

**Virgin Galactic (SPCE)**  
**TD Cowen 8th Annual Future of the Consumer Conference 2024**  
**June 5, 2024**

<<Oliver Chen, Analyst, TD Cowen>>

Raise your hand if you want to take a trip to space. It's a really unique, very supply constrained environment to go to space, but lots of demand obviously. We're delighted to have Virgin Galactic here. Michael Colglazier, the President and CEO of Virgin Galactic. Prior to joining Virgin Galactic, he was President and MD of Disney Parks International. And previously President of The Disneyland Resort in Southern California. He also serves as Chairman and CEO of the roundtable of the University of California, Irvine. And a member of the engineering advisory board at Rice University. And he's a graduate of Stanford as well as Harvard Business School.

Michael, it's a pleasure to be here with you.

<<Michael Colglazier, President and Chief Executive Officer>>

Thanks, Oliver.

<<Oliver Chen, Analyst, TD Cowen>>

So for starters, we'll have a video. Go ahead and cue the video. Thank you.

[Video Presentation] (0:00:56)

<<Oliver Chen, Analyst, TD Cowen>>

Thank you for that. And also I've spent time at Spaceport America. It was a real joy to be there. And what's exciting also is, you have the next commercial flight coming up the next...

<<Michael Colglazier, President and Chief Executive Officer>>

Saturday.

<<Oliver Chen, Analyst, TD Cowen>>

Saturday. So, Michael, what about Virgin Galactic's mission and the narrative of luxury? Why are you at – why here at our luxury conference?

<<Michael Colglazier, President and Chief Executive Officer>>

Well, let's start just kind of human experience, which is at the foundation of luxury as you start to push to the high end of that. And people have wanted to go out and explore forever. Right? Your first trip to the ocean or your first trip to a different country widens your perspective, widens your understanding of the planet. And usually those kind of experiential trips become the most important memories for you and the people that you care about that are on them with you.

And as that's moved up, you hear adventure travel, luxury travel, experiential travel. As this moves into the high end, people venture further from home, get wider sets of experiences, and they become some of the most meaningful parts of people's lives. And the investment and luxury is there.

Now, anywhere you go, whether it be to Africa or Beijing or California, if you're from Beijing, is still just on the surface of the same planet here. And it's, I'd say, been out of, not the imagination, but out of physical reach for humans to get to space. And what we are doing, by taking people up into a perspective where you see the earth kind of in its environment, shifts the perspective of people, is probably, from my standpoint, the greatest experiential offering that I think has been created. That is one of the things that's luxury. And of course, the care and attention and detail in which we take people through that journey, I think parallels a luxury customer environment.

<<Oliver Chen, Analyst, TD Cowen>>

One of the other factors is scarcity of demand and exclusivity. How much does it cost to do this, and how have ticket sales been relative to how much supply you have?

<<Michael Colglazier, President and Chief Executive Officer>>

Sure. So we actually don't have sales open right now purposely. We have about 725 or so people that haven't yet flown that we've been flying, some in a backlog that'll carry us through the majority of 2027. And back to your point on scarcity. Scarcity also allows for pricing power in the marketplace. So as we move closer to opening up our production model ships and scaling flights, we'll reopen that.

But we have a few seats. And so our current price point that we're offering, if, Oliver, you had a friend who really wanted to come, we probably find a seat. We offer at \$600,000 per seat, which is not a cheap experience by far. It is the lowest of prices to be able to go to space versus anything out there, but it is priced as a luxury experience as well.

<<Oliver Chen, Analyst, TD Cowen>>

That segues nicely into the next question. Who is your competition? What we appreciate about your brand is your highly experiential pre and post-journey to space as well. And you've been at this for a long time. What have you learned over your 20 year journey?

<<Michael Colglazier, President and Chief Executive Officer>>

Yeah, let's start on the competition. Most people think of competition as who else has the machines that can take humans to space. So there's SpaceX, which has machines that can go well past where we go, and they'll go to the space station and they'll go eventually, we expect, to the moon, and they really do want to go to Mars. NASA is their customer, and they're not really focused on private citizens outside of the \$55 million, if you want to go to the space station, it's a different thing.

Blue Origin. Jeff Bezos company has a ship that can go to the same point in space that we do. It has a machine that can do that. But to your point on – so machine wise, that's it. Who is actually focused on curating a journey and a life experience to provide you, over a couple years, a buildup to reach the point of summiting this, right. It's like if you were to summit Everest. It's not just a few seconds on top of the mountain. It's the journey. The only company, I think, in the world that's focused on this journey, that has the machines and the technical capability to safely bring a space and back is ourselves.

So you said 20 years. What have we learned? We bought all the risks down. So we learned how to fly to space safely. We learned how to fly to space repeatedly. We bought the regulatory risk down. We have our license from the FAA to fly consumers to space. So if we were a biotech company, that would be like your FDA approval. And we in tech speak, right, we have product market fit. We've now flown 20 some customers to space. And you caught some of the words on there. It's superlative what they say. So that, I think, is what we've built over the 20 years and a couple billion dollars of investment in is the risk buy down before we now scale it?

<<Oliver Chen, Analyst, TD Cowen>>

Michael, who is your customer? Could you speak to the total addressable market as well as community engagement that you've created?

<<Michael Colglazier, President and Chief Executive Officer>>

Yeah. At the end, this is adventure travel, luxury travel. The wider market is that most people that are customers in adventure or experiential travel aren't thinking space yet. So there have been a couple of the investment banks have done proprietary studies, and they used a couple filters. They said, since it's expensive right now, let's use \$10 million as a base net worth as a filter. Those people with \$10 million or greater net worth have to have a propensity to spend a lot on experiential travel.

And third, they have to raise their hand and say, like a couple of you did out here, I would like to go to space. And that filter, those three filters, brought 300 some thousand individuals around the globe, growing at income levels as grow of 8%. Now, for context, a fully utilized Spaceport for us, which is about 2,000 people a year and drives over a \$1 billion revenue business per Spaceport. So that's less than 1% of that market.

Now, I think the bigger topic though, is less the 300,000 or, I'm sorry, people that have \$10 million net worth, about half of our customers have more than \$10 million and about half have less. I think the bigger factor is, how many people are currently raising their hands to go. And that hasn't been something that people understand yet. And as we fly, as Blue Origin flies, and as these stories come back, I think you'll see the factor of people wanting to go dramatically increasing on the market size.

<<Oliver Chen, Analyst, TD Cowen>>

Michael, you've also had a very exciting year flying commercially six times in six months. What's the state of the business today from a financial perspective relative to your longer term financial algorithm and key learnings that you've had from VSS Unity?

<<Michael Colglazier, President and Chief Executive Officer>>

So for those who aren't familiar, we developed a first ship, past a prototype, but kind of a first working model ship. We call it Unity. In the video you saw, those were, that's the ship we've been flying. And we invested in it so that we could showcase to the world and to the public. Does this matter? Is it safe? Can we repeat this business out there?

And so last year we had a fantastic year. We set out to fly out on a monthly basis, and we flew six times in six months. As Oliver mentioned, we're flying again this Saturday will be Unity's final flight. And that was doing exactly what we wanted it to do for us. Now, we are pivoting the entirety of the company to focus on a production ship, right, because a prototype ship costs a lot to build, costs a lot to operate. It's not going to drive economic growth just like a prototype car or a prototype plane wouldn't do that. You need to get a production model. We internally use the Delta Class ships as our production model, and those are the ones that we are pivoting and fully investing in.

<<Oliver Chen, Analyst, TD Cowen>>

In near term, how should investors model operations relative to free cash flow over the near term as Delta Class ramps to commercial service in 2026? An overview of your liquidity, debt and capital allocation plans would be helpful.

<<Michael Colglazier, President and Chief Executive Officer>>

Okay. There's a lot in there. Would it be helpful just to share what the Delta ship is? Maybe a little bit here. So and then let me kind of get into some of that with you there. But that first video showcased our first spaceship, Unity flying to space. The Delta ships are going to look pretty much the same. They are going to fly pretty much the same way, the way they're built and the insides of them and the economic flow through is incredibly different. And so, Owen, if you wouldn't mind, go ahead and queue up that Delta video for us, please.

[Video Presentation] (0:11:47)

So, Oliver, you were asking, like, economics, and, you know, what's kind of our economic structure? So just for those who haven't maybe followed us as closely, this ship, that's a look at actually the model we build and design the ships in, is what's up on the screen. That ship is built to turn to be able to fly twice a week, eight times a month, on average. We have six seats in there that carry paying customers. And our current price, which we don't expect to go down, is \$600,000.

So at that level of revenue, we have contribution margins well over 75%. Maybe another way to think about it is one passenger on that sixth passenger spaceship kind of pays for the flight. And the rest of the other five passengers are now driving money that can flow through to the bottom line. So the economics of these spaceships on a variable basis are enormous for us.

So the key for Virgin Galactic is to be able to build these at an economic pace and get the pace of them moving, just like an electric car company is trying to get their plant built up there. And that's where we're spending our investment. That's this focus on the Delta Class that's where all of our efforts go in, because this is a fixed cost business. We're moving through all the non-recurring engineering. We're moving through the building of the factories. And then when we get to the other side of this and we can talk timeline a bit, we expect these to cost \$50 to \$60 million apiece on a variable basis and be able to fly 500 plus flights.

So that type of math provides an asset payback. Each one of these ships, we can pay these back in under six months as we fly them. That's kind of the essence of the economic picture here. And we can dig under.

<<Oliver Chen, Analyst, TD Cowen>>

Yeah, that was a great video, a new one we haven't seen yet. We're excited to be at flight seven this weekend TD Cowen, after that, what are catalysts that we should pay attention to, and what are critical milestones in the production of Delta Class?

<<Michael Colglazier, President and Chief Executive Officer>>

The way we build these production spaceships, it's not dissimilar to any other manufacturing industry and building complex machines. There is a design phase to ensure that the design is built for easy manufacturability and cost effective manufacturability and for maintainability in the operating phase. So from there, we – oops, sorry. We get to building tools, molds, right. For all the parts that are going to be built now, after the tools are built, it's very easy and cost effective to now make the various parts for the ship.

Those parts get built into sub-assemblies. We work with two major aerospace partners, Bell Textron and Qarbon Aerospace, and they do build the parts and build them into sub-assemblies. And we bring those to a final assembly plant in Phoenix. That final assembly plant in Phoenix is on track to complete later this summer. And then we'll build the spaceship, and we will test it, and then we'll flight test it and put those into service.

So that's the pace that's going. So, Oliver, you're asking about catalyst. Each one of these phases has very visible catalysts for us to do. So we are finishing our design phase, and we'll start to move into what we'll call the building phase. And so you'll start to see images of tools, some small, some very large, that say, oh, that's where they're going to build the spaceship. Then you'll start to see the actual parts being built. Both of those will be happening this year and early in 2025.

And then you'll start to see in 2025 these big assemblies coming together and like, oh, I see, that's where they're actually building the spaceship, so that you get these fully in. And now we're able to test those. And as that testing progresses, we'll actually be flight testing the ships as well. So all the way along, we will be talking about the progress. And what's really happening economically is, we're getting through all the upfront, non-recurring engineering, we're getting through all the fixed cost in the infrastructure, and now getting very close as we move forward to the contribution economics that we talked about with 75% plus contribution margins.

<<Oliver Chen, Analyst, TD Cowen>>

That does lead us into thinking about 2026 and free cash flow modeling. What are some parameters we should think about? And also going over your liquidity, debt and capital allocation plans would be helpful as well.

<<Michael Colglazier, President and Chief Executive Officer>>

Sure. As of the last quarter, our last earnings call we had, I think the number is around \$870 million in cash and marketable securities. And that amount of money, we've said, is sufficient to move through and build our first two Delta ships and put them into commercial service. And just those first two ships in service, we estimate, drives about a \$450 million revenue business at great contribution margin and flow through. And that puts the company on a cash positive footing.

So that's helpful. We've also noted that the contribution of each incremental Delta ship, now that all that fixed cost leverage is in place, has great flow through. And so we have choices. We can move more slowly or we can look to add growth capital to more quickly add assets to the fleet, because as we add assets to the fleet, we quickly drive the top line and we take advantage of the fixed cost leverage to drive through to the bottom line. So we have choices in how we play out the capital strategy outlook.

<<Oliver Chen, Analyst, TD Cowen>>

Next question before I open it up to the audience for questions. On spaceport, what do full scale spaceport operations look like? How much revenue can one spaceport generate on an annual basis?

<<Michael Colglazier, President and Chief Executive Officer>>

So we fly pretty much every day, unless it's really bad weather, it's raining or really strong winds that we wouldn't want to fly in. And we are building these to have the opportunity to fly twice a day if needed. And so we're generally targeting to fly once a day at each spaceport in which we operate, or 300 to 400 flights a year. That's a really interesting place.

Not only does that generate, on the passenger side about a \$1 billion in revenue that flows through, but now you have a lot of activity around the Spaceport that drives people to watch the flights, drives people to the communities and for the governments who are trying to build economic engines within their communities, a spaceport is a real driver.

So our first one's in New Mexico. The New Mexico government has invested in that. We are looking to take that fully utilized spaceport, kind of a \$1 billion plus business and take those to other parts of the world, whether that be Italy or the Middle East or other areas. We can take that same model and expand because it is an excellent economic engine for the communities and the governments that we will go to. And it drives the ability to see other parts of the earth.

And just, I guess maybe, Oliver, the last thing I'd say is, you think about the economics. There's an interesting, I think, story being missed right out there on Virgin Galactic. There is clearly a bear thesis out there, right, probably supported by folks who want to short stocks that says, oh, well, look, they're burning cash and they aren't having revenue and that must be down, and therefore there's a downward piece.

And I think what's being missed is, well, of course, we're burning cash. We are in the pre-revenue stage. We are a capital intensive industry and we are moving through all the investments that allow us to then build products at a variable cost that drive great economic flow through. And so while I think that bare short story is like, oh, look, they're burning cash. There's a miss in the marketplace, in my opinion, of the value that is being created as we move through all the fixed cost investment. And now we'll have that leverage coming out. Now when that story starts to pivot, I think is up to the market in that regard. But I do think that is being missed in the story of Virginia...

<<Oliver Chen, Analyst, TD Cowen>>

Yeah, leverageability and also the flow through in the margin profile of Delta Class.

<<Michael Colglazier, President and Chief Executive Officer>>

Yeah.

<<Oliver Chen, Analyst, TD Cowen>>

As well as the reality of the time it will take to scale and thinking about timing. If you have any questions, please raise your hand. There's one right there then. Tom, thanks.

## Q&A

<Q>: Hi, thanks so much for taking the time this morning. I just had a quick question about the before the Delta actually really ramps and you're able to get that higher contribution margin. You talked about the liquidity on hand feeling sufficient to get you there. Curious about the convert that comes due in early 2027, how that kind of factors into maybe the need to possibly raise capital and not just rely on cash on hand before they land?

<A – Michael Colglazier>: So yes, we have \$425 million convert comes due in 2027, which is kind of after when we will be through and have our Delta ships up in service. And we – so we'll need to sort and decide what we want to do with that convert at that point in time. But that's a ways out. We have an existing, at the market ATM program that's in place at the last quarter. We'd used a little bit of that. It's – I think there's about \$107 million or so left on that. And we'd used about seven or so in the prior quarter, rough numbers along the way.

So we have access to that ATM program as well along the way. And the combo of all that is where we have sufficient funding to move through here. And then that gives us a solid business that gives us a \$450 million revenue business that we could drive from and we could stay there. But we have options. And I think the value and the contribution flow through once these fixed costs are spent of then adding ships to the fleet is going to be very, very appealing. And so we're looking at those options as well.

<Q – Oliver Chen>: Next question.

<Q>: Yeah, I just wondered if you could talk a little bit about the internal expertise that gives Virgin Galactic a competitive edge over competitors like Blue Origin or others. And then as an unrelated follow up, curious on the community involvement you've seen leading up to flights and then the community involvement post flight from the 2019 or so astronauts who have already flown.

<A – Michael Colglazier>: Great question. So on the competitive or the technical expertise, I'll talk it first from the spaceships or the technology, the machinery itself, but then also on the customer and experiential side. We are flying fundamentally a space plane, a ballistic space plane. And so we have a blend of expertise from space industries, rockets, propulsion systems, as well as aero. Right. High mock aero piece. So we have people from Skunk Works, we have people from Northrop. We have people from the rest of Lockheed. We have people from SpaceX. We have people from Blue.

We have people from all around the aerospace industry have come kind of for the shared purpose of opening up space to kind of the rest of us in the world. The technical expertise is incredibly deep. And I'm really proud of the people that work at Virgin Galactic there. What's not the story told yet is also the expertise that's coming more in Oliver's world here. Right. The luxury and experiential market. And that is where we are unique.

I think Blue and SpaceX are fantastic companies doing amazing things in the space industry. That's where their focus is on the machines. We have that focus, and we also carry the focus, incredibly detailed focus, on the customer journey and the experience. And from there, we brought in people from a variety of hospitality, leisure, and high end versions of that to support the customer side of the house.

So to your question on the community. The most people think about this as well. It's the space flight, right? That's the big thing. And of course, that's the peak of emotion. That's what we work so hard over a two year journey to embed that memory for life for you there. But it is, of course, then the week in advance of that flight where you are preparing and staging and getting prepared with your crew for that, in the Everest analogy, would be going kind of from base camp up to ready for summit day along the way. But it's the journey that is before that that has been what gets called out so often from our customers to have not only had the preparation, but we have people from like, 68 countries around the world. And they're fascinating community.

And so the events that we program both to prepare you for your journey, but also just events to get to know this community have all built up to this peak moment. And the moment's incredible. I don't know if you heard some of the words in the early video. One of my favorite stories, one of our astronauts came off, I won't say who it was, and it was he. And he comes off the ship, gives a big hug to the family because we land our spaceships right back at the spaceport where we took off. So your family and friends are right there in this kind of heavy, heavy emotional moment.

And he says, I love you. I love you. And I loved our wedding. But I have to say, like it meant nothing to me relative to this. And his wife was very gracious. She's like, I know, it's okay. People can't find the words to express how meaningful this experience is to them. And so you ask, what happens now? I've spoken to almost every astronaut following their flight. I give them about a month.

And this has changed them. This is now going to define a part of who they are going forward. And they can't help, but tell the story and why that matters to us. We sometimes talk about TAM from like a top of the funnel marketing, but we don't need to go from zero to 10 million people, right? That's my old job. This needs to go from zero to 700 to 1,000 to 2,000 to 4,000. It's small growth. And so if everybody who comes down just tells their story, and of the hundreds and hundreds of people they tell their story to, if just two people get interested to go, we will be over demanded and supply constrained for a long time coming.

And so we look at our – how we're going to build our market two ways. There's the top down funnel and we will have good marketing and we will have good outreach. But our most important thing is to ensure the experience for the people that fly with us from the moment they sign on through the two to three years before they fly and then after is so fantastic that they become missionary for us. And I think back to the luxury piece, Oliver, that's what luxury brands do, right? They create passionate missionary customers who want to become fundamentally your sales force as you go out. And that's what we're seeing right now.

<Q – Oliver Chen>: Michael. So in closing a lightning round, a few questions here. One, what would you define as your key competitive advantages? You spoke to a lot of them earlier. Two, how are you using AI in different parts of your business? And three, a favorite book, TV show or streaming that you're watching now.

<A – Michael Colglazier>: All right, competitive advantages was first?

<Q – Oliver Chen>: Yeah.

<A – Michael Colglazier>: Everything about the way we go to space is, in my opinion, better. We take off, right? It's like you take off on a commercial piece and we carry you to 50,000 feet. And so the preparation of that, the smoothness of that is great. And your whole family and friends and everybody who comes are watching. We're going to have 250 people, friends and family, at the spaceport watching. All of them, by the way, can become potential customers for us.

And so you see that go, you have the time to kind of really build in the meaning of this, and then the spaceship flies you to space, and then as it, you have that amazing experience and as you come down, it works as a glider and it glides you right back down to the place where you took off. And so there's a huge advantage experientially to that. But really it's. The cost structure is where our competitive advantage is. That's how we turn a spaceship on two day, three day intervals. Right, we can do this because we take off and land in the same place while we're having a great wing ceremony and experiential moment for our customers, we just pull the spaceship in the hangar and get ready to turn it for the next day. That's an enormous advantage over any other system that goes to space.

But our focus on this memory, this journey, this experience, nobody else is doing that. They have other business objectives, and that's great. So, I think those are the key advantages anchored by, as the question was earlier, are people, the technical expertise, the dedication and passion of this company is amazing. And the purpose, why they came. So that was one.

Your second one was AI. There's so much use of those two letters in such a widespread thing. Right, so we're keeping our technology a little bit AI pure right now, as we're getting this design, I think it makes sure we keep our intellectual property constrained in there. But our engineers, of course, are using AI to help on their own and their own building there. I think AI is going to probably be something down the road for Virgin Galactic.

We are small customer focused right now. But as it settles, as intellectual property ownership becomes a little bit more clear, I think for ourselves and the space industry overall, you'll see this accelerating engineering design capabilities going through. So, like that a lot. And then I'm busy at work, busy with my family. I'd almost go to the other side. I worked 30 years at the Walt Disney Company, very focused in the media industry.

Wow. What happened to movies? I think we're just missing the cultural moment that movies just were. So I'm a little saddened by that and have moved back into streaming. So I just watched the

fall guy. All right, it's in there, but I haven't found something that's really capturing us there. And I think the Hollywood industry, I hope, steps up to the task.

<<Oliver Chen, Analyst, TD Cowen>>

Well, Michael, it's been great to get briefed and also see the phenomenal opportunity with Delta and also the scaling and the video and also the Spaceport experience has been remarkable. Thanks for your time today.

<<Michael Colglazier, President and Chief Executive Officer>>

Thanks, Oliver.