

Iridium Communications, Inc.
Second Quarter Earnings
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CORPORATE PARTICIPANTS

Ken Levy - *Vice President of Investor Relations*

Matt Desch - *Chief Executive Officer*

Tom Fitzpatrick - *Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to the Iridium Communications Second Quarter Earnings conference call. All participants will be in a 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. Please also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Ken Levy, VP of Investor Relations. Sir, please go ahead.

Ken Levy

Thank you, Jamie. Good morning and welcome to Iridium's second quarter 2020 earnings call. Joining me on this morning's call are our CEO, Matt Desch, and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our Q2 results followed by Q&A. I trust you've had the opportunity to review this morning's earnings release, which is available in 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. 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 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 on the Investor Relations web section for a further explanation of our 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, it's clear that 2020 will be defined by the coronavirus. While this global pandemic continues to create uncertainty for many industries and Iridium has felt the effects too, we are fortunate to operate a wholesale business and provide mission critical services that remain pretty resilient.

Since the initial period following the lockdowns in mid-March, we have seen sequential monthly improvement in our business lines. Subscriber growth in May was better than April, and June was better than May, and this trend has now continued into July. Overall, results in the second quarter were flat, compared to last year, which frankly was a good outcome given where the quarter began.

During the past three months, we've also started to get improved visibility across our partners' channels to better assess what we think the full-year impact of the coronavirus will be on our business. This improved visibility gives us confidence in revising our full-year outlook for service revenue and operational EBITDA. Perhaps most important in the current climate we have maintained our ability to generate strong free cash flow and continue to delever our balance sheet which means our long-term investment thesis remains intact.

As I highlighted last quarter, the impact of the global lockdown was most pronounced in our commercial IoT business. This segment spans a variety of different industries and user types, and into the second quarter the pandemic continued to weigh particularly hard on our aviation partners, and to a lesser extent, partner activities in oil and gas. The decline in aviation flight hours means that IoT transmissions for Cockpit Safety Services is running below normal seasonal trends. Aireon is measuring the global air traffic has recovered almost 50% of the global movement since January, but the international flights that Iridium primarily serves are recovering more slowly. While their data is showing week by week recovery in traffic, most industry analysts still anticipate a relatively slow recovery in aviation which means the current environment will likely persist for the remainder of the year and into 2021.

On a positive note, we've seen a bounce back in consumer-oriented IoT services coinciding with the reopening of many retail stores in the second quarter and the desire of many to seek out remote activities. This has revived sales and use of devices like Garmin's inReach and other personal communicators like the new satellite communicator from ZOLEO, Somewear Labs' Global Hotspot, and Bivy's Bivy Stick. In the second quarter, Iridium added 33,000 net new IoT subscribers predominantly consumer-oriented subs with activations in June being the strongest month by far.

In our legacy voice business, we expressed concern in April that COVID disruptions would restrain activations during our peak selling season which it has. Fortunately, the headwind has not been as great as we originally forecast. Based on the trends we saw through April, we had anticipated a decline of more than 5,000 net voice subscribers in the quarter, but the decline has turned out to be only about 2,000, which is encouraging. As we said last quarter, the problem hasn't been customer deactivations, it's been fewer customers activating new or reactivating existing devices for their typical summer activities, but there seems to be more of that as activities are slowly opening up again around the world. Now that we're halfway through our peak selling season, we're getting better visibility on usage trends.

Within maritime, the slowdown in shipping activity persists with the reduction in routes and ongoing logistical challenge of getting installation crews on vessels. Out of an abundance of caution not to expose ships and their crew to the coronavirus, many vessels have remained in lockdown making it difficult for our partners to access vessels to install new equipment already purchased as well as meet with ship owners on the procurement of new services.

Even in the current environment, we're not sitting idly by. We've been engaging with our partners and been proactive with promotions and messaging. Many of our partners are attracting attention with deals featuring Iridium Certus as a VSAT companion service. We also have been supporting mariners and ship owners with access to some free voice calling cards for their crew to allow them to connect with family and friends during a particularly stressful time away while also demonstrating the enhanced voice quality of our new network. Even with the challenges in maritime, we were able to drive positive net installations of broadband terminals and a 15% increase in year-over-year broadband revenue. Overall, Iridium Certus remains an important vehicle of growth for us, and we've received great feedback on the product from those using it.

In the coming months, we're expecting Iridium's new GMDSS service will also launch. It's entering final beta trials soon on a number of ships around the world connecting them in an emergency to Regional

Rescue Coordination Centers, as well as critical navigation and weather information sources. Our partners are excited about this offering as it targets the 65,000 SOLAS class vessels that are required to carry GMDSS that have traditionally only had one supplier.

Iridium's GMDSS is being offered as a stand-alone terminal initially though it will start the integration with Iridium Certus in 2021, and when complete, should serve as an additional tailwind to the adoption of Iridium Certus broadband. We're also expecting a new high-speed Certus broadband terminal from Korean manufacturer, Intellian this quarter, which is a great maritime brand that many partners are looking forward to having access to.

We're also introducing some new IoT products soon. Our new Iridium Edge Pro and the Iridium Edge Solar will make developing IoT services using Iridium's network easier and faster, as well as complement the new Iridium CloudConnect service powered by AWS which is already in use by a number of our partners. With continued recovery from global lockdowns, we expect 2021 to start the recovery to more traditional IoT growth rates.

We are making progress on delivering Iridium Certus aviation products in 2021 and 2022. Our first terminal partners have started to test their products on our network and we're making progress on the regulatory front toward FAA certification for safety services on Iridium Certus to complement our existing legacy safety products. We remain excited about the aviation segment and its future contribution to broadband revenues in the coming years.

Our business with the US Government, particularly under the new EMSS contract remains largely unaffected by the pandemic. We continue to work with the government on upgrades to their dedicated gateway to enable private Iridium Certus services as well as other engineering upgrades and maintenance they pay us to do. We had some subscriber cleanup and some internal logistical activities with the transition to US Space Command that netted out a roughly flat subscriber number in the second quarter, but that doesn't affect revenues with our fixed-price contract, and activity with the US Government remains at historically high levels overall.

Lastly, Aireon. Obviously, global air travel has taken a big hit with the pandemic, and that has affected the pace of Aireon's sales activities with new ANSPs. Overall, though, they are continuing to make progress on their business objectives. Aireon's data services are now being used and deployed by ANSPs covering 37 countries, including growing usage by the FAA. They are also seeing some initial success with selling their data for other commercial purposes like flow management, airport service surveillance, and airfield management solutions. You might have seen their announcement a couple of weeks ago with PASSUR Aerospace on that front.

So, while Iridium is certainly not immune to the effects of the global pandemic, we continue to execute well in this challenging environment. We're managing our business effectively, making strong progress on product development, prioritizing growth, and investing in the future. In a year of extraordinary business headwinds and global uncertainty, Iridium is adding net new subscribers, driving incremental revenue growth, and most importantly, generating significant free cash flow.

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'll get started by summarizing our key financial metrics for the quarter and providing some color on the trends we're seeing in our business lines. Then, I'll recap the 2020 guidance we updated this morning and close with a review of our liquidity position and capital structure.

Iridium generated total revenue of \$140.2 million in the second quarter, which was 2% lower than last year's comparable quarter. This decline was primarily attributable to softness in subscriber equipment sales related to COVID-19, as well as the episodic nature of engineering and support revenue. Operational EBITDA was \$85.3 million which was up modestly from the prior year's quarter.

On the commercial side of our business, we reported service revenue of \$88.4 million in the second quarter which was 2% higher than a year ago. This increase primarily reflected strong growth in hosted payload revenue which more than offset a decline in revenue in our voice and IoT businesses.

During the quarter, voice and data revenue fell 3%. This decrease was predominantly driven by a fall in seasonal activations, attributable to the current pandemic and is consistent with our observations from late April. We saw a net decrease of 2,000 subscribers on a sequential quarter basis whereas last year we reported a gain of 10,000 subs in the second quarter. As Matt noted, this was better than our expectations given results through our last call in April.

Commercial IoT also felt the impact of the pandemic in the second quarter with revenue declining 5% to \$22.6 million. The closure of retail outlets resulted in a slowdown in activations for much of the quarter. If not for the channel's reopening in June and a record surge in activations, Iridium would not have achieved a 20% increase in billable subscribers for the quarter to 863,000.

As we noted in April, usage of IoT devices, particularly in aviation and oil and gas have slowed, as planes have been grounded, and oil production halted. These subscribers who are characterized by their higher ARPUs and high usage plans will continue to weigh on IoT revenue growth this year. In June, we saw a meaningful increase in the activation of personal communications devices. Though it's too early for us to call this a trend, it remains an encouraging sign.

Continuing on to commercial broadband, which we began to break out in our financial statements earlier this year, we reported revenue of \$8.5 million in the second quarter up 15% from the year ago period. While positive, these results are much less than our expectations given the disruption in the industry due to COVID-19. The good news is that the channel is happy with the performance of our broadband offering, and we are confident that Iridium Certus will provide a long-term source of subscriber and revenue growth.

During the second quarter, we added 31,000 net new commercial subscribers with the increase heavily weighted toward IoT. Commercial IoT data subscribers now represent 71% of billable commercial subscribers, up from 66% in the year-ago period.

Hosting and other data services revenues increased to \$15.4 million this quarter up 29% from the comparable quarter in 2019. The majority of this increase was due to higher data service revenues associated with the step-up in Aireon's data service agreement with Iridium. However, there was also a true-up of about \$1 million related to Harris due to observed usage patterns. We continue to forecast normalized revenue from hosted payloads of about \$47 million per year.

Turning to our government service business, we reported revenue of \$25 million in the second quarter up from \$24.5 million in the prior year quarter representing a 2% rise. This increase was due to the contractual terms of the new EMSS contract which we entered into last September. At the end of the second quarter, government subscribers were up 11% year-over-year to 139,000. Given the all-you-can-eat nature of the EMSS contract, this sub movement during the quarter has no impact on contractual EMSS revenue.

The coronavirus pandemic is impacting a number of the industries that we support, which means it is also weighing on our equipment orders. Though down from a year ago, equipment sales are trending better than we forecasted in April. In the second quarter, we reported \$19.8 million in revenue from equipment sales with equipment margin a bit lower than a year ago at 39%. We continue to anticipate a slowdown in equipment sales for full-year 2020, though the results will likely be less severe than we expected at the time of our last call.

Engineering and support revenue was \$7.0 million in the second quarter, compared to \$8.9 million in the prior year's quarter. The change reflects the episodic nature of engineering spending. With a full quarter of results to reflect upon since COVID-19 struck the US economy, Iridium has a much better handle on how the global pandemic is impacting its partners and subscribers. While we continue to feel the economic impact of the coronavirus, we're now more comfortable assessing its impact on our business.

Accordingly, we are updating our full-year guidance for 2020 to reflect this information and the trends we see through year-end. We now expect that OEBITDA will be approximately \$340 million in 2020 predicated on total service revenue growth between 1% and 2%. This full-year outlook reflects a modest stabilization in our voice and IoT businesses following the initial shock of the coronavirus pandemic in mid-March and April. We continue to expect both lines of business to be down year-over-year.

Moving to our capital position, Iridium had a cash and cash equivalents balance of approximately \$119 million as of June 30th. We continue to forecast maintenance capex costs will average approximately \$35 million a year for the next ten years.

Free cash flow provides a very useful benchmark for the health and earnings power of our company, perhaps even more so in the current environment. We believe that our growing cash flow is an indication of the health of Iridium's business and on this basis, Iridium stacks up well against other communications infrastructure companies. Based on the quarterly results we announced today and our updated outlook for OEBITDA this year, we believe Iridium will generate pro forma free cash flow of approximately \$185 million for the full-year 2020 compared to pro forma free cash flow of \$168 million in 2019.

For illustrative purposes, consider the following. If we start with OEBITDA of \$340 million and subtract \$90 million in pro forma net interest to reflect our new debt structure, \$35 million for capex, and \$30 million in 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 [free cash flow] yield approaching 6%. This is indicative of the underlying strength of our core business.

As in the past couple of quarters, we've provided supplemental information on the Investor Relations section of our website laying out these pro forma free cash flow calculations. Iridium closed the second quarter with leverage at 4.4 times OEBITDA, and based upon guidance revisions, expects to exit 2020 with net leverage of approximately 4.3 times OEBITDA.

Before I conclude my remarks, I'd like to provide an update on Aireon's financial expectations with regard to Iridium in light of COVID's ongoing impact on aviation. Aireon had expected to be cash flow positive in 2020. Certain of its customers' contracts are variable in nature and expand and contract with air traffic volumes. Aireon's revenues have contracted with the material decrease in air traffic volumes since the beginning of the year. Accordingly, Aireon no longer expects to be cash flow positive in 2020. Aireon now expects to be cash flow positive sometime between late 2021 and mid-2022.

Aireon has arranged for funding of this extended cash flow deficit period. This funding consists of the undrawn portion of its existing \$200 million credit facility and a standby investor bridge loan supported by its equity investors. Iridium has committed \$11 million in support of this investor bridge, which will bear

interest at 11%. Aireon does not expect to draw on this bridge in 2020, but may do so in 2021 and 2022 depending on the level of air traffic volumes. Aireon had planned on refinancing its existing credit facility and raising sufficient capital to repay the balance of the hosting fees due to Iridium in early 2022. Given COVID, Aireon now does not expect such refinancing to occur before mid-2022.

COVID impacts on Aireon are expected to have limited impact on Iridium unless air traffic volumes fail to recover from their current levels. All amounts Iridium recognizes as revenue in 2020 and 2021 are expected to have been received as cash payments as part of Aireon's updated cash flow profile. Iridium, expects to be financially compensated for the delay in Aireon's refinancing and resulting payment of hosting fees. Unpaid hosting fees contractually accrue interest at LIBOR plus 350 basis points. We remain confident that Aireon will be a significant source of value to Iridium shareholders and are pleased with the company's recent developments with the FAA and other customers, which demonstrate that Aireon is becoming a critical part of the world's air traffic control infrastructure.

Clearly, the first half of the year has been anything but routine, but Iridium is fortunate to maintain a strong, diverse base of customers and operate a wholesale business model which generates more than 80% of revenue from recurring sources. We believe that we are positioned well to weather the global pandemic, and will continue to generate meaningful free cash flow this year and into the future.

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. To ask your question, you may press star and then one using a touchtone telephone. If you are using a speakerphone, we do ask that you please pick up your handset before pressing the numbers to ensure the best sound quality. To withdraw your question, you may press the star and then two. Once again, that is star and then one to ask your question. We will pause momentarily to assemble the roster.

Our first question today comes from Ric Prentiss from Raymond James. Please go ahead with your question.

Ric Prentiss

Thanks. Good morning guys. Glad to hear everybody's doing okay in these crazy times.

Matt Desch

Hey, Ric.

Ric Prentiss

A couple of questions. One, let's start at the 30,000-foot view or 2,000-kilometer view. Matt, we get a lot of questions about the new LEOs. SpaceX in the marketplace raising some money, OneWeb maybe coming out of bankruptcy with the British government and Bharti and others supporting it. As you think about your business and these new LEOs, what do they mean, competitively, to the new areas of your business, the Certus broadband, but also the legacy areas of your business, voice and data, IoT, and even the government?

Matt Desch

Yes, Ric. I really don't think they are direct competitors in any way. Perhaps, around the edge, long, long term but really for the most part, we see all those new LEO players as potential partners offering commodity broadband services that are complementary to the much more mobile, safety-oriented

services that we provide. We've had discussions with all of them. They all see it the same way. They see us as someone that could possibly be integrated into their services to supply a better service to their customers.

I've talked about this before. The way our services are architected or structured is very, very different from theirs. Their whole vision is to try to provide the most bandwidth to a specific customer as possible, to every customer as possible. Our whole system is architected and structured to provide the most mobility. We provide as much data as possible in the smallest possible package, and those are two totally different design philosophies, and you can't really change one to the other and back and forth.

They really can't scale down to the levels we're at. They could never offer, say, a small device that operates in the palm of your hand and integrated into a mobile phone or onto a consumer device, and frankly our system doesn't scale up to offer 50 megabytes per second which is what they all are looking to try to offer almost as a minimum.

The two services worked very well. It's demonstrated today in the fixed satellite service players, [where] our terminals are put right next to theirs on ships as a companion VSAT offering, and really those new LEO players really are more focused on competing for that commodity broadband segment, which has been around for 20 years and which we've been very complementary to all along, than in any way to doing something that we have been doing or plan to do in the future.

Ric Prentiss

Any thoughts of what it might mean to the government business? I know the government has been a long-term user and partner of Iridium, but we get that question occasionally.

Matt Desch

Yes, and again, we've been talking both to the government and to those players, and they see our services complementary as well. They're excited about the potential for a lower latency, commodity broadband service, but those are all still services, for example, that don't have inter-satellite links, so therefore can't be delivered anywhere on the planet quickly, they can't have the same sort of portability profile we do, they're all in Ka- and Ku-band, which are good for high speeds but aren't as good for delivering secure services that L-band can do.

Again, they're seen both as complementary. They want both L-band and Ka/Ku-band services. I think they'll always want L-band and Ka/Ku-band services, and I think they're really excited about getting our L-band services because now with Iridium Certus, we can deliver really the best possible L-band product they could get. That's why they're installing Certus at their private gateways, that's why they actually have already deployed Certus, particularly in the land-mobile area, and we think there's a long, great future potential with our kind of broadband, which I call specialty broadband, with the US Government.

Ric Prentiss

Makes sense. Appreciate that, and speaking of L-band and the government, the Ligado process, can you update us what's going on with Ligado and the Department of Defense and that whole band of spectrum?

Matt Desch

Well, for those who haven't followed it, I mean, the FCC unexpectedly gave approval to Ligado some time ago. I think it was two months ago or so now, and I think all of the different US Government agencies as well as commercial interests who realize the potential impact it has have been working hard to make sure both the FCC and the US Government's legislature and others are aware of all the issues that that's going to cause.

I think a lot of the attention obviously has been on the GPS impact of Ligado, and probably rightfully so. It has certainly potential impact there for many different agencies, perhaps not as much focus has been placed on the potential impact it could have on Iridium long-term, we've been making sure that they all understand that, and you've probably seen that I've been busy communicating that information to them.

We continue to fight it on every front, both, I'd say procedurally, potentially legally, and obviously legislatively and hope and would expect to prevail long-term to make sure that it doesn't impact our services in any way in the US.

Ric Prentiss

Okay. Then let's bring it down a little closer to Earth. Tom, on the guidance, can you talk a little bit about the aviation IoT section? I think, previously you had mentioned that could be a couple of million dollars a quarter. Are we thinking now that, that doesn't really recover much in 2020 and really see 2021 to get that, and that might be part of what's obviously weighing on the second half of service revenue guidance?

Tom Fitzpatrick

Right. Yes, the usage-based element in IoT is, I think we've said before, is about \$2.5 million a quarter, and we're off about \$1.5 million a quarter. It's a \$4.5 million, \$5 million headwind on the full-year results because it's three quarters of impact, Ric.

Ric Prentiss

Right. Makes sense. I'm glad everyone is doing well. I hope you continue to do well. Thanks guys.

Tom Fitzpatrick

Thank you, Ric.

Matt Desch

Same to you, Ric. Thanks.

Operator

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

Anthony Klarman

Hi, thank you. A couple of questions. Matt in your commentary you talked a little bit about obviously one of the issues is getting access to some of the ships which for good reasons are sort of being kept in dock and not given access to them. Can you give us a sense as to sort of what installs are kind of in the backlog here so we can get a sense as to sort of what the potential revenue backlog that there is that's kind of sitting in queue waiting to be installed?

Matt Desch

Well, I guess we don't have visibility to the specific backlog by each one of our partners. We are in discussions with them every week and talking to them about it, and they're the ones that are telling us that they probably would be doing, I don't know, twice as much business or more if there weren't all these issues within ports, on ships, the inability to kind of talk to captains, or talk to fleets who are more worried about other things than what they'd be doing.

In general, they have the product, they have the desire, they like the pricing and the promotions, and by the way ships are getting installed. I mean, there are few hundred that did get installed in the quarter and much more in June than in previous months.

I think that there is recovery going on. To what level it is, what level it will get to, it's a little hard to tell right now, because a lot of this is new business for us. This is a whole new market segment, we've been in OpenPort for a while, but we've never had such a great, competitive product that could not only win lots of new ships but could replace equipment on existing ships.

Our partners are telling us they're seeing a lot of interest, they want to deploy the product, they believe there's an awful lot of ships who want our product, but I can't define it as a specific backlog of exactly how that will play out, in the third and the fourth quarter mainly because we don't even know how the recovery will continue.

Anthony Klarman

Got it. Maybe just sort of tagging on the back of that answer. As we think about how to build toward that exit, that 2021 exit revenue, incremental revenue run rate from broadband, is there a sort of a shape of the recovery that you feel you need to kind of get to that metric that you've given us in terms of what the incremental revenue opportunity is exiting 2021?

Matt Desch

Well, kind of, internally, I mean, I would say that we measure how many ship net installations we have by month. We're tracking that, and we want to be doing hundreds, several hundreds of net installations per month, and we're not there yet. We're probably less than half of where we thought we would be or wanted to be, or maybe even a third. But, we are progressing toward it. I'm really encouraged by the month-over-month progression since the February, March, April timeframe when it was really, really, locked down. June has been better, July is looking better, that sort of thing.

Where it will get to and how fast, that's the big question and that's why it's really, really hard and why we pulled away from focusing on a year-end 2021 number because we're not really in control of what the market environment is out there. I think we're in control of the competitive environment. We've done a good job with that, and we're continuing to sort of add to the product and add to the capabilities and add to the commercial value of the product, but really how fast it will grow to what number in late-2021, we just can't really tell quite yet.

Anthony Klarman

Yes, understood. Maybe for Tom, most subscriber-based businesses that we all follow have had some measure of bad debt, where subscribers of either not paid or have asked for an extension of terms on payment. Could you update us on anything you're seeing on the AR and collections front as it relates to bad debt?

Tom Fitzpatrick

Nothing generally. Our accounts receivable are in decent shape. We talked last quarter about it. We do have some limited exposure to Speedcast; it's less than \$1 million, and that's fully contemplated, any exposure we have there is fully contemplated in our guidance update.

Anthony Klarman

Thanks, and then finally, on Aireon, in addition to the hosting payments, I think you get some form of a monthly kind of recurring data fees from them. Are those revenues tied in any way to usage on their network, or are those sort of flat fees? In other words, is there any variability to the recurring form of revenue that you get from Aireon?

Tom Fitzpatrick

No, there's not. That's contractual.

Anthony Klarman

Got it. Then, when is the next sort of big milestone hosting payment due, and would you expect that they would probably have to draw on that backstop facility that you laid out to fund that milestone payment that they would owe on the hosting contract?

Tom Fitzpatrick

There is a contractual minimum of \$16 million a year and they have prepaid that through the first half of 2021. They would owe us around another \$8 million in the second half of 2021, and that payment, I would just say, is fully reflected in how they think about their liquidity, as I said in my prepared remarks.

Anthony Klarman

Got it. There is really a full year operationally before Aireon would owe a significant payment other than the recurring monthly revenue?

Tom Fitzpatrick

That's right. That's right, and they're paying on the data fee, they're paying that monthly, routinely.

Anthony Klarman

Great, thank you. That's all from me.

Operator

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

Hamed Khorsand

Hi, good morning. First off, I just want to say this was the first quarter where IoT sub growth did not offset ARPU decline. Is this a trend that's going to continue whereas the IoT revenue will decline even if subscriber growth is rising?

Tom Fitzpatrick

The most acute impact is in aviation, right? We're hit for, as I said, \$1.5 million in usage that has just fallen out. That's the major reason for the decline in ARPU.

Hamed Khorsand

Okay. With what you've seen from commercial customers, does this mean that you've missed the 2020 install season?

Tom Fitzpatrick

You mean in terms of maritime?

Hamed Khorsand

Yes.

Tom Fitzpatrick

Yes, I mean, 2020 was supposed to be a big ramp year for us. We have a brand new product, it's better than the competition, and COVID hit. That's kind of like the rug got pulled out from under us, if you will, in terms of sales ramp. 2020 was supposed to be a fast ramp, and it's not for obvious reasons.

Matt Desch

Yes, I mean, remember, I assume you've mentioned maritime, but I mean in all of our product lines, we

are a little bit more seasonal in the summer. Second and third quarters are always our best quarter, because the Northern hemisphere is warm and people are outdoors. Whether, it's handsets or even IoT installs for shipping and tuna fishing and all the things that you would expect would be a little stronger in the summer, it has been a little weaker though strengthening as in recovering back to some level of the season. We are starting to see in June and July much better, not at the levels that we saw last year or expected, but we're starting to see it kind of recovering back to something a lot closer to normality.

Maritime, they install all year around. It's not like, it's just in the summer. It's just we would have expected—it's a little less seasonal really than say our land-mobile business, and aviation really isn't very seasonal either, but it still is being impacted by the coronavirus.

Hamed Khorsand

Okay, and then lastly, just pushing on your comments earlier from the installation, are your partners doing one-for-one inventory replacement with you as the equipment is placed? Are they purchasing every equipment that they place with?

Matt Desch

No, no. I mean they need to stage equipment all around the world in ports and in places where they need it, there is not that level of kind of sophistication. There are thousands of our terminals right now out in the market. They've bought quite a few from our terminal suppliers.

Remember, we just sell them in the case of Certus terminals, say, a Cobham or Thales or soon Intellian, a modem, a radio from our factory, and then months later that gets put into one of their terminals and then they sell the full complete terminal to the partners for sales. They've reported to us that they've sold thousands of these things because of the high interest by all the various maritime partners who sell our services. Those maritime partners are the ones telling us it's hard to get those things on the ships, but they are increasingly able to do it and it's growing month-by-month, but it's still not normal out there and may be still months before it still becomes that way.

Hamed Khorsand

Okay. Maybe I'm not understanding or not communicating the question properly, but I'm just trying to gauge how confident these partners and their install and equipment are as far as wanting to stock more of your equipment within their warehouse as they place these equipment at the ship.

Matt Desch

They are continuing to buy radios. They're continuing to order new terminals. They haven't like stopped, and we are seeing new devices going out there to replace the old devices. I would say it isn't like they have lost confidence and they're just selling their inventory down to nothing or something. It still feels like there is still turnover of inventory as they put new terminals on the ships. They are ordering new terminals to back-fill them.

They might be at slightly lower inventory levels; you'd have to ask them. That would be something to talk to Marlink or to KVH or to Speedcast or the 30 others that are really the main ones in the marketplace doing this, but they're still pretty busy, and when I talk to them and we're talking to them all the time, they feel like there is a lot of activity. It's just slower than expected.

Hamed Khorsand

Okay, thank you.

Operator

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

Louie DiPalma

Matt, Tom, and Ken, good morning.

Tom Fitzpatrick

Good morning, Louie.

Louie DiPalma

First, I hope you and your families are staying well during these difficult times. Second, I wanted to say nice work and how the Iridium next expense adjustments to operational EBITDA are now zero, which is a positive sign. Third, Tom, I saw that you raised your free cash flow guidance, which is good for your reduction of leverage, and along these lines, I was wondering how do you expect that the shift in Aireon's free cash flow outlook may impact the timing on when Iridium announces a dividend or share buyback.

Tom Fitzpatrick

So, you're referring to the lump sum payment of the remainder [of hosting fees]?

Louie DiPalma

Yes, all the different payments that Aireon owes you and how that might impact your leverage and how your leverage is tied to when you might do some sort of share buyback or dividend.

Tom Fitzpatrick

Right. The Aireon update is simply they've said they're refinancing, which is the source of their ability to pay us the lump sum, the \$150 million-ish. They've pushed that back to mid-2022. I wouldn't say that that necessarily impacts—if you pencil out the numbers, we can get into our leverage guide without that lump sum payment prior to that. I think it will impact it to a degree but not necessarily the timing of it because we get there without it, if you just model it out.

Louie DiPalma

Got you. Sounds good. For Matt, new products and services are definitely a key part of your story that many investors are excited about. You discussed GMDSS, the new Intellian terminal, and the Iridium Edge services. Can you, Matt, provide an update on the expected timeline for the new 9770 IoT devices and also the low-cost terminals? Have there been any delays in terms of when you expect to roll those out?

Matt Desch

Yes, there hasn't been any delay. By the way I should remark, thank you for saying things in terms of our health. That's been a very big focus, obviously in the company, to make sure all our employees and others are healthy and safe. I will tell you, we've all learned how to work remotely, and we've found it surprisingly effective and productive. It hasn't affected development schedules or really just about anything in the company. In fact, many of my employees are remarking that they're even almost more productive and certainly appreciate that with all the uncertainties with family care and all that sort of thing.

I will say Tom and I have been talking, we probably can reduce a little real estate long-term here and possibly even move into a new environment long-term which I think is probably just where everybody is going these days. So, that's just one aspect.

As far as the 9770, for those who don't know that's our new, small form factor, mid-band modem that is going to be the first of a number of different radio products to drive additional ARPU into the IoT and voice and data segments because it enables more speed, but it's still very small and compact and uses a very small antenna. Those are in beta trials with a bunch of partners this summer. They have been

reporting that worked very well.

Because it's going to get built into a kind of complicated products that we'd start seeing the first of those toward the end of this year and into 2021 and it will be made increasingly available beyond the first kind of ten beta partners to more and more partners later this year who will start building them into products that could come out later in 2021 and 2022 including things like a new handset, including a new device, that would be much faster than our existing hotspot product, the Iridium GO!, including faster IoT products that would enable things like pictures and richer services. So, those are still on track.

Like I said, we're just starting the additional lower, the much smaller modems, the much lower-cost devices. Those aren't going to really come until 2021 and 2022. We're just really getting started into the series in terms of new handsets which will refresh our handset line and provide a richer service experience for those who want a very, very simple kind of satellite phone experience that sort of thing and those things all come.

This 9770 is important, because it's kind of the parent of all those devices which is why we wanted to get it right, and it is fully developed, it's manufacturable today. We're just making sure it works in every kind of environment of our partners before we really turn on the spigot late this year and into early 2021 for everyone.

Louie DiPalma

Sounds good. When you say new handset, is that your voice handset for satellite telephony, or is that just for like your like Garmin, like personal navigational device-type handsets?

Matt Desch

There will be new devices that partners like Garmin are able to build into a much more fully functional, I mean, a faster speed data only product, or even possibly voice at what you would call the low-end, but, yes, we plan, and we have worked to replace—not replace, but augment our satellite phone portfolio. I don't know how else to call it, but when it becomes a rich, multi-service device that's able to operate at higher speed and have more applications and whatnot, yes, it will be a replacement for that as well. That is sort of in the works right now.

Louie DiPalma

Great, thank you. I am glad you and all of the Iridium employees and your families are generally doing okay. Thank you.

Matt Desch

You too, Louie.

Operator

Once again, if you would like to ask a question, please press star and then one. To withdraw your question, you may press star and then two. Our next question comes from Chris Quilty from Quilty Analytics. Please go with your question.

Chris Quilty

Matt, just wanted to follow-up on that voice handset. Is that something that you intend to outsource to partners, or still something that you would do internally?

Matt Desch

We're really in the final throes of that decision right now. I'll be honest, it's an issue of speed and some other aspects to it. We've had some really attractive offers to do it externally, which I expect we would

still be selling it, but we may more partner externally with a company that has the capability of bringing a lot of expertise and skills to it, but we have a very effective and capable internal development that would be raring to do it as well. We really literally are in a month or two of making that final decision.

Chris Quilty

Got you. I guess it's kind of a two part question, because you also have our DoD FIPS certified handset. Is that a separate decision, and is there customer funding available for that?

Matt Desch

Well, I mean, I think you're referring to the current 9575A model that the government has a secure sleeve that allows them to operate it in Type I encryption that sort of thing. That's available today. It took a long time to get there, but it's been out there for a while and has been used by the US Government. It is possible as part of this they could choose, if they like what we come up with, to make a version of that, but we don't have a development plan with them yet on doing that, and that would really be based upon whether they like the advantages that a new device would offer them.

I would expect, by the way, while that is still going to be out there, and I don't really think that that's going to impact our bottom line until more like 2022 or beyond, I think even before that would be a more fully-featured device that is a data-only device that would allow smartphones and iPads and the like to operate on our network even with voice in that regard. You could say it's an augmentation of sort of the Iridium GO!, but that actually we have a plan for and it's under way and has been under way and would probably be ahead of the more fully-featured satellite phone device.

Chris Quilty

Understand. It also looks like during the quarter you picked up, I don't know, 20 or 30 new SPs and VARs which is kind of surprising in the current environment. Is there anything specific behind that partner growth?

Matt Desch

I don't think the activity that we've had with interest in the company and our technology really hasn't waned. We haven't seen like the company say for example, who want to use this in drone applications they haven't gone away. I mean, it might be a more difficult environment, but the opportunity long-term for drones and autonomous vehicles hasn't changed.

So, I think we're seeing a lot of activity. We're seeing it in tracking devices. You see that we have some new consumer devices. We're seeing interest in enterprise class devices as well. I don't know if we've had that many in the quarter, but I have been keeping close track.

We're still seeing good new partner activity, particularly because of the new platforms they see. Being able to offer even more in a very, very small, highly mobile package, I think has created a lot of interest in that whole, what we call mid-band product area, and we think that will really attractive both existing partners and some new partners to our network.

Chris Quilty

Got it. Tom, one question for you on the IoT ARPU. Understanding that the aviation market is the single biggest drag on ARPUs, as you continue to grow the consumer business, is it still mixing down the ARPU, or are we mostly passed that impact?

Tom Fitzpatrick

No, I would say, if you consider the consumers' is kind of \$4, and that's the biggest single area of growth in subscribers, the line is going to continue to slope down as that grows, and while they've had a setback

with COVID, June activations were really impressive. So, we think that's going to be a long-term trend of significant growth in personal consumer, and we like the \$4 ARPU, because there is very little usage on our network.

Chris Quilty

Understand. Is there a long-term roadmap for the 9770 or Certus-type products in that consumer market, and when would you be there in terms of form factor size, which I think is currently certainly with the 9772 large?

Matt Desch

Yes, the 9770 can be a platform for some IoT and new voice and data applications, and that's what we're seeing in these initial partners and the interest right now among a whole bunch of platforms like drones etc. It has a whole road map of additional new transceivers that are kind of right now under way. The really scaled down version that doesn't offer quite as much speed but has the potential being low-cost and use very small antennas really would be I think the ideal product for faster IoT applications that offer more data types to be sent across and obviously potentially then generate more ARPU.

That's probably still at least 18 months away from really being realized. The core platform now is really solid in the 9770 which will enable us to develop these additional variants. Still has different power amplifiers, different layouts, different antenna types, etc., but those things are under way right now and I'd be thinking more that these are big 2022, 2023 effects kind of for us right now.

Chris Quilty

Got it. One clarification, did I hear you correctly that June was a record month for consumer IoT?

Matt Desch

I would say it was a record month for IoT net activations, which primarily were consumer, I mean, obviously will always be sort of consumer basis because of the numbers involved. Yes, June was a really big month. I assume some of that might have been catchup with people desperate to get their device in April and May, but couldn't get out. Hopefully, some of that is just demonstrating this was supposed to be a really, really good year overall, and I'd say once the economy gets back, I would expect all of our IoT partners are raring to get back into all the different important applications that they service in all the different industries they service.

Chris Quilty

Very good. Thank you very much.

Matt Desch

Thanks, Chris.

Tom Fitzpatrick

Thank you.

CONCLUSION

Operator

Ladies and gentlemen, at this time I'm showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

Matt Desch

Well, thanks for joining us in the second quarter, strange times, as some of you have said. Everybody

stay safe, and stay productive and we'll see you in the third quarter call. Take care.

Operator

Ladies and gentlemen, with that we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.