

Iridium Communications, Inc.  
Q4 Earnings Conference Call  
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**CORPORATE PARTICIPANTS**

**Kenneth Levy** – *Investor Relations*

**Matthew Desch** – *Chief Executive Officer*

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

## **PRESENTATION**

### **Operator**

Good morning everyone, and welcome to the Iridium Corporation's Fourth Quarter 2020 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. To ask a question, you may press star and then one. To withdraw your question, you may press star and two. Please also note today's event is being recorded.

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

### **Kenneth Levy**

Thanks, Jamie. Good morning, and welcome to Iridium's fourth 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 Q4 results followed by Q&A. I trust you've had an opportunity to review this morning's earnings release, which is available on the Investor Relations section of Iridium's website.

Before I turn things over to Matt, I'd like to caution all participants that our call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical fact and include statements about our future expectations, plans, and prospects. Such forward-looking statements are based upon our current beliefs and expectations and are subject to risks, which could cause actual results to differ from forward-looking statements.

Such risks are more fully discussed in our filings with the Securities and Exchange Commission. Our remarks today should be considered in light of such risks. Any forward-looking statements represent our views only as of today, and while we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so even if our views or expectations change.

During the call, we'll also be referring to certain non-GAAP financial measures, 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, as well as a reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

### **Matthew Desch**

Thanks, Ken. Good morning, everyone. You know, it's hard to believe, but last week we celebrated the second anniversary of the completion of the Iridium NEXT program. They've been very productive years too, with continued strong growth, and the delivery of a number of exciting new services for our customers.

In fact, we've added dozens of world-class partners and welcomed more than 350,000 net new subscribers to our network. We've launched innovative new products to extend our leadership in IoT, like the Iridium Edge line and cloud connectivity with Iridium CloudConnect. We've also rolled out groundbreaking services into new business segments, like our very flexible Iridium Certus higher speed data platform, and of course, Iridium GMDSS for Mariners.

Last week's anniversary reminds us that Iridium's transformation to a strong, profitable, and growing cash flow generator is complete. Today, our company generates over \$200 million in annual pro forma free cash flow, our net leverage has fallen dramatically, and we continue to drive double-digit subscriber growth and new revenues from our upgraded network. Investors have noticed this too, pushing our enterprise-to-EBITDA multiple in line with comparable growth-oriented strong free cash flow companies, further differentiating Iridium from the traditional financial profile and competitive position of other satellite companies.

In light of this progress and the continued growth opportunities we see, our Board of Directors has authorized a \$300 million share repurchase program, which we announced in a press release last night. This is the first share repurchase authorization in our company's history and is indicative of the confidence that we have in our free cash flow and business opportunities. The program allows us to be opportunistic if the markets are volatile while maintaining our path to long-standing leverage targets. And I'm pleased to share this news as it signifies that Iridium is living up to the pledge we made to shareholders many years ago.

For the investors who've shared our vision and had the patience to see us execute, we're glad to now be in a position to reward your confidence. We are currently in the process of planning our next Analyst Day to be held in May. This event will allow us to provide a longer-term view for the growth opportunities we see and lay out the financial returns we expect Iridium to generate. I think you'll find it very interesting. Look to your inboxes for an invitation to this virtual event, or reach out to Ken for more details.

Turning to our 2020 results, I'm happy that Iridium delivered another strong year of financial performance. 2020 will forever be linked with the global pandemic, and I'm especially proud of how our team responded to meet the challenges of this unique year. I'd like to extend my sincere thanks to the Iridium family, including our more than 450 distribution and technology partners, as their confidence, energy, and dedication are the fuel that supports our ongoing success.

Overall, we finished 2020 on a strong note and even managed to reach the lower end of our original operational EBITDA guidance we established before the pandemic. While we did experience some revenue headwinds as a result of the outbreak, our IoT business was able to get back on track. We saw steady growth in L-band broadband and achieved decent performance in our data and satellite phone business, even though we didn't see our usual seasonal summer ramp, as global travel was curtailed and subscribers altered their normal routines.

We also announced a number of new relationships and product launches in 2020, which should lay the foundation for new subscriber growth in the IoT and maritime markets, like the expansion of our Iridium Edge line of finished IoT devices, new partnerships in the heavy equipment market, including another top 20 original equipment manufacturer in Kobelco, and of course, the rollout of Iridium GMDSS, This safety service launched to the great fanfare and anticipation of our maritime partners and their customers near the end of the year.

We also had a particularly strong year with push-to-talk, as global enterprise and government customers increased their deployments of new Icom radio products, allowing them to rapidly extend the reach of their group PTT communications without the need to build out expensive local infrastructure on the ground. Each of these relationships and products extends Iridium's reach into new market segments, which is allowing us to take market share, as well as grow the overall size of the market with new products that lower the cost of entry for subscribers. Tom will go into more detail on our 2020 financial performance, so, I want to spend the balance of my prepared remarks highlighting Iridium's business strategy, our unique market position, and our opportunity for growth.

You've likely seen our guidance for 2021 in this morning's press release. We continue to expect to operate in the shadow of COVID during the first half of 2021, knowing the business and travel restrictions remain in force in many countries, and the timeline for mass vaccinations is still unclear. While seasonal usage should improve in 2021, it's unlikely to rebound to historical levels while we remain in this climate. We also know that we face a tough service revenue comp with Aireon having reached the full run rate of its hosted payload agreement this past year.

Headwinds in industries like aviation and maritime are also likely to persist in 2021 but will hopefully start easing in the second half of this year with the global recovery. We've built these assumptions into our 2021 revenue forecasts and still expect to generate good profitability and cash flow growth as we continue to naturally deleverage. Topline growth should improve as the economy regains its footing.

In the coming year, we will be rolling out a number of new services and devices along with our partners that open up new industry segments and long-term revenue streams. To start, the GMDSS service that we launched in late December has already seen its first sales and terminal installations. This demonstrates that we've really broken the decades-long monopoly of the maritime safety industry and that Iridium now has access to 60,000 SOLAS-class vessels that are required by maritime law to maintain this L-band safety service.

While these big ships are the primary targets for this service, the cost, coverage, and capability of our new GMDSS terminal make the system an affordable option for the hundreds of thousands of smaller vessels that may not be required to have GMDSS equipment on board. As a result, we think this new offering expands the market for GMDSS and positions Iridium as the provider of choice in 2021.

Iridium Certus broadband terminals available from Intellian, Cobham, and Thales continue to see a steady adoption by maritime customers. As the challenges to equipment installation lift, we expect to see our broadband solution win bigger market share and increasingly be selected as the preferred technology for stand-alone L-band terminals, as well as for the majority of VSAT companion installations.

Commercial aviation continues to be an important market for Iridium. Some of our partners' Iridium Certus aircraft antennas are expected to finally be ready this year. We've seen good progress with several of them, as well as with the global standards process for approving Iridium Certus for cockpit safety services. This will add to our existing approvals with our legacy aviation narrowband terminals. While the first aviation broadband installations will occur in 2021, we currently have eight different antenna manufacturers developing products for different aviation markets like business, commercial, rotorcraft, and the like, and collectively, we think they will make a bigger revenue impact as we move into 2022.

In light of the strong finish in IoT during the second half of 2020, we also forecast robust IoT growth in 2021, both in traditional satellite IoT areas, but also with our consumer-oriented partners who are rolling out new devices with features and price plans tailored to their niche customers. I still see IoT as the cornerstone of Iridium's growth going forward, as our network is ideal for industrial and consumer IoT services.

2021 is also the year we'll see the first Iridium Certus midband applications rollout based on our new Iridium 9770 modem. We've talked about this new device over the past year and have been testing it with beta customers. It's small and compact, letting users send and receive data up to 35 times faster than our legacy transceiver. It also leverages small, low-cost passive antennas, which are ideal for IoT applications. We see growth opportunities in areas like agriculture, transportation, and drones, as well as with the military, first responders, and for use in maritime and aviation applications. About 20 partners have adopted the Iridium 9770 so far and are developing products around the device. And we'll see their

first commercial products rollout in the first half of this year.

You'll also see some new lower-cost maritime terminals launch in the first half of this year, as our partners introduce more broadband options. They'll be using a service-class of our network that we call Iridium Certus 200 that provides bidirectional 176 kilobits per second service with a small compact antenna which fills a niche at the lower end of the L-band maritime market. These terminals will be a great low-cost upgrade for legacy Iridium OpenPort terminals, address the needs for primary satellite services for smaller vessels, and also support many VSAT companion applications.

And, finally, the U.S. government continues to be an important partner that helps drive innovation on our network. Our engineering work for dedicated R&D and gateway upgrades has been expanding over the last few years with the DoD, and 2021 will be no exception. While this work on the DoD's private gateway is long-term and ongoing, we expect to complete certain upgrades, like the final implementation of Iridium Certus, this year. Once complete, the USG will have secure, private access to Iridium Certus broadband and midband services, which will drive incremental pay-for-use services.

Before I hand things over to Tom, I want to recap Aireon's progress as they've had a productive year, even considering the dramatic slowdown in air travel caused by the global pandemic. Aireon launched three new commercial data services in 2020 that will expand its customer base to airports, airlines, and other aviation stakeholders. Over the past three months, Aireon also announced new partnerships with the Civil Aviation Department of Hong Kong and PASSUR Aerospace, and greatly expanded their relationship with the FAA.

I would also note that the Airports Authority of India, who signed an agreement with Aireon in 2019, just completed all of its testing and certification work and began using Aireon services operationally on January 29<sup>th</sup>, within the vast air space of the Indian Ocean. To date, Aireon space-based ADS-B services are now being deployed by 19 ANSPs, covering more than 39 countries and are quite literally revolutionizing the aviation industry. I understand that they are also working to close deals with a number of new ANSPs in 2021 and will be ready to grow as commercial air travel recovers over the next two-to-three years, once vaccinations are more widespread and the pandemic recedes.

So, in closing, over the last five years, we've grown operational EBITDA at a 9% compound annual growth rate, and we continue to see a clear lane to be the long-term growth leader in L-band for satellite mobility, IoT, broadband, and safety services. We view ourselves as complementary to the many Ka- and Ku-band LEO mega-constellations being announced or developed today. Iridium's L-band spectrum and small low-cost and highly mobile antennas operate in a very different market space than these new LEOs, which physically must offer services through large and very high-speed commodity broadband terminals. We expect Iridium will likely end up collaborating on dual-band products and services with several of them.

Overall, we remain excited about the many business opportunities ahead that support free cash flow growth as well as meaningful subscriber and revenue expansion.

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

### **Thomas Fitzpatrick**

Thanks, Matt, and good morning everyone. With my remarks today, I'd like to recap Iridium's full-year results for 2020 and provide some color on our performance in the fourth quarter. We also released our financial targets for 2021 this morning, so, I'd like to walk through the key components supporting this outlook and provide additional perspective by discussing the revenue trends we expect to see over the next few years.

As Matt noted, we delivered another solid year of growth. Though we did feel the effects of the global pandemic, our business held up remarkably well. In addition to double-digit subscriber growth and gains in operational EBITDA, the strong free cash flow characteristics of our recurring service revenue model really stood out.

Iridium generated \$202 million in pro forma free cash flow in 2020 and reduced net leverage by nearly a turn. Operational EBITDA grew 7% in 2020, on the back of a 4% rise in total service revenue. This year we saw gains in IoT and our broadband business, even as the pandemic restrained air traffic volume and slowed installations and activations in maritime. For those who may be new to our story, the takeaway is that Iridium's underlying business remains incredibly resilient, due to our global network of partners, the diversity of industries that we serve, and our focus on mobile communications, and safety services.

In the fourth quarter, Iridium reported total revenue of \$146.5 million, which was up 5% from last year's comparable period. This growth was broad-based but primarily attributable to higher contractual revenues in our hosted payload business and an increase in contract engineering work with the U.S. government. Operational EBITDA rose 6% from the prior year's quarter to \$84.8 million.

On the commercial side of our business, we reported service revenue of \$91.1 million in the fourth quarter, which was up 3% from a year ago. This increase primarily reflected growth in hosted payload and broadband revenues, which more than offset a decline in commercial voice and data revenue attributable to COVID-19. Revenue from commercial voice data declined 4% from the prior-year period, reflecting the impact of the pandemic on activations and global usage.

In commercial IoT, personal communication devices continued to fuel net subscriber gains, which drove a 20% rise in subs from the year-ago period. In 2020, we added more than 150,000 net new IoT subscribers driven by momentum in personal communications. As we've noted previously, the ARPUs from these consumer-oriented plans are relatively low yet remain an attractive source of revenue, especially relative to the network resources they use.

Demand from the personal communication sector remains strong even as other markets, namely aviation and oil and gas, continue to feel the effects of the pandemic. In our commercial broadband segment, we reported revenue of \$9.6 million in the fourth quarter, up 18% from the year-ago period. We continue to expect strong growth in this business line, though accessibility to maritime vessels remains challenging in the pandemic environment.

In all, commercial subscribers grew 14% year-over-year. At year-end, IoT subscribers represented 73% of billable commercial subs, up from 69% in the year-ago period. Revenue from hosted payload and other data service was \$14.4 million in the fourth quarter, up 19% from the year-ago period. This increase reflects the final contractual step up in our services agreement with Aireon.

Government service revenue grew 3% in the fourth quarter to \$25.8 million, reflecting the contractual terms of our EMSS contract with the U.S. government. During this period, government subscribers also grew 13% to 152,000. In line with our expectations, subscriber equipment enjoyed strong growth in the final months of the year. This helped to drive an 11% rise in equipment revenue to \$18.9 million in the fourth quarter.

Moving on to our 2021 outlook, we forecast operational EBITDA in a range between \$365 million and \$375 million, predicated on total service revenue growth of approximately 3%. The key elements supporting this outlook are as follows. We expect commercial service revenue to benefit from a rebound in IoT and an ongoing ramp in broadband services. IoT service revenue is forecast to grow materially

faster in 2021 than the 1% rate we experienced in 2020.

The pandemic was responsible for an approximate \$4 million fall-off in aviation-related [data] usage in 2020. We do not expect this same headwind to recur in 2021 and forecast that aviation usage will be somewhat higher than last year's level. We also expect demand for personal communications devices to remain strong, especially as products from the new retail-focused partners launch in this market. This gives us comfort in forecasting another year of double-digit subscriber growth in IoT.

Within broadband, Iridium Certus continues to receive high marks from channel partners and drive growth in subscribers, even with headwinds caused by the pandemic. Without clear visibility on a return to normalcy in maritime, installers' ability to access ships, or our partners' ability to sell new units, we remain cautious in our outlook. As we've previously discussed, we expect hosted payload revenue will be approximately \$47 million in 2021 and beyond, now that Aireon has reached its full contractual run rate.

I would note that hosted payload was \$50.7 million in 2020 and benefited from about \$3 million in true-ups related to the Harris payload. On a go-forward basis, however, \$47 million will be our run rate for hosted payload and be a steady contributor to service revenue.

Within government services, the terms of the EMSS contract are well documented and will produce full-year revenue of approximately \$104 million in 2021, inclusive of a contractual step up on September 15th. We expect that equipment revenue will be in line with 2020's level.

On the expense side of the ledger, we expect SG&A to rise somewhat as opportunities for travel and face-to-face meetings will increasingly present themselves.

Finally, we continue to forecast negligible cash taxes in 2021, and consistent with our long-term guidance, estimate negligible cash taxes through 2023. Thereafter, our outlook calls for an estimated cash tax rate at mid-to-high single-digits until 2028.

In light of our outlook for approximately 3% service revenue growth in 2021, I'd like to provide additional perspective on our outlook for an acceleration in service revenue growth over the next few years. As we look out over the next five years, we target service revenue growth to increase modestly in 2022 and then pick up materially for the next three years. The drivers of this accelerating growth in 2023 through 2025 are threefold. One, a material increase in the growth rate of Iridium Certus broadband driven by a return to normalcy in the maritime industry, and our ability to market this broadband service commencing in mid-2021. We also anticipate an increase in the rate of adoption of our broadband service by the DoD in 2023, given the planned completion of a number of engineering upgrades to the government gateway. Second, we expect material increases in IoT revenue growth rate in 2023 through 2025, given the broader adoption of Iridium's new IoT mid-band transceiver by more of our partner ecosystem. And third, we expect an acceleration of growth in our commercial voice and data business, also coinciding with the availability of Iridium's mid-band transceiver. This new transceiver will offer materially faster data speeds than our legacy 2.4 kilobit per second offering and should drive incremental functionality and subscriber growth in addition to higher ARPU.

Moving onto our balance sheet, as of December 31, 2020, Iridium had a cash, cash equivalents, and marketable securities balance of \$244.7 million. With our successful transition to a strong generator of free cash flow, our cash balance has continued to grow, even during the global pandemic. We expect our improving liquidity position will support meaningful returns of capital to our shareholders.

As Matt noted, yesterday, we announced that our Board of Directors had authorized a share repurchase program of up to \$300 million through the end of 2022. This program gives management the latitude to

buy back shares in the open market and shows the confidence that the Board and management have in Iridium's business opportunities and free cash flow production. Our share repurchase program will be executed opportunistically, balancing our objective for deleveraging with the desire to maximize return on investment.

Moving forward, we continue to anticipate total CapEx of about \$45 million in 2021, 2022, and 2023, as Iridium accelerates investments in real estate and new product development. Our plans then call for capital spending to revert back to approximately \$35 million while continuing to support Iridium's innovation and business competitiveness. We closed 2020 with net leverage at 3.9 times OEBITDA. This was down almost a full turn from a year earlier and about two turns from our peak of 5.8 times OEBITDA in 2018. I'm very proud of the discipline we have shown as well as our progress to advance our leverage goal.

Our long-term target for net leverage continues to be between 2.5 and 3.5 times OEBITDA. We believe that this level provides Iridium with ample flexibility for business operations and capital planning. We anticipate that we will be within our leverage target by year-end 2022, even after giving effect to the maximum \$300 million share buyback. Lesser amounts of buybacks would result in Iridium reaching its leverage target range sooner.

Lastly, I wanted to provide a summary of the repricing of our term loan last month. We shaved 100 basis points off the annual interest rate, which materially reduces our interest expense moving forward. The new rate is LIBOR plus 275 basis points and should result in pro forma annual interest expense savings of more than \$16 million.

The terms of our facility continue to allow Iridium to renegotiate the market premium every six months, based upon favorable market conditions. In 2020 our pro forma net interest expense was approximately \$89 million. Pro forma net interest for 2021 based upon the recent repricing of the term loan facility is expected to be approximately \$71 million, a 20% reduction from last year, which will benefit our pro forma free cash flow. If we use the midpoint of our 2021 OEBITDA guidance at \$370 million and back off \$71 million in net interest pro forma for our new debt structure, \$45 million in CapEx and \$22 million in working capital, inclusive of the appropriate hosted payload adjustment, we're left with pro forma free cash flow of approximately \$232 million, up 15% from 2020. This is a conversion rate in excess of 60% in 2021, representing a yield of approximately 3% to 4%. We expect growth in pro forma free cash flow to outpace the rate of growth in OEBITDA this year.

A more detailed description of these cash flow metrics along with a reconciliation to GAAP measures is available in a supplemental presentation under Events on our Investor Relations' website. I would also note that these favorable cash flow trends and our positive outlook for deleveraging led Moody's to upgrade Iridium's corporate and credit facility ratings by one notch to Ba3 last week.

In closing, 2020 was a good year for Iridium. In the face of a difficult business environment, we demonstrated the resilience of our operating model and successfully grew free cash flow. It's clear that the financial transformation that Matt and I have forecasted for many years has now been realized. We're very excited to now be in a position to unlock additional value for our shareholders.

With that, I'd like to turn the call over to the operator for the Q&A.

## **QUESTIONS AND ANSWERS**

### **Operator**

Ladies and gentlemen, at this time, we'll begin the question-and-answer session. To ask a question,



once again, you may press star and then one. To withdraw your questions, you may press star and two. If you are using a speakerphone, we do ask that you please pick up the handset before pressing the keys to ensure the best sound quality. Once again, that is star and then one to join the question queue. We'll pause momentarily to assemble the roster.

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

**Ric Prentiss**

Thanks, good morning, guys.

**Thomas Fitzpatrick**

Hi, Ric.

**Ric Prentiss**

Glad you're making it through COVID well. A couple of questions, first on the service revenue guidance. Obviously, you had some tough comps with hosted payload; COVID, we're not all the way out of the woods yet but hopefully getting there. Can you maybe help share a little bit about where you think the exit rate for service revenue in '21 might be?

And, one of the other IoT companies out there, ORBCOMM, has suggested they might have a target service revenue multi-year growth rate, kind of in the 10% range of service revenue. Is that something achievable for you guys?

**Thomas Fitzpatrick**

So, I'm not going to comment on exit rate, Ric. I think you should study the 2020 comp, and I think that will show you that we had a built-in gain in hosted payload in 2020 that's not going to recur in 2021. As I said in my prepared remarks, we think IoT is going to be materially faster growing than the 1% we put up this year, and I think that's going to be evident. So, as far as getting to 10%, it's not out of the question. Let's see how the broadband uptake is in '22 and '23 as we expect that to really pick up meaningfully.

**Matthew Desch**

Ric, we have a quite a bit more diverse business, obviously, than ORBCOMM does. They're focused in the IoT space. We have a number of different market segments, each growing at different levels, and each one is kicking in.

Some of those kick in toward the end of the year; as we said, we're going to start getting into the aviation broadband segment, where the midband will start coming on at that point, which is a segment that they and others don't have, because that's a unique market area. We've always done very well in IoT, and I was really happy to see how IoT came roaring back at the end of this year in terms of the dynamics and the market pace—and we're seeing I think that pick up this year. I'm very hopeful if that kind of gets back to full bore in 2022, and with all the new products and services that they have that they can even go faster than we've traditionally had. So, hopefully that helps you.

**Ric Prentiss**

It does. And obviously, I've known you guys a long time and Tom even longer; you guys usually like to make sure you can deliver on your guidance, as we saw last year. When we think of that materially higher service revenue potential in '23 to '25, is that still high single-digit? Could that be double-digit? Trying to just gauge what does material higher '23 to '25 kind of suggest?

**Thomas Fitzpatrick**

Well, we're not a 3% grower. So, the intention of that is we're advertising 3%; we expect it to be a lot higher than that and let's see how things unveil.

You understand the drivers. It's going to be uptake on our Certus product. We're very optimistic about that. We think we're the satellite player of choice playing to the IoT trend. We think personal communication is a grower for a very long time. So we think all of those factors are going to result in a materially higher rate of growth in '23 through '25.

### **Matthew Desch**

And Rick, one of the reasons why we decided to do an Analyst Day in May is to spend a little bit more time focused on some of those areas because there are a few, I guess, growth areas we haven't described probably as fully as I think we should. For example, I think we have a long-term future in what I've been calling broadly "personal communications", which is the area that shrinks Iridium down into more and more consumer devices that people will carry with them. I think we can maybe spend a little bit more time, I hope, talking about in May.

And, I think maybe, Tom will be able to flesh out a bit more about sort of what the financial impact of the five years is, even though we're not going to get into—we're not going to go back to the days of long-term guidance quite that way, but we certainly can spend a little bit more time sort of talking about strategy.

### **Ric Prentiss**

Great. And, last question from me, Matt, you brought it up when you said, maybe it's more likely a collaboration with some of the other large LEO constellations out there. Help us understand maybe what timeframe or what level of talks you're having. And I have to admit, we're also starting to get some questions on the New Providence acquisition, AST & Science LEO out there. Any thoughts on that one?

### **Matthew Desch**

Well, I said we are complementary to the Ku-, Ka-band. I know that's confusing for a lot of investors, because they see LEO, and they assume that, when you're in LEO, you compete with all other LEOs, when in fact, it's really what spectrum and mission and all that sort of thing. I'm also looking forward to sharing even more information on why the way that we channelize our system is ideal for personal communications and IoT and the things that we've decided to focus on, and why it's almost impossible for any of those companies to really compete in those areas, because it would be incredibly inefficient and wasteful for them to even try.

So, they're always going to be big terminals, which frankly, often have an L-band complement to them or some lower-cost satellite service that makes them even better, and that's what we've been talking about with several of them. And, as they build out their networks, they're all primarily focused on their core initial, commodity consumer service, but they all have told us they find a lot of value and interest in our services as a complement to them. So, I don't know that you'll see the products come in for a couple of years.

As far as AST SpaceMobile, yes, I've noticed that as well. Certainly, it's one of these big ideas that frankly has a lot of invention still to go. We and our predecessor company dismissed trying to do what they're doing has been way too complicated and hard. If you think that what we've done over the last 30 years to get to the point we've done has been hard, you can ratchet that up in order of magnitude or maybe several orders of magnitude for what they have said that they are going to try to accomplish.

The science involved in developing that is going to be expensive, take a long time. It's certainly interesting if they're able to accomplish it. But, I think more that I'm viewing AST as indicative of the

market enthusiasm in space right now, in terms of how they're being valued and considered by the market, than really indicative of what they're claiming they'll be able to do in the timeframe they'll be able to do for the price that they'll be able to do is in any way valid. Hope that helps.

**Ric Prentiss**

Great. It does. Appreciate that. And I look forward to "seeing" you guys in May. Thanks, guys.

**Matthew Desch**

Yes, thanks Ric.

**Thomas Fitzpatrick**

Thanks, Ric.

**Operator**

Our next question comes from Greg Burns from Sidoti & Company. Please go ahead with your question.

**Greg Burns**

Tom, you mentioned SG&A stepping up a bit this year. Is the fourth quarter a good run rate?

**Thomas Fitzpatrick**

Is the fourth quarter a good run rate? I would think about SG&A being up in 2021 a few million dollars, Greg, on the full year.

**Greg Burns**

Okay. Alright. Thanks. And then in terms of your GMDSS product, how does that compare to [speaker off-mic] solutions out there? And, is that being positioned as a standalone product that will drive revenue, or is it more a service that will pull through your other broadband services? Thanks.

**Matthew Desch**

Yes. I think I'm not sure everybody heard your question, but it was I think our GMDSS service or maritime GMDSS, is it being viewed as a standalone product or something to pull through the rest of our services? It's both.

It's always been an area that we've not been able to address. It's not the narrowband product that we have today when it's used in an emergency perspective--that doesn't bring revenue. It's all the other uses of that terminal that go on, from delivering maritime safety data and navigation data and the use of it for ship's business.

And, that terminal had to be on every ship out there, at least all the SOLAS-class ships, and that always had to be from our competitor. So, we were always competing for the other terminals on board. Now, that ship can be an Iridium-only ship, and our partners are excited about that because they haven't always enjoyed delivering a service of a competitor, since they were often providing the VSAT service as well. So, it can be a standalone service.

As I've mentioned in my comments, we're really enthusiastic about the fact that this might expand the market for GMDSS. There are hundreds of thousands of ships out there who would love to have a panic button at a low price that connects with all the regional emergency centers and provides information, but it really wasn't very cost-effective before. And, we're even wondering if, say, insurance companies and others might not be very attracted to encourage those ship owners to use an Iridium GMDSS service. So, hope that helps.

**Greg Burns**

Okay, thanks. Just—

**Greg Burns**

Just a final point on that, what is the incremental ARPU?

**Matthew Desch**

You're cutting out, Greg. You said some by incremental ARPU of what?

**Greg Burns**

Of GMDSS. Like, how much incremental revenue would those terminals generate on a ship?

**Matthew Desch**

Well, you know, it's a voice and data terminal that can anywhere be tens of dollars to hundreds of dollars, depending upon how much it's really used on the ship. And, it's too early to really know exactly what the ARPU for sure will be. They subscribe to various plans, but typically it delivers at the minimum, probably around our voice and data average, but can be quite a bit higher than that on some vessels that use it extensively.

It is an integrated voice and data device providing very high-quality voice connection and they can use it for anything that they want to. And, obviously, they don't use it in an emergency very much, but that doesn't cost them anything. But it is a data device too and delivers a lot of information about navigation issues, and safety issues, all kinds of weather issues and that sort of thing.

So, I don't really know exactly what it will be. And of course, it's not going to really move the needle that much in 2021, just given the number of units it's going to have, but it's definitely a foundational point, as you said in the previous question, for both stand-alone maritime sales as well as driving our Certus business.

**Greg Burns**

Okay, great.

**Operator**

And, ladies and gentlemen, our next question comes from Chris Quilty, from Quilty Analytics. Please go ahead with your question.

**Chris Quilty**

Thanks, guys. Wanted to follow-up on the IoT business. Tom, I think the ARPU this year was down 15%, which was a little bit steeper than the prior year, down 9%; some of that due to COVID and I guess the bulk due to mix with consumer. What should we expect as we look out into 2021 for where you think the ARPU will go, based upon your expectation of mix?

**Thomas Fitzpatrick**

Right, so what was acute in the ARPU in '20 was the \$4 million fall off from aviation. Don't model that to recur, right? Model the mix from consumer, but not the acute hit we took from aviation, Chris.

**Matthew Desch**

And, you know it's the consumer business has really been strong as you see, Chris. I mean, I expect that to be equally strong in 2021, if not stronger, given the expanding products. ARPU, I think, also will

...

**Chris Quilty**

And, Tom, would you say that—you're not going to have obviously...

**Matthew Desch**

Go ahead.

**Chris Quilty**

Go ahead. No, Tom, I think you said there was not going to be another \$4 million headwind, but do you expect the aviation business to tick up a little bit this year?

**Thomas Fitzpatrick**

I would say a little bit. Okay, the issue is that we're not going to have the headwind. So, it's not going to fall by \$4 million. It will grow a bit. Take whatever forecast you have for air travel coming back, but we know it's not going to fall off \$4 million.

**Chris Quilty**

Okay. I guess Loon's going away, and they were a small customer, but can you talk about the UAV market and what you see is the prospect there?

**Matthew Desch**

Yes. We have a number of new and existing partners who are addressing that space, some who already have some products that they're doing. It's not high volumes, but they're quite interesting and different form factors. I mean, the reason why we're relevant is that our technology gives a pretty good data rate in a very small package with small antennas. So, there seems to be high interest in the growing UAV market that need a satellite connection, particularly for command and control to utilize us.

There is some particularly interesting applications I'm seeing using our midband modem right now because they like the additional speed that they can get from it, so there are a few there. I can't comment on how fast their business will grow. There are certainly interesting applications across a whole bunch of different market segments for use of drones in the coming years.

I think none of us are believing that it's going to be radical growth in the next year or two, but it feels like it's foundational for an ever-increasing market segment to us.

**Chris Quilty**

And on the new product front, it sounds like you have the Iridium Edge product shipping. What are the thoughts there on how that will contribute in '21?

**Matthew Desch**

Yes, it both contributes some revenue on the device side as we ship out the new Solar and the new Edge Pro. We have a whole bunch of partners right now who are adopting those and developing products around them and are starting to use them. It's also attracted some new partners to us that might not have otherwise been using us because they now have like a low-cost solar-powered device for the applications that they were in.

We're seeing some transition from some other satellite players as well. Some of our partners are evolving away from products they had used on their front, using, say, a solar-powered device are now moving to our network, and so I think that will also support our IoT growth and revenues there. We've always felt that having a broader array of finished IoT devices, which were low cost and industrial quality was going to really help our partners get into business faster and not have to invent those things themselves. And that's what we're seeing right now in the dynamics with our partners.

**Chris Quilty**

Great. And final question just on the broadband business, I think the ARPU is up around 10% this year. Obviously, it depends on the rate at which you ship new service terminals, but is that a reasonable ratio expressed in 2021, or [background noise] get broader distribution and [background noise]?

**Matthew Desch**

Yes—maybe go on mute with that typing. But yeah, the ARPU is higher because obviously, with higher data speeds that we can get from Certus terminal, people are using them—if everybody could go on mute if you're not, there's a lot of noise on the line. By the way, there's a lot of delay on the line, too. I think we must be going through a geostationary satellite, I think here.

But, yes, I expect that you'll see stronger ARPUs as we use our Certus services, and we see the mix change from the lower speed OpenPort services that we had, which by the way, I'm really very pleased that the OpenPort terminal business has not declined that fast. It certainly held up quite a bit, and I think it will naturally evolve through the Certus 200 class service. And I think that's great, because I would have expected that it allows us to grow into these higher-speed services and take market share. But, yes, higher ARPU is probably going to continue.

**Operator**

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

**Louie DiPalma**

Good morning, Matt, Tom, and Ken. And Matt, I wanted to say that was a funny joke about the geostationary satellite and the latency.

**Matthew Desch**

You got that, did you, Louie?

**Louie DiPalma**

I did. For either matter, Tom, can you review what are the targeted performance specs of the new midband transceivers that you're expected to release, or your partners are expected to release over the coming years? And I guess more important than speed/throughput, how small can these new transceivers be, and will they be miniature enough to sit into something of the size of a Garmin inReach handset? Thanks.

**Matthew Desch**

Yes. So, the first product in the line of midband transceivers is now out and robust, and it really works very well. The issue is it has to be designed into products now, because it's quite a sophisticated receiver. It doesn't standalone on itself without other things around it.

So, that's the 9770. It's roughly the size of, I don't know, two packs of playing cards next to each other, maybe a little bit bigger than your iPhone or more like an Android phone or something. It provides up to 88 kilobits per second and a couple very high-quality voice lines to it. So, you can imagine it's like a fraction of the size of our old L-band transceiver that was the mainstay of our business for the first 20 years that only did 2.4 kilobit service with a voice line, and it does a lot more than that.

So, that product, in addition, it's an IP connection, a pure IP connection, so it's very fast on and off our network, where the previous L-band transceiver had to be dialed, and take 30 seconds to make connections and that sort of thing before it transferred data. This is an instant-on, send data, bring data back. It's a very efficient device and very efficient in use of our network resources. That's the foundation,

and a lot of products will be built on that product. You could imagine other voice and data products, things that traditionally go in that market segment, as well as IoT kind of services.

There are also evolutions of that technology where we take out things from that to actually have lower speed, but much smaller size, say a 16 kilobit-type service, to 32, maybe still much faster than our previous IoT but very, very small and very, very small antennas, which you could imagine would be perfect for enhanced IoT applications. Again being IP, it's very fast on and off the network. It's very efficient, especially using some new software that we're developing. So, there are going to be variants of that from simultaneous 88/88. There's going to be specialized form factor units of that developed. There will be variants that have lower power uplink for a much better battery life, and yes, they can be shrunk down into Garmin inReach size sizes and be very portable and consumer-oriented.

### **Louie DiPalma**

Sounds good. And for the current handhelds, whether it's with Garmin or others, they're noted for the ability to send text messages everywhere. Are you saying that future iterations with the new transceivers will also have multimedia capabilities such that you could be in the middle of nowhere, and now you can send like a selfie? Is that going to be possible with the new technology?

### **Matthew Desch**

It's a little depressing if that's the only thing you're going to do with it in the middle of nowhere, but yes, absolutely. I mean, it is a multimedia device. It's very efficient for sending pictures, certainly sending much richer text streams. You could imagine today where you do a text, but doing Outlook makes a lot more sense, or real email with information embedded in the email, including attachments and that sort of thing. Those are all things that can be done from a much smaller, more portable device and done quite efficiently.

We do see those in development—a number of things around that front. You will see different both from ourselves and our partners that exploit these new devices. And also, we're going to be working increasingly externally with partners. I think this is still unique about Iridium. It has been our long-standing strategy to license our technology and to work with our partners around products that fit them perfectly, because we know when we embed Iridium technology into our partners' businesses, it makes it easier for them to exploit and expand and use that service. So, we have some other of those in the works. We'll announce those when the time comes, but I'm quite excited about the potential for embedding our capabilities deeper and deeper into the consumer value chain.

### **Louie DiPalma**

Thanks, Matt. That was very helpful.

### **Matthew Desch**

Good. Thanks, Louie.

### **Operator**

And, our final question today comes from Hamed Khorsand from BWS. Please go ahead with your question.

### **Hamed Khorsand**

Hi, good morning. So, I just wanted to ask about the service installations in maritime. I know you've been highlighting COVID a lot, but is the current situation with worldwide shipping issues, delaying installations for you at all, and how are your customers coping with that?

### **Matthew Desch**

Well, as I think we've said on even the last call, and I still think it's not eased a lot—even with the pandemic slightly easing—a lot of installers are unable to travel due to travel restrictions. Some of our partners with centralized installation forces can't get into countries to even get onto ships to install them. Some of our partners with localized installers are doing better, but there are still many restrictions that shipowners have because, as you saw in the early parts of the pandemic with cruise ships, the last thing you want is your crew to be infected. And then, you go out to sea and you're on board a closed, confined area for weeks. So, there's a lot of care taken, and it just slows everything down.

Now, things are still getting on to ships. We are seeing terminals installed. Increasingly, in fact, every month, it feels like there's a little bit of improvement. So, it depends on where in the world they happen to be, but we are hearing from our partners that they are not operating anywhere close to the run rate they would like to. And some of them have told us they have a pretty big backlogs. They just can't get their terminals onto the ship. So, there's demand and desire for the product; it's just slow getting out there. And obviously, until it gets onto ships, it doesn't make revenues for us.

### **Hamed Khorsand**

Okay. And, the other question I had was on the IoT side. How much traction are you seeing with your industrial installations? Is that ramping at all? I know the ARPU declined from Q3 this quarter.

### **Matthew Desch**

Well, remember again, ARPU decline is almost all mix. There was the aviation piece, as we talked about in the previous one, but we're not declining ARPU due to lack of usage or anything. And, in fact, we grew the number of IoT subscribers dramatically last year. The issue is that when you add in more than 100,000 or a quite a bit more consumers that are paying just a couple of dollars apiece, it's going to weigh down your average revenue across that. The industrial partners—and we have very many of them—that's still the majority of the revenues—are expanding, and really, we saw a lot of them in the second half of the year get back to normal operations.

We added a few handfuls of partners last year, fewer than usual because of COVID, because it was hard to close business. I think we're going to see more partners join us in 2021 than '20. But, we really are seeing the pace get back to normal for almost all of our industrial IoT partners, whether they be in heavy equipment, or in agriculture, transportation, tracking devices, buoys in the ocean, that sort of thing. Each of those market segments have their own cadences, but it certainly feels like we're seeing our partners kind of back to work regardless, and knowing how now to work through the COVID. They shut down in March, April, and May, it felt like last year, as everybody tried to figure out what to do, but they got back to work in the second half of the year. And we're expecting this to be a much more normal year in 2021.

### **Hamed Khorsand**

Okay, thank you.

### **Matthew Desch**

Thanks, Hamed.

## **CONCLUSION**

### **Operator**

And, ladies and gentlemen, with that, we'll end today's question-and-answer session. I'd like to turn the conference call back over to management for any closing remarks.

### **Matthew Desch**

Well, thanks for joining us. Watch for more from Ken on that Analyst Day in May, and we'll look forward



to seeing you at the next quarterly earnings call and will be preparing to share a lot more in that Analyst Day as well. Take care.

**Operator**

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