Iridium Communications, Inc.

First Quarter 2023 Earnings

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good day, and welcome to the Iridium Communications First Quarter 2023 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, then one on a touch-tone phone. To withdraw your question, please press star, then two. Please note, this event is being recorded.

I would now like to turn the conference over to Ken Levy, Vice President, Investor Relations. Please go ahead.

Kenneth Levy
Thanks, Betsy. Good morning, and welcome to Iridium's First Quarter 2023 Earnings Call. Joining me on this morning's call are CEO Matt Desch and our CFO Tom Fitzpatrick. Today's call will begin with a discussion of our first quarter results followed by Q&A. I trust you've had the opportunity to review this morning's earnings release which is available on the Investor Relations section of Iridium's website.

Before I turn this 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 process.

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, pro forma free cash flow, free cash flow yield, and free cash flow conversion.

These non-GAAP financial measures are now prepared in accordance with generally accepted accounting principles. Please refer to today's earnings release and the Investor Relations section of our website for further explanation of these non-GAAP financial measures and a reconciliation to the most comparable GAAP measures.

With that, let me turn things over to Matt.

Matthew Desch
Thanks, Ken. Good morning, everyone. Well, as you can see, we're off to a great start in 2023. We're continuing to experience the momentum that's been building over the last few years as we take full advantage of our second-generation network. Growth in subscribers, service revenue, equipment, and engineering services all remain strong, we're really hitting on all cylinders, and this continues to generate meaningful growth in our pro forma free cash flow as well as in value

for our partners and user ecosystem. All this reinforces our expectations for another strong year of sales and growth in partnerships and subscribers.

On a personal front, it's been a busy few months since our last call, with increased travel for industry events, investor conferences, and getting out again to interact with new and existing partners.

It's been particularly satisfying to see a Iridium's profile raised at these conferences as we are directly in the middle of conversations on key topics shaping the satellite industry, like direct-to-satellite services for smartphones, the ascendancy of LEO networks, and particularly for governments of all kinds of proliferated services, and the increased penetration of satellite connectivity in maritime, aviation, and other industry segments.

It also made me happy to hear so many established satellite operators acknowledge what a Iridium has known for decades. There are natural advantages to operating in low Earth orbit and the ability to connect small, mobile assets is an important distinction for us that has global utility.

For those who have followed Iridium's story over the last five or six years, this is likely not a revelation. We have been focused on IoT and commercial applications that leverage our very unique network, and the emerging opportunities on which the satellite sector is now focused are a great fit with the Iridium's constellation architecture and operational strength. In fact, this is what our network was built for.

A lot of industry focus has been on the new direct-to-device market. Iridium continues to lead the way to connect people wherever they are and through the personal devices they use the most. For example, Iridium has more than three-quarters of a million ruggedized personal satellite communicators on our network, and that number is expected to continue to grow significantly in 2023.

These consumer-oriented devices allow users to navigate routes, share location, send and receive texts, and even secure emergency services via SOS. These small light-weight devices have become a mainstay of outdoor enthusiasts, remote workers, government users, and safety response organizations in recent years, allowing Iridium to drive a compound annual revenue growth of more than 45 percent from this growing customer segment since 2017.

ARPUs from these users are relatively low today, but we expect some to adopt our faster Iridium Certus IoT technologies to drive additional utility and higher ARPUs in our commercial IoT business line in 2024 and beyond. We've also had a great reception for our new Iridium Go Exec that we had introduced in the first quarter with over 4,000 in orders booked already.

That device expands our Iridium GO! line of satellite hotspot devices to connect with smartphones and tablets to provide a richer data connection when on the move and in remote environments. Best of all, our partners are seeing strong market interest, which underscores longer term demand for the Iridium GO! line of services. Success here should also drive higher ARPUs for our voice and data business in the coming years.

We believe the consumer-oriented satellite segment represents a meaningful growth opportunity for Iridium, confirmed by the growing number of devices on our network. The value of providing highly mobile data services on a global basis is indisputable, and we expect to add to this growth by supporting new satellite direct-to-device capabilities that are being introduced later this year.

We're excited about our new partnership with Qualcomm Technologies, announced in the first quarter, as well as the introduction of their Snapdragon Satellite processor incorporating Iridium technology. This chip will integrate Iridium two-way messaging and SOS services into next-generation Android smartphones.

A half dozen smartphone OEMs have already announced they will include Snapdragon Stellite in their phones, and we are working with Qualcomm to further expand this list. We're excited about the application of Iridium's network for direct-to-device and the potential upside to our growth projections it will create. We also see additional opportunities in the automotive industry as well as for applications in the government sector and expect to eventually be relevant in other mainstream consumer devices like computers and tablets.

Satellite direct to device is an example of the technology convergence going on today between satellite and the traditional terrestrial world. But interest appears to be growing. And I think the opportunities for satellite solutions are endless. We had already seen a lot of convergence within industrial IoT where many of our partners' satellite IoT applications are deployed with cellular connections as well, but expect we'll see even more of this in the future.

We believe Iridium's unique constellation is an ideal platform for this convergence and best of all, the sector opportunity is incremental to our core business growth, but it's not a material driver of the strong service revenue growth we're forecasting today.

In our other business areas like maritime broadband, aviation, and land mobile, we continue to benefit from strong demand and strategic opportunities. You can see proof of this in our first-quarter performance. We continue to take share in the maritime broadband space, where our revenue grew 17 percent year-over-year in the first quarter, and are receiving positive channel feedback that keeps us optimistic about the future.

We are hearing from our maritime partners that Starlink is disrupting the traditional VSAT market. And while they aren't making much margins on this product, most are starting to deploy Starlink when requested by their customers. While interesting, this trend has little effect right now on our market expectations. As with other VSAT solutions, these partners are deploying Iridium as a companion service with Starlink and, of course, are also deploying us for their GMDSS requirements as well as vessel monitoring solutions on fishing vessels, anti-piracy and citadel solutions for crew safety, and other diverse applications in maritime.

We estimate that an Iridium terminal of some kind is installed on four out of five SOLAS-class vessels at sea today and calculate that Iridium is now installed in some kind of solution on about 250,000 ships of all kinds around the world. And that number is still growing. We also feel very good about the opportunities we're seeing in the aviation market, both in fixed wing and rotorcraft. We are already installed on nearly 70,000 aircraft of all types today, including commercial, business aircraft, helicopters, as well as other general aviation aircraft.

And that doesn't count all the pilots who take us along as a portable solution for their safety or to take with them when they land. In the aviation market, we're starting to see a transition or expansion from our traditional narrowband voice safety data and IoT services to Iridium Certus midband for faster speeds and new services and expect to also see Iridium Certus broadband start to deploy on larger aircraft now that the first two antenna systems from partners have been certified.

We're expecting additional certifications in 2023 of other partners' antennas, as well as the first Supplemental Type Certificate, where the FAA approves these terminals onto specific aircraft types. We've been waiting for this kind of progress for a long time and look forward to the tailwind it can supply for our aviation revenues, which should build into 2024 and beyond.

Of course, I also want to highlight our strong land mobile performance. You can see that ARPU was up year-over-year, and demand trends continued for equipment and service as we implemented some targeted pricing actions after holding access and air time pricing stable for several years. Subscriber growth is still strong though not quite at the level of 2022, which was an unusual year with the incremental demand we experienced from the Ukrainian conflict, as well as the handset shortages experienced by our competitors.

We feel good about the durability of our voice business and now believe that continued growth for Push-to-Talk and Iridium Go! exec services will help to generate high single-digit growth, on average, for at least the next few years. Overall, our business environment continues to be robust, and demand for all of our primary business lines remains strong.

As you can see, we logged another record quarter for equipment sales with orders for handheld devices remaining above trend. Based on feedback from our partners, the supply chain and fulfillment issues experienced by our competitors on handsets have continued into 2023. We still have our own supply chain issues affecting delivery intervals, but we see them mostly abating by midyear, allowing us to build back our inventories to traditional levels.

You'll also note that our engineering and service revenues are up substantially in 2023 on the growing work we're doing for the Space Development Agency in building the ground components of their next-generation network. That's a strategic effort for us. And it's going very well, even expanding beyond the initial award into new work.

As we've said before, margins on this business is low compared to our service revenues. Along with other work for commercial and government customers, it is an important enhancement to our relationships and will further our capabilities.

Tom will provide additional color on our first quarter results, but I would like to acknowledge the important historical milestone we made on March 30th with the payment of our first-ever dividend. We believe paying a dividend is a smart way to generate returns for shareholders in addition to our ongoing share repurchase program, which was also very active in the first quarter. Together, these shareholder-friendly programs underscore the confidence that we have in our business, moving forward, and the strength of our enterprise to generate free cash flow.

I hope you've had the chance to review our latest Environmental, Social, and Governance Report which was published in March. In it, we highlight our priorities for ESG and speak to our corporate values and culture. I believe our activity in this area demonstrates our commitment to being a good corporate steward on what I would call "real ESG matters", without sacrificing on business performance or business opportunities.

In fact, our support for the communities in which we operate enhances our position with our employees and new hires and has been welcomed by our partner ecosystem as we demonstrate values that align with their business priorities and interests You'll notice in this year's report some enhancements to our disclosures, which we hope will allow investors to better appreciate, with more detail, the factors around our social stewardship, priorities, and impact.

So, as we celebrate this year the 25th anniversary year of Iridium's initial service launched in 1998, we continue to believe that Iridium is positioned better than at any other time in our history, both for the evolving opportunities in the satellite industry and with our ability to fund growth and reward shareholders. And 2023 will be another great year for us with new product rollouts and more exciting announcements. I look forward to keeping you abreast of our progress.

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

Tom Fitzpatrick
Thanks, Matt. Good morning, everyone. I'd like to start my remarks by summarizing our key financial metrics for the first quarter and providing some color on the trends we're seeing in our major business lines. Then, I'll recap the 2023 guidance, which we reaffirmed this morning and close with a review of our liquidity position and capital structure.

Iridium continued to execute well, generating total revenue of $205.3 million in the first quarter, up 22 percent from the prior year's quarter. Operational EBITDA was $111.9 million in the first quarter. This was an 8 percent increase from last year's quarter and driven by increasing engineering and support revenue, growth and service revenue, and another record quarter of equipment sales.

On the commercial side of our business, service revenue was up 13 percent this quarter to $112.8 million. This increase was broad-based and reflected continued strength in voice, IoT, and broadband, as Matt mentioned. Voice and data revenue rose 17 percent from last year's comparable quarter to $52.4 million. The increase was largely driven by higher ARPU related to targeted price changes adopted in the first quarter.

We also benefited from strong growth in our Push-to-Talk and Iridium GO! services. As Matt noted, the increase in access charges was our first price action in commercial voice since 2018 and we expect it to be durable, keeping ARPUs in the mid-40s, providing a growth tailwind to voice and data this year. To date, we've been pleased with how the new pricing has been received by the market. It hasn't meaningfully affected net subscriber additions, demonstrating the value that end users see in our services.

Commercial IoT revenue totaled $32 million in the first quarter, up 12 percent from the prior year quarter. We continued to see ongoing demand for personal satellite communications, an area in which our partners continue to invest in their retail-focused products. While these subscribers generate lower ARPU than our traditional industrial IoT users, they remain a very attractive contributor to our service revenue growth in light of the minimal comparative network resources they consume.

As a result, IoT ARPU was $7.22 this quarter compared to $7.78 in the prior year period. We believe this consumer-oriented sector will remain a strong driver of revenue and subscribers and believe that the integration of new Iridium Certus technologies into these products will increase data usage and potentially ARPU too.

Revenue and commercial broadband grew 17 percent from the year-ago period to $13.4 million. Supporting this growth was an increase in ARPU, driven by a mix shift among maritime subscribers to Iridium Certus from our legacy Iridium OpenPort service, as well as market share gains driven by Iridium Certus 200 and 700 services.

Broadband remains an important component of our long-term growth, and we continue to expect it will drive double-digit revenue and subscriber growth in 2023. During the quarter, we added 52,000 net new commercial subscribers with a gain predominantly by IoT. As a result, commercial IoT data subscribers now represent 79 percent billable commercial subscribers, up from 76 percent in the year-ago period.

We estimate that consumer-oriented plans now account for about half of our 1.5 million, commercial IoT users.

Hosting and other data services revenue was $15 million this quarter, in line with last year's comparable quarter.

Government service revenue was also stable in the first quarter at $26.5 million, reflecting the terms of our EMSS contract with the U.S. government.

Subscriber equipment, which has remained at record levels over the last year, grew 24 percent in the first quarter as demand for hardware supporting our commercial business lines remains robust. Equipment sales were $41.7 million in the first quarter compared to $33.7 million in the prior year period.

Engineering and support revenue was $24.2 million in the first quarter as compared to $8.4 million in the prior year period. The rise in activity reflects new government work for the Space Development Agency, a contract that we won last year, as well as incremental development revenue from our commercial relationships.

While we continue to forecast year-over-year growth in engineering in 2023, revenue will fluctuate from quarter to quarter based upon execution and milestone achievements. Our first quarter results, as well as the trends we are seeing into April, allow us to affirm our full-year guidance on service revenue and EBITDA. In support of this outlook, I want to highlight a few items that may be relevant to your models and the cadence of Iridium's growth this year.

We remain comfortable with our outlook for service revenue growth between 9 percent and 11 percent in 2023, in part due to continued strong net activations and revenue growth across all of our commercial business lines. As I mentioned earlier, the price actions for commercial voice will serve as a tailwind this year. Given the positive fact of this higher ARPU and considering other favorable trends in this business, we now expect that annual growth in commercial voice and data will average in the high single-digits between 2023 and 2025.

Revenue from our EMSS contract with the U.S. government will remain steady at $26.5 million per quarter in 2023. There is no increase in the contractual fee schedule this year. The next step up will occur in 2024.

Equipment sales set another record this quarter as demand for our satellite handsets and all our products remains elevated. Based upon current partner orders, we continue to believe that hardware sales in 2023 will be in line, or even possibly exceed, 2022's record level.

On the expense side of the ledger, we continue to forecast higher costs related to stock-based compensation and new employee hires as we upgrade and retool business systems. These dynamics resulted in a 48 percent increase to SG&A in the first quarter, which we expect to moderate in the balance of the year. You will recall that SG&A grew over the course of 2022 with first half expenses at $54.8 million and second half expenses at $68.7 million. Accordingly, we expect the second half of 2023 to be much more in line with 2022 expenses and continue to forecast that full-year 2023 expenses will be up by about 20 percent.

R&D will also run higher in 2023 as our team supports a number of new products coming to market. We feel very good about the broad-based growth we are seeing across our businesses and believe that the incremental expenses we will have in 2023 are appropriate and necessary as our business continues to grow. Taken together, these trends allow us to reiterate our forecast for service revenue growth between 9 and 11 percent and operation of EBITDA between $455 million and $465 million this year.

Moving to our capital position, as of March 31st, Iridium had a cash and cash equivalents balance of $126.6 million. Iridium's robust cash flow is one of the reasons that our board continues to support our share repurchase program and initiated a quarterly dividend program. As Matt noted, Iridium's board initiated a quarterly dividend in December 2022, and on March 30th, we paid a dividend of $0.13 per share.

Iridium's dividend program will allow for the return of approximately $65 million of cash, to common holders in 2023, and reflects our confidence in our business opportunities and strong free cash flow generation. In the first quarter of 2023, Iridium also purchased approximately 900,000 shares of common stock at an average price of $59.84 for a total of $53.1 million.

Since the end of the quarter, we've bought back an additional 500,000 shares for a total of $29.4 million, leaving us with $97.1 million of capacity outstanding on our share repurchase program. We will continue to execute on our buyback program, balancing our objective for deleveraging with the desire to maximize return on investment.

In the first quarter, we also increased our investment in Satelles by $10 million, as they raised additional capital to expand their commercial business. Satelles' Satellite Time & Location service continues to have relevance to commercial partners and governments who seek a complement to GPS and other GNSS services, which are susceptible to interference and spoofing.

Satelles' offering leverages Iridium's global constellation to protect critical national infrastructure and assured PNT solutions, and we remain very optimistic about their unique offering and business opportunities. Iridium's net leverage was 3.2 times OEBITDA at the end of the first quarter. This was down from 3.5 times a year earlier, even when factoring in our share repurchase and dividend activity during the first quarter.

Our long-term target for net leverage continues to be between 2.5 and 3.5 times of OEBITDA at the end of 2023, inclusive of quarterly dividends giving effect to all outstanding share buybacks authorized by our board. Capital expenditures in the first quarter were $22.9 million, including one-time spending of approximately $11 million related to this year's planned launch of spare satellites.

As we noted on our fourth quarter call in February, we expect annual capital expenditures over the forecasted 10-year CapEx holiday period to average between $50 million and $60 million. Excluding launch-related costs, 2023's capital expenditures should fall in line with this long-term forecast.

Turning to our pro forma free cash flow, we use the midpoint of our 2023 OEBITDA guidance and back off $75 million in net interest, approximately $75 million CapEx for this year, and $14 million in working capital, inclusive of the appropriate hosted payload adjustment. We're projecting pro forma free cash flow of almost $300 million. These metrics represent a conversion rate of OEBITDA to free cash flow of 64 percent in 2023 and a yield of approximately 4 percent.

A more detailed description of these cash flow metrics, along with a reconciliation to GAAP measures, is available in our supplemental presentation under events on our Investor Relations website.

In closing, Iridium continues to benefit from a robust operating environment and strong demand for our equipment and services. We plan to return capital to our shareholders, fund new projects, make strategic investments, and are looking forward to the launch of five ground spares next month. We think this quarter is a good reflection of the Iridium game plan, generating strong operating results, returning capital to shareholders, and making strategic investments that position us for future growth.

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

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touch-tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed, and you would like to withdraw your question, please press star, and two.

At this time, we will pause momentarily to assemble our roster. The first question comes from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss
Thanks. Good morning, everyone.

Tom Fitzpatrick
Hey, Ric.

Ric Prentiss
Obviously, a strong start to the year. I have a couple of questions. Obviously, one of the bigger areas that people are trying to focus on is the direct-to-device opportunity. Can you help us understand? I know you've said there's not going to be much meaningful impact on the service revenue side this year from direct-to-device, but have we seen some direct-to-device already showing up? It seems like the engineering and support levels that got reported might have already had some in there, so just trying to gauge, will you break out kind of direct-to-device as a category and have we already seen some to date?

Tom Fitzpatrick
Oh, yeah. If you look at our Q, Ric, we say that the commercial engineering and support increase is principally direct-to-device or Qualcomm relationship.

Ric Prentiss
Okay, makes sense. And then, how long should that development fee concept continue? Is that something that can run for several more quarters of this year? Does it run into next year?

Tom Fitzpatrick

We'll see. We don't expect it currently, but we'll see. There's opportunities for additional, but time will tell.

Ric Prentiss
Sure, okay. And then, the royalties start kicking in. Will that go into that same line item, commercial, engineering support?

Tom Fitzpatrick
The vast majority is going to be in service revenues. It's going to, initially, it will be in hosted payload and other, and, when it gets big enough, we'll likely break it out.

Ric Prentiss
Okay. So, royalties would go into hosted payload and other, and maybe break it out. Okay. Obviously, people are watching IoT, ARPUs as well. You called out that you've seen obviously the mix change but maybe Certus can help. How should we think about the current ARPUs and that personal communication there? Is that kind of mid-single digits? As when we think of direct-to-device, it feels like that service might be priced a little bit underneath it, given what that will bring to the market. Is that fair thinking?

Matthew Desch
I didn't follow that last part of your question, Ric. You said what is priced underneath the market?

Ric Prentiss
So, the current personal communication devices, should we think that's kind of mid-single-digit ARPU? And as we think of direct-to-device coming online, is that something that would be an ARPU below personal communication device ARPU?

Matthew Desch
Yeah. It would be below. You're right, roughly in terms of what personal communications ARPUs are. Maybe just slightly below the mid-level single-digits. But, yeah, it would definitely be below that level.

Ric Prentiss
Okay. And that's it for me.

Matthew Desch
The volume is a lot higher, so that obviously would be part of it.

Ric Prentiss
Yeah, exactly, price times square, and it could be a lot of quantities. Okay. And the last one for me, appreciate all the questions. The pacing in the quarter of stock buyback ramped up significantly in March. It sounds like you've done a good bit in April. How should we think about how you look at that shareholder return equation and putting money to work on the stock buyback? What's the lever that says, okay, now it's time to put more of the free cash flow production into the buybacks?

Tom Fitzpatrick
So, our algorithm is we want an appropriate return to where we think intrinsic value is and we execute on the buybacks when we think the return is appropriate, Ric.

Ric Prentiss

Okay, great. Appreciate all the answers. Everyone do well.

Matthew Desch
Okay. Thanks, Ric.

Operator
The next question comes from Landon Park with Morgan Stanley. Please go ahead.

Landon Park
Great. Good morning, everyone. Thanks for taking the questions. I want to dig in on the voice and data segment. That's obviously been a pretty surprising source of upside over the last year or two here. Now, can you maybe disaggregate that high single-digit growth target that you're laying out and maybe just delve a little bit more into what gives you the confidence that the current trends can continue out a couple years and even if we potentially have to lap or comp against this Ukraine benefit reversing at some point. And just on that, maybe if you could size what you think that Ukraine benefit has been and how you're thinking about that, moving forward.

Matthew Desch
Well, maybe Tom can talk to the Ukrainian benefit, which I think in the bigger scheme is kind of small overall. But, we have for the last several years seen strong demand for our handsets. There is a competitive dynamic there. It appears, we've definitely outlasted everyone, and our services seem to be appreciated more than anyone else's and have a very strong position in the market that we've been appreciating for a while.

As you can see, we've finally announced a price increase this year. It's a price increase, by the way, we've been planning for a long time. I know there were a number of questions in previous calls over our ability to do that, and we certainly felt it was an appropriate time - after not having done that for a good four or five years. The market seemed to not be affected very much in terms of that. The demand for our devices remains, continues to remain high, and our partners have told us that they see long-term demand and are almost working in a very high way with us versus anybody else at this point.

So, all those things, in addition to new technology, things like GO! exec, things like Push-to-Talk, all those are now giving us visibility for the next couple years, and which Tom described through '25, high single-digit growth rate. Yes, that's a big difference. That's on the average, of course. But, that is a big difference from sort of where we thought 5 to 10 years ago.   We thought this was clearly a strong, steady, low single-digit grower. But, I think that the market dynamics and demand and technology have all given us a lot of confidence now that that is not going to be that for the next couple years.

Tom Fitzpatrick
Yeah. I would just amplify Matt's remarks. So, in 2023, if you just do the math on where the ARPU that I've indicated is going to be, we're going to be a solid double-digit grower in 2023. So, the guide is intended to help you think about 2024 and 2025. You put the three together, and the average annual rate we think is going to be high single-digits. And that takes into account all of the dynamics that Matt referenced.

So, we think this segment is more growthy than is had been for a decade. I know we said that when frequently, observed the results last year. And we think if GO! and Push-to-Talk, that is an ongoing benefit that, it changes the complexion of this segment. And then there are competitive dynamics that are hard to predict, really. What we're observing in our handset sales, etc., give us confidence to put that guide out of the average high single-digit growth between 2023 and 2025, Landon.

Matthew Desch
And by the way, Landon, I also would say that we've already seen the reversal, of the Ukrainian situation. I mean, that was a strong bump in the first quarter of last year. We're not seeing that this year. And so, all of our guidance is really relevant to a reversal of that already.

Landon Park
Well, you're lapping and, but has it come out of the base, I guess, was more the question.

Tom Fitzpatrick
Yeah, I wouldn't say it came out of the base. We didn't see the add. So, if you look at commercial voice and data net adds in the first quarter – look at it for the past five years – last year's first quarter jumped off the page. So clearly, we got a bump in adds last year. It's not that it's come out, but you didn't get -- the activation occurred, and they're still being used, but there's no bump in activations.

Landon Park
So, just to the extent that it could reverse, actually reverse out at some point, can, are you able to talk about them? And just on the ARPU, I just wanted to, I might have missed your comment. Can you clarify the size of the pricing action?

Tom Fitzpatrick
Yeah. So, we've said that ARPUs are going to be in the mid-40s. So, that's $4 bucks higher than its been running. And that's doable, notwithstanding Ukrainian reversal.

Landon Park
Okay. And the magnitude of what that would look out reversing out?

Matthew Desch
Well, the number of devices in Ukraine is still incremental. But, if all were turned off immediately, it would be, I mean, less than a percent of our base, probably less than a percent of our base. So, that's not really, really driving our results at all at this point.

Landon Park
Understood. That' very helpful. And then, just two more, if I could. Your primary GEO competitor has had an outage recently in the APAC region. You talked about the value of LEO and proliferated the LEO design up top. Can you talk about if you think there might be some sort of competitive impact of that outage? And I don't know if you've heard anything. It's obviously a fluid situation. Anything you can comment there?

Matthew Desch
We haven't heard anything more than anyone else publicly has. Obviously, they've made public statements about that, and there has been probably a focus in the Asia Pacific region after that happened a couple times there on our services and may have a positive impact, going forward. I think it highlights the difference in our architectures. We haven't had any kind of satellite outages.

But, if we did, satellites move around the planet in a LEO so quickly, it would never have this kind of impact on any region that would have literally minutes at any one point on earth during the day. So, and we obviously have a lot of spare satellites and more coming, even next month.

So, I think our brand is "resiliency and quality and high level of service". And we'll continue to focus on that. Perhaps there will be benefits there.

Landon Park
Right. Just one last one on direct-to-device. The royalty payments associated with the future unit sales, is that, should we expect that to be something below like $0.50 per unit, or are you able to provide any color there in terms of what that will look like on a per-unit basis?

Matthew Desch
We really aren't exposing our contracts at this point yet. We don't even have the first units in service. That will happen in the coming months. I think some time in the future, you'll hear more about that, but really trying to give you a range or something would be really inappropriate at this time. That would just be too much information, really, at this point.

Landon Park
Understood. Thanks for taking all the questions.

Matthew Desch
Yeah. Thanks, Landon.

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

Hamed Khorsand
Good morning. Could you first talk about your comments about the different vertical tangents that you're looking at, auto particularly? Is that happening now, or is that just a conversation? Where does that stand from a revenue opportunity for you?

Matthew Desch
We're working the details and planning and discussions. And given that the technology work is largely complete at this point because the integration has been in and tested, and is being integrated to smartphones, it wouldn't take long, essentially, to implement the technology into automotive. What's different about automotive, though, is those design cycles for cars are quite long.

And so, I don't know how long it would take for Snapdragon Satellite to enter in the automotive space. But, I doubt that it would impact revenues nearly as fast as the smartphone industry just on how that kind design work happens. So, I think that's a few years away. We're just giving the highlights, the sort of upside to this technology integration, and the fact that we have selected such a strong and strategic partner here that we're working with who has broad-based capabilities in other industries as well.

Hamed Khorsand
Okay. And then, my other question was on the IoT side, the number of additions this quarter was I think approximately like 38,000, which is, it seems like it's slowing down. Is that purely because of consumer spending changes? Or is that partners delaying new product introductions?

Tom Fitzpatrick
That's just seasonality. The first quarter is slower. First and fourth are slower, second and third are stronger.

Matthew Desch
I don't think your numbers are right. I think it's more like net billable subscriber ads were 53,000 in 2023 versus 50,000 last year. So, it's actually up a bit. But, each quarter is hard to validate within a few thousand, exactly how many there will be. We have so many different partners and so many different segments, I don't think you can read much into first quarter results either way.

Hamed Khorsand
Okay. Thank you.

Matthew Desch
Yeah. Thanks, Hamed.

Operator
The next question comes from Louis DiPalma with William Blair. Please go ahead.

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

Matthew Desch
Morning, Louie.

Tom Fitzpatrick
Morning, Louie.

Louis DiPalma
For Matt and Tom, at the Barcelona conference, Qualcomm announced that it will make Snapdragon Satellite available for, I believe, mid-tier Snapdragon 4 devices in addition to the previously announced Snapdragon 8, high-end premium devices. Ans last quarter, you provided a TAM estimate of around 80 million to 100 million phones a year. And I was wondering, how is that impacted with the potential inclusion of Snapdragon 4 devices that may incorporate the satellite feature?

Matthew Desch
Well, I mean, our view, from what we understand, there's a lot more of those mid-tier Snapdragon devices being shipped to satellite phone manufacturers, than there are high-end blends that we've already sort of described. So, the opportunity is quite large. It will just depend on how many phone manufacturers decide to adopt the technology. Our hope would be high because it's not incrementally allowed to necessarily do that. But, I think most of the focus really on late-2023 and 2024 introductions will be at the high end, but I do see long term that that will expand.

Louis DiPalma
Great. Thanks, Matt. And are you able to say if the royalty rate for the mid-tier Snapdragon 4 devices is lower than the royalty rate for the premium Snapdragon 8 devices? Or is that still in negotiations?

Matthew Desch
It's totally premature to talk about either relative levels or actual levels of royalties of any sort at this point, Louie. Sorry.

Louis DiPalma

No problem. That's completely understandable. And for Tom, Tom, you referenced higher R&D this year, I think for new devices. Is that R&D to support the Qualcomm partnership such that are Iridium software developers and like radiofrequency engineers like actually working on that? Or is this higher R&D to support like other new devices, perhaps in the consumer IoT sector?

Tom Fitzpatrick
I would say other devices in the consumer sector and generally.

Matthew Desch
Yeah. We feel there's a lot of opportunity right now for Iridium. And, given our success in growth, we have a long list of things that we want to develop, both that require both work on the ground, in the gateways, work in Cloud, work in device work. There's just a lot of opportunities. And so, I've expanded our investment because we believe it's the right time to do that because we believe we can support it in our growth projections here.

Louis DiPalma
Great. And, Tom, did you also say as it relates to the IoT ARPU that there might actually be expansion going forward? Or did I mishear that?

Tom Fitzpatrick
No. We said that the Certus functionality should drive higher data usage, which would drive higher ARPU.

Louis DiPalma
Okay. And for those Certus, would that be for consumer devices?

Tom Fitzpatrick
Yeah. So--Think of it as a Garmin device pushing pictures. That's how we're using this higher ARPU.

Louis DiPalma
Yeah, okay. Yeah.

Matthew Desch
We know that there's been some adoption amongst our partners, and they have plans to introduce products in the future which would offer even more capabilities than we have today. I mean, obviously it will take some time for that to affect overall ARPUs because those have to get in the market, and there's an awful lot of devices already, given that we're soon to be pushing a million devices as well just that use more narrowband technology. But, it's obviously a positive long wind on ARPU.

Louis DiPalma
Great. Thanks. That's it for me.

Matthew Desch
Thanks, Louie.

Operator
As a reminder, if you would like to ask a question, please press star, then one to be joined into the question queue. This concludes our questions. It looks like we have a follow-up from Ric Prentiss from Raymond James. Please go ahead.

Ric Prentiss
Yeah, thanks. I figured there was a few minutes left on a busy earnings day. I would be remiss if we don't ask the recession question or economic condition question. Are you seeing any impact out there globally as far as what the macro market is? Or is just the demand for the product still just super strong?

Matthew Desch
Well, I don't think we've seen any big impact whatsoever. We just held our first partner conference in a number of years here in California a couple weeks ago. I'd say the enthusiasm of our 500-plus partners is as high as I've ever seen in the future. There was no wringing of hands in any specific market segment.

I keep looking for things like the consumer type segment to possibly be affected in different places. And it's hard to see those trends yet. But, I think we're being conservative overall here. I mean, we're not projecting out too far or anything just in case there are bigger effects. But, no I don't think there's been much. And we have history. I mean, 2008, 2009 wasn't a great time in the world, and we didn't see a lot of impact then. We've kind of experienced sort of regional market downturn. And I think our mix of satellite services like Iridium's are very valuable services. They're ones that are critical to life, that sort of thing. And I don't they're the first ones that would be cut in some sort of a recession.

Ric Prentiss
And the last one, using up some more time, Tom, any thoughts on the balance sheet that you can do on your debt level or anything we might do as far as picking up your interest costs?

Tom Fitzpatrick
We have a billion dollar cap on our, so we're hedging on a billion dollars. We paid down $100 million. And so, we're diligent about it. We feel that we've contained our exposure to interest rates. And we're, I think I've outlined what we're going to do. We're going to continue to buy in the shares, make strategic investments, pay the dividend. That's the game plan.

Ric Prentiss
Okay. Any update on an area as far as how that business is going?

Matthew Desch
Still very positive. I mean, they continue to grow. They're investing in their commercial data services business, and they're seeing traction there. I believe that's a long-term opportunity. Actually starting now that the air traffic has come back to more normal levels, that both has kind of increased their revenue levels but also has started to get some other markets moving in terms of adopting their traffic control services, so I would say mostly positives over there.

Ric Prentiss
And, Tom, you mentioned an investment by you all into Satelles. I missed that number. What was the investment?

Tom Fitzpatrick
Ten million there.

Ric Prentiss
1-0?

Tom Fitzpatrick
1-0.

Ric Prentiss
Okay, great. Thanks, everyone. Stay well.

Operator
The next question is a follow-up from Landon Parks with Morgan Stanley. Please go ahead.

Landon Park
Thanks for taking the follow-up. I just wanted to ask about the service aviation products, I mean, now that those are coming into the market. I was wondering if maybe you could remind us of the TAM that you see there on the commercial plane front for the larger Certus products. And I seem to remember pricing being quite, at least early expectations at your Analyst Day, were quite high, I think $600-plus. Is that still the right range to think about there?

Matthew Desch
It's a little too early to project because our partners don't help our commercial expectations for the Certus product line versus others. We know it should be higher because more data, more service to it. The initial applications are going to be primarily in, for the broadband products, are going to be in commercial airliners, which is high. Those things are always flying and especially as they move into safety services, I think you're going to see those also continue to push ARPUs and potential on that front. But, somewhat into some business aircraft and then a lot into rotorcraft, a lot of interest in the mid band products in rotorcraft. And then drones, that's still a very early market segment but very positive in terms of just the activity in unmanned aerial vehicles.

So, we're at the really early stages of that. I'm really happy that we got two terminals and more coming. We're hearing about their wins with specific platforms and the STC [Supplemental Type Certificate] that they're both getting and planning for this year. But, I think that's going to build kind of, I wouldn't say fast, but, it's going to take time. But, I think we're going to start seeing a few thousand adds a year there, which will add to that roughly 70,000 aircraft installed with good or better ARPUs than we've seen before.

And the safety version of those products, which is what they're really looking for come towards the end of this year and into next year with flight trials and that sort of thing, so that will also improve the business there in the aviation segment.

Landon Park
Okay, understood. And just one last one for, maybe for you, Tom. On the operating leverage front, it's sort of limited this year because of the investments in the business and the SDA contract. Is that something that we should expect in 2024 and beyond to be more in the cards for you guys in terms of expanding your EBITDA margins?

Tom Fitzpatrick
So, the operating leverage is intact, right. So, if you look for the variable cost to produce an incremental minute of use, it's really kind of hard to find. So, the operating leverage is intact. I agree with you that SDA kind of, because of SDA, contract is relatively big. And lower margin, it appears that there's, that the OEBITDA margin has decreased.

But, that is not because the operating leverage is into the business. It's the same fundamentals of the cost to produce an incremental minute are intact, and we will continue to grow OEBITDA. As to our service business, as service revenues grow, OEBITDA should grow.

Matthew Desch
That's for equipment, too, I mean, which is lower margin--.

Matthew Desch
--But has increased dramatically over the last two or three years. And this is all positive. They all fall to the bottom line and generate the cash for us, so it's a good thing.

Landon Park
And, I mean, the 20 percent in SG&A growth the last, this year and last year, is that something that we should think will moderate a little bit at some point, or is that--.

Tom Fitzpatrick
--Yes. That will moderate. That will moderate over time.

Landon Park
Okay, understood. Thanks for taking the questions.

Operator
The next question is a follow-up from Louis DiPalma with William Blair. Please go ahead.

Louis DiPalma
Hi, guys. I have a question in terms of, why have your satellite phone competitors experienced major supply chain issues, but it doesn't seem to have really impacted you?

Matthew Desch
I have my own personal ideas about that. I'm not sure it's appropriate for me to describe our competitors' issues or problems. I think their businesses are smaller, I think they perhaps outsource more of their technology to others, and so they don't have quite the supply chain control over the situation thatwe do. I can only speak to the excellent work my team does. We've been doing this longer than anyone has. We have more breadth of experience perhaps. I really think -- I more would rather focus on the positives of what we've done.

It looked a little scary, I would say, a year, a year and a half ago, as we were hearing from supply chain partners that, things that we were expecting to come in, parts that had one week or three month kind of intervals – suddenly, it got pushed out a year, but perhaps because of the importance of our products and the markets they serve. Perhaps it's just the excellent relationship with the supply chain my team has. They really jumped on that fast and just worked at it really hard, and maybe our volumes are higher and drives higher priorities from suppliers than maybe others do.

But, I think we're on top of it now. I think it's pretty much over from almost all products, certainly phones. And remember, during that whole time, in our case, I mean, we had the incremental challenge of higher demand. So, we were grabbing all the demand of others. It was important to us just at the time we were working through those challenges. So, that was an additional complexity we had to work with. But I just owe it to the expertise and competency of my team more than anything else.

Tom Fitzpatrick
I'd just amplify that. Matt said like, "Our poor satellite bone business is highly strategic to us. We are not reluctant at all to invest in safety stock in support of that business." It's unclear that our competitors feel the same way about their handset business as we feel about ours.

Louis DiPalma
Great. Thanks, Matt and Tom. And also earlier this year, you launched the Iridium GO! exec, which seems like a really exciting device. What has been the initial feedback of the GO! exec from your channel partners? And does the service revenue for that product, does that go in the commercial voice and data reporting segment? Or does it go into the IoT reporting segment?

Matthew Desch
Yeah, it goes in the commercial voice and data. As far as reception, it's very, very high. It's a unique product. There isn't anything supplying that speed on a portable battery-powered basis that allows a smart or tablet to do more than just connect. With just texting them, it allows higher speed services, it allows email.

I was using it myself the other day on a long flight. Multiple voice lines. It's extremely flexible, has open interfaces, so we're seeing application providers start to adapt their products to it so that they can drive a specific application, which means they're going to be selling the product as well.

So, I think we announced today that there are 4,000 orders, which I thought was very, very positive for a very first fill to channels. And people, we've even had some reorders already. So I think it's a great introduction of that product. And it's kind of addictive. Once you find that kind of value, you can't help but use it more. So, I imagine it will be a positive tailwind for our ARPUs in that general segment, even though it's quite, it will be quite small compared to all of our other revenues to begin with. But, it's a positive addition.

Louis DiPalma
Right, sounds good. Thanks, everyone.

Matthew Desch
Thanks, Louie.

CONCLUSION

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

Matthew Desch
Yeah, I would say we'll see you again in July, but I'd remind you that we're scheduled at Investor Day in New York on September 21st. I hope you all can join us there because we are planning to provide more details about what makes us confident in our longer term projects and how we think our long-term model looks like, and why we believe our growth projections are the way they are. So, join us then. We'll look forward to seeing you, but thanks for joining us on this call.

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