have been anticipating? Or are you not maybe tracking as closely? Just wanted to see if you can share any color on that.

Adam D. Goldstein

Founder, CEO & Director

So it's obviously early in the sense that we're building at very low volumes. So I wouldn't expect to see some significant cost performance when you're building, let's call it, in the single or low double digits of aircraft. I think it's when you start to get to a larger scale that you see those benefits. What we've said historically is that we think around the 250 level of aircraft build is where we can get to our target gross margins. And so that's something that we still believe is true. From a tariff perspective, most of our systems are built or manufactured here in the U.S., so I think there is a limited exposure from that. And so we don't see that having a material impact at this point.

Operator

I'll now turn the call back over to Adam Goldstein for any closing remarks.

Adam D. Goldstein

Founder, CEO & Director

All right. Thank you, everybody, for joining the call today. I am super proud of what the team has been able to accomplish, but this is just the beginning. 2025 is an inflection point for the company and for the industry. I'm excited to share more in the weeks and months ahead. Let's keep building.

Operator

That concludes today's call. Thank you all for your participation. You may now disconnect.

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