Unlike Other Former SPACs, Rocket Lab Is Already Science, Not Fiction

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Rocket Lab's Electron lifts off. The company's shares are down more than 50% this year.Photo: Business Wire

This column is part of the sixth annual Heard on the Street stock-picking contest.

Investors in 2022 have decided they hate moonshots. They should make an exception for a firm that has actually gone to the moon.

On Thursday, a spy satellite run by the U.S. National Reconnaissance Office shot into space from New Zealand. The rocket carrying it, the Electron, was built by Rocket Lab, RKLB -8.93%▼ a U.S.-Kiwi startup founded in 2006 by self-taught rocket engineer Peter Beck.

Rocket Lab USA, Inc. (RKLB)

- **Recommendation: Buy**
- **Price: $5.45**

Shortly after Russia's invasion of Ukraine, satellite-intelligence firm BlackSky asked Rocket Lab for an orbit change just days before it was due to launch, in order to place its satellites more directly over the conflict zone. While changing such missions has traditionally taken months, Rocket Lab pulled it off in 45 days.

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These are examples of the new opportunities opened up by governments' desire for "responsive launch." While Elon Musk's SpaceX has spent years revolutionizing the space economy with its large reusable Falcon rockets, a raft of startups have recently stepped in to provide light rockets that are more expensive in terms of price per kilogram, but can send small satellites to specific orbits with extremely fast turnaround times.

Geopolitical tensions could expand this market at warp speed as part of a broad-based defense upgrade. After devoting $50 million to responsive launch within the Pentagon's 2022 budget, lawmakers have pushed to increase this funding to $150 million for 2023. Russia's Soyuz rocket no longer being available to Western governments and firms further brightens the picture for launchers.

Yet investors are dumping their stocks. After a year of unrestrained euphoria, when all sorts of "pre-revenue" startups merged with special-purpose acquisition companies, or SPACs, rising interest rates have prompted traders to shun speculative ventures, including fintech innovations, air taxis and, yes, small-satellite launchers.

This has shrouded Rocket Lab, Virgin Orbit and Astra Space, which all went public through SPACs last year, in a cloud of negative sentiment. It also casts doubt over the fate of privately owned ventures like Firefly Aerospace, Relativity Space and ABL Space Systems.

Shares in Rocket Lab are down more than 50% this year, which is in line with the fall for the AXS De-SPAC Exchange Traded Fund. But this is galactically unfair: Unlike many of the companies in that fund, Rocket Lab has actually achieved the impressive feats it promised to investors.

Beyond launching 149 satellites into space so far, Rocket Lab also sent NASA's CAPSTONE spacecraft on its way to the moon's orbit in June. A month earlier, it caught an Electron booster in midair with a helicopter—a key step toward making the rocket reusable. For comparison's sake, Astra has suffered a number of failed launches over the past year, Firefly's Alpha rocket exploded during its first test launch, and Relativity has yet to attempt one.

This may actually understate Rocket Lab's manufacturing edge.

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"Your first rocket is built by engineers in a controlled environment over years," Mr. Beck said. "Your 20th rocket is built by a technician reading instructions and it's all about process."

Furthermore, this isn't really a "pre-revenue" company: Sales came in at $41 million in the first quarter, a 124% on-the-year increase. It isn't yet profitable—positive operating income is expected in 2024—but only because it continues to invest heavily in a larger coming rocket called the Neutron. And its business isn't just launches: Between two-thirds and three-quarters of revenues actually come from building satellite components.

When investors finally come around to discriminating between former SPACs, they may realize that Rocket Lab has long achieved escape velocity.

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