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IRDM - Q2 2017 Iridium Communications Inc Earnings Call

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**James Patrick McIlree** *Chardan Capital Markets, LLC, Research Division - Senior Research Analyst of Industrial and Consumer Technology*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Iridium Second Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will follow at that time. I would now like to hand the floor over to Ken Levy, Vice President, Investor Relations. Please go ahead, sir.

### **Kenneth Levy** - *Iridium Communications Inc. - VP, Investor Relations*

Thanks, Karen. Good morning and welcome to Iridium's Second Quarter 2017 Earnings Call. Joining me on today's call are our CEO, Matt Desch, and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our second quarter 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 may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that 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 the 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 our 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. Good morning, everyone. As I'm sure you saw, our business continues to perform well as we pass the midpoint of the year. So, Tom and I are going to touch on what we're doing on that front today, but I know a lot of you are interested in an update on our Iridium NEXT program. So let me start there.



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Satellite replacement continues to go smoother and faster than we've expected. With the recent launch of another 10 Iridium NEXT satellites on June 25, 30% of our 66 new operational satellites are now in orbit, that's solid progress. This latest batch of satellites launched into plane #3 of our 6 orbital planes and that follows January's launch that went into another plane, plane #6. Of the 10 satellites we just launched, 5 are operational and carrying live traffic through our global network and that's a few weeks ahead of schedule. The remaining 5 satellites have all started drifting maneuvers to send them to adjacent orbital planes and they'll arrive there for operation within 10 months. So that brings the total number of completely operational Iridium NEXT satellites carrying traffic to 13 today, and that number will grow with each incremental launch and as our drifting satellites reach their targeted planes.

So we're drifting satellites earlier in the launch program rather than later to make sure they're available in the right orbit as early as possible in 2018 to complete the constellation. The most important thing to note is that we found the performance of our new vehicles to be exceptional. They are working really, really well. There have been no significant issues in space. We expected as much given all the testing on the ground, but this is still good news and it's important as the high-quality satellites we're launching into the network create momentum to our business, enhance our partners' business opportunities, and spur new demand for Iridium solutions.

Given the experience our operations team gained with the first satellites, work is moving at a much faster pace today. Activities that test and integrate satellites are taking about half the time they took for the first batch launched in January. My hat is off to our team and to our prime Thales Alenia for the great performance so far. I can't stress enough how complicated the whole process is to change out an aging LEO satellite constellation for a new much more powerful one, but our team is making it look easier than it is.

We've also now de-orbited 4 of our legacy satellites, which we'll continue to do in-between launch and satellite insertion activities. While removing the older satellites around and replacing them with Iridium NEXT satellites, we're also replenishing the spares in each plane. So far, we've reinforced planes 3 and 6 with spares and we'll continue to keep a few of these spares in each orbit until the Iridium NEXT constellation is fully deployed. This really adds to the robustness of our network and will continue with each launch. Following our final launch, we will have 9 new Iridium NEXT spares in orbit and then we can de-orbit any legacy spares still up there at that time.

SpaceX is getting back on track, having now completed 10 successful launches this year and they have plans for something like 10 more launches before year-end. They've had 44 launches so far with only 1 in-flight failure and with their recent execution of 3 launches over a 10 day period, it's great to watch this launch company become the reliable platform we always expected. We're pushing them to move even faster, but are pleased that they've committed to a launch cadence that includes 2 more Iridium NEXT launches this year, 1 in September and 1 in late November and have committed to complete our launch program by mid-2018.

SpaceX has now confirmed the schedule for our third launch. I can announce to you today that the date is Saturday, September 30. The instantaneous launch window of 6:30 AM Pacific Time from Vandenberg Air Force Base will make this an early morning for our team, and we'll launch another 10 Iridium NEXT satellites to orbit, this time to plane #4. All of these satellites are planned to be inserted into the constellation for immediate operation.

As for satellite production, Thales Alenia and Orbital ATK continue to produce Iridium NEXT satellites as planned and have ample inventory to meet our launch schedule. On another key issue, I am also happy to report that we've now completed the vendor agreement and credit facility modifications that we've talked about on previous calls. The paperwork took a little longer than we expected, but it's all done now and it just closed yesterday. Tom will confirm the terms of these deals in a minute.

Moving to our second quarter results, we delivered record-breaking subscriber growth and operational EBITDA growth of 5%. Commercial revenue grew 5% year-over-year owed largely to continued expansion of our M2M business. In the second quarter, total commercial subscribers reached 821,000 with M2M users accounting for 56% of this total. Our growth in IoT over the past 12 months has been largely driven by our success in aligning with larger distribution partners who understand the benefits of Iridium's network and have the ability to drive some real subscriber growth. We are improving the quality of our partner base with businesses that are expanding their own distribution networks and creating some new innovative products using our network. The commercial roll out of our new Iridium Edge product earlier this year has been met enthusiastically by our partner community and is improving our M2M pipeline.



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Iridium Edge expedites time to market not only for current partners, but also for potential partners looking to add a satellite option to complement their terrestrial offerings. Since introducing this product earlier this summer, we have seen a meaningful increase in partner activity. Iridium Edge is both spurring new customer inquiries about our IoT platform and expediting development with existing channel partners. With our next-generation satellites coming online and new broadband services rolling out in 2018, we expect this trend to continue.

We remain very excited about Iridium's ability to gain market share in the maritime sector. While the shipping industry continues to be challenged, Iridium's unique and differentiated satellite offering continues to win new fans and resonate with maritime operators. We are both adding ships and new fleets and find ourselves growing in this sector even in advance of our more powerful Iridium NEXT based products. Iridium OpenPort has steadily penetrated more small and medium-size vessels and we are well positioned to vie for large SOLAS-class vessels with the completion of our next-generation constellation next year.

The roll out of Iridium Certus broadband in 2018 will finally make Iridium a major player for L-band maritime broadband. Coupled with GMDSS certification, Iridium will also be able to offer a one-stop solution for maritime's largest class of vessels.

In this second quarter, we made some great progress towards GMDSS certification. The International Maritime Organization's Maritime Safety Committee adopted a new performance standard for maritime terminals and approved amendments to the SOLAS treaty, which paves the way for Iridium to become a recognized GMDSS service provider. The key remaining step in the approval process is for an IMO resolution recognizing Iridium as a certified GMDSS mobile satellite service provider, which we anticipate to occur in 2018. So our plans to offer a competitive GMDSS solution remain on track.

Our satellite L-band network was built for coverage and reliability and is a great platform for maritime and aviation safety services. The roll out of our new broadband offering, which we call Iridium Certus will set a new performance standard for the industry in L-band. With partners' beta trials of new Iridium Certus terminals occurring later this year, our development plans for Iridium Certus broadband continue to progress. Thales and Cobham have publicly announced their new Certus terminals and they are expected to be widely available in early 2018. We're also making good progress in discussions to select which distribution partners will be selling Iridium Certus to their customers.

Finally, Aireon's business continues to progress well as they both build new partnerships, including the recently announced MoUs with the air traffic organizations of Saudi Arabia and The Netherlands as well as demonstrate their global aircraft surveillance network from their first payloads in space. To-date, several billion aircraft position reports have been received by the first 8 operational Aireon payloads. The payloads have proven incredibly capable in reading data from a wide range of aircraft and vehicle antennas including even lower power transmitters. This is shaping up to be a very effective service.

As you know, Aireon is in the market to secure additional capital for their needs and to pay us our hosting fees. Tom has been working closely with them and will provide an update on their fund raising activities and timeline. In closing, I'm very excited about the progress Iridium is making on all fronts. We're executing well on our core business and planting the seeds for strong market share gains with the deployment of Iridium NEXT. A quarter of our launches are complete and the next one in view, our satellite replacement program is also hitting its stride. I look forward to provide an update again on Iridium NEXT program and our September launch on our October call. So with that, I will turn it over to Tom, Tom?

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

Thanks, Matt and good morning everyone. Let me start by summarizing our key financial metrics for the second quarter and provide some context, the trends we're seeing in our business. Then I'll review our balance sheet and summarize the terms of the deals we completed with Thales and COFACE to enhance our liquidity position.

Iridium generated second quarter total revenue of \$111.6 million, which was up 2% from last year's comparable quarter. Revenue was in line with our internal forecast and was fueled by strength in the commercial M2M, which more than offset lower equipment sales, which were expected. Operational EBITDA increased by 5% from the prior year period to \$65.8 million. Our operational EBITDA margin was 59% this quarter compared to 57% a year earlier.

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On the commercial side of our business, we reported service revenue of \$64.6 million in the second quarter, which was 5% higher than the prior year's quarter. This rise reflected continued revenue growth from M2M. During the quarter, we added a record 38,000 net new commercial customers driven predominantly by our M2M business. Commercial M2M data subscribers now represent 56% of billable commercial subscribers, up from 52% in the year ago period. In our commercial M2M business, we picked up 29,000 net subscribers in the second quarter. The majority of these activations came from existing customers including Garmin, Caterpillar, and maritime customers.

The headwinds from oil and gas-related deactivations have now abated and we continue to see a broad group of industries adopting Iridium IoT solutions. These trends make us feel very confident that Iridium will be the premier satellite provider in the rapidly growing IoT space. ARPU in our M2M business declined to \$14 this quarter from \$15 in the prior year's quarter and is expected to trend gradually lower as we add new subscribers. This reflects a broadening use of our technology by users that find value in real-time global data as well as the trend of declining ARPUs across the IoT marketplace at large. The typical new user is anticipated to have lower data needs compared to early adopters of satellite IoT and will be drawn to our technology for its reliability and mobility. This remains a very attractive growth opportunity for Iridium especially in light of the minimal network capacity demanded for these applications and the negligible cost to acquire this incremental user.

Year-over-year, commercial voice and data subscribers increased and voice and data ARPU held steady at approximately \$41. For the quarter, we realized slightly over \$400,000 in hosting and data service revenue from operational Iridium NEXT satellites. This represents contributions from the 8 Iridium NEXT satellites that were operational during the quarter. We anticipate that hosting and data services revenue will continue to ramp this year with each incremental Iridium NEXT satellite placed into service.

Turning to our government service business, revenue remained steady at \$22 million this quarter under the terms of the EMSS contract. Government subscribers again grew at a healthy clip rising 15% year-over-year. Total US government customers reached a record \$92,000 this quarter driven in part by M2M growth of 19% from the prior year quarter. In the second quarter, subscriber equipment revenue was \$18.8 million while equipment margin was 42%. We continue to expect 2017 equipment margins will remain in the [low-40%] (corrected by company after the call) range though mix shifts in individual quarters will cause some variability. Engineering and support was \$6.1 million in the second quarter as compared to \$5.3 million in the prior year's quarter. This increase reflects continued work on a number of government projects. In light of the quarter's strong business trends, today we reaffirmed our 2017 full year guidance, which forecasts total service revenue growth of 3% to 5% and operational EBITDA between \$255 million and \$265 million.

Moving to our balance sheet and liquidity position, we had a cash and marketable securities balance of \$357 million and are fully drawn on our \$1.8 billion COFACE facility. The draw down on our cash position reflects additional milestone and interest payments associated with the Iridium NEXT program, which we anticipate will be made in cash. As Matt noted, this month, we completed our previously announced agreements with Thales and the COFACE lenders. These deals allow for additional financial flexibility and provide the cushion we need to absorb an Aireon delay of payment well into 2018.

As I've laid out on previous calls, the components of these agreements are as follows: First, Thales has agreed to defer \$100 million of individual milestone payments on Iridium NEXT through the first quarter of 2019. This arrangement will be financed at a rate of LIBOR plus approximately 250 basis points and require Iridium to pay \$1 million upfront cash fee. Second, the lenders to the COFACE credit facility have agreed to delay \$98 million in payments into the debt service reserve account until March 31, 2019. This figure is a combination of delayed payments and access to some funds that Iridium had previously paid into the DSRA as restricted cash. The arrangement also places restrictions on our use of funds received from Aireon with respect to the \$200 million in hosting fees. Any such payments in excess of \$50 million will be used to proportionately repay Thales the deferred amount and replenish the DSRA.

The final component of these deals is a suspension of Iridium's preferred dividends on its Series A and Series B preferred stock. We began the planned 5 quarter suspension of our dividend starting with the dividend payable on June 15 of this year. This action will provide almost \$20 million in liquidity over 5 quarters, after which we intend to resume making these payments. In aggregate, these deals will provide over \$200 million of liquidity to Iridium. As a result, we anticipate that the deals will provide Iridium sufficient liquidity well into 2018, even without the Aireon hosting payment. We will however need to have collected a significant portion of the Aireon hosting fee by the end of the first quarter of 2019 or make other financing arrangements to repay Thales and fund the DSRA at that time.



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Based upon the terms of these agreements and the strength of the debt markets in general, I'm quite confident that our funding plans for Iridium NEXT are in good shape. Aireon has made good progress in their financing efforts and expects to commence marketing the offering in September with a closing in the fourth quarter of this year. While specifics will be known after the conclusion of this process, we currently expect a partial payment of the hosting fee to Iridium in the first quarter of 2018. We expect an additional payment upon the successful completion of our launch campaign.

We also expect that the FAA will make a positive decision on utilizing space-based ADS-B in the second half of 2018, which together with expected additional contracts with other ANSPs should enable Aireon to make an additional hosting payment to Iridium in early 2019. With this updated insight into Aireon's financing plans, we are adjusting our 2019 leverage guidance slightly. We now expect 2019 net leverage to be approximately 4.5x operational EBITDA versus previous guidance of below 4x. This updated guidance for 2019 assumes that a significant portion of the Aireon hosting fee will have been received, but that the repurchase of a portion of Iridium's equity interest in Aireon will now occur in the fourth quarter of 2020. Previously, Iridium's 2019 net leverage guidance assumed the redemption payment to occur in 2019.

You'll recall this \$120 million redemption was part of the 2014 arrangement when the ANSPs of Italy, Denmark, and Ireland joined NAV CANADA as investors in Aireon. Their \$120 million investment in Aireon will eventually be used to repurchase a portion of Iridium's equity stake in Aireon to allow the ANSPs to attain their negotiated ownership levels. In closing, we feel very good about Iridium's business trends and the transformation that the new constellation will bring. The completion of Iridium NEXT mission should retire significant execution risk and allow already Iridium to realize incremental revenue to benefit our existing shareholders. With that, I'll turn things back to the operator for Q&A.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Andrew DeGasperi with Macquarie.

### Andrew Lodovico DeGasperi - Macquarie Research - Analyst

I guess first, what gives you confidence that the FAA will complete the review in the second half of '18? And then secondly, I was just wondering, Caterpillar reported much better results and they also mentioned enhancing their digital capabilities. I was wondering how does that -- how do you think that translates to your M2M business?

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

Yes, on the first question about the FAA, Aireon specifically is working very, very closely with the FAA on a number of subjects. We can see their processes, they are sort of moving towards a decision process that completes in 2018. We've been getting a lot of positive comments especially as their customers are being very specific about wanting space-based ADS-B for reduced oceanic separation and better performance. So, it still continues to be more a matter of when they will deploy it as opposed to if they will deploy it and I think that will become a lot clearer as we get into 2018. So I think that's why Tom describes it that way and why we feel Aireon is telling us they feel pretty good about the activities with the FAA. As far as the second one, on Caterpillar, yes, that's very good news. I'm really glad to hear that for one of our larger customers. They obviously went through the economic slump here in the last couple of years and as their business continues to strengthen, that's only good for their activities in telematics and to the extent that that's good, that can only bode well for sort of under-supporting our business. We're not viewing anything specific, they are already doing extremely well and are putting a lot of subscribers on today. So I don't think that, that necessarily changes the trajectory, but it's a support to the overall business and I think as they continue to expand, the rest of the heavy equipment OEM space also continues to look for satellite solutions, which is good for us as well.



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## Operator

And our next question comes from the line of James Breen with William Blair.

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

Tom, can you just talk about the credit agreement relative to the payments from Aireon. If you get the payments from Aireon in sort of the timeframe that you expect, does some of the push outs in your credit agreement matter much relative to the overall cash flow? And then Matt, maybe you can just talk about the competitive environment. There's been a few things that are funded in the satellite space with plans to launch over the next several years. Can you talk about any potential competition you see there?

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

So I'll just handle the Aireon payments, Jim. The way the credit agreement works is, the first \$50 million in payments from Aireon we have access to, there's a metric that's fully described in the Q how that works and then payments above that essentially pay down pro rata Thales and fund the DSRA. So that's how that works and we try to give a pretty detailed explanation of that in our public filing.

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

On the second question, on the competitive environment, of course, there is the existing competition, you've probably seen some of the smaller players in the current mobile satellite space are -- looks like they're up for sale and aren't really growing a lot in comparison. I look at these new announcements of these new LEO-based networks with interest, I guess. I've said before and I continue to believe that those, if they get built, will be probably more likely be partners as opposed to competitors to ours because they operate in a different spectrum, they have a different business plan, they're going after a different market, really high-capacity, the commoditized side of the industry as opposed to kind of the industry we look at in the L-band, safety services, IoT and other type spaces. So I wish them well. They got a long road ahead of them. We have 25 years of experience knowing what it's like to build and operate and have a successful LEO system, but I'm kind of rooting for them overall because I think it's a validation of both our architecture and approach to the market and I think they'll create a very dynamic environment in the very high-speed broadband area that will only complement us well. So, I do have to deal with that question a lot. As soon as someone says they are LEO, a lot of people think that the competition comes because of our architecture and that's not true. That's just -- they're just I think emulating a lot of the attributes that have made us successful, which is being close to the earth, which means low latency, which means potentially broader coverage et cetera. Some of them are using cross links, but most of them are not using cross links, but really the area in which you decide to compete in is really more based on spectrum and business plan and they've really not announced plans or frankly are building systems that really compete with the kinds of things we do.

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

And then just one follow-up, can you just give us some color around the government contract, when that comes up for renewal and when you'll start talking to them on that, and based on the current usage trends you're seeing there, how you feel about that renegotiation?

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

The current contract expires in -- later on in 2018 with -- it has a 6 month kind of ability to be extended. So the expectations are, we probably complete a new deal with them in 2018, but it could be sometime in early 2019. Obviously, we feel very good about that. Our business there continues to expand. They've hit record number of new users. I think by the time we renew that spectrum, their subscribers will probably have doubled from the time when we started that. They've expanded their uses of the types of service that they work with and are very interested in new capabilities like satellite time and location and I think are going to be really good users of our Iridium Certus technology as it's deployed in



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2018. So, all that is giving us a lot of confidence that, that will be a very good process, that it will be a win-win for both of us and that we're going to have an attractive contract moving forward for some period of time starting in 2018 or 2019.

### Operator

And our next question comes from the line is Jim McIlree with Chardan Capital.

**James Patrick McIlree** - *Chardan Capital Markets, LLC, Research Division - Senior Research Analyst of Industrial and Consumer Technology*

Tom, you walked through the timeline of some Aireon payments, but I think you said a partial payment in Q1 2018 and more on the completion of the launch campaign. Can you put dollar amounts on those 2 dates for what you expect Aireon to pay you?

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

No, that will come out of the process, Jim. What we're telling you is, we don't see -- in the first quarter of '18, it will not be a full payment, it will be a partial payment. Then the tranches are successful launch -- completion of the successful launch campaign will be the second, and then finally in early '19, we expect on the back of the FAA some other contracts an additional payment.

**James Patrick McIlree** - *Chardan Capital Markets, LLC, Research Division - Senior Research Analyst of Industrial and Consumer Technology*

And the \$120 million that you were talking about, that's not related to the hosting, that's related to the ownership of Aireon?

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

That's exactly right.

**James Patrick McIlree** - *Chardan Capital Markets, LLC, Research Division - Senior Research Analyst of Industrial and Consumer Technology*

And then just a couple of balance sheet items. The accounts payable jumped pretty significantly from \$10 million to \$128 million and other long-term liabilities from [\$4 million to \$33 million]. Is there anything unusual going on there?

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

AP has to be just a payment to Thales off the top of my head. And ask me the other one, Jim?

**James Patrick McIlree** - *Chardan Capital Markets, LLC, Research Division - Senior Research Analyst of Industrial and Consumer Technology*

Other long-term liabilities from [\$4 million to \$33 million]?

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

Oh, it's probably deferred revenue related to hosting.





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### Operator

And our next question comes from the line of Chris Quilty with Quilty Analytics.

### Chris Quilty - Quilty Analytics - Analyst

I had a question on the commercial M2M net adds. Was there anything different in the quarter or a significant area you'd like to highlight in terms of what drove the strength?

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

It was pretty broad-based to be honest with you though there are -- of course, some of our larger partners are adding increasingly good rates, I'm thinking kind of call out Garmin, the DeLorme inReach product that they have has continued to seem like it's really hitting its stride right now and they're adding really good numbers. Caterpillar is adding good numbers. There is some good growth in the maritime space, but it really was relatively broad-based, it wasn't just a single customer that sort of completely broke out or anything, which I think is very encouraging and very positive for our business and why we're -- continue to be very bullish looking forward.

### Chris Quilty - Quilty Analytics - Analyst

And have there been any recent changes in pricing on the terminal side?

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

No, in fact, that's been pretty steady all along. We continue to have good equipment sales in the M2M space, but it isn't really -- there wasn't something, there's no promotion, there's nothing we're driving. Really our IoT business is driven by the quality of the partner and their ability to bring on subscribers and as I've said in previous calls, we get a class of partners in a specific year and 1 year to 2 to 3 after that, they really start delivering. I think this is the class of 2014-15 and somewhat '16, now it's starting to really deliver in 2017. Our class of 2016 isn't really delivering that much yet, but are starting to really -- start to weigh in and we have a number this year that I think are going to bring in and they are going to bode well for the future. So it really is more -- our focus has been also on just trying to get people into service faster and that's why I was highlighting Iridium Edge because the faster we can get some of these partners delivering quantities as they ramp up, the better for subscriber growth and revenue for our business too.

### Chris Quilty - Quilty Analytics - Analyst

And are all the Certus-related modules still on track for product entry?

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

Yes, so Certus is built around sort of a module that we create and that is going commercially available here very soon. It's been tested quite extensively through our system testing and that sort of thing in our -- and the subscriber units that get built into by people like Thales and Cobham are developed and they're in the labs right now doing testing as well and are going to soon start doing on the year kind of beta trial testing on chips and demonstrating sort of the capabilities of those systems here this fall and into the winter. We're expecting that to continue to progress towards early in 2018, sort of once the beta trials are all complete and we're very happy with -- and only if we're completely happy with the quality and robustness of the capability that should then go commercially available and we'll start seeing terminal show up on ships and fleets in 2018 and starting to drive our first Certus revenues.



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**Chris Quilty** - *Quilty Analytics - Analyst*

Great, and you haven't talked about the aviation market in a while. Are there any developments on that end?

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

Aviation is doing very, very well. We're getting -- I think we -- we've been line fit now with our existing technologies on to both Airbus and the Boeing 737 recently and we're starting to see that come to fruition. We've always done well in general aviation and rotorcraft and I think we're really taking market share in the aviation safety services space today and really think with Iridium Certus coming on, that will only expand and improve. I've mentioned before we kind of focus a bit more on the cockpit and operational services for airlines as opposed to the cabin. Certus will change that slightly, but still I think it's going to be primarily focused on the cockpit and I would say, while it's a smaller segment than aviation, we're probably even more bullish on our ability to do very well in the aviation sector with Certus because of the natural advantages that Iridium's network has. We really can have very small terminals, very small form factors on airplanes, our network is global and aircraft in particular really want to have global solutions that cover the poles. We're going to be lower-priced and have more attractive airtime rates, I think. So we're pretty excited about what the potential of a Certus 700 kilobit per second device can be in a cockpit environment for commercial aircraft and after that really the very low cost systems that we can have with our Certus 100 and 200 products that can go down into the rotorcraft and GA space and offer up to close to 200 kilobits per second in a very, very low cost and maybe even portable kind of package for that. So aviation is really a really strong area for us going forward, we just didn't highlight anything really in the quarter for that.

**Chris Quilty** - *Quilty Analytics - Analyst*

Got you, final question for Tom. I assume no change in your forecast of sort of mid-single-digit million of hosting fees for this year, but can you for the current quarter where was that? What line item was it recognized in and do you anticipate as that grows to eventually break it out into a separate line item?

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

So, no change to the mid-single-digit millions for the year. It's in service revenue. It was around \$400,000 and as it gets more material, we will break it out in call it hosting and data services.

**Operator**

(Operator Instructions) Our next question comes from the line of Paul Penney with Northland Securities.

**Greg Gibas** - *Northland Securities - Analyst*

This is Greg on for Paul today. Regarding Aireon and Certus broadband offerings, is there a way to quantify what each incremental launch would contribute to these services? For Certus, I know it's expected to reach speeds of 1.4 megabits and I was just wondering is there like an uptick in speeds there or would it be capacity and for Aireon would it simply be added geographic coverage?

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

So as it relates to Certus, there are versions of Certus, the initial version of Certus is a speed of 350 kilobits per second which is upgradeable in the terminals through firmware changes to 700 kilobits per second as the network is complete, but that's more like a software version almost of our Certus capabilities, the original version is going to be uploaded to each of the new NEXT satellites as they go on. The initial terminals that Cobham and Thales are going to have are actually dual mode, so they'll operate in both Block 1 and Certus modes. So the speeds will vary between 128 which is our legacy network and 350 with the new network as satellites are deployed, but given that the service is going under availability early in



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2018 and the network is going to be complete by middle of 2018. That really doesn't affect things very much. Eventually, it will be a homogenous Certus capability and then shortly thereafter will be upgraded to 700 and then there will be a future release that will deliver 1.4 megabits per second. So that's not really an issue of how many of the satellites are being deployed as each 10 satellites go up there, it's really what version of the software is on the satellites. So that's Certus. As far as Aireon goes --

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

Let me take that, Matt. Greg, the Aireon revenues, are contractual between both Aireon and Harris -- between Iridium and each of Aireon and Harris and so as you think about the revenues, our 2019 guidance assumes a full year of hosting and data fees, which is \$47 million, that's contractual revenue. Where we are today is in the current quarter was sort of \$400,000. That grows with additional launches. That's how that works. It is as the satellites are launched, the hosting and data fees grow.

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

Yes, I think you as you know, we have a contract with Aireon and they pay us hosting fees and data fees for -- as they go along and as we add more satellites, but their business really depends upon the full constellation. So the revenues they are generating from ANSPs really kick into gear as the complete network is finished in mid-2018 because their customers don't want any gaps in coverage obviously that they are managing and controlling aircraft. So, those are two different activities.

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**Greg Gibas** - *Northland Securities - Analyst*

Got it, got it, that's very helpful. And just one more, it was kind of a follow-up to the previous M2M question, as M2M subscribers continue to grow, I was just wondering, is this mainly coming from growth within the entire M2M services market or would you say you are capturing additional market share to and are the new contracts that you're winning or new signings. Would you say -- what would you say is normally the determining factor, would it be coverage, pricing, speeds?

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

That's a broad question. As far as market share versus new -- versus takeaways, I would say it's a bit of both. We have new market areas where someone who has a cellular solution that they've been tracking something using LTE and say it doesn't have the coverage that they want and they add us to their solution maybe with Iridium Edge or with just standalone kind of capabilities, those are adding to our growth and are great to see especially as we get into new industries that or new ideas of things that people want to track. I would say we've had some other good large scale growth that is coming and I think will come as sort of takeaways from others because they -- people who've been deploying satellite IoT for a while and really want an alternative solution that's maybe more reliable, that covers better for which there's just fewer compromises and they move to us and those add to our revenues as well. As far as like, you know it's kind of rare that we're in competition with others, it's not usually a bake-off because I think if people want to deploy satellite IoT, if they really value coverage, latency, cost price, cost of antenna et cetera, I think we end up getting selected pretty quickly. Sometimes where we're not selected or if you don't see us as part of a solution, a lot of times those are like cellular wins made by somebody else who are really more focused -- aren't really focused on the satellite portion of it or really don't have a satellite portion of it, but it's maybe someone who -- one of our competitors who is in that space primarily focus on cellular technology, but I think we pretty much win when we have a chance to compete and our goal is to continue to work with new partners and existing companies in the satellite IoT space and continue to expand that business.

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### Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to management for any closing comments.



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

Well, thanks everybody for joining us. I think it was a good quarter and obviously some good news overall and hope to see some of you or at least join us as you watch our September 30 next launch, but we'll see you in October in the next call. Thanks.

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

Thank you.

### 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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