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IRDM - Q4 2017 Iridium Communications Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Iridium Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to hand the floor over to Ken Levy, Vice President of Investor Relations. Please go ahead, sir.

Kenneth Levy

Thanks, Karen. Good morning, and welcome to Iridium's Fourth Quarter 2017 Earnings Call. Joining me on the call this morning are our CEO, Matt Desch, and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our Q4 results followed by Q&A. I trust you've had an opportunity to review this morning's earnings release, which is available on the Investor Relations section of Iridium's website.

Before I turn things over to Matt, I'd like to caution all participants that our call today may contain forward-looking statements within the meaning of the -- are not historical fact and include statements about our future expectations, plans and prospects. Such forward-looking statements are based upon our current beliefs and expectations and are subject to risks which could cause actual results to differ from forward-looking statements. Such risks are more fully discussed in our filings with the Securities and Exchange Commission. Our remarks today should be considered in light of such risks. Any forward-looking statements represent our views only as of today, and while we may like to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so even if our views or expectations change.

During the call, we'll also be referring to certain non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles. Please refer to today's earnings release and the Investor Relations section of our website for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matthew J. Desch - Iridium Communications Inc. - CEO and Director

Thanks, Ken, and good morning, everyone. Well we just completed a really great year, both in terms of our subscriber growth and the early success of our Iridium NEXT program. We're halfway through the launch program and the new satellite activations continue to go very well. To date we have launched 40 satellites which represents 61% of the 66 new operational satellites we need for full service and we'll be launching the final 35 satellites over the next few months to complete the constellation. Our NEXT Launch has moved around a bit, primarily due to the delays in the [Pause] Mission that should be launching this morning from Vandenberg. Right now, it looks like our NEXT launch will be the morning of Thursday, March 29, essentially 5 weeks from now, though we're still confirming that date. The 10 satellites for that launch are shipping to Vandenberg now



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and the first and second Falcon 9 stages are already onsite and being processed at the base. This launch again will use a flight-proven first stage. It will be the 10th flight of a refurbished rocket by SpaceX. We have history with this particular first stage. It successfully launched our third batch of satellites in October.

Following next month's launch, our cadence with SpaceX should move more rapidly as launch frequency is planned to increase to approximately one launch every 5 to 6 weeks or so. In fact, our 6th launch is currently scheduled for a quick turnaround at the end of April. That will be a rideshare with the JPL German Gray satellites in which we'll utilize half of the payload to launch 5 Iridium NEXT satellites alongside the two Gray satellites which will be mounted on the dispenser above ours. This rideshare has turned out to be a very efficient way to share the cost of a launch with another organization, allowing us to place even more satellites into orbit than are initially planned. Specifically, we'll now be able to have 9 orbit spares rather than the 6 we had originally budgeted for. SpaceX is planning a busy year and from what we can tell, they appear very capable of meeting the schedule to finish our launches this summer.

Moving onto our business results, 2017 was another solid year for our company. We exceeded our full year guidance for operational EBITDA and continue to have positive momentum business development activities across both our commercial and government segments. Our total subscriber base grew 14% leadership team fueled by strong IoT activations and this positive momentum was even before we've been able to take full advantage of the capabilities of our new constellation.

Our commercial business has received from much of the economic and currency headwinds that produced slower growth back in 2016 and we are now operating in an environment that's supported by new IoT partners and an improving competitive position in the satellite voice market, particularly in handhelds. We feel good about our market position, experience with our strong ecosystem of distribution partners. A weakening dollar has also made our premium products less expensive around the world, just when we're nearing completion of our upgraded constellation to deliver optimal quality.

I also want to highlight the value and potential of our Push-to-Talk service which was important in storm coordination and recovery during the recent hurricane season and it continues to demonstrate its value for organizations involved in disaster relief.

A big bright spot for us in 2017 was IoT which continues to benefit from our alignment with large, growth oriented partners. I'm really pleased with the success we're having with heavy equipment OEMs. They increasingly rely upon us for dependable real time connections as they improve the management of their global fleet assets in vehicles. We also introduced Iridium EDGE in 2017. This product is attracting new customers to Iridium and helping them to get to market faster with lower implementation costs. As a result, we're sitting on a healthy pipeline of demand for our IoT services and expect subscriber growth in 2018 to be in line with what we experienced in 2017.

Maritime and aviation are sectors where Iridium is coming into our own and will continue to grow as we deliver faster speeds over Iridium NEXT. While we've long been a player in the maritime crew voice and connectivity market, the broadband component of our revenue from this business is still relatively modest at about \$23 million per year, providing internet and VSAT companion service on about 8,500 ships around the world. Iridium Certus, which will be launched commercially in the next few months, will give us offerings with dramatically increased capability and throughput. With significant industry growth tied to broadband services, we continue to expect annual revenue from our new Iridium Certus broadband offerings will reach \$100 million in the next few years. And that's across all industry segments, not just maritime.

In the second quarter, we are on track to commercially launch Iridium Certus service which will become the industry's fastest, most reliable and most cost-effective L-Band broadband offering. In fact, we've completed our system and satellite testing and are in live operation in the field on several ships. Cobham is testing its new Sailor 4300 unit and Talus is testing its new Vessel Link antennas on ships in the North Sea and Atlantic Ocean, and the service is working very well. It's reliable and achieving the targeting initial rollout data speeds and is demonstrating outstanding voice quality. This testing on the rough seas and in actual maritime conditions is allowing our partners to tune their products, ensure the highest quality offering, and is helping them improve their installation procedures for resellers.

Why we aren't counting on significant revenue from Iridium Certus in 2018, we do expect activations to start building momentum through the year particularly in maritime, but also with land mobile applications as the new Talus Mission Link terminal is introduced. We're also looking forward to aviation terminals being available for testing later in 2018 with commercial service on aircraft starting in 2019. While we're getting a little later



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start for Iridium Certus than we originally expected, Certus is arguably one of the most anticipated global product launches for many of our existing and new partners in years. Our offering makes Iridium a great standalone service or a perfect complement for KU and K-Band (inaudible) services, especially for distributors seeking to pair the Iridium Certus service with other technologies for safety and reliability. With maritime terminals available in the second quarter, our VAMs and channel partners are actively promoting the service globally today.

We announced our initial distribution partners for land mobile and maritime earlier this month and they are a strong group. We will also be announcing our first aviation distribution partners very soon. Across all industry segments we have aligned with premier business partners who are excited to roll out this broadband offering. We expect Iridium Certus to set a new benchmark for global L-Band services.

Our enduring service to the US government is a great source of pride here at Iridium. Government subscribers grew 19% in 2017 illustrating the continued importance of Iridium voice and data services to the USG and we ended the year with a record 100,000 government subscribers. Our longstanding relationship with the US government has provided significant value for both of us. The government has enjoyed broader and more cost-effective use of Iridium's unique global services. Since our fixed price contract was initiated in 2013, the average cost per subscriber has fallen by 24% for the government, while its subscriber base has nearly doubled. We continue to engage in constructive dialogue with this valued partner but don't expect to have much to report on a new deal until it's completed either later this year or in 2019 if they choose to extend the current contract, the additional 6 months it allows.

Aireon continued to make progress in signing new customers and addressing their capital funding needs as they move to commercial service. They signed 7 new MOUs in 2017 and earlier this year finalized a long-term data services contract with ASECNA, the air navigation service provider managing traffic in 17 states in West Africa. We expect the company to announce additional meaningful data service contracts in the coming moments.

As you know, Aireon is creating a unique and powerful air traffic surveillance system that will revolutionize air traffic management. The FFA's and Europe's deadline for compliance with their ADS-B equipage mandates are less than 2 years away, and aircraft installations are accelerating. With A&SPs managing the busiest North Atlantic tracts already signed up, along with 9 other ANSPs around the world, we are seeing the FFA continue its testing of the effectiveness of Aireon's satellite-based system. Most recently, the FAA and NavCanada each completed additional successful flight tests on the growing number of new payloads in space. Aireon tells us the performance they are achieving is surpassing expectations, particularly with messages they've received from the test aircraft with very high fidelity. That's given Aireon and their customers a lot of confidence in the capability and quality of their service to provide better air traffic management around the world.

Now on a final but very important note, we have made significant progress with our credit facility lenders that should take the topic of liquidity off the table as we complete the Iridium NEXT mission. Tom is going to go into this in more detail about the transaction. Needless to say, I'm really pleased with this resolution and where it leaves us as we enter the home stretch on Iridium NEXT. Momentum is an appropriate word to describe the state of our business today. I'm very excited about the strong progress we made on launching Iridium NEXT this past year and seeing the energy that continues to fuel our business and operational success. 2018 is off to a great start. I feel very good about the underlying strength of our business, the new broadband services that we'll soon launch in the satellite industry, and our positioning, the ability to build new relationships with premier channel partners that can drive incremental subscriber revenue for Iridium. Even with the financial goals we have set this year, I am more confident than ever in our business prospects and my team's ability to deliver on these commitments as we complete the Iridium NEXT mission.

So with that, I'll turn it over to Tom for a review of our financials. Tom?

Thomas J. Fitzpatrick - Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director

Thanks, Matt, and good morning, everyone. With my remarks today, I'd like to start by summarizing Iridium's key financial metrics for the full year and provide some color on the fourth quarter results. Then I'll walk through the 2018 financial targets we issued this morning, review our updated long-range guidance, and wrap up with a discussion of our liquidity position and recent activities there.

We were pleased to deliver another year of good growth in 2017. Total service revenue grew 4% and operational EBITDA exceeded our full year guidance, rising to \$265.6 million. This performance was driven by continued momentum in IoT and in part by acceleration of business with



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heavy equipment OEMs. In the fourth quarter, Iridium reported total revenue of \$115.5 million which was up 7% from last year's comparable period. This growth was attributable to strength in our commercial business and incremental sales related to US hurricane readiness and post storm activities.

I'd like to point out that our net income for the quarter was impacted by 2 nonrecurring items. The first was a \$150.9 million benefit in the period from the effect of the newly enacted Tax Cuts and Jobs Act. Overall, the net effect over the long term will be positive for Iridium, particularly with the lower corporate tax rate. The other was a \$22.3 million after-tax write-off of payments previously made to our supplemental launch provider, Kosmotras. You'll recall we moved away from this provider when it did not meet its obligations under the need for launch program contract. Today we have 40 Iridium NEXT satellites in orbit and all the SpaceX launches scheduled that we need to get our remaining satellites into space for the Iridium NEXT mission.

In the fourth quarter, operational EBITDA rose 4% from the prior year's quarter to \$63.7 million while our operational EBITDA margin moderated to 55% on higher SG&A driven by a year-end true-up in management incentives. For the full year, operational EBITDA margin was steady at 59%.

The commercial side of our business remained quite strong in the fourth quarter, generating revenue of \$69.4 million. This is a 12% increase from the prior year's quarter and was fueled by momentum in IoT as well as incremental revenue from hosting fees and data services associated with new Iridium NEXT satellites put into service in 2017.

Beginning this quarter, we're providing a new revenue breakout in our financial statements for hosted payload and other data services which totaled \$4.6 million in the fourth quarter. This added detail allows investors to track hosting fee and data services revenue generated from our contracts with Aireon and Harris as well as nonsubscriber base revenue from businesses like our satellite time and location service, or STL, which became material to Iridium this quarter.

Our hosted payload revenues include the Aireon data service fee and Harris data and hosting fees, both of which are currently being paid in cash. We have not yet begun to recognize the Aireon hosting fee, as no payment has yet been made. I'll discuss our 2018 expectation for this item later. As a reminder, while we recognized approximately \$2.3 million in hosting fees and data service revenue for GAAP in 2017, these revenues were excluded in calculating EBITDA since they were less than the approximately \$4 million in recurring Iridium NEXT expenses that we incurred during the year which were similarly excluded from EBITDA.

In 2018, we expect recurring service revenue from hosting fees and data will exceed recurring Iridium NEXT expenses and both will be recognized in into EBITDA.

Commercial subscribers grew 13% year-over-year. Much of this growth was the result of a 23% increase in commercial IoT subscribers, while commercial voice and data subs rose 2% in 2017. Commercial IoT added 24,000 net subscribers during the fourth quarter, pushing our IoT mix to 59% of billable commercial subscribers, up from 54% in the year ago period. As forecasted, our government service business remained at \$22 million in the fourth quarter. Government subscribers grew 19% in 2017 illustrating the continuing importance of Iridium service to the US government. Total users ended the year at a record 100,000 subscribers.

The impact of Hurricanes Harvey, Irma and Maria fueled incremental demand for Iridium equipment in the fourth quarter. Revenue from subscriber equipment increased 18% year-over-year to 19.4 million while equipment margins were 42% compared to 36% a year earlier. This increase was principally associated with the elevated mix of high margin handsets compared to the year ago period. This mix should normalize with storm activity now behind us. We continue to expect margins in the high 30s to low 40% area, depending on mix.

Moving to the 2018 financial guidance we issued this morning, we forecast operational EBITDA in a range of \$280 million to \$290 million and total service revenue growth of approximately 10% to 12% for the new fiscal year. The key elements supporting this 2018 outlook are as follows. First, we anticipate approximately \$25 million in revenue from hosted payloads in 2018. Based upon the continued successful deployment of Iridium NEXT satellites. Today, Iridium has approximately half of its new satellites in operation and will add to this total with each launch until we have all 66 operational satellites later this year.



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Hosted payload revenues include both hosting and data service revenue from Harris Corporation which has largely already been received in cash, as well as hosting and data service revenue from Aireon. Aireon will pay the data service fee currently and the revenue will be recognized monthly as satellites are deployed. Aireon's hosting fee, which is expected to contribute approximately \$14 million in 2018, will similarly be recognized pro rata as operational Iridium NEXT satellites are placed into service. This is provided that either Aireon's financing closes and the first installment under this financing has been made to Iridium, or upon the FAA making a positive decision on utilizing space-based ADS-B which we still expect in the second half of 2018. Aireon currently expects their financing to close in the second quarter of 2018.

The second key to our 2018 outlook is that we expect continued strength in IoT and are forecasting double digit subscriber growth from that business line in 2018. Supporting this outlook are a number of high profile contracts, one this past year, including heavy equipment manufacturer Hitachi, continued demand from Garmin and Caterpillar and ramping installations from partners like Komatsu, Duseon and Honeywell that are outfitting their equipment with Iridium to provide reliable, low latency telematics. Third, we expect revenue from our fixed price contract with the US government will remain steady at \$88 million in 2018. Our 5-year contract comes up for renewal this year and US Government has the right to unilaterally extend it for an additional 6 months.

Today we are updating our long-range outlook. Specifically, we are narrowing our range for 2019 service revenue. We now expect service revenue for the full year 2019 to be approximately \$440 million. This revision reflects our latest estimate for the sales ramp of Iridium Certus now that we have greater clarity on product rollout and partner marketing plans. We expect Iridium Certus revenues will reach \$100 million run rate in late 2021 rather than as we exit 202 as previously forecasted.

There are number of other factors that support this long-range revenue forecast. First, we expect continued growth in commercial services, especially from IoT data where subscriber and revenue growth has been accelerating. We believe that many of the new heavy equipment partners we have announced in recent quarters will have fully integrated Iridium's satellite solution into their manufacturing process and be activating their services at a higher run rate.

Second, we anticipate a renewal of the EMSS contract with the US government that will be favorable to both Iridium and the US government. Ongoing subscriber growth within the US government bodes well for our negotiation and should lead to a new contract that will be a win/win for both parties. Third, we expect to recognize the vast majority of the \$47 million in hosted payload revenue in 2019 based upon terms of our contracts with business partners Aireon and Harris and upon expected developments at Aireon.

We started to recognize revenue from hosted payload last year based on each operational satellite in the Iridium NEXT constellation and expect that the full constellation of 66 operational satellites will be fully deployed in 2018.

Finally, in addition to Iridium Certus, other new products remain important catalysts for revenue growth. We're excited about demand for STL, a service that we think will contribute meaningfully to sales, as well as commercial Push-to-Talk. Our commercial Push-to-Talk offering was effective in recovery efforts following recent hurricanes and the California wildfires. We see a nice pipeline of opportunity around the world for this service. The other components of our long-range outlook, which we also are reiterating today, include expectations for operational EBITDA margin of approximately 60% in 2019, negligible cash taxes through approximately 2020, peak net leverage of between 6 and 6.5x in the 2018 fiscal year, and finally, net leverage of approximately 4.5x as we exit 2019.

Moving to our capital structure and liquidity position, we've reached an agreement in principal with our BPI lenders which has been sanctioned by the French Treasury that we believe provides Iridium with ample liquidity into 2022 even in the unlikely event that we haven't received any hosting payments from Aireon. The agreement contemplates that Iridium issue additional debt and for the lenders to delay certain scheduled principal repayments under the BPI facility. The proceeds of any debt issued will be used to repay our Talus deferred payment note and to fully fund the debt service reserve account or DSRA. The agreement would also be very flexible in that it provides Iridium with access to a portion of the DSRA if our projected cash balances falls below an agreed amount. We expect to file an 8K detailing the arrangement with our BPI lenders once it is complete and expect this to occur no later than the second quarter.

I'm very pleased I think this deal. It's good for Iridium and fully addresses our liquidity needs for the foreseeable future. Iridium remains optimistic in the expectation for hosting payments from Aireon this year, but feels it best to not rely on them for purposes of our liquidity. Given these pending



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plans, we can now complete the launch program with no concerns about liquidity. This expected debt raise would not materially impact our net leverage because the proceeds of the offering will pay down existing debt and the remainder will increase our cash balance.

As of December 31, 2017, Iridium had a cash and marketable securities balance of approximately \$298 million. We anticipate total capital spending of approximately \$500 million in 2018. This spending predominantly reflects work associated with the completion of the Iridium NEXT mission. In closing, I feel very good about the progress we made this past year. Our company made tremendous strides in building new business relationships, generation strong subscriber growth, and replacing our legacy constellation with new satellites. We believe that the new debt deal that I just described takes any liquidity concerns off the table and we eagerly await the final lunches of the Iridium NEZXT program and the financial transformation it will bring to our company. With that, I'd like to turn the call over to the Operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ric Prentiss, Raymond James.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

A couple of questions on the financing. Obviously you don't have a lot of details yet, but just wanted to get some kind of framework for it. Can you talk about what type of debt you're looking at and what kind of rates you're seeing in the marketplaces?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

I can't describe the debt at all, Ric, for just because where we are in the process. The headline here is if you focus on -- and I've had conversations with you and others about principal payments required under the BPI facility, that the deal pushed the near-term payments, reduces them and pushes them out. And so kind of the headline that we're trying to give you to size it is, no liquidity issues through 2022. Even without any payments from Aireon. So that's how you should think about it.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay, maybe just let us know what kind of rates you're seeing in the marketplace, not that you would actually tap that bucket, but what kind of rates are you seeing? We're in a rising interest rate environment, but just kind of wondering what you're seeing out there at least in the marketplace?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

Well to do that, I'd have to tell you the type of debt security we're thinking about and I can't do that. So we'll give you fulsome disclosure when we file the 8K.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Hey, it was worth a try. Can you say also that you're still not expecting any equity raises?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

Definitely not.



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Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Definitely not that you're not going to do any equity, right? So it's not that --

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

We're not doing any equity raises and the security that we have in mind has no link to equity.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay, that helps. And then when you think of the credit facility that's out there right now, at some point you'd probably like to take it out completely as you move to more of an operational company than a construction company. What are the thoughts of what might be the gating factor to kind of switch and get rid of that facility completely?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

If you think about what we've done here, we've set the table for no liquidity issues through 2022. And so that gives us plenty of room as we think about the opportune time to take the BPI facility out. We plan on taking it out long before 2022 because we want to do equity friendly type things and there's no reason to have the kind of principal service that that facility contemplates. So what we've done is give ourselves plenty of buffer to be able to absorb disruptions in debt markets for a number of years. So we've given ourselves plenty of cushion from when we would expect to take out the BPI facility.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay, makes sense. More operationally, when you think of the 1029 guidance and tightening the range, moving to the low end of it, it sounds like it was predominantly maybe the timing of the Certus rollout and partner plans. But just trying to think thought the comfort on the 2019 guidance and if you could, kind of allude to maybe what your thoughts are as far as how much the government is in the guidance.

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

Yeah, so just to the first point, it really has nothing to do with our excitement about Certus or belief in its market value. It's just really more the timing. Because it's really starting to more rollout this year and doesn't start generating a lot of steam until 2019. So the timing just seemed more appropriate to narrow that down a little bit. We're feeling very, very good about the revenue generating potential for Certus and the market for it and our positioning within that. The government is kind of a small part of it. We're not expecting -- I mean we haven't finished that deal yet or anything here, but I mean how would you characterize it?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

So what I would characterize it, we expect the government increase to be a stub period. Because they will extend until April of 2019. So the 2019 increase will be for only a portion of the year. That's as much guidance as we can give.

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

It obviously could happen sooner, but that's really up to the government. So it's appropriate to really just focus on the most conservative approach which would be an extension.



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Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Sure, that makes sense. And final question is, as you think about the margins in the business and once you get past the construction, launching phase, where could the margins go as we look into 2019, but more importantly, even beyond that as far as how can this business run, what kind of level could it get to, when you look at compared to other guys in the space?

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

We've been pretty consistent all along believing that there's no reason why our business can't approach the same time margins that mature satellite companies reach. Our cost structure doesn't change that dramatically in the coming years with the new services that we're providing and the revenues continue to grow. And that expands operating margins beyond the 60% and I know others are in the 70% to 80% range and we don't see any reason why we can't hit those kinds of levels as well. There's a lot of opportunity for revenue growth and we think those are very achievable.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Some news coming out lately about SpaceX launching their own LEO platform. Obviously they've got a couple of more launches for you guys, but what are your thoughts competitively and just kind of what the space looks like with OneWeb and maybe SpaceX having their own LEO platforms up there?

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

There seems to be some confusion in the market, or from people I've heard, that somehow think that competition is based upon sort of architecture, like LEOs compete with LEOs and GEOs compete with GEOs. You know, it's really more around spectrum and applications that people provide. So today, we compete with a GEO, a major GEO network today, and LEO, I mean excuse me, OneWeb, SpaceX, those are all KU and KA-Band providers who really are going to compete for those commodity broadband applications that are currently what today's KU and K-Band GEO operations are involved in. So I look at those as potential partners. L-Band has a very unique place in the industry. It has a lot of advantages, particularly a global one like us. For example, an easy example is on aircraft where L-Band is used primarily for cockpit operational communications for the airlines and KU K-Band is used in the cabin. When any kind of new networks come along, I think they're going to compete for the cabin but they really can't be regulated and provide servicing the cockpit. So it really doesn't change the competitive dynamics. SpaceX has a very interesting network. I know that they're going to take some time to develop it. I think that they are really going to compete against wire line and cable operations. They need to if they're going to generate the kind of revenues they has. So that's not our area. So I see us as complementary to the new players coming into LEO in the say wake way I see us as complementary to the exiting KU K-band plays in GEO.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

That really helps. I think there is a lot of confusion out there. Thanks.

Operator

Chris Quilty, Quilty Analytics.

Chris Quilty

It looks like your long-term guidance basically pushes out Certus' run rate by a year and you mentioned previously that it looks like your equipment terminals, at least on the maritime side, are hit in the market meeting expectations. So is that pushout by a year more related to the timing of the

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satellite launches and how that's progressed over the past year? Or are you seeing any issues in equipment deployments either maritime or you didn't address the aviation and IoT?

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

I don't think it has anything to do really with terminals or partners. I think it has almost everything to do with our latest view of how the market will ramp up. Based upon the slightly later deployments of Certus than we originally hoped. When we originally provided that guidance, the broader range of guidance, we have expectations that there would be 40 to 50 satellites in operation sometime in late last year. And that Certus would be ready and developed and tested and that we'd be really ramping throughout all of 2018 for Certus. And 2019 would be a big year. Now with the number of satellites we had in operation only now getting to here in the next month or two and Certus launching here in the second quarter, it's going to be only a partial year in 2018 of ramp. And really more of the ramp is going to be start gathering momentum more in 2019. But we're not -- we're happy with the devices that we've seen developed so far by our VAMs. We think they're going to be really well received. They're high quality devices from very reputable manufacturers. You've seen the service providers we've selected on land and maritime. We've announced those in the last couple of weeks, it's a great list. It's only the initial list, there will be more that we're announcing. I think you're going to be real pleased when you see the aviation partners who are going to roll this out soon and that's an impressive list as well. So still a lot of excitement and the devices are coming along fine. It's just more timing. It's appropriate to tighten up the guidance now knowing we're getting a lot closer to 2019 now than we were when we gave you that.

Chris Quilty

It's been a long time since you updated it. Also, it looks like this is I think the first time you provided any numbers around maritime, both revenues and number of vessels in a number of years and I was glad to see you're actually ahead of what I was trying to forecast in the dark. Can you give us a sense of what's happened in the past year or past couple of years in rate of deployment and perhaps the ARPU trends historically and what you might see going forward?

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

In the last year or 2, I think it's been marked by stability really in terms of our open port products. As you remember, we had some quality issues with that a number of years ago. Those have by far been addressed to the extent that that product is, I hate to use the word bullet proof, but it's very, very reliable and it's seen that way in the market right now. And we continue to have had strong shipments and kind of consistent net activations each year for the last 2 or 3 years. Some of those, a number of those are standalone applications on what I'd call the value sort of platters that look for instead of an always-on connection, really want to pay as they go. A lot of them are being installed as companion vehicles to VSAT providers to ensure they work where VDAT doesn't work or in regulatory environments like ports where they're not able to be turned on. Certainly, in polar kind of regions and actually getting a lot of services. The ARPUS have been pretty stable in the last year, probably in a slight decline just as prices have improved and as business service is stabilized to what I think the level that that service can provide. It can only go up to 128 kilobytes per second. What the new Certus devices going from 352 to 704 pretty quickly here in 2019, I think we're going to see ARPUS increase with that product more applications, more standalone applications and of course it will continue to be a great companion device. So I think the competitive dynamics also have helped us in open parts. Partners want to deploy Open Port with their VSAT terminals versus other solutions for reasons that I think you understand and that also has given us a lot of market strength.

Chris Quilty

Great. One final question on Aireon. 2017 looked like a pretty good year in terms of sign-ups for MOUs. Do you have a sense of how many of those may convert into actual data service agreements in 2018? And what's the remaining funnel? Who decides the FAA of significant has not yet signed up?



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Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

I can't remember the percentage of the world that signed up in data service agreements versus MOUs. I used to try to keep track of that even on my board. But all those -- there's a long list of ANSPs in the world who are evaluating the service and are contemplating signing up. Really 100% for the planet eventual is the market and that's quite substantial. A lot of those have been waiting until it gets closer to commercial deployment to commit, but I'm really impressed I think their pipeline in 2018. There is a really significant group of customers who are in discussions right towards data service contracts including some very large ANSPs. So we're expecting as we get close to finalizing the network and they are looking to go commercial here later this year and starting turning their service off, you're going to start seeing a lot more data service contracts. And some significant ones at that, too.

Chris Quilty

And has Flight Aware had any success in basically brokering that service to commercial customers yet? OR is it being offered?

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

Yes, they are offering the service to airlines for airline connectivity and information. My conversations, in my last conversations, there were very happy with how that was extending their service. They had already been in that business. What they offered was a good service, but Aireon makes it a great service because it really means that they can provide some precise information to airlines. And they were telling me they were very happy with how that was working out. That that -- I mean they already have a great relationship with airlines and lots of contracts that just augments and improves. So I'm hearing good things about that.

Operator

James Breen, William Blair

James Dennis Breen - *William Blair & Company L.L.C., Research Division - Communication Services Analyst*

This is Eric for Jim. With the 2018 service revenue guidance, I just wonder if you can just give us some of the puts and takes, what's going into that. How much of that is Certus and hosting? And then secondly, if you could just remind us on the timing of the expiration of the DESA government contract and what gives you confidence that there will be a favorable step up for Iridium there?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

Sure. So I'm not going to parse out all the elements that make up our guidance, but we did indicate that hosted payloads is \$25 million. A little more background on the Aireon data fee which is charged and paid monthly, it's based on a fee for each of the 66 NEXT satellites in operation. The fee is impacted by a customer contract milestone which when cleared causes the monthly fee for operating satellite to increase from approximately \$16,000 per month to approximately \$28,500 per month per operating satellite. So our guidance assumes the lower rate in 2018, thus arriving at the approximately \$8 million number. And the higher number for the majority of 2019. So that's pretty detailed guidance on what we're thinking as far as hosted payloads. You would observe as the IoT business grew 13%, grew revenue= s 13% and we don't see that stopping, so that's certainly going to be helpful. We think the Talus revenues will be up materially. We see stability in our commercial voice and data ARPU, you saw that in the most recent quarter. We view commercial voice and data ARPU as quite firm. And so that's kind of the analysis going into the guide. I would say what gives us confidence that we're going to get a government renewal is our sort of 20-year history with the US government. The fact that they're growing their subs at 19%, we think the outcome, as I said in my prepared remarks, will be a win for us and will be a win for them. And our part of the win is our revenues will go up.

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Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

Yeah, we don't want to negotiate in public around that and describe our complete argument, but we've made it and believe it's well received. Given the growth as we've said in subscribers in terms of doubling the subscribers, but the cost per subscriber has been declining. There is room there to sort of recover a little bit of that in an unlimited environment which we continue to believe there will be. A lot of other positive things have happened recently too. As you know, we just started shipping the first new secure handset that they've had in quite a number of years. Smaller, lighter, better. The distributed tactical communication services global is moving and there are more tactical radios on different platforms. You might have seen the announcement yesterday of a new platform for all of the basically aviation raised that the government uses called the Rapid Cones R210. Their ability to expand that. And then IoT is really expanding broadly in a whole bunch of areas in Blue Force tracking kind of applications, vehicle tracking, fuel monitoring, all kinds of other applications. So on all that basis we're not projecting large growth necessarily in this area, but some growth is appropriate and still ends up bringing a lot of value to the government. So I think this is a positive time and we feel pretty good about our position together as we work towards this new deal.

James Dennis Breen - *William Blair & Company L.L.C., Research Division - Communication Services Analyst*

And then just on the timing of that contract, does the current contract expire in the third quarter?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

It expires in October, but as I said in my remarks, the government has the option to extend it for 6 months unilaterally.

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

So that's why we've kept generally the revenues this year and just assumed that they would sign. They have expressed interests on signing on time and going to a new contract this year and perhaps that will still happen. But the last time we did this, they went down to the wire and it got extended 6 months, so we're just forecasting that again for simplicity here.

Operator

(Operator Instructions) Andrew Spinola, Wells Fargo.

Andrew Carl Spinola - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Thanks. Matt, I think you might have just elaborated on it, but I might have, I think I might have missed it. The recent contract with Comsat where they are going to sell Certus into the government, I think you had said previously it's possible that Certus won't be a part of the new contract. So is it correct to think about it that you're going to be likely extending something that looks a lot similar to what you're doing today? And then you're going to have other opportunities to sell into that market with Certus through these partnerships?

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

Yeah, that's exactly the way to look at it. It could still turn out differently, but the general feeling between us is that what we've been doing for the last 5 years obviously has worked very well. So maintaining that structure for kind of unlimited service for a very specific narrow band applications makes the most sense. And the government really procures broadband services in a different way anyway. And that really shouldn't be an unlimited service, so it's going to be a more pay for use. Comsat by the way was the perfect choice. They are the primary vehicle today for providing broadband to the, L-Band broadband to the US government. And given when you move into the broadband space, applications care more important than they are on the narrow band side. Expertise and service, for security and all kinds of other applications are real important. So Comsat is a great vehicle for that and an ideal way to move quickly into the government. Who by the way, is already deploying, is really planning on in 2018 deploying



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Certus information at their gateway. So even in advance of sort of a formal contract there, they are getting ready for Certus to be able to utilize it even in 2018 and certainly in 2019 and 2020 as that really comes onboard and they can move into it.

Andrew Carl Spinola - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Got it. Tom, will the revenue essentially be the same for the 6-month extension period, the 22 per quarter?

Thomas J. Fitzpatrick - Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director

That's right.

Andrew Carl Spinola - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Got it. And Matt, could you maybe elaborate a little bit more on your commentary earlier on the call about the competitive situation in the voice market right now? What is it you're seeing in the market? What's happening?

Matthew J. Desch - Iridium Communications Inc. - CEO and Director

Well there's primary -- there's 4 competitors in that market. We've been by far, as the premium and I think highest quality and furthest reaching solution, have done better than anyone else over the years. But as you know, people have made runs at us in the past with low cost devices thinking they'd kind of peel away a lot of customers and that hasn't been very successful. The floor though is shrinking. Certainly, we know one has kind of moved into becoming a spectrum arbitrageur. And in fact, I'm not even sure they have new handsets anymore. It doesn't look like they've invested in a new handset. They're announced nothing nor do the channels know of anything. I don't believe they even have new handsets to sell. Another, as you know, a regional operator in the Middle East has not figured out what its future is. And really, the partner abase ad customer base knows that they may be timing out. So I think their revenues are declining as people are afraid to make major new commitments to them for handsets. So essentially the floor has shrunk to 2 and that environment is well understood and we don't see anybody else kind of coming along there. Even as we've been adding new company. Push-to-Talk has been a new adder in the last couple of years and there's a really pretty broad pipeline around the world for lots of -- Department of Emergency Services and MODs and others who like PPT and we see the aviation segment just introduced a product for PTT, Latitude is going to provide it for like medevac and other kind of applications in aviation where Push-to-Talk makes sense. So all that kind of goes to say that why we're seeing so much stability wright now in that space as opposed to couple of years ago where it was slight decline over time. Especially as the dollar was going up, it was making our products more expensive and we were seeing decline but we're not seeing that as much right now.

Andrew Carl Spinola - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Got it. Last question for me. Tom, I think it was last quarter or in the last 2 quarters, you were talking about doing sort of a term loan and sort of a one-time takeout of the credit facility. I know there's a lot of details to come, but is the right way to understand what's happening now is that you're not going to be doing that, you're going to be raising debt to handle the interest and principal payments. And so any real takeout of this facility is likely not going to occur until 2022 at this point?

Thomas J. Fitzpatrick - Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director

We would see the BPI facility coming out before 2022 for sure. What we described over the past couple of quarters was a situation where the takeout, when we're done with our launch campaign was feasible and we're hearing that from a lot of banks. But I think what we said was, threading the needle that tight when we had a March of 2019 maturity didn't feel right for us. You'd have to bet that everything went fine with the launches and just as soon as you got done, you'd refinance. And that was little too close for our comfort. And so I think what we've sad was that a renegotiation



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with the BPI lenders to deal with the March of 2019 maturities was what we were working on. This is the result of that. But we would just reiterate that we would see taking out the BPI facility before 2022 is the likely case.

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

Our strategy really hasn't changed on our belief and really kind of timing even on that. But we weren't going to take it out completely until we completed the launch program and finished the capital program anyway, so this is sort of an interim step.

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

Exactly. The gating item was the march of 2019 maturity that we knew was a problem and we're delighted with the outcome, Andrew. We feel it gives us ample cushion and takes liquidity off the table.

Andrew Carl Spinola - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Fair enough. And will we see that 8K -- is that coming later today or is that coming in the coming weeks?

Thomas J. Fitzpatrick - *Iridium Communications Inc. - CFO, Principal Accounting Officer, Chief Administrative Officer & Director*

when we get it done. We said no later than the second quarter.

Operator

Thank you. That was our final question. I'll now turn the call back over to management for any closing remarks.

Matthew J. Desch - *Iridium Communications Inc. - CEO and Director*

Thanks, everybody, for being on the call. I'm noticing that SpaceX launch looks like it was a success this morning. That was important because they needed to get off the pad so we can get in that facility, so that means our satellites can start processing tomorrow at Vandenberg and that kind of gives us a lot more clarity on our launch in about 5 weeks. So look forward to seeing you shortly after that to give the 21 numbers, and we'll see you then. Or first quarter numbers, yes. Thanks. Take care, everybody.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone, have a great day.



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