

Iridium Communications

Q3 Earnings Conference Call

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CORPORATE PARTICIPANTS

Matt Desch – *Chief Executive Officer*

Tom Fitzpatrick – *Chief Financial Officer and Chief Accounting Officer*

Ken Levy – *Vice President, Investor Relations*

PRESENTATION

Operator

Good day, and welcome to the Iridium Communications Third Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your touchtone phone. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would like to turn the conference over to Ken Levy, VP of Investor Relations. Please go ahead.

Ken Levy

Thank you. Good morning, and welcome to Iridium's Third 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 third 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 earnings 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.

Matt Desch

Thanks, Ken, and good morning, everyone. So as many of you know, Iridium priced a \$1.45 billion term loan and an additional revolver earlier this month. I'd like to talk for a minute about this transaction before discussing our third quarter activities and financial performance. This refinancing, which we expect to close next week, is a major milestone for us. It will replace and payoff our long-standing \$1.8 billion French export bank facility that was instrumental in the construction and launch of our new constellation.

The BPI facility, as it's now called, was put in place in 2010 and provided Iridium cost effective financing for Iridium NEXT when debt funding for companies like ours was difficult to come by. While the facility was perfect for Iridium at that time, the completion of our new network allows us to take another step

forward to a structure that is a better fit for our company today.

The new deal we just priced will completely retire the French facility and in doing so, improves our capital structure, provides us flexibility to leverage our growing free cash flow for investors, and kicks off a new era for our company. I can't overstate the relevance and symbolism of this transaction to Iridium. This is really a key milestone and we feel a tremendous amount of optimism as we begin this new chapter of growth for the company and its shareholders, and many of you on the call today have been vital to seeing it through to this day.

As for the third quarter results we reported this morning, they reflected another strong quarter and a healthy business that continues to grow. As such, we're on track to exceed our original service revenue guidance for the full year and today, we're tightening our operational EBITDA guidance to better reflect the momentum supporting the outlook.

The third quarter is always a busy one for us. This year, we hosted our annual Partner Conference in September, during which we brought together the many developers, manufacturers, and resellers who create Iridium solutions. It's an opportunity for our growing ecosystem of more than 450 partners to network with each other and exchange ideas. We provide them our vision of the future and they help shape our growth and ensure that our one-of-a-kind network remains the network of choice for their customers and applications.

There were many important announcements at this year's conference and a lot of excitement around Iridium Certus, which launched earlier this year. To date, we have nearly 800 active Certus users and overall sales of these terminals by our manufacturing partners to our licensed distributors have been several multiples of this figure. So, we have a very good pipeline of product in the channel today, which bodes well for future activations and demonstrates the channels' expectations for demand.

Despite this data, as you know in the third quarter, we trimmed expectations for the sales ramp of Iridium Certus through year-end 2021, as we saw sales and deployment cycles that were a little longer than we originally anticipated. For example, it took almost 6 months from the service launch for the last of our 20 maritime resellers to complete their technical requirements to sell Iridium Certus and fully integrate us into their proprietary service offering.

I can report that the rate of installations has been steadily increasing since our revenue update in mid-September. Overall, I think we've set expectations appropriately at this time for that part of our outlook going forward.

Our newest offering, Iridium Certus 700, is under test now and will be available to partners by year-end. It's being delivered as a firmware upgrade and will be straightforward for partners to update existing terminals and customers.

Last week, Intellian became the latest partner to develop a new maritime terminal based on the Iridium Certus platform. Intellian has a great brand in the industry and will be very attractive to many fleets. With a speed upgrade, continued strength in terminal demand, and positive end-user feedback, we are confident that Iridium Certus will deliver on its promise as the industry's best L-Band service.

Now at our Partners Conference, we also had a lot of discussions about the coming use of Iridium Certus for aviation. Today, you probably know Iridium has a strong presence in aviation with about 40,000 installed subscribers, from commercial aircraft and business jets to rotorcraft and general aviation. As a group, these subscribers pull up Iridium's average voice and data ARPU.

Once aviation terminals are ready, we expect Iridium Certus to turbocharge our existing suite of aircraft safety services as well as deliver Internet capabilities, such as electronic flight bag services, graphic weather, black box, streaming, email and more. We're also seeing a lot of interest in the UAV area and have been adding some new partners addressing the opportunities that are coming for beyond-line-of-sight control of drones.

We have a number of avionics partners developing solutions to meet all of these aircraft platform requirements. Testing of Iridium Certus aviation terminals is currently underway and we expect the first ones should be ready by mid-2020 with certified cockpit safety products to follow later in the year.

We also used our Partner Conference as a launching pad for new services, like the one that we're calling Iridium Certus midband, which will be available next year. Midband represents a new category of Certus devices that are optimized for size, power, weight, antenna size, and cost. They will operate much faster than our current narrowband transceivers that are embedded in our phones, personal communication devices, and IoT modems. There's a lot of excitement in our partner channels for the first device in this category, the new Iridium 9770 transceiver, and we expect to see applications for that starting later in 2020 and ramping into 2021.

Today, we have over 767,000 commercial IoT users, and we've seen compound annual subscriber growth greater than 20% since going public in 2009. All this growth was generated by our legacy service offering, which is very capable despite having a very slow data rate. New midband devices that are up to 35 times faster, will move Iridium from just delivering data points like location and asset status to more diverse, feature-rich information like pictures, graphic messaging, and email.

Iridium's partners were also excited to hear about our plan to deliver some new IoT devices in the coming months that expand on Iridium Edge, which we introduced in 2017. Iridium Edge line of finished IoT terminals aim to simplify our partners' work of putting their customers on the Iridium network and speed time-to-revenue for Iridium and its partners.

In 2020, we will roll out two new IoT products to our partners: the Iridium Edge Pro, which incorporates a processor and a suite of development tools to give partners a complete solution to develop their applications directly on the device; and the Iridium Edge Solar device, which is a very low cost solar powered tracker, which we think will be the best device in that category for tracking non-powered assets like shipping containers and the like. These and other new capabilities we're introducing, like Iridium CloudConnect powered by Amazon Web Services that's going live this quarter, are generating a lot of excitement for our IoT partners and validate why we're the best network for them to develop their satellite IoT services.

One other announcement that coincided with our Partner Conference was the Memorandum of Understanding we entered into with OneWeb. The MoU envisions integrating Iridium into a possible combined service offering available to their future customers. While OneWeb isn't planning to offer global services for another two years or so, they felt a combined offering could leverage the strengths of both companies' LEO networks and that our L-Band complements their Ku-band service very well.

This is likely not the only announcement we'll make with new mega constellation owners. I think this announcement also serves as a clear message to investors that our L-Band and the new Ku or K-band LEO networks are not direct competitors. It's helpful to have these reminders for investors, especially with a high frequency of satellite launches planned by mega operators for next year.

As you know, the U.S. government renewed our Enhanced Mobile Satellite Services contract (EMSS) in mid-September. We're really happy with the contract. It gives both parties good visibility into the

future and is the foundation for our mutual relationship going forward. A fixed price seven-year deal is unprecedented in the satellite industry, or frankly most other industries, and demonstrates the value the U.S. government sees in our unique network.

We expect the DoD to be a strong customer for Iridium Certus services on top of this contract and expect they will eventually procure a lot of Iridium Certus broadband service through our partner COMSAT and new Certus midband service and equipment through other partners in the government space.

In addition to the EMSS airtime contract, the U.S. government awarded two other notable contracts to Iridium this year. The most recent was a Gateway Evolution Contract, which provides for technical refresh and lifecycle upgrades to the government's existing ground Gateway equipment to ensure continued compatibility with Iridium's commercial architecture. This is a five-year ID/IQ contract focused on infrastructure upgrades, which can generate up to \$76 million in revenue for Iridium. It will be used to help the government launch services like Iridium Certus through their dedicated Iridium Gateway.

The other contract we announced in April was for Gateway Maintenance and Support Services. It's a four-and-a-half-year contract worth \$54 million and is being used to procure Iridium software and engineering services in support of the DoD. Revenues from this contract and the Gateway Evolution Contract flow through Iridium's engineering and services line. And while lower margin than the EMSS airtime contract, these contracts are very important in optimizing the DoD's use of Iridium services.

Overall, our relationship with the federal government is fundamental to our story. The U.S. government has been a source of tremendous collaboration and often enables commercial solutions as well. We're happy to have formalized these important new contracts with the DoD, especially in a year that is tracking to be their biggest year of subscriber growth in our history.

Finally, I want to touch on Aireon, which is live and delivering on the benefits they've promised. Revenue is flowing and the company will have positive free cash flow next year. This is an amazing feat given that the company was a little more than an idea just a few years ago.

Since our last call, they've signed two more customers: AAI of India and COCESNA, the organization managing air traffic for six Central American states. We expect to see more customers sign up shortly and also look forward to the FAA starting to use Aireon service in the Caribbean early next year.

We continue to believe that our equity and stake in Aireon will yield significant cash flow for Iridium in the coming years and are very proud of the progress the team is making. So, overall, another great quarter and with some pretty big milestones achieved as well.

To provide some more detail, I'll now turn it over to Tom who, by the way, deserves a lot of credit for his leadership on the execution of our recent financing and for his leadership on our overall financial plan. Tom?

Tom Fitzpatrick

Thanks, Matt, and good morning, everyone. As you saw from our press release this morning, we enjoyed strong results in the latest quarter with double-digit growth in service revenue and operational EBITDA. I'd like to kick off my remarks by reviewing some of our key financial metrics for the quarter and highlight some trends that underlie our revised 2019 guidance. I'll also provide an update on our refinancing activities and review our capital plans and liquidity position.

In the third quarter, Iridium generated total revenue of \$144.8 million. This was a 6% increase to the

prior year's quarter and largely driven by growth in both commercial and government service revenue, somewhat offset by lower equipment revenue. Operational EBITDA was \$88.5 million, which was up 11% from last year's comparable quarter.

On the commercial side of our business, we reported service revenue of \$90.2 million in the third quarter, which was 8% higher than a year ago. The increase reflected continued strength in IoT, as well as growth in revenue from hosted payload and other data services.

During the quarter, voice and data revenue rose 3%. This increase was driven by a rising subscriber count and an increase in ARPU to \$48 that primarily benefited from new Iridium Certus activations.

Commercial IoT revenue grew 12% during the quarter to \$25.3 million, on 25% growth in billable subscribers, continuing at trend. Demand for consumer-oriented devices, like Garmin's growing suite of personal location and messaging devices, continue to provide us with momentum. In addition to introducing a new satellite navigation device this summer, Garmin has expanded its Iridium offerings to consumer products hardened for the maritime environment.

The IoT subscribers that Garmin and other consumer-oriented companies bring to our network are particularly attractive in terms of revenue generation relative to network resources used. We expect to add about 100,000 new personal communications subscribers this year to last year's base of about 225,000 users.

During the third quarter, we added 50,000 net new IoT commercial subscribers. Commercial IoT data subscribers now represent 67% of billable commercial subscribers, up from 63% in the year ago period.

Turning to our government service business, we reported revenue of \$25.6 million in the third quarter, which reflected the renewal of our EMSS contract as well as revenue from short-term extensions during the quarter. As Matt noted, the U.S. government signed a 7-year \$738.5 million contract, which will pay Iridium \$100 million in the initial year of the contract and step up to \$110.5 million in the 7th year in 2026. The EMSS contract reflects the strong collaborative relationship that Iridium has built with the U.S. DoD, which will serve as an important source of recurring revenue well into the next decade while also leaving additional room for growth from Iridium Certus, which will be procured separately.

In the third quarter, government subscribers grew 16% year-over-year to reach a record 131,000 users. Revenue from equipment sales was \$21.4 million in the third quarter and continues to reflect our outlook for moderation from a record pace last year. Equipment margin was 40% in the latest quarter. Engineering and support revenue was \$7.6 million in the most recent quarter and continues to reflect increased activity with the U.S. government.

In general, the third quarter came in much as we had expected and continued to reflect growth in the recurring service revenue. Service revenue accounted for 80% of total revenue in the third quarter, up about 300 basis points from last year. We now expect that total service revenue will be between \$445 [million] and \$450 million for the full year versus our prior guidance of approximately \$440 million. We're also using today's call to update our outlook for operational EBITDA, tightening our guidance to approximately \$330 million for the full year.

We continue to anticipate a step up in data service revenue corresponding with a customer contract milestone that Aireon is on track to reach. We expect Aireon data revenues will rise from about \$1.1 million a month currently to approximately \$1.9 million a month when this milestone is satisfied later in the fourth quarter.

As you consider our implied guidance for service revenue in the fourth quarter, it is important to remember that we recorded an out-of-period true up relative to Satelles in last year's fourth quarter of \$4 million. The midpoint of our full year guidance for service revenue was \$447.5 million. This is a 10% growth year-over-year. Pro forma for the Satelles adjustment, our fourth quarter growth rate would be in line with the full year growth rate of 10%. Also, depreciation and amortization expense should continue at a quarterly rate of about \$75 million, reflecting the completion of the Iridium NEXT program.

With the upgrade of our global constellation now behind us, Iridium enters a new phase in the corporate lifecycle. We have a strong capital position and are at the beginning of a prolonged period of free cash flow generation.

As of September 30th of this year, we had a cash and cash equivalents balance of \$171.6 million. During the quarter, we incurred \$10.2 million of capital expenditures, which reflected maintenance CapEx now that spending for the Iridium NEXT mission has concluded. Moving forward, we anticipate maintenance CapEx to average approximately \$35 million a year for the next 10 years.

As Matt indicated, we are delighted with the terms of our new \$1.45 billion term loan. The term loan will improve Iridium's covenant flexibility and amortization profile and aligns better with our intention to undertake shareholder-friendly actions.

We've been talking about refinancing for some time, but were waiting to get the new DoD contract under our belt before doing so. Since April when the previous five-year EMSS contract expired, LIBOR has fallen about 60 basis points to around 1.9%. So that move has been favorable.

At the same time, however, the market for leverage loans has softened with spreads widening by close to 50 basis points for single B credits like ours. In fact, there have been a couple of single B credits that were pulled recently due to insufficient demand.

Against this backdrop, we moved quickly after signing our new EMSS contract in September to prepare for marketing our new term loan. Our expectations were colored by the fact that there was another well-known satellite company marketing a term loan in the weeks immediately prior to our planned launch. That term loan was down-sized and the pricing increased in order to close the deal. This presented a challenge for us, since the company was in the same industry as Iridium and also had a higher credit rating.

Despite their higher credit rating, we and our bankers believe that Iridium's growth and significant free cash flow represented a superior credit and our results bear this out. Our offering was oversubscribed by over 3 times with orders of about \$5 billion on our \$1.45 billion term loan. As a result, pricing was achieved at LIBOR +375 with OID of 99.5 – very favorable terms particularly in comparison with the other recent satellite deals.

We're very proud of this outcome, particularly since we are a first-time issuer in this market. We provide this color on our debt offering because we think equity owners should know that another class of investors has given us such a ringing endorsement.

Our pending debt transaction greatly simplifies Iridium's capital structure and is better suited for our ongoing corporate priorities, especially as we enter a new era of free cash flow generation. We expect this deal to close on November 4th and provide Iridium with significant flexibility in deploying the excess cash generated from our business.

As you reflect on our capital plans, I want to also provide some perspective on our financial priorities

and review certain metrics we believe investors should consider in evaluating the appropriate trading multiple for our equity. As we've said repeatedly, we intend to delever our balance sheet and are targeting a level of net leverage between 2.5x and 3.5x of OEBITDA. As evidenced by our September 30th balance sheet, that process has already begun. We closed the quarter with net leverage of 4.8x of OEBITDA, down more than three quarters of a turn from our peak of 5.6x last year. We have indicated that cost associated with our refinancing would impact our prior guide for year-end 2019 leverage by approximately a quarter turn. So accordingly, we have updated our 2019 year-end net leverage to 4.8x versus our prior guide of 4.5x.

I want to also underscore the relevance and durability of the most recent quarterly figures we published this morning and reflecting on ongoing capital spending. For the first time, investors can see within our financial statements the level of capital expenditures that we expect will characterize our 10-year CapEx holiday. If you look at the Form 10-Q we filed this morning, the statement of cash flow shows capital expenditures for the 9-months ended September 30th of \$102.8 million. This compares to capital expenditures of \$92.6 million from the same statement for the 6-months ended June 30th. The difference between these two statements was approximately \$10 million.

Backing out the quarterly change related to GAAP capitalized interest of approximately \$2 million, you're left with a cash CapEx amount of \$8 million. This figure is squarely in line with our guidance for CapEx to average \$35 million per year over the next 10 years. Investors can use this input to characterize Iridium's cash flow and cash flow yield. Using the \$35 million figure in our normalized calculation of 2019 levered free cash flow yields \$167 million, which is better than a 50% conversion rate on our OEBITDA guide. Normalized levered free cash flow per share for 2019 would be a \$1.22, representing a yield of 5%.

Investors should also note that today's updated guidance for 2019 OEBITDA represents more than 9% growth from 2018. So, when combined with the levered free cash flow yield, it is apparent that Iridium represents a rare combination of growth and levered free cash flow generation. We believe that using these measures, Iridium's characteristics resemble companies in the tower sector, which trade in the range of a 24x multiple. This is an important investment consideration in our view.

Iridium remains well positioned to generate meaningful free cash flow in the coming years and deliver on the financial transformation that our team outlined more than five years ago. As I reflect on our accomplishments this year and the current trajectory of Iridium's business, its subscriber growth and revenue pipeline, I'm very proud of our team's execution and the metamorphosis of the company that has resulted in significant benefits for our shareholders.

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

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two.

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

Ric Prentiss

Thanks. Good morning, guys.

Matt Desch

Good morning, Ric.

Ric Prentiss

A couple of questions if I could. First, Matt, I appreciate all those details on the development of the new products and the Certus line and family. Definitionally, I assume like a Certus midband product in the IoT that might go on it as well. Is that all included in the now \$50 million incremental by '21 exit rate revenue target? I get a little confused on Certus broadband versus Certus normal. Just trying to think through how are you going to be reporting it?

Matt Desch

Yes. We have focused that guide really on the broadband, say the Certus 350 and 700-type range products only. So midband would be more incremental and would go into two categories. That would go into the voice and data category and it would go into the IoT category. So those are products that will help those two revenue lines.

Ric Prentiss

Okay. I think you mentioned in Certus midband maybe some apps in '20 and then ramping in '21.

Matt Desch

Yes, we have a bunch of our partners who are actually trialing or testing and starting to integrate the first modem into their products right now and we expect their products to hit the markets sometime in 2020. But really, I think this is going to be more— really a bigger part of the ramp into 2021. It just takes time to put those new products to a number of other solutions.

Ric Prentiss

Sure, makes sense. And then, Tom, obviously a call out on the leadership on the refinancing and financing plan, a long journey and now you're there. As you think about that equity-friendly component, you've laid out a leverage target 2.5 to 3.5, but how should we think about how soon you might make board-level decisions on stock buybacks or dividends and when we might see it come into the marketplace?

Tom Fitzpatrick

So, we think about 2020 as a delevering year, and then immediately thereafter sort of as we exit 2020, those initiatives become top of mind.

Ric Prentiss

Okay. And I noticed in the quarter, R&D dropped down to I think about \$3 million. Is that kind of the new run rate? You have these new products that Matt was talking about, but obviously the constellations are up there? So how should we think about R&D on a go-forward basis versus what we saw this quarter?

Tom Fitzpatrick

I'd say 3 to 4 [million], Ric.

Ric Prentiss

All right. And then the last one from me in a busy earnings day is you called out the \$2 million of capitalized interest in the quarter, so it was really \$8 million of cash CapEx. How should we expect capitalized interest to go forward now that the constellation is up there? Is capitalized interest really going to go away, will be expense interest or all we'll really see is the \$35 million kind of traditional CapEx or will there still be some capitalized interest?

Tom Fitzpatrick

There will be a little bit, I'd call it \$3 million or less for the year.

Ric Prentiss

And would that be included in the \$35 million or will that be added—

Tom Fitzpatrick

No, because that's what we quote interest expense. That is not cash CapEx. That's GAAP accounting— we quote cash CapEx as what we spend on CapEx and we quote interest expense as cash interest expense, just GAAP mixes them together in the public filings. So that's why we call it to your attention.

Ric Prentiss

Got you. I appreciate the extra information. Thanks, guys.

Matt Desch

Thanks, Ric.

Operator

The next question is from Greg Burns with Sidoti & Co. Please go ahead.

Greg Burns

Good morning. Regarding Certus and the revision in the near-term growth outlook, have you seen any competitive response from Inmarsat and if so, has that had any impact on your near-term view of growth for Certus? Thank you.

Matt Desch

Greg, not really. I don't think that there has been anything that they've done that's really been significant or impacting to that. The change in the outlook at the end of 2021 was really only based on the slowness out of the ramp of some of our partners being able to sell the product. That's starting to ramp now as we expect. We'll see the new products come onboard in aviation and there's a bunch of other new products that were announced by some of our terminal manufacturers for 2020 and 2021. So we feel pretty good about the guide as we have it right now and don't really expect a competitive sort of answer to that in any kind of significant way. I think Certus is better in just about every capacity and the competitive dynamic really with our partners wanting to sell it hasn't changed at all. So we feel really good about where Certus is.

Greg Burns

Great. And then in terms of Aireon, you highlighted two of the new contracts. Can you share with us how much airspace they're currently contracted to cover right now and also remind us is that milestone payment for— the hosting milestone payment, where we're at with those and what the expectation is for that cash coming in? Thanks.

Matt Desch

I'm not exactly sure about the percentage of the world. There's like 14 ANSPs right now that are contracted and having seen their pipeline, they got a bunch of them that are in the queue and looking to close here in the coming quarter or two. And I think they'll be brought on as well. It's a pretty big part of the world already, but there's still a lot of opportunity ahead for them.

As I said, I'm quite excited because the revenue is flowing. It's a pretty significant revenue amount

that's already getting into cash flow positive next year. By the way, it's working very well over the northern Atlantic from what I understand and really helping visibility of flights there. They're using it. I know flights are actually getting better time door-to-door, especially as they go through Aireon airspace. And so there's a lot of momentum on that front.

But in terms of— there's still a number of ANSPs in the world that they're looking to sign up. And of course, the FAA, which is starting to move— got a whole kind of rollout plan that they're working to see if they can accelerate with the FAA to get the benefits even earlier to the FAA and to the FAA airspace, which is still a big part of the world. That's certainly positive but that's something for them to really kind of develop and announce.

Tom, do you want to—?

Tom Fitzpatrick

Sure. So the milestone payments, Greg, you'll remember as we entered the year, they had paid us \$43 million. They may have made another payment of \$11 million here in the quarter and we expect another payment of \$4 million. So we'll get \$15 million from them this year. So that's a total of 58. And so you will recall those are contractual minimum annual amount that lines up to our rev rec of \$16 million a year. So think of the 58 that they have paid us as essentially they're prepaid through mid-2021. Their plan is to access the high yield market in late-2021 and do a high-yield deal that retires the facility that they arranged last year and upsizes it, because they'll have a significantly larger revenue contracted at that point in time, and they intend to take us out in our entirety for the hosting payment plus interest, which is accruing at LIBOR +350.

Greg Burns

Okay, great. Thanks.

Tom Fitzpatrick

Sure.

Operator

The next question is from Mathieu Robilliard with Barclays. Please go ahead.

Mathieu Robilliard

Good morning. Three questions from me please, first in terms of the guidance. So, you raised your guidance for service revenues. And when I look at the Q3 actually, there was a very good progression on EBITDA. I was wondering why you weren't raising the guidance on EBITDA. Are there some particular cost items in Q4? Is that a revenue mix impact?

The second question was on aviation. I think, Matt, you mentioned a number of installed customers with your current aviation products. If you could repeat that, because I missed it. But more importantly, when we think about the ramp up of the aviation product, as you've explained, there's been a little bit of delays in activating some of the Certus products on maritime. Have you also taken a more conservative view on the ramp up of aviation in your new guidance or you've left that unchanged?

And then finally you mentioned an activation of some service with Amazon. If you can maybe give a bit more color about that? Thanks.

Tom Fitzpatrick

Let me take the first one, Matt? So we basically took the bottom end of our range out of play, so our prior guide is 325 to 335 [million]. We're taking the 325 out of play and 330 is the number we feel very

good about. To the extent we beat that is going to be dependent on where equipment revenues shake out in the fourth quarter, so we'll wait and see and that's the rationale for the guide as it is.

Matt Desch

Okay. And then on the second question, Mathieu, in aviation, I quoted the number of active devices that we have of our subscribers – it has been around 40,000 or so on aircraft of all types. That's been true over the years. Those are traditionally what we call LBTs – voice and data revenues that are used for voice and transferring of things like basic weather and flight bag updates, or air traffic control and pilot messaging, that sort of thing on commercial aircraft. We've been certified for a number of years as to what's called aviation safety services (it has other acronyms), so we're able to be put on commercial aircraft in the cockpit. So it has been a pretty successful position, because of our global network and because we have very small antennas, we've been very popular in aviation scaling, all the way down to smaller aircraft.

We're not the revenue leader in L-Band aviation, but we definitely are the unit leader in aviation as we've attacked more the lower end of the aviation cycle. Say, in rotorcraft, we have a clear majority of rotorcraft that have satellite connections on them, general aviation aircraft, etc. So as far as that evolving into Certus, that's underway now. Certus antennas are being developed by a number of terminal manufacturers (different from the maritime manufacturers). There's more complexity involved because of the size and scale and because of the certification requirements that are necessary to put something on an aircraft.

We always expected that would be around mid-2020 to have those really starting to ramp into the market and that seems to be what they are. So we really haven't changed our forecast much due to aviation because it really wasn't hitting in a big way until 2021 and it was not nearly as large as the maritime opportunity, at least in the near term. So that hasn't really changed much. So I wouldn't say we're taking a more conservative view. We still feel very, very good— in fact aviation has always been one of the most, I don't know, pure advantages where Iridium has over almost any other network because of our ability to cover the poles and because of the size of our antennas and because the cost of them, etc.

Now the last one you mentioned was Amazon Web Services. We did announce last year a kind of a groundbreaking relationship with Amazon Web Services to develop a product, which we call Iridium CloudConnect. That's been— development, underway for the last year by AWS. What that does is sort of incorporate Iridium into the AWS cloud suite that their many developers—you know they have the largest market share of cloud services. So it's a particularly great advantage for those who deploy terrestrial solutions using AWS as their backbone, that they can now add Iridium much more easily into sort of their solution, because all those commands are in the development suite. And that's been under development now for the last year and is going live this quarter, so expect this—it doesn't drive revenue directly to Iridium. That's really more for them, but what it does is it simplifies our partners' ability to put solutions on the network and, hopefully, speeds time-to-revenue and time for devices to get out there, which we think is a really good thing for our continued IoT growth.

Mathieu Robilliard

Great. Thank you very much.

Matt Desch

Thanks, Mathieu.

Operator

The next question is from Chris Quilty with Quilty Analytics. Please go ahead.

Chris Quilty

Matt, I just wanted to follow up on the aviation safety services. I know Inmarsat with their Swiftbroadband safety, it took quite a long time to get certified. What gives you the confidence that you can get that certified by the end of next year?

Matt Desch

Yes, we've been working on it for quite a while. It's in the committees right now. The language is being reviewed in all the different various committees. It does require antennas to be validated and those are nearly ready. Some of them are actually starting to have initial tests and that sort of thing. Given it's a fairly straightforward upgrade to our network, it's not new satellites— our current satellites are really, if you will, certified for it. It's really just more of a new service class. It's relatively straightforward. We just have had to get the antennas ready. So everything we see right now is that it's on track to be certified and able to be in the market and be selling later in 2020, so that's still looking good for us.

Chris Quilty

And speaking to certification, GMDSS still on track?

Matt Desch

Yes. GMDSS— in fact, just after this call, I'm going to another project management review of that. That's a development that's underway to get deployed in the first quarter of next year. A lot of testing underway right now and connections to the various rescue services and that sort of thing. You've seen that we have an exciting new terminal in the market that Lars Thrane has created. There's a number of others in the works. So a lot of enthusiasm about that. So, everything is on track for GMDSS as well.

Chris Quilty

And so the follow up, I think in your script, you mentioned you expect to add about 100,000 personal communication devices this year. Can you give us a sense of how many were added last year and is that Garmin only or did that include new partners?

Matt Desch

Remember how many it was? It was less than that last year. So that's an accelerating number—

Tom Fitzpatrick

I think it was in the area of 75.

Matt Desch

Yes, so it's probably 25% or more actually higher than last year in terms of the overall numbers. There is probably about almost 10 different personal communication devices, ranging from commercial applications to government applications. There are some exciting new ones that are quite small and easy. They're coming out of sort of some startups and some other interesting companies that are focused at the enterprise, as well as sort of outside the traditional consumer spaces. Garmin is certainly the majority of the devices and they're expanding their line and SKUs that are integrating Iridium. So they're the majority, but there's a lot of other consumer devices in the market as well.

Chris Quilty

Got you. And, Tom, can you give us a breakdown of the hosting and other fees for this quarter?

I know in past quarters we had a number of true-ups. I'm just wondering how clean that \$12 million was? I think that Aireon hosting is pretty set at \$4 million a quarter, the data fee like \$3.2 million and

then—

Tom Fitzpatrick

I think 12 [million] is clean, Chris.

Chris Quilty

Okay. And so have we hit all of the step ups that we're going to see for the balance of the year?

Tom Fitzpatrick

No, as I said, there's an Aireon customer milestone that we haven't hit through the third quarter. We expect to hit it in the fourth quarter, at which time revenues go up by \$800,000 per month.

Chris Quilty

Then how about on Satelles?

Tom Fitzpatrick

No. That's the run rate until they hit another volume clip. So in the quarter for Satelles, we're at \$1.275 million. That's the current rate. They need to clear a volume clip for that to increase.

Chris Quilty

Got you. All right, very good. Thank you.

Tom Fitzpatrick

Thank you.

Matt Desch

Thanks, Chris.

Operator

The next question is from Hamed Khorstan with BWS Financial. Please go ahead.

Hamed Khorstan

Hi. Good morning. The first question I had, what kind of impact, if anything, is there on the FAA delay going into 2020 for Jamaica with your Aireon revenue?

Matt Desch

I'm not sure I'm following what you're talking about, Hamed. What FAA delay are you referring to?

Hamed Khorstan

Last quarter and previous quarters, you have been talking about FAA doing this testing in late 2019. In your pre-made remarks today, you're talking about early 2020.

Matt Desch

I wasn't referring to a delay. They're actually still testing. I was just more talking about the actual use of the service and active air traffic control and stuff, and probably the use of it to manage. I wasn't trying to make a distinguish of any sort of delay there. That seems to be on track and going well.

Hamed Khorstan

Okay. And then my other question was, what kind of ramp could you see in the Certus user base now that you're entering the winter months where there's more ship support?

Matt Desch

We're continuing to see activations on new ships. We're seeing fleets that are working to convert. While some ships go into port, there's still the digitalization of them continues and the ones out in the field really, they're still out in the field need to upgrade over time. So, we've always had— it's always been a little slower in terms of activation rates across all of our products in the fourth quarter and first quarter, but it doesn't look like anything unusual to us. It looks like it's sort of continued growth rates that we experienced in the past in other maritime areas.

Hamed Khorstan

And then finally on your commercial IoT, is that an area where you could see ASPs increase or is this pretty much more of a declining business but just more volume driven for the commercial side?

Tom Fitzpatrick

There's no element of that business being declining. So subscribers that we're gaining are more heavily weighted to personal communication, which is lower ARPU. We'll take all of the subscribers we can get. They're highly efficient. They have a lower ARPU, but that's not something that's kind of declining, certainly not. ARPUs are being influenced by it and they're going to lower, but that's great business.

Matt Desch

Yes, that's just an average ARPU. Prices haven't declined, nor has usage declined. In fact, if anything, it's going up. There are some potential counteractions as we start to develop Certus IoT products. As I said, when we start transferring rich messages and pictures and things like that, there's a chance that we'll see some very interesting applications that will take advantage of that, which would be higher ARPU customers. Aviation, when it comes onboard is often a little higher ARPU customer. So there are counteracting effects, but as Tom said, if consumer IoT and all these personal communication devices keep exploding, I'd take those all day. They don't use much resources. And while they don't drive a lot of incremental revenue in each one, there's just a lot of volume of them.

Hamed Khorstan

And last question, is there any difference if the IoT product is on Certus or your legacy and how much percentage of the IoT is on Certus?

Matt Desch

So what we are describing as Certus today, when we talked about a guidance for how much Certus would be in 2021, we were really only talking about a broadband product, not IoT. In the future, say in a year from now, there will be Certus IoT products. We would expect those revenues would go probably into the IoT category. Those would go into the IoT category at that time. They wouldn't be going into that Certus broadband and the Certus revenues that go into these midband products, a lot of those will go into the voice and data line. So you'll see a breakout of the voice and data line here in the coming months for Certus broadband services, which would include OpenPort and Certus broadband, anything 128 kilobits per second and up primarily. And then you'll see these midband products going primarily into the voice and data line and some Certus IoT going into the IoT line.

Hamed Khorstan

Okay. Thank you.

Matt Desch

Thanks, Hamed

Operator

The next question is from Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma

Good morning, Matt, Tom and Ken.

Matt Desch

Hi, Louie.

Tom Fitzpatrick

Morning, Louie.

Louie DiPalma

You guys knocked off your checklist this year with the completion of the new \$3 billion Iridium NEXT constellation in January; then the Certus launch in late January; the EMSS contract in September; and now the new term loan in October. So I just wanted to say, nice execution on all four.

Matt Desch

I thought you were going to say, what are we going to do next? I usually get what's next, but anyway yes, thank you very much.

Tom Fitzpatrick

Thank you.

Louie DiPalma

But moving forward, the Certus guidance was reduced from \$75 million to \$50 million for the year, exiting 2021. I was wondering, do you have a new target year on when you think you will reach that \$75 million Certus/\$100 million total broadband milestone? Is 2023 reasonable or do you not want to give out that?

Matt Desch

A couple misconceptions there. Just because we had 25 in open port didn't— that isn't necessarily a Certus number. We're talking about \$75 million of broadband revenues, which could be frankly— probably won't be, but it could be, all Certus by that time, but probably won't be and there will be still be OpenPort revenues because that product continues to be on ships and won't be converted over. So I wouldn't just do the math and do the comparables.

And we're going to be ramping up we believe pretty significantly in 2021, as we exit 2021, to that 75 number. So I don't think you would see that as linear or anything. Our expectations would be we'll cross the \$100 million line pretty shortly thereafter. I just don't know exactly when it is. We're not going to start making new guidance on when we cross the \$100 million right now, but I would be disappointed if it was out in 2023.

Louie DiPalma

Okay. And just one more point of clarification. The EMSS contract contains IoT services and I believe they are narrowband IoT services. So are the new Certus midband IoT services incremental to the fixed price DoD EMSS contract?

Matt Desch

Yes, they are. So we only included, if you will, legacy services in that DoD contract. New Certus technology that's anything faster, they will be buying separately and will be paying for the airtime as they go. So, yes, both Certus broadband and Certus midband and to the extent these midband applications are IoT applications, those are all incremental.

Louie DiPalma

Thanks. That's all I have.

Matt Desch

Thanks, Louie.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

CONCLUSION**Matt Desch**

Thanks. I think it was another good quarter. Obviously, as Louie said, a lot of milestones this year and we're not done yet. So we look forward to seeing you at our fourth quarter call. And onward and upward. Thanks, everybody, for joining us.

Operator

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