Iridium Communications

Q1 Earnings Conference Call

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CORPORATE PARTICIPANTS

Kenneth Levy – *Vice President, Investor Relations*

Matthew Desch – *Chief Executive Officer*

Thomas Fitzpatrick – *Chief Financial Officer and Chief Administrative Officer*

PRESENTATION

Operator

Good morning, and welcome to the Iridium Communications First Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press *, then 1 on your telephone keypad. To withdraw your question, please press *, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Ken Levy. Please go ahead.

Kenneth Levy

Thanks, Steven. Good morning, and welcome to Iridium's First Quarter 2019 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 first 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 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 elect 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 release in 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 Desch

Thanks, Ken and good morning, everyone. So, the first quarter has been a really busy period for our company. The completion of the Iridium NEXT upgrade, the rollout of our groundbreaking Iridium Certus broadband service, and most recently the commercial launch of Aireon's global aviation tracking service all occurred within a few weeks of each other. As you can imagine, achieving these has been extremely rewarding and exciting. It's been fun to see our many years of planning and effort come to fruition and we're looking forward to taking full advantage of our powerful new network.

We're also generating a lot of news and media coverage about the company and that's great for our brand, for recruiting and for attracting new business partnerships. Most importantly, we have a customer base of about 1.2 million subscribers who appreciate and value Iridium's network and the impact we have on global communications, commerce, and safety. Servicing and growing this customer base remains our top priority.

Apart from media appearances and satellite operations, we've also been busy with the investment community. We had the chance to visit with many of you during the first quarter through our participation at several investor conferences and our hosting of our 2019 Investor Day on March 7, which many of you told me was quite helpful in understanding our business and potential. The presentation slides and webcast reply from that event reside on our Investor Relations' website and should continue to serve as good background as well as a clear roadmap for our business plans as we move through the year and execute on our near-term capital strategies.

One of this year's key milestones is the renegotiation of our two key contracts with the U.S. government. As you saw in our release this morning, we've completed one, the gateway maintenance agreement and signed a one-month extension to give us a little more time to get the other, our primary EMSS services contract, over the finish line. We made a lot of progress together on the EMSS contract and still expect it to be a five-year contract that's a win/win for both parties with our revenues increasing nicely and the DoD's cost per user declining markedly.

The GMSS maintenance contract we signed is valued at $54 million over four-and-a-half years and represents a reasonable step up from our prior contract signed in 2013 due to its increase in scope. With the ink now dry on this contract, we look forward to concluding the EMSS contract in the coming month.

The U.S. government ended the first quarter with 115,000 subscribers and continues to work to upgrade their gateway and preparation for delivering Iridium Certus services to U.S. government customers, estimated to be completed by 2020. Until then, they are procuring some Iridium Certus services through our commercial gateway. In either case, Iridium Certus is available to the U.S. government outside of the EMSS contract through our distribution partner Comsat.

As we said before, we're very excited about the potential of Iridium Certus. Certus is positioned to be a best-in-class solution for L-band maritime, aviation and land mobile satellite broadband users. It scales very efficiently both up in speed and down in antenna size and cost, which means that it has broad utility for a wide variety of applications. Iridium Certus for broadband launched in January in the maritime and land mobile sectors and will be available later this year for aviation applications.

Though only three months have passed since Iridium Certus formally rolled out, I'm pleased with the early subscriber activations and today hundreds of users are active around the globe. Prior to its launch in January, we completed extensive testing on the service including a number of customer beta trials. The feedback has been consistent; our customers are reporting they are extremely happy with the performance and speed of Certus. They're finding it to be a very reliable, rock solid service.

As I explained during Investor Day in March, our newest transceiver called the Iridium Certus 9770 is now in testing. Prototypes have been manufactured by Benchmark, our contract manufacturer, and our engineers are now running it through its paces in our lab. This small form-factor transceiver is the first of a new family of devices which leverages the Iridium Certus technology platform and is optimized for highly mobile and lower-cost applications using small inexpensive antennas providing a variety of speed ranges up to about 100 kilobits per second, which is quite a bit more capability than our current portfolio of low speed transceivers have been able to provide.

This device will open up new applications for our partners from the voice texting and low-end telemetry applications of today to richer data streams, sending pictures and even some video, all at a price point that hasn't existed before from any satellite operator. This modem will be in the hands of our beta partners this quarter and should be available by year-end to drive revenue growth in the coming years.

We haven't talked much about our push-to-talk service in a while, but this summer we have two new PTT terminals coming to market to support our growth in the satellite part of this multi-billion dollar two-way radio market. One is a new product from our partner QinetQ in the UK for a military grade PTT product that we think will be popular with those kinds of tactical radio opportunities. The other is the first dedicated satellite PTT handheld radio from Japanese manufacturer Icom. This is a great looking product, which is generating a lot of attention in our distribution channels as well as among Icom's terrestrial customers who would benefit from extending the reach of their networks with Iridium's satellite technology.

The Icom handset gives our partners and their customers a high performing PTT-only product to better meet the needs of heavy talk-group users like first responders, military groups, remote workers, and NGOs. We're very pleased with our relationship with Icom and expect to see additional products from this relationship.

Earlier this month, Aireon went live with its global air traffic surveillance service. This historic event marked the first time in history that aircraft could be tracked anywhere on earth. With the Aireon system now fully operational, NavCanada and UK NATS announced that they are using the Aireon system over the North Atlantic for real time air traffic control. These partners have said that improved visibility and control in North Atlantic air space will reduce overall flight safety risk by more than 75%.

With about 1,400 flights per day in the busy North Atlantic corridor and growth of 60% expected by 2030, Aireon data improves visibility and enhances air space flexibility and dynamic aircraft management to maintain safe operation as air traffic grows. It's not surprising that the first region to go live was the North Atlantic. The use of Aireon in that air space is expected to yield cost savings of up to $300 per trans-Atlantic flight plus a reduction in carbon dioxide emissions by two tons per flight as more optimal routes, speeds, and altitudes are realized.

Beyond our economic interest in Aireon, we're very proud to be an important part of this groundbreaking service. We expect Aireon will increasingly be in the news as more of its ANSP customers go operational over the course of 2019 and they announce new customers.

In summary, we're extremely happy with the performance of our new Iridium satellites. The completion of the Iridium NEXT mission and the business opportunities supported by our upgraded network are now serving as tailwinds to our business. We expect the EMSS contract with the DoD will be finalized soon and we continue to be enthusiastic about our prospects for growth in 2019. We believe that the rollout of new broadband services will deliver free cash flow, which we can use for more shareholder friendly activities as we further transform the financial profile of our company.

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

Thomas Fitzpatrick
Thanks, Matt, and good morning, everyone. I'll get started by summarizing our key financial metrics for the first quarter and provide some color on the trends we're seeing in our major business lines. Then I'll recap the 2019 guidance we affirmed this morning and close with a review of our capital structure and liquidity position.

Iridium generated total revenue of $133.7 million in the first quarter, which was a 12% increase to last year's comparable quarter. This improvement was attributable to growth in our commercial business and increased revenue from the completion of the Iridium NEXT program.

Operational EBITDA was $78 million, which was up 14% from the prior year's quarter. On the commercial side of our business we reported service revenue of $85 million in the first quarter, which was 25% higher than the prior year's period. This increase reflected growth in both voice and IoT revenues as well as incremental hosted payload revenue.

Voice and data revenue rose 11% this quarter. This increase was driven by an increase in ARPU to $45 that primarily reflected price changes in our handset programs adopted in April of last year.

Momentum continued in commercial IoT following a record year of growth in 2018. Growth in the first quarter remained robust led by ongoing demand for personal location services.

IoT ARPU in the first quarter was $11.32, down 10% or $1.27 from the comparable quarter last year. It is important to point out that IoT usage levels were higher in the first quarter of 2018 than in succeeding quarters of the year. As a result, we expect that subsequent quarterly year-over-year declines will moderate from here and be more in-line with the 8% to 9% decline we experienced in full-year 2018.

The driver of this year-over-year ARPU decline continued to be the significant addition of subscribers on low data plans, most notably personal communications services. As we noted before, these low-data usage products are particularly attractive to Iridium in terms of revenue generation relative to network resources used.

During the quarter, we added 28,000 net new commercial subscribers with the gain entirely coming from our IoT business. Commercial IoT data subscribers now represent 65% of billable commercial subscribers, up from 60% in the year-ago period.

Hosting and other data service revenues increased by $9.6 million this quarter from the comparable quarter in 2018. Substantially all of this increase, from $4.2 million to $13.9 million, was due to a higher hosted payload and data service revenues. You will recall that we did not recognize Aireon hosting revenues in the first quarter of 2018, as we waited for Aireon to clear a milestone supporting probability of collection. That milestone was cleared in the second quarter of last year. Accordingly, we recorded $3.9 million of hosting revenues in this year's first quarter.

We also recorded $3.1 million in Aireon data revenues, which was up by $1.6 million from last year due to the increased number of satellites in operation. We continue to expect that Aireon data revenues will step-up in the second half of this year from around $1.1 million a month currently to about $1.9 million a month. As we previously explained, this step-up occurs upon the attainment of a customer milestone.

Harris hosted payload and data service revenues increased by $3.5 million this quarter from last year's first quarter from $500,000 to $4 million. This was due to increased number of operational satellites in the current year period and to a $2.3 million true-up in hosting data revenues given usage trends experienced to-date.

Turning to our government service business, we reported revenue of $22 million in the first quarter, which reflected the contractual terms of the EMSS contract. In the first quarter, government subscribers grew 11% year-over-year and total U.S. government customers reached a record 115,000 this quarter. As Matt noted, our discussion with the U.S. government on the terms to renew the EMSS contract has extended for a month. During this interim period, the DoD will operate under an extension of our existing agreement at a rate of $8.3 million for this one-month period. This is a reasonable step-up for a short-term extension and ensures that Iridium services remain available to the U.S. government while an EMSS renewal contract is finalized.

We continue to expect that the new EMSS contract will have a term of five years and annual revenues in all years will be greater than the last year of the current contract. Iridium was also recently awarded a new multi-year contract for gateway maintenance and support services. This $54 million contract is at a higher monthly rate than our prior contract signed in 2013 and is factored into our 2019 full-year guidance.

As expected, equipment sales moderated from their record pace last year. We reported $21 million in revenue from equipment sales in the first quarter. Equipment margin was 41% in the latest quarter. Engineering and support revenue, which is largely episodic and primarily driven by worked on with government agencies, was $5.7 million in the first quarter as compared to $3.6 million in the prior year's quarter.

To aid you in modeling our quarterly progress this year, I want to highlight a few items that support our 2019 full-year outlook. We anticipate revenue from hosting and data services will continue to ramp this year to about $40 million and reach a full run-rate of $47 million in 2020, assuming that the customer contract milestone is satisfied in the second half of this year. We continue to forecast that equipment sales will be down in 2019 from last year's record high.

Depreciation and amortization expense will again rise this year reflecting the final Iridium NEXT satellites placed in service in February. We anticipate depreciation and amortization will reach a steady state in the second quarter of this year at a level of approximately $75 million.

Finally, as highlighted in our March Investor Day, Iridium now expects negligible cash taxes through 2023. Our corporate tax rate will begin to gradually step-up starting in 2024 until it reaches the statutory rate by 2028.

Based on these inputs, we continue to forecast total service revenue to be approximately $440 million in 2019 and operational EBITDA in a range between $325 [[million] and $335 million.

Moving to our capital position, Iridium had a cash and cash equivalents balance of approximately $275.7 million as of March 31, 2019. Having now completed the Iridium NEXT upgrade, we will pay the final invoices associated with the satellite acceptance testing in the second quarter.

For the full-year, maintenance CapEx costs will be about $35 million, while final CapEx for Iridium NEXT related cost will total approximately $60 million.

We previously discussed the utility of levered free cash flow and assessing the net cash generation of our business available to equity holders. Based on the quarterly results we delivered today and the methodology we laid out during our March Investor Day, we continue to believe that our levered free cash flow for the full-year 2019 at the midpoint of our OEBITDA guidance will be approximately $165 [million] to $170 million representing a conversion rate of about 50%. Iridium closed the first quarter with leverage at 5.1 times OEBITDA and expects to exit 2019 with net leverage at approximately 4.5 times OEBITDA.

Lastly, as investors consider our activities in the second quarter, they should recall that we anticipate converting all outstanding shares of our Series B preferred stock. This action can be done as early as May 15th, and will require Iridium to declare and pay all unpaid dividends in the Series B preferred shares that have accumulated since Iridium’s board suspended preferred dividends starting on June 15th of last year.

This dividend payment is expected to total approximately $8.4 million. Following conversion, no further dividend payments will be required. At a rate of 33.456 common shares for each preferred share, the conversion of the Series B preferred shares increases Iridium's basic share count by 16.6 million shares.

In closing, Iridium's business continued to grow nicely in the first three months of the year. With revenue tied to the upgraded constellation now flowing, we increasingly turn our attention to the company's capital structure. Iridium is well-positioned to generate meaningful free cash flow in 2019 and execute upon its financial transformation.

With that, I'll turn things back to the operator for the Q&A.

Question-and-Answer Session

Operator
Thank you. We will now begin the question-and-answer session. To ask a question you may press *, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press *, then 2. At this time we will pause momentarily to assemble our roster.

And our first question comes from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss
Thanks. Good morning, guys.

Matthew Desch
Good morning, Ric.

Thomas Fitzpatrick
Hi, Ric.

Ric Prentiss
Hi, thanks. A couple of quick housekeeping questions and then a larger picture one. I appreciate the color on the seasonality items, Tom, you mentioned. Can you also, just want to double check on the hosted payloads of 1Q '19 that included a $2.3 million true-up, so that would drop back down then after the true-up I assume for the rest of the year till you hit the ramp?

Thomas Fitzpatrick
The full-year we think is going to be about $40 million in hosting and that reflects a step-up in respect of the Aireon data service fee customer contract milestone. The true-up related to a Harris data services contract where Harris paid for all the data upfront, it was a three-year contract, and we didn’t have any usage information relative to that contract. We now do and, on reflection, knowing what they're using and what they're likely to use, we would have recorded more of the revenue sooner than we did. So that's what that true-up reflected.

Ric Prentiss
Okay. And then one other minor one, the R&D expenses came in a little light. How should we think about, as you move forward with the Certus product, narrowband, broadband, what should we think about R&D? Was this kind of an unusually low quarter as you kind of pivot from the launching to developing?

Thomas Fitzpatrick
No. it wasn’t a low quarter. So, R&D is going to be down on the full-year, sort of $8 [million] to $10 million because the NEXT R&D is behind us. And so you'll see it down, like I said $8 [million] to $10 [million] on the full-year.

Ric Prentiss
Okay. And I appreciate the color on the levered-free cash flow. Obviously the capital holiday's pretty close to beginning. How should we think about as you approach the capital markets, what kind of interest rates are you seeing out there? Is the convert market interesting to you? And from a timing standpoint, capital markets seem to close in the summertime. Do you think you can get out after the government contract but before the capital markets kind of their own holiday in the summer?

Thomas Fitzpatrick
I would just say we're keeping our eye on it, Ric. And obviously, we view the developments on the government contract as favorable and so we're keeping our eye on the capital markets. I don’t think it's appropriate to comment on exactly what we're going to do, because I said we're keeping our options open.

Ric Prentiss
Okay. But the focus will be on free cash flow and I think you mentioned at the Analysts or Investor Day that rates will be a little higher than the existing French facility. Any thoughts of what ballpark ranges you're seeing out there from the capital markets from the banks?

Thomas Fitzpatrick
Well, they'll definitely be higher, but the flexibility that we'll get under it, the facility that we're thinking about in terms of principle amortization, the ability to pay dividend, the ability to buy back shares makes such a refinancing most compelling notwithstanding the fact that's going to be a bit more expensive.

Ric Prentiss
Makes sense. All right, thanks guys.

Operator
Our next question comes from Greg Burns with Sidoti and Company. Please go ahead.

Greg Burns
Hi, good morning. So obviously Aireon just launching, but is there any early feedback you're getting from NavCanada and UK NATS about the data they're seeing? Are they seeing the benefits of the system that you would expect, success in narrowing flight paths and creating those efficiencies? Is there any maybe update you're getting from them from the early data that would kind of validate the utility of Aireon?

Matthew Desch
I would say more in line with it's exactly what they expected it to be. They expected it to be a valuable service - it's turning out to be that way. I have heard anecdotal thing about controllers who are excited about seeing airplanes they’ve never seen before and feeling like they can perform a more effective service. I would say that while they're actively controlling airplanes with it, they're not completely changing everything in the North Atlantic. For example, they haven’t eliminated the North Atlantic track system yet. This is all about in preparation for that. That would really provide almost free flight - ability to go point-to-point and get the maximum value.

But the important part is they need to get experienced with it, how their controllers operated with it for a period of time, et cetera, before they would be something quite that drastic and they need to coordinate with others including the FAA and others on exactly how that would all work. But I've only heard really positive statements from their customer base. I think it's generating a lot of enthusiasm around the world for non-customers who seem to be now more actively engaged with them and I think it's proving to be everything that they thought it would be.

Greg Burns
Okay, great. And then in a similar vein, the early feedback you're seeing from Certus, some of the early adopters, what's the feedback been and kind of what's the pipeline of customers may be lining up for the service look like? Thanks.

Matthew Desch
Yes. Again, it's quite robust I would say. The partner base is very pleased, as I said, with the performance of the product. It's doing exactly what it said it was supposed to do reliably, everywhere in the world. So, it's expanding both the coverage and providing the speeds and value that they thought. It's also providing the margins and business potential for the distribution channels that they were looking for. So we're hearing really positive things about them that kind of what they've been looking for in terms of a real choice and ability to offer something that was superior to their customers is being realized.

There are some things online that you'd might even be able to get access to with a couple of fleets that have been really positive about how they say it’s performing, and some major partners who were saying they're really pleased with it so far. So, I've only heard good news.

It is still early. This is going to take time to ramp up completely around the world. Not every partner is able to sell it yet, because they’re still onboarding and getting connected and doing everything that they need to do. So, as I said, it's still kind of early, but I'm really pleased with it, right in line with sort of how we thought the take up would occur.

Greg Burns
Okay. Then lastly, did you recognize any service revenue this quarter? I know you talked about it not being material this year, but kind of maybe an updated view on the revenue contribution from Certus this year. Thanks.

Matthew Desch
There were revenues in the quarter. I don’t think that they were, compared to the size of the company, weren’t all that material yet. This is still going to be not a big first year in terms of our projections right now. I think it really more ramps into 2020 and 2021 in terms of the sizeable ramp to hit the expectations that we've been pretty clear we expect to see coming out of 2021.

By the way, the other aspect of it is that ARPUs are as we expected it to be above open port kind of ARPUs, more in-line with what you would expect to see from a higher speed product.

Greg Burns
Great, thank you.

Matthew Desch
Thank you.

Operator
Our next question comes from Hamed Khorsand with BWS Financial. Please go ahead.

Hamed Khorsand
Hi, good morning. So first off on the IOT side, the ARPU continues to decline. Are you expecting that to stabilize anytime soon?

Thomas Fitzpatrick
No, we've said for a long time that we see that the ARPU as a downward sloping line. If you look at the net subscriber ads, they are heavily personal communications services, so that's a sub-$5 kind of an ARPU and we love that business because they don't use the network very much at all, so it's a very, very profitable business for us. We think that that is a mass scale consumer product, and the fact that it causes the overall ARPU to decline a bit, we don't mind that at all. It's great business.

Matthew Desch
The only thing that Certus narrow-band services starting next year and the following year, some of our IoT customers have told us about applications they have that have more data requirements and, therefore, would be higher ARPU requirements. But I think that they'll constantly be sort of overwhelmed by just the mass number of personal communications devices that love our network, so it's going to be hard to kind of really turn that ARPU around. But I don't see why that's important, since every incremental dollar falls to the bottom line regardless of what its ARPU is.

Hamed Khorsand
And for the commercial voice data revenue line, Q1 is seasonally a low point for you. Is it purely a drop off this year and not being a significant in prior years because of the pricing increase that you implemented last year? Or was there more just as subscribers just holding on to their subscription during the quarter?

Thomas Fitzpatrick
No, we implemented the price increase in April of last year, so the first quarter is seeing the benefit of that.

Hamed Khorsand
And then lastly, has there been some sort of sticking point as far as the extension process with the government contract? I mean, I know what you guys have said, but obviously it hasn't renewed on time as expected. So was there something there that they're asking for that you guys haven't been able to agree upon?

Matthew Desch
No, I wouldn't say that. I mean, we haven't obviously come to agreement yet. It took to the last minute in 2013 and it took to the last minute again and didn't get over the line. So, we're pretty confident that it should conclude here in the next 30 days, based on everything we see, but it just requires us both to finalize the deal. But I don't think I would say anything specific that I would point to.

Thomas Fitzpatrick
The only thing I would add, Matt, is we're quite confident that the revenues in all years of what we expect to be a five-year contract will be higher than the last year of the existing contract.

Hamed Khorsand
Thank you.

Operator
Our next question comes from Anthony Klarman with Deutsche Bank. Please go ahead.

Anthony Klarman
Hi, thanks. Few questions. Tom, I realize you guys have guided previously to equipment revenue being down in 2019 for a few reasons, but I guess I'm wondering if we'll be able to look at equipment revenue in future periods, in future years, as a leading indicator of timing around the ramp in some of the Certus broadband revenue that you're expecting to hit that $100 million exit run rate. In other words, is there a correlation between equipment revenue and future leading service revenue growth, and can we use that as a barometer to see the progress that you make towards going from that $2 million to $2.25 million MRR to the $8.25 million as you exit 2021?

Thomas Fitzpatrick
No. Equipment revenues are not a barometer for Certus. Remember, our partners are selling the equipment, so that's atypical. The driver in our equipment revenues margin is our handsets, and that was uncharacteristically strong in 2018. If you look at our commentary in 2018, we were surprised by the strength. We were happy to enjoy it, but we called it down in 2019, because if you just look at the three-year trend, and I would call your attention to a page in our Investor Day that shows the handset trend and what was unusual was the 2018 number and we called that, and it's turning out as we expected it. So that answers your question.

Anthony Klarman
And is there a plan on that side to sort of have, is there a place for Certus on that handset side as the availability is rolled out more broadly?

Matthew Desch
Yes, on the Certus narrowband side, the 9770 transceivers I said is the first of a number of devices that we plan that some of them will make them into what you would call a handset or a hotspot or some sort of other personal communication device, as well as sort of next-generation IoT devices. And as I said, I'm expecting that sending pictures and low-res video and that sort of thing will generate higher ARPUs, et cetera than some of the existing voice and data business that we have today so that certainly could be a positive there.

But as I said, going back to what Tom said, today we sell OpenPort terminals. They are a couple of thousand dollars. We do sell Certus modems to those terminal manufacturers, but they're a fraction of that cost and really we sell those to enable them to have a successful equipment business as opposed to ourselves, because what we really want to do is get a wide variety of terminals out in the marketplace that are attractive to the maritime, land-mobile, and aviation business. So, as we transition from some even OpenPort terminals to Certus modem devices, you're going to see a drop in actual revenue, but actually an increase in service revenue. So that's a good trade-off we will always make.

Anthony Klarman
Right, understood. The shift from equipment really to service revenue.

Couple of clean-up questions. There's an item on the cash flow statement purchases of other investments in this period of $10 million, which is outside of the CapEx as you have reported. I was just wondering what that was.

Thomas Fitzpatrick
We made a small investment in a partner.

Anthony Clarman
Got it and is it related to one of your businesses in particular?

Matthew Desch
Yes.

Anthony Clarman
And then, just with respect to cash, you mentioned that you have about $60 million in payments to sort of finalize the spend on NEXT. In the Q it mentions that you made some final payments to SpaceX. Is that the full quantum of the $60 that you made in April or are there other payments that still happen over the course of 2Q?

Thomas Fitzpatrick
Yes. So, 2Q is going to have, I don't know, in the area of $35 [million] to $40 [million] of NEXT spillover, and then the third and fourth quarters look clean. We should be down on that sort of 35 million-ish run rate on CapEx and you should be able to see that as you look at the Qs in the third and the fourth quarter. Second quarter is going to have a little NEXT residual in it.

Anthony Klarman
And then just a question kind of on how you think, Tom, about cash as you think about this and liquidity as you think this capital structure going forward. You have, call it, $275 million of cash today. You have some one-off payments to make in the area of $60 million. You also have the DSRA, which supports the BPI facility of $193 million. When you do your ultimate refinancing, does the DSRA become unrestricted or does that cash get used to facilitate the refinancing? And then, how would you think about what the minimum cash levels are you would want to have in the business, given the business by then will be generating pretty significant recurring levered-free cash flow?

Thomas Fitzpatrick
Yes, the DSRA, once we take the BPI facility, that's just regular cash and we would use that as a source of funds as we think about the refi. And in terms of cash, in the area of a hundred feels right to us. We put a facility in. We probably have a revolver in it for additional kind of cushion. But as far as cash on the balance sheet, a hundred feels right to us.

Anthony Klarman
Thank you.

Matthew Desch
By the way, Andrew, I want to go back, I don't want there to be any confusion. You asked about or Tom mentioned that we made an investment in a partner. Just so you're not confused, it was not any partner. It's one we announced on Investor Day and that was the investment we made in Satelles which is our satellite time and location business. We see really a lot of potential in that business. We wanted to support that unique technology that really can't be performed any other way and we think long term there is some value in that investment. So, we thought it was prudent to make, but we discussed that at Investor Day.

Anthony Clarman
And that, Matt, was an equity stake that you took?

Matthew Desch
That's right. It was, yes, an equity stake and so we're a part owner in that with a number of others and that kind of allows them to sort of expand their business and their sales efforts, which we think has some real potential in both government and commercial applications to timing and anti-GPS jamming and spoofing sort of protection, and the ability to bring time into lots of different IoT-type applications.

So, it's an exciting technology and we thought it was a prudent use of a small bit of our cash.

Anthony Klarman
Thank you.

Operator
Our next question comes from Mathieu Robilliard from Barclays. Please go ahead.

Mathieu Robilliard
Yes, good morning. I have two questions, please. First in terms of your Certus Aero product, are you still on track where with the comments you made at the Investor Day regarding the timing of the launch of that product?

And second, more an accounting question. Looking at your cost of goods sold, does it increase year on year on this quarter? I was wondering if there is anything to it or just some seasonality there? Thank you.

Matthew Desch
Yes, Mathieu, I'm sorry you said our Certus, which product did you say? Aero?

Mathieu Robilliard
For aero, yes, for the aviation segment, yes.

Matthew Desch
Yes. I mean, our partners are developing their terminals right now. There are a lot more complexities to that in terms of the size of the terminals and all that sort of thing, and more importantly the regulatory things that have to go through to put anything on commercial aircrafts that just take more time. So, it really does use the core platform that we have, so that's available. There's not anything to do on our satellites or modems, but it's more in the availability of the terminals to the partner base. There are a number of them being developed, but they've kind of informed us that it's later this year that those will be in trials and out in the marketplace and would be more of a 2020 kind of getting on aircraft type timeline.

Thomas Fitzpatrick
And then the question on the cost of goods sold, the increase directly relates to the increase in revenues, in engineering and support, which is episodic. So you see the revenue stepped-up from $3.6 [million] to $5.7 [million] and the increase in cost of goods sold directly relates to that increase in revenues. It's like I said, the revenue is episodic in nature and the cost moves with it.

Mathieu Robilliard
Thank you.

Operator
And as a reminder, if you have a question, please press *1.

And our next question comes from Chris Quilty with Quilty Analytics. Please go ahead.

Chris Quilty
Matt, just wanted to follow up on that aero question. Can you give us an idea of when you think you'll be able to achieve safety services? I know that Inmarsat, for example, it took them a year or two to achieve that clearance.

Matthew Desch
Yes, it does take time, because after you get the product in the market, the FAA and other regulatory bodies want to see extensive service time in the air to demonstrate that it performs as expected. So, it's not completely just a paper exercise, it really does require product in the field.

In the regulatory process, we're involved in that today. It's understood that Certus is going to get safety services and we'll go through that whole process, but it really doesn't start until, as we said, later this year. So, I wouldn't expect to sort of see safety services on Certus until at least a year after that and, who knows maybe just a tiny bit longer, depending upon just the length of time it takes.

In the meantime, of course, we do have safety services available today. I think it's the most attractive safety services product out there. It's getting deployed, continued quite widely. Our partners are happy with it. It might be put -- our narrowband sort of safety services is possibly even going to be put -- into some of the initial Certus terminals so they can provide that in an integrated package. But obviously, the long-term benefit is just to have a single service that's quite attractive that does both cockpit communications, cabins communications and potentially safety services as well.

Chris Quilty
Great. And a clarification on the EMSS contract that is currently just an update on the existing services and I'm assuming those discussions do not include any Certus-related services? And if not, are you having those negotiations in parallel or is that something that sort of starts after the EMSS contract is in place?

Matthew Desch
So you're right, it doesn't include Certus. It's not the exact scope, but it's pretty much the same sort of narrowband services that we had in the last five-year contract. Certus really has been, for the most part, negotiated in the sense that the government is deploying the infrastructure to implement Certus. They know what the price of Certus is likely to be. We have selected a partner, who has great experience selling broadband to the government in COMSAT and they know the pricing that they get from us and they will be really either have negotiated or negotiating the costs to the government.

The government has already deployed some Certus technology today and is actually deploying it using through COMSAT. It happens to be connected to our network through our commercial gateway instead of the DoD gateway right now, but they're very happy with the performance of that. So, it really is a completely sort of independent activity to the EMSS contract and it will have its own trajectory.

Chris Quilty
Understand. Circling back to the push-to-talk, you've mentioned I think at the Analyst Day as well as in the script here today that the new product with Icom, do you intend to go to market with that differently than you have in the past year, year and a half where you don't seem to have made much traction in the market? Do you think that was due to the way you were going to market, the nature of the customer base or the device that you were offering?

Matthew Desch
A little bit of all those three things. I would say our primary, while our Iridium extreme phone, which has been the primary device for our PTT service, works well according to our customers, it wasn't purpose-built to be a PTT device. It wasn't a ground up, consumer or industrial PTT-type product, for example, having a very loud speaker on its own. It was really something that you needed to augment a little bit. And so while it was fine, it wasn't really ideal for PTT services.

Icom and QinetQ for that fact have really come to the market with purpose-built devices from years of experience of industrial enterprise and consumer sort of services, and our partners are telling us this is exactly the kind of product that will be very appealing to first responders and NGOs and militaries, etc. So that's one thing.

The other thing is, Icom has experience in the global special mobile radio or that kind of safety services market on the terrestrial side, so they're excited to take satellite to their customers. It’s a little bit like our relationship with Amazon Web Services. We can supply their service, but it's equally exciting that they can bring Iridium to their IoT customers as well. So I think it's a little bit of a couple factors and we're encouraged really from what we're hearing about the potential on PTT. It's still not going to be a massive part of our business, but I think it's always sort of underpinned one potential growth area in our voice and data business that we like.

Chris Quilty
Great, thank you very much.

Matthew Desch
Thank you.

Operator
Our next question comes from Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma
Good morning, Matt, Tom, and Ken.

Matthew Desch
Hello Louie.

Louie DiPalma
Tom, at the Analyst Day you discussed how Aireon could be able to contribute dividends to Iridium at a rate similar to I think next year's revenue. Do you have any sense broadly on the timing that Aireon could accomplish that?

Thomas Fitzpatrick
So, what we said, Louie, is that we expect dividends no later than 2024 and we said that eventually the dividends would be greater than the revenues, which as you know are $39 million.

Louie DiPalma
And do you have any sense on the timing beyond “eventually”?

Thomas Fitzpatrick
Well, it's going to depend on their ramp. I mean, we put two stakes in the ground intentionally -- dividend, material dividend in 2024 and that just to size it for investors that if you're thinking about the hosted payload growth profile, the growth profile, we're going to enjoy that in the form of dividends and the size of way that will eventually be more than the revenues.

Louie DiPalma
Great. And for Matt, in regards to the IoT market, there appears to be a litany of new entrants in the smallsat base that are pursuing the very low end of that market with less frequent data updates and bandwidth over VHF spectrum. Does Iridium have a product in the works possibly related to the 9077 line that is going to be able to target this ultra-low end of the market?

Matthew Desch
Yes, we are very interested in that development of those networks. We don't see them as really competitive with the kind of high quality, low latency, industrial-strength services we provide today that are very attractive. They’re, as you said, are very low-power, so the devices often last for years without sort of being updated and they're very, very high latency in the sense that it can be tens of minutes or hours between sort of being able to get the information from one of those devices. So they're typically one-way devices not two-way like our products.

That said, we've had a number of discussions with potential network operators. We've announced actually at least one of those, but we have one partner of those who's launching some satellites who's using our IoT products sort of to help bridge the gap for when they eventually are able to put out products. But we sort of see the eventual maybe dual mode-type products and potentially offering their products to our customers or them offering our products to their customers and that they would all probably fit together pretty well.

So we're keeping an eye on the market. It's very, very early days. There's really only trial satellites up there today and we're keeping close tabs with those networks on the progress they're making. I still think that's a few years away for really being able to offer sort of their services or vice versa, so I don't think it's really going to be a near-term kind of activity, but it's an interesting development in our industry that we welcome.

Louie DiPalma
Great. And following the $10 million investment into Satelles, is that the 16% ownership that you guys disclosed at the Analyst Day or did it increase beyond that?

Thomas Fitzpatrick
We have a 16% and interest into Satelles. That's the right number, Louie.

Louie DiPalma
Thanks, guys.

Matthew Desch
Thanks, Louie.

Operator
Our next question is a follow-up from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss
Hi, guys. Appreciate the opportunity for follow-up. Just want to circle back to the CapEx question. Tom, you mentioned the final CapEx of $60 million, but then to Anthony's question there was a number of $35 million to $40 million. Is the difference $60 million is what you expect CapEx in the second quarter with maintenance or what was the difference between the $60 million out of $35 million to $40 million?

Thomas Fitzpatrick
So, I think that the $35 million, 35-ish number is the NEXT capital in the second quarter and NEXT capital will aggregate $60 million on the full year.

Ric Prentiss
Full year. As far as beyond 1Q you mean?

Thomas Fitzpatrick
Yes. There was probably about in the area of $25 million in the first quarter; there will be around another $35 million in the second, is our expectation and then we're done.

Ric Prentiss
Got you. Okay, that makes sense.

And then, one other area. Obviously, Matt, you guys have climbed that mountain as you talked about it at the Investor Day and the land of milk and honey, but stock-based comps, share-based comps wasn't real high in the quarter. Should we be expecting a pop at some point? How is it structured as far as stock-based comp as we look over the next couple of years?

Matthew Desch
I am not really sure. Tom, do you know because its stock based comp. We do have a program for like the international partners, but that's really more in our expenses like --

Thomas Fitzpatrick
That's cash. Yes.

Ric Prentiss
So is that $3.3 million we saw in 1Q 2019 for share-based compensations that we should be thinking about kind of as that level, maybe a little higher, as we look out into the future? If you want to get back to me afterwards…

Thomas Fitzpatrick
Yes, let's get back to you. I think that's in the area $3.3, but let's double back with you on that, Ric.

Ric Prentiss
All right. Do you guys expect, obviously you're focusing on leverage-free cash flow. Do you expect to report that into the future? Was that the Analyst Day. You kind of referenced it in your prepared remarks as well. So is that something we should be looking at being reported in the future?

Thomas Fitzpatrick
It'll be discussed, but I'm not sure about reported, but we laid out our methodology pretty clearly in the Investor Day, so it'd be easier to track.

Matthew Desch
There's certainly a little bit of it going on about the best way of sort of representing and positioning ourselves whether we do that sort of on a regular basis or periodically. Obviously, we want people to see that because we think it's a unique attribute of Iridium that many others don't have, but exactly how – it's all computable, obviously – but what we described, it's something we'll talk about.

Thomas Fitzpatrick
Let me just double back with you on the share based comp. We ran 2014 and 2018 and that's a good expectation for 2019.

Ric Prentiss
That helps. Matt, the reason I bring it up is, obviously you guys are moving beyond just an EBITDA story, the capital holiday makes a lot of sense and at the Analyst Day you talked about power companies and other free cash flow stories, so just trying to think, as we think of valuation and where the stock could go I think it is important to kind of think about that leverage-free cash flow and how the

value of the company.

Matthew Desch
And we have been talking quite a bit about that obviously since Investor Day and seem to be getting some good traction from the people we've talked to that appreciate that that is sort of a unique attribute of us. So I appreciate the question.

Ric Prentiss
Last one for me. Margin path, I think guidance a couple of years ago was like, well we hope to get to 60, you guys have mentioned a couple times in the call hell there's a lot of good revenues that flow through the bottom line. How should we think about the EBITDA margin progression, where you're at today kind of that stakes in the ground like you did with Aireon dividend? Where could that head overtime and are there any milestones along the way we should think about EBITDA margin trends?

Thomas Fitzpatrick
Sure, mature satellite companies are 70% - 80%, Ric. The operating leverage in this business is going to cause margins to expand overtime. There could be years where it's kind of flat and like what happened last year we were very equipment heavy, and so that equipment is excellent business, but it's 40% margin as opposed to service revenues which have much less variable cost. So, we see a logical progression from where we are today moving towards 70%.

Ric Prentiss
Great, thanks a lot for the follow-ups.

Matthew Desch
Thanks.

Operator
And this concludes our question-and-answer session. I'd like to turn the conference back over to the company for any closing remarks.

Matthew Desch
Thanks. It was another good quarter and look forward to seeing you all on our next quarter call and perhaps that some of you at Satellite 2019, which is I think in about two weeks here in DC. So we'll see you then.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.