Iridium Communications

First Quarter Earnings Conference Call

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CORPORATE PARTICIPANTS

Kenneth Levy - *VP, IR*

Matthew Desch - *CEO*

Thomas Fitzpatrick - *CFO & CAO*

PRESENTATION

Operator
Good morning. 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 Kenneth Levy. Go ahead.

Kenneth Levy
Thank you, Kate. Good morning and welcome to Iridium's First Quarter 2020 Earnings call. Joining me on the call this morning are our CEO, Matt Desch; and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our 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 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 filing with the Securities & 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 will also be referring to certain non-GAAP financial measures, including operational EBITDA and pro forma free cash flow, free cash flow yield, and free cash flow conversion. These non-GAAP financial measures are not prepared in accordance with Generally Accepted Accounting Principles. Please refer to today's earnings release and the Investor Relations section of our website for further explanation of these non-GAAP financial measures and a reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matt Desch
Thanks, Ken. Good morning, everyone. Well, I guess it goes without saying that we're living in some very interesting times. This current global pandemic has changed the fortunes of many businesses around the world, at least temporarily, and we are starting to feel some effects too.

While our first quarter was quite strong, the global business and social lockdown underway clouds our visibility to the rest of the year. During today's call, we'll share the trends that we have seen through April and how they are coloring our outlook. You will see from our comments that our business model is resilient and unlike many other companies, we are happy to still be forecasting growth for the full year.

First, let me address Iridium's operations during the onset of the virus outbreak. We quickly took precautions almost two months ago to ensure the safety of our employees. We wanted to remain responsive to our customers and partners, protect the health of our employees and ensure that our operational cadence was maintained. Essential employees were identified that needed to work in our facilities to operate our satellite and ground networks, as well as utilize testing equipment in our labs and facilitate product shipments to customers. Those decisions, in retrospect, have all been very effective.

We were actually well-prepared for remote work as our corporate IT and security are quite advanced. We really haven't missed a beat in terms of ongoing business operations, though, like all of you, we long for the camaraderie and social interactions of working in a close-knit office environment and even the travel to meet physically with partners around the world. I can report that our supply chain is also in good shape and we aren't having any significant inventory issues. We should have sufficient stock to meet expected equipment demand.

Our first quarter results were strong, and while I'll leave it to Tom to walk through the numbers, to me the strong performance is indicative of the underlying strength of our business during normal times. In the final weeks of March, the strong trend that typified 2019 and the first quarter started to slow, and in April and with the whole world in lockdown, we seemed to have entered an entirely new environment, which is unlike anything we have previously seen.

Now for historical perspective, we weren't affected much during the global market crash and recession of 2008, largely thanks to the mission-critical role our services play for enterprises and governments around the world. The current climate, however, is very different from 2008 or other past cycles. Social distancing has put healthy companies on hold and there's not much precedent for that. So, we're all working through this day-by-day to try to understand the impacts of COVID-19, how long it will last and what the long-term effects will be.

Our partners are experiencing the same business and operational restrictions we are in terms of visiting with customers, completing new installations and closing on new business opportunities. We are keeping in close contact with them to understand the changes in their respective industries and their expectations of customer behavior for the rest of the year. While this is helping to inform our outlook, we're all working from our own set of assumptions based upon where we sit in the customer value chain and there is no consensus on how quickly things will return back to normal.

Based upon this, we've revised our full year outlook. We are comfortable confirming that we still expect to grow service revenue and operational EBITDA over 2019 levels, but that's as far as we can go at this time. There are too many variables and uncertainties to fully understand how long the economic shutdown spurred by the virus will last and how long it may take for businesses to reopen. Remember, Iridium touches many different industries across the globe and each is on a different cycle in responding to the effects of the current lockdown.

From what we can see at this point, subscriber counts should continue to grow in 2020 albeit at a slower pace. We expect that our high margin service revenue will also grow from 2019 levels, driven by contractual step-ups in certain contracts and increased subscriber levels, though at lower overall ARPU due to lower usage.

Equipment sales are less clear. While they were in line with our expectations in the first quarter, the current economic environment makes it prudent to plan for a slowdown. Given that equipment contributes lower margins than our service revenue, the impact of this slowdown isn't as dramatic to our bottom line. Engineering revenues also seem to be holding up well as our primary customer for engineering services, the U.S. government, is expected to continue to execute on their projects this year and has dedicated funding for these programs with us.

Despite all these puts and takes for 2020, the most important theme for Iridium remains our ability to generate strong free cash flow. We have been enthusiastic and vocal about our business transformation in recent years and its theme of strong free cash flow is still very much intact despite the slowdowns that we are seeing. We're very fortunate that we are facing these challenges in 2020 rather than several years ago when we were in the middle of the Iridium NEXT capital program and bound by the financial requirements of our former credit facility. This year, we still plan to deliver significant free cash flow and will continue to de-lever our balance sheet. So, our financial transformation and plans to return capital to shareholders are still very much on the horizon.

I am sure you still would appreciate more about the specific effects of the pandemic that we're seeing from our partners and their businesses and how it might affect our revenues. Overall, it appears that the effects at this time are greatest in aviation, oil and gas, and in maritime, particularly as it relates to installation of terminals. We're also seeing a disruption in the typically stronger summer sales and activation season for our legacy satellite phone business.

In aviation, safety service usage revenues are down with the drastic decrease in flight hours, though we are not seeing as many deactivations as you might think. Deactivation of SIM cards on commercial aircraft can be a cumbersome exercise and customers expect that flight schedules will eventually recover.

Oil and gas partners are experiencing a slowdown in their business due to low oil prices and lower demand as people work from home and travel less.

On the maritime front, we're not very exposed to the well-publicized decline in the cruise industry, but we are experiencing slower activations than previously anticipated of Iridium Certus terminals on ships as crews don't want external installers on board while in port due to concerns of virus transmission. We still see very strong interest in Iridium Certus, but expect it will experience a temporary slowdown in activations for the next quarter or two until installations can resume.

The good news is that feedback from users remains very positive. The maritime industry appreciates that Iridium now offers the most reliable and fastest L-band service available and we're the only satellite company that can provide true global coverage. We continue to hold high expectations for Iridium Certus and know that our broadband service is an important vehicle of growth this fiscal year and out into the future. However, it makes no sense in the current environment to continue to try to peg year-end 2021 revenues. They will be what they will be, but we're confident they will be a lot higher than they are today. You can track the quarter-by-quarter growth for yourselves now that we're breaking out broadband revenues and subscribers in our financial tables.

The other impact related to COVID-19 that we're seeing that's worthy of discussion is a sudden and big slowdown in consumer product activations in the IoT area. Two-way personal communicators from companies like Garmin are often sold through retail stores that have been closed for quite a few weeks with the ongoing pandemic. We're expecting net activations to be lower than normal this year as the virus shut down is hitting them right in the season we'd expect to see the most growth.
A number of other IoT partners are also growing slower than in the past. Many have told us that they are hampered by COVID restrictions and the global slowdown in business, but expect to bounce back as things get back to something more normal, particularly since their end customers are dependent on these IoT solutions in their own businesses.

Overall, even though we don't yet know the complete depth and breadth of COVID-19 nor how long it will ultimately impact our subscribers and partners, let me be clear that our company is in a very strong financial position with excellent liquidity today. We're operating a brand new constellation, completed two well-timed financings during the last six months, are coming off another great quarter's performance that demonstrates our competitive value, and continue to generate significant free cash flow which is helping our leverage position.

Now one area we haven't seen and don't expect to see much impact is with the U.S. government. We're fortunate to have completed the new seven-year fixed price contract for our legacy services with this customer last year before the current economic slowdown. We're also not seeing much impact of the coronavirus on all the engineering programs underway with them, including the installation of Iridium Certus as the government's private gateway.

Switching gears to Aireon, it continues to deliver on its promise to improve aircraft surveillance and safety, and provide operational efficiencies to air traffic controllers and aircraft using ADS-B. The COVID-19 crisis has had an outsized impact on global aviation traffic, which for the near-term has significantly reduced the number of commercial flights and the resulting total number of aircraft being controlled by ANSPs. This will have some impact on Aireon's revenues. While the company continues to sign new contracts, less consumer demand for air travel will reduce the part of their revenue that's based on flight hours.

Overall, Aireon has a solid base of revenue and strong financial backing including a $200 million credit facility they are accessing. Iridium's hosting and data service contracts with Aireon are contractually fixed price and are current, and we expect them to stay that way this year. Overall, our confidence in Aireon remains high and they continue to execute well on their business objectives.

So as I turn the call over to Tom for his comments, let me just re-emphasize that despite the unprecedented times that we are going through, Iridium's business is demonstrating itself to be quite durable. We are positioned well with a diverse stream of income, customers around the globe and applications that are important and unique. Our wholesale business model proved its resilience in the 2008 downturn and will see us through this one as well.

We believe that our continuing strong cash flow stacks up well against other satellite companies and companies in many other sectors right now. Hopefully we'll all pull through the current crisis soon and get back to something more normal in terms of growth. I know our partners and employees look forward to that, as do I.

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

Tom Fitzpatrick
Thanks, Matt, and good morning, everyone. I'd like to start my remarks by summarizing our key financial metrics for the first quarter and providing some color on the trends we're seeing in our major business lines. Then I will recap our 2020 guidance, which we revised this morning and close with a review of our liquidity position and capital structure.

Iridium generated [total] revenue of $145.3 million in the first quarter, which was a 9% increase to last year's comparable quarter. The improvement was driven by growth across all of our business lines with the largest dollar contribution coming from recurring service revenue.

Operational EBITDA was $92.1 million, which was up 18% from the prior year's quarter.

On the commercial side of our business, we reported service revenue of $91 million for the first quarter, which was 7% higher than the prior year's period. This increase primarily reflected strong growth in hosted payload and commercial broadband services along with positive trends in IoT and voice. Voice and data revenue, which represents our telephony business, rose 1% this quarter.

For the first time we are providing a breakout of our commercial broadband revenue, which totaled $8.7 million in the first quarter, up from $6.8 million in the prior year quarter, representing 28% growth. This new line item represents broadband revenue at 128 kilobits per second and higher an includes Iridium OpenPort and Iridium Certus broadband. We continue to believe that broadband will be a long-term driver of subscriber growth and new revenue for our company, and remain happy with reception the product has received by our channel partners, though our rate of new activations is being challenged by recent coronavirus impacts.

Our IoT business continued to grow in the first quarter, but began to feel the effects of the recent world events in the second half of the quarter with reduced usage of devices in Aviation and a marked slowdown in activations in personal communication devices with the channel being closed by the global shutdown.

IoT ARPU in the first quarter was $9.71, compared to $11.32 in the prior year quarter. The driver of this year-over-year decline in ARPU continues to be the significant addition of IoT subscribers on low data plans, mostly notably consumer-oriented, personal communication devices.

During the quarter, we added 27,000 net new commercial subscribers, with the gain coming entirely from our IoT business. As I noted, we did see a marked change in IoT growth, particularly in the number of net additions from personal communications services in mid-March as the retail channel closed. At present, commercial IoT data subscribers represent 70% of billable commercial subscribers, up from 65% in the prior year period.

Hosting and other data service revenues increased to $16.3 million this quarter, up 17% from the comparable quarter in 2019. Substantially all of this increase was due to higher hosted payload and data service revenues associated with the step-up in Aireon's data service agreement with Iridium. The increase in this revenue coincided with Aireon clearing a key customer milestone in the first quarter.

Turning to our Government Service business, we reported revenue of $25 million in the first quarter, up from $22 million in the prior year quarter, representing a 14% rise. This increase was due to the contractual terms of the EMSS contract, which was renewed last September. In the first quarter, government subscribers grew 22% year-over-year and total U.S. government customers reached a record 140,000 this quarter.

Equipment sales improved into the new year as they were largely unaffected by macroeconomic developments, but we expect this trend to change. We reported $22.3 million in revenue from equipment sales in the first quarter with equipment margin a bit higher than a year ago at 45%. With the impact of COVID-19 being felt across a number of commercial industries, we now anticipate a slowdown in equipment sales for full year 2020.

Engineering and support revenue, which is largely episodic, was $7 million in the first quarter, as compared to $5.7 million in the prior year's quarter. The pickup from last year reflects an increase in work under our engineering agreement with Aireon for work on their operations center, as well as an increase in government agency work to enable [Iridium] Certus capabilities for the U.S. government.

As you saw in our earnings release this morning, we have updated our 2020 full-year outlook to better reflect our early assessment of the coronavirus and its impact in our business. We now expect the OEBITDA in 2020 will be higher than the $331.7 million we reported in 2019. We will provide a more specific target range at a later date once the operating environment stabilizes.

Our updated outlook is predicated on the following assumptions. We expect a decrease in our equipment revenue due to the combined effects of the disruption in global business operations, the strength of the U.S. dollar and the deterioration of the oil and gas market.

We have also updated our growth outlook in our service revenue. Despite the negative effects of the coronavirus, we continue to expect growth in our service revenue. This is driven by the following factors: we expect growth in our government service revenues and hosted payload revenues based on contractual step-ups; we expect a decline in our commercial telephony business as a consequence of the current global economic shutdown and ongoing macroeconomic developments.

Iridium's business is seasonal with the second and third quarters characterized by higher subscriber additions and higher usage. We expect this fallout will be particularly impactful as the economic shutdown is occurring in the heart of our selling season.

We do not expect growth in our IoT business in 2020. This segment's performance is being impacted by two primary factors arising out of COVID-19. First, we expect materially reduced activations of personal communications devices in 2020 and a reduced ARPU, as subscribers increasingly adopt lower usage plans.

Personal Communications grew by $4.3 million, or 51%, in 2019, but we now expect it to be about flat overall in 2020. We also expect materially reduced usage in Aviation. This has averaged about $2.6 million in quarterly revenue. Thus far in April, this is down about 60%. We expect similar reductions for the balance of the second quarter with some improvement in the third and the fourth quarters.

IoT's performance is also being negatively impacted by exposure to the oil and gas sector, though this impact is not as material as Aviation and is not as readily quantifiable. Further, other sectors such as asset tracking are experiencing lower activity with the global shutdown.

IoT's performance this year will ultimately depend on the pace and time of recovery. We expect growth in our broadband business as our Iridium Certus offering continues to resonate in the market. The rate of activations of our terminals is being hampered by the global economic shutdown, but we still anticipate growth and have adjusted our revenue projections accordingly.

We also continue to expect material growth in broadband revenue in 2021, but no longer expect to achieve an exit rate of $75 million, due to slower Iridium Certus installations. We continue to expect negligible cash taxes through 2023and forecast that depreciation and amortization expense will remain steady at approximately $75 million per quarter. Together, these revisions provide us with confidence in our 2020 outlook and support our forecast for operational EBITDA.

Moving to our capital position, Iridium had a cash and cash equivalents balance of approximately $67.3 million as of March 31, 2020.

Having completed two important refinancing activities since November, we expect pro forma net annual interest expense to decline from $112 million in 2019 to $90 million in 2020. Full year maintenance CapEx costs will remain at approximately $35 million.

We continue to believe that free cash flow provides a very useful benchmark with the health and earnings power of our company. Based on the quarterly results we delivered today and our revised outlook for OEBITDA this year, we believe Iridium will generate pro forma free cash flow of at least $177 million for full-year 2020.

For illustrative purposes consider the following. If we start with OEBITDA of $332 million and subtract $90 million in pro forma net interest to reflect our new debt structure, and $35 million for CapEx, and $30 million for working capital inclusive of the appropriate hosted payload adjustment, 2020's pro forma free cash flow supports a conversion rate in excess of 50% and a dividend yield greater than 6%. This is up from pro forma free cash flow of $168 million in 2019. The important takeaway here is that we expect Iridium to grow cash flow even in this unprecedented business environment.

Iridium closed the first quarter with leverage of 4.6 times OEBITDA, and based upon on guidance revisions expects to exit 2020 with net leverage of no more than 4.4 times OEBITDA. We expect continued de-leveraging in 2020 despite broad-based global economic challenges.

In closing, given the uncertainties we now face, we're glad we chose to be proactive and refinance our debt earlier this year. And while we have revisited our financial assumptions based upon the current economic climate, we continue to be confident in Iridium's business. We know that Iridium is in a strong financial position even as we face the uncertainty posed by the coronavirus and look forward to keeping you updated on our progress.

With that, I will 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 *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 * 2. At this time we will pause momentarily to assemble our roster.

Our first question is from Ric Prentiss from Raymond James. Go ahead.

Ric Prentiss
Thanks. Good morning, guys.

Matt Desch
Good morning, Ric.

Tom Fitzpatrick
Good morning, Ric.

Ric Prentiss
Glad to hear you are doing okay and your employees are all safe.

A couple of questions, if I could. First, on the 2020 guidance, obviously a very good start to the year on 1Q numbers. As we think about the next three quarters, though, do you think you would have been able to grow service revenues and OEBITDA if you hadn't had such a good start to the 1Q?

Matt Desch

Well, if you mean if the coronavirus hadn't struck, would we continue to grow? I'd like to think the first quarter was indicative of the health and strength of our business overall, might have indicated even a stronger year than we originally expected it to be. But of course everything's changed in the last seven or eight weeks in terms of the market's ability to take things up. So that's where our new expectations for the year come from, at least in terms of what we've seen so far in the last seven or eight weeks.

But I think the first quarter was maybe even better than we originally expected, and unfortunately, this isn't what the year is going to pan out to be.

Tom Fitzpatrick
Yeah. I would echo that. The first quarter is a good picture of an unaffected Iridium, but for a little bit in IoT, we saw some weakening in IoT in March. But if you look at our telephony business grew 1% and then COVID-19 happened. If you look at our guidance and how we're thinking about 2020 it's highly colored by the trends we're seeing in April.

If you consider our telephony business in the second quarter of 2019, we had net ads, 10,000 net adds. We're looking at April trends that suggest that the second quarter 2020 is going to be negative, at least 5,000 and that happened overnight.

And what's very interesting is if you study the activations and deactivations, the deactivations are just about equal to what we saw in 2019. It's all about a lack of activation, because the channel is closed. It's a global lockdown and we see that in our numbers almost to the day that it took effect.

Ric Prentiss
And when you think about the guidance for growth for the year, would you guys suggest you're maybe thinking of maybe a U-shaped recovery as opposed to a V or W or any other kind of thought that it's U right now?

Tom Fitzpatrick
Yes. Certainly more a U than a V. In my remarks I highlight it, right? If you look at our trends for forever, those of you that have followed us for a long time, the second and third quarter is when in our telephony business adds subscribers. That's episodic, when somebody that is going out on an expedition, etc., they buy a prepaid voucher. So the fact that we had the global shutdown right in the summer is impactful to us, because if the U occurs, as you say, well to the extent it happens in the fourth quarter it's not going to be as particularly impactful to us because our selling season is behind us.

Matthew Desch
I'd also just add, we're not smart enough after seven or eight weeks to know exactly how the recovery is going to occur. Like, is there a catch up perhaps with people who are dying to take those trips that they haven't taken, expeditions that are still being rescheduled? We don't know that. So, I would say this is more in line with, I don't even know what letter it is, but it's more based upon just the trend of late March and the rest of April here, and an expectation that it will be not a rapid recovery here for the third quarter at this point.

Ric Prentiss
Make sense. Last one for me. When you talked about leverage of no more than 4.4 in the year, how are you calculating that? Is that like an annual 12-month worth of OEBITDA, is that a 4Q OEBITDA annualized? I am just trying to think of what the less than 4.4 on leverage means?

Tom Fitzpatrick

Right. So, it would be fourth-quarter exit rate, so in our guidance you take $332 [million] in OEBITDA, that would be LTM, divided [into] debt, it gets to 4.4. It's a converse of at least year's EBITDA.

Ric Prentiss
Right. Okay. Good luck and best wishes through this crazy time.

Tom Fitzpatrick
Thanks, Ric.

Operator
Our next question is from Greg Burns from the Sidoti & Co. Go ahead.

Greg Burns
Good morning. So, in terms of the hosted and the payload data revenue, is that a clean number? Is that how we should be thinking about it through the rest of the year? Was there any kind of one-time catch-up revenues in that number?

Tom Fitzpatrick
No. It's not clean. It's heavy, Greg. There was a $1.4 million out-of-period, related to the Harris payload and there was about $400,000 of out-of-period related to the Aireon payload. So, it's high by close to $2 million.

I think about hosted payload, we, for some time, have said the steady state is around $47 million. That's the number I would model in 2021 and beyond.

Greg Burns
And then, I just want to follow up on the Aireon commentary. How comfortable are you with their ability to meet their financial obligations to you? If this drags on for too long, will they require additional financing or some forbearance on your part? What's your view on their financial situation?

Tom Fitzpatrick
So their financial picture for this year is solid. They're running on operating cash flow and a credit facility, and so we expect them to pay us - and they have been paying us all through 2020. When we get into 2021, it's going to depend, the expectation by IATA is that air traffic comes back and so that is the expectation. You remember, the ownership of Aireon is very well-established in aviation and [they] believe in that business. So, we think that they will be able to honor their obligations to us in the normal course.

Greg Burns
Okay. Great. And then, obviously, you are seeing an impact on Certus – the pace of activations due to what's going on with the virus, but prior to this all happening, what were you seeing? I know the activations were slow at the onset, were you seeing a pickup in activity barring what's happening now? What were you seeing in the market in terms of adopt and activations, and the pace of that business before the slowdown?

Matt Desch
Well, it was building. there were a lot of things to happen this year. For example, we just introduced the faster speeds and that was starting to be implemented in all the terminals, and really the performance was excellent and people were seeing that. Of course, GMDSS is actually in beta trials right now and out on ships, but that was coming this year. There was another terminal coming here into the market. In

fact, there's a number of terminals under development all this year and there's a whole bunch of other activities.

So, I would say it looked like a strong business to us. It looked like a business that was competitively exactly where we wanted to be, and then we started seeing the partners telling us they weren't able to get on ships in many ports. Andthere are still activations going on. I mean, there are still net positive activations each month. It's just lower levels because our partners are telling us they kind of have a backlog of ships and contracts that they can't really get to right now.

Greg Burns
Okay. Great. So the outlook is still for growth, revenue growth on top of what you showed this quarter, just at a slower pace?

Matt Desch
Yes. Broadband is still a grower for us this year. Maybe not the levels we had hoped or thought it would be pre-COVID-19, but it's definitely a grower for us and a bright spot, if you will, in our financial picture.

Greg Burns
Okay. Great. Thank you.

Operator
Our next question is from our Hamed Khorstan from BWS Financials. Go ahead.

Hamed Khorstan
Good morning. Could you talk about what kind of risk you're exposed to as far as accounts receivables and if you've seen any changes there in collections?

Tom Fitzpatrick
Not particularly. We have been talking to our aviation partners. You'll see Speedcast most recently filed for bankruptcy. We do have receivables with Speedcast, but we would expect to be named a critical vendor to them. As we would in most circumstances, if we think about our relationship with the channel, we're the revenue of the channel and so you can't get more critical than a vendor like we do. So Speedcast, we expect to collect that receivable notwithstanding their bankruptcy. And so we have the leverage, etc., and a longstanding history of not having too much in the way of bad debt because of that circumstance.

Matt Desch
Tom, you'd agree, though, that even Speedcast is not that unusual of an account receivable. I just saw their list of creditors and everything. Obviously, we're not on the list. We didn't make the list of the top nine or ten. It's still relatively insignificant as it goes, because while Speedcast was an important area of growth for us, it wasn't that large of an overall partner for us. It was more of a future partner. It was more they inherited some of our business from their acquisitions of Globecomm and a little bit from Caprock and that sort of thing. And so it was more what the potential was for them as opposed to necessarily a concern really about the receivable itself, especially if we are an essential supplier to them.

Hamed Khorstan
Okay. And then the other question I had was about pricing. Are you seeing any discounts, or are you going to be doing any discounts in the market just given the low activity right now?

Matt Desch
Well, we are being helpful in certain areas where it makes some sense. For example, we are generating a lot of goodwill right now in the maritime world by offering some free crew cards to our broadband customers. Anybody who has an OpenPort or Certus terminal has the ability to get some chat cards (as they are called) for a crew to call their families. They are paying the Internet anyway today, but it's obviously a better thing if they can talk to their families during this time and do that. So until September, I think, they have a number of minutes that their crew can use and that's really well appreciated by them. But that isn't per se a drop in price or a promotion. It's probably traffic that wouldn't have occurred anyway, and we just want them to be using our product.

Beyond that, obviously some industries are under more stress. You can imagine, aviation is under a relatively [large] amount of stress, but that's very much a usage-based business. So the discount is that the customers aren't flying their airplanes right now or they are parked on airports ready to get started again, and so that is just revenue that otherwise wouldn't be coming, so that that really isn't—

I would, by the way, I mentioned those crew cards. That's coming right in line with Inmarsat who is raising prices soon on all their Inmarsat-C customers, which are primarily their GMDSS customers and they are creating a minimum revenue commitment per month for terminals that historically haven't charged anything. So you can imagine from a competitive environment, we're in a very positive position in that we're not raising prices on our customers right at their most vulnerable time as our primary competitor is doing.

That's obviously very appreciated, particularly in light of we expected long term to get a lot of GMDSS activations for new ships, but maybe there'll be a lot of existing ships that aren't very happy with their supplier either long-term and will want to change out their suppliers. So, I'd say that's it.

They are not really discounts, because I don't think you generate business when people are locked down. I don't think this is a recession kind of activity out there where these businesses couldn't afford it. They're just not active. If people aren't able to manufacture a new buoy or a piece of heavy equipment, then they can't put a satellite tracker on it and I am sure that will get back to being more normal once things come back to normal.

Tom Fitzpatrick
Matt, I would just amplify that. This is nothing like that. We modeled the 2008/2009 recession. Our telephony business grew subs straight through that recession in the second quarter, always strong net activations. This is different. This is a global lockdown. It's unprecedented and the corollary is not a recession.

Hamed Khorstan
And finally, the lower usage that you are reporting, is that just from customers just being at port longer or is that just there is no activity going on these ships?

Matt Desch
Well, the ARPUs are much higher than we've exhibited in the past because Certus has much higher ARPU than OpenPort. And really, when we talk about lower usage, I don't think we are really talking about our broadband service. That actually is higher revenues and higher usage than we had previously seen in our previous generation of product.

What we are talking about is really, if you can't make that trip, you can't make that scientific expedition, you can't go on your hunting trip, if you're not using that piece of equipment that you typically are tracking in that month, if you're not sending pictures, that's usage and it's really because people can't use it right now. It's just they are remaining in the glove box right now, perhaps, and paying minimum charges, but they are not taking them out. So I obviously expect that will turnaround eventually as people start able to be unlocked down and get out and do their normal business.

Tom Fitzpatrick
I would say the acute impact on usage was evident in aviation and that's in our IoT business. As I said in my prepared remarks, that's equipment used for safety services on commercial airliners, with two of our partners in particular. And as I said, it ran 2.6 a quarter and on a dime it went down 60%. So that is kind of a very abrupt and acute impact on usage that we identified quite early.

Matt Desch
Relatively small part of our business, but it's still an important one.

Hamed Khorstan
Thank you.

Operator
Our next question is from Anthony Klarman from Deutsche Bank. Go ahead.

Anthony Klarman
Hi. Thanks. Thank you. A bunch of my questions were answered, but I think we are all trying to get to the same thing here, so maybe I will try to ask it slightly differently. You broke out broadband this quarter and has a 28% year-over-year growth rate in it. Given that we can't model to the $75 million run rate exit 2021 level, Tom or Matt, could you provide any kind of anecdotal view as to what maybe the April trend in that look like on a month-over-month basis? We know broadband is going to continue to be a growth area for you, but I am wondering if we can maybe help quantify what the change in the growth rate might have looked like in April relative to what you reported.

Matt Desch
Tom can take a crack at this too. It really comes down to installations. It's just that they've cut the growth rate dramatically, but we are still growing. So, while we may have expected hundreds of ships to be installed in the month on a net basis, it's quite a bit lower than that. It's still growing, and again, each Certus activation is at a higher ARPU than any OpenPort terminal.

And I will say one of the things that's been surprising is that the OpenPort terminals are declining probably at a lower rate than we thought, so people aren't taking them off either. So they're continuing to be active on ships. So, net/net, we are adding Certus terminals faster than OpenPort terminals are declining, but everything is just going slower right now.

I don't think that we want to really look out too much further than that or give too much additional color on the year because it's just too early. We have only had about seven weeks of this happening like this. There are some positive things we are hearing out of Asia, where some ports are starting to open up, some countries are starting to push to get out, but we can't tell exactly how that will relate to the installation rate until we see it happen further. So anything further to try to describe what that means or exactly how it will mean to the end of the year, I think it's just a little premature right now.

Tom Fitzpatrick
I would just say, Anthony, our broadband business is unique in that it's growing subs right through April. We didn't do that in telephony.

Anthony Klarman

I think that's helpful. On the telephony side, you mentioned you don't see tremendous exposure to people like Speedcast, because you will ultimately collect that receivable whether it's at the resolution of their bankruptcy or some other period and you are a critical vendor for most of those. Could you talk a little bit about any exposure that you might have or that you see in the consumer in the maybe small or medium-sized business area? Those seem to be the areas that are being hit particularly hardest. I don't know if that's something that shows up in access and air time, or if there are maybe a collection of just a bunch of smaller businesses where there are some potential end market impact as you think about what the trajectory of the numbers looked like throughout 2020.

Tom Fitzpatrick
So in telephony, we're not seeing that. The telephony there's one thing going on there and that is channel shutdown and we are not seeing activations. As I said in my remark or as I said earlier, the deactivation in telephony looks just like 2019. It's a lack of activations because of the lock down.

Where we are exposed significantly to the consumer is in our personal communications segment in IoT. That channel got locked down, those activations stopped happening, consumers started adopting lower usage plans - effectively suspend plans - and we have been talking to our channel partners and that was a big grower for us. If you will recall in 2019, we grew by over $4 million, and we don't see that growing here in 2020. So that's the direct hit, that's consumer-related.

Matt Desch
We are very competitive in that segment and actually we have more products coming into the market this year, there are more partners who are introducing products. We've seen some new products be introduced and doing very well in January and February, they were exceeding expectations. So I'd say we are positioned very well in that market. It just feels like it's locked down and that's what our partners are telling us. They're not able to get into stores. And until the stores open up and people start feeling like it makes sense to go out and get on an airplane and travel, that will be slow. I don't know if there will be a catch up there or if that will just start again and grow from whatever point it starts from today. We will have to see.

Anthony Klarman
Thanks. Final one for me. You guys had given some longer range views on leverage a quarter or two ago as you were talking about where you ultimately saw the business getting down to from a balance sheet perspective and that that would maybe trigger returns of capital as you reach that. I guess given that it may take longer now to achieve those metrics, any change in the view as to how you think about capital allocation in terms of de-leveraging versus shareholder or capital returns?

Tom Fitzpatrick
No. We still like our targeted range of 2.5 times to 3.5 times leverage and we'll do shareholder friendly things to maintain that level.

Anthony Klarman
All right. Thank you.

Operator
Again, if you have a question, please press *1.

Our next question is from Louie DiPalma from William Blair. Go ahead.

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

Matt Desch
Hey, Louie.

Tom Fitzpatrick
Hey, Louie.

Louie DiPalma
Are you guys decentralized this morning?

Matt Desch
We are. Ken and I are maintaining a social distance here in our headquarters, which is quite lonely, I might add, and dark because all of our employees are working from home. But Tom is – I am picturing him sitting on a beach someplace, but I think he's probably in his office.

Louie DiPalma
Nice. I hope you guys continue to do well. First, for Tom on the beach…

Tom Fitzpatrick
I am not in a beach, Louie. I am not in a beach, just so you know.

Louie DiPalma
Tom, free cash flow is now the focus area for investors. Can you repeat what your pro forma free cash flow assumption is for 2020 and the new annual cash interest rate?

Tom Fitzpatrick
Right. So, Louie, on the levered free cash flow, there's a schedule on our website that I took you through in my prepared remarks, but the number is $177 [million] if you use $332 [million] in OEBITDA and we lay out all the assumptions there on our website.

And on our interest rate, 60% or we have about a $1 billion fixed that we swapped, we have a $1 billion and that's just inside of 6%. And then the balance is L plus 350 [basis points] on our Term Loan B.

Louie DiPalma
Okay. Sounds good. And for Matt, you touched upon this several times and this might also relate to Tom, but as it relates to your commercial plans for satellite phones, the aircraft cockpit plans, the Garmin personal navigation devices and asset trackers, can you quantify how much of ARPU is like fixed versus like usage-based ARPU? I know you suggested that like IoT seems to be more sensitive than the other plans, but can you just provide a quick overview across your different services like base-ARPU versus like usage-based ARPU?

Tom Fitzpatrick
Sure. So for commercial services, for 2019, you'll check this number – it's like right around $300 million in commercial service. And so fixed, which is kind of access, is 78% and air[time] is like 22% and that varies depending . . . on telephony it's heavier access, it's more like 82% MRC and 18% usage, whereas IoT is 73% MRC (recurring charge) and 27% usage. So IoT is heavier usage-based, whereas telephony is the opposite. But overall, about 78% and 22%, MRC versus usage.

Louie DiPalma
Thanks, Tom. And the last one for me for Matt, can you provide any comments if there are any implications for Iridium as it relates to the FCC's recent Ligado ruling?

Matt Desch
As you know probably from seeing my tweets, I am obviously not happy about that. We have been against their being approved for years out of concern that if there's too much usage that it would possibly impact our service quality in North America, as it would, by the way, for GPS as well in a different part of their spectrum, and we're been aligned on that. Obviously, we remain concerned long-term because we can't move and are surprised how fast this has moved, but it's not somehow a near-term threat to us in some ways.

They still have to build base stations, which they don't have the capability of doing which means they probably need to sell themselves or sell their spectrum to somebody else to do that, and no devices currently can access that spectrum. Currently, they talk about a 5G or IoT network someday. Well, there aren't any devices today that can access that. So it's years down the down the road, but we shouldn't have to be dealing with that.

That's why we continue to reject it. We continue to fight it and there are a number of ways in which we will continue to work with the whole industry, particularly the GPS industry with the Department of Transportation, the aviation users that are concerned, the Department of Defense which is concerned about the usage of GPS and all the other concern to keep fighting this because we just don't think it's something we should have to be dealing with. But it's not in any way even an intermediate or even medium-term concern for us.

Louie DiPalma
Sounds good. Thanks, Matt. And I hope everybody stays healthy.

Matt Desch
Thanks. You too, Louie.

Operator
Our next question is from Mathieu Robilliard from Barclays. Go ahead.

Mathieu Robilliard
Good morning all and thank you for taking the question. First, coming back to one of your comments about the fact that activity in Asia is picking up in some countries, I was wondering if you could give us a sense of where the maritime activations, which one – were it's taking place – and where you were expecting them to take place throughout the year. Is North America heavy or is it Asia or is it [widespread], because obviously, countries will come in and out of lock down at different points in time, so maybe you could help us understand the trends for the year.

Second, with regards to Certus for the aviation segment, if I remember correctly, I think you had in mind a plan to launch a product by the end of the year. Does the current crisis impact in any way the launch plans in terms of the feasibility of launching it?

And then finally, back last year you had signed the MOU with OneWeb. I think it's still at the very beginning, but since OneWeb has filed for Chapter 11, I was wondering if there was any impact that we should be aware with regards to your plans. Thank you.

Matt Desch
Thanks, Mathieu. For maritime, I would say we are pretty well spread out over all the world and all the ports. So to the extent it relates to activations, particularly, as I said, we are not a cruise ship sort of company, even though we're used in some cases for the bridge in a cruise ship, but we're really not

that heavily exposed to that industry. So ships are moving, but they are really not putting in new installations on for the most part. As that opens up in ports, perhaps we will start seeing some improvements, but it's pretty well spread out over the whole world. We are broadly spread out there.

As far as aviation, yes, there are products underway. There are actually multiple products underway this year. There are really kind of two different applications in aviation. There is a basic service that could be put on any airplane, from general aviation up to a commercial airliner for just communication. There's also a safety service which requires certification.

The first one's going to come before the second one. We don't have a lot of control over it because actually our overall satellite service is available today and we support the certification for the safety services. It's more when the OEM terminal vendors are ready and we're reliant upon them, and we are working with them on their terminals. I think we are going to see one on air here very soon, and we'll see more I think coming as the year goes on. I don't know what that really means in terms of when they will be ready to implement their service, perhaps we could see some by the end of this year, but I think that's more of a 2021 activity.

Your last question was about OneWeb. As I said in the past, OneWeb was a potential partner. It wasn't a competitor in any way to us, so we are sorry to see them go. However, there was no expectations of any revenue for the next couple of years with OneWeb because their service still had to be activated, had to go into service and products; to combine our two services together, it had to be put together. We had no expectations of any revenue coming from that for a while, and in fact, we could see that OneWeb wasn't working too hard on the product even since we announced an MOU. So I don't think that has any effect one way or the other on us right now.

I think obviously COVID continues to impact financing and other things for those new mega constellations. I think it will probably slow some of them down a little bit, in terms of going into service as it may affect that industry, but that really doesn't have any impact on Iridium at all. We are just completely independent of that industry.

Mathieu Robilliard
Great. Thank you very much.

Matt Desch
Thanks, Mathieu.

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

CONCLUSION

Matt Desch
Well, I hope this is one of the last conference calls we have to take in this new coronavirus environment, but who knows how long this is going to last. But in the meantime, I hope all of you stay safe and stay at home, but do keep in touch because I think this will continue to be an interesting year and we'll look forward to seeing you and describe more about what the environment is when we are on our second quarter call together. Take care. Thanks.

Operator

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