

Iridium Communications
Q3 Earnings Conference Call
October 25, 2018 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Kenneth Levy – *Vice President, Investor Relations*
Matt Desch – *Chief Executive Officer*
Tom Fitzpatrick – *Chief Financial Officer*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Iridium Third Quarter Earnings Call. All participants are currently in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press *, and 1 one on the touchtone phone. To withdraw your question, please press *, then 2. Please note, that this event is being recorded.

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

Kenneth Levy

Thank you. Good morning, and welcome to Iridium's Third Quarter 2018 Earnings Call. Joining me on today's call are our CEO, Matt Desch and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our third quarter results, followed by Q&A. I trust you've had an opportunity to review this morning's earnings release, which is available on the Investor Relations section of Iridium's website.

Before I turn things over to Matt, I'd like to caution all participants that today's 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 disclosed in our filings with the Securities and Exchange Commission. Our remarks today should be considered in light of such risks.

Any forward-looking statements represent our views only as of today. And while we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so even if our views or expectations change. During the call, we'll also be referring to certain non-GAAP financial measures. These non-GAAP financial measures are not presented in accordance with Generally Accepted Accounting Principles. Please refer to today's earnings release in the Investor Relations section of our website for reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matt Desch

Thank you, Ken, and good morning, everyone. So year-to-date, 2018 has been terrific. Our financial performance has been outstanding. Our subscriber growth has never been better and we'll soon be launching Iridium Certus, our new broadband service which will serve as a significant driver of business growth for years to come.

As we announced last week, the final launch of Iridium NEXT satellites is scheduled for December 30. This SpaceX launch will again be out of Vandenberg Air Force Base and carry our final ten satellites into orbit to complete the Iridium NEXT constellation. Of these satellites, six will be used to complete the constellation, and the balance will serve as the remainder of our nine in orbit spares.

Our satellite operations team has become really adept at processing these new satellites. We expect this final batch of satellites should be fully deployed within weeks of launch, so we'll soon have a

completely new and finalized constellation quickly following this launch, including for our Aireon joint venture to begin their global aircraft tracking service.

Completing our next-generation constellation will justify a great deal of celebration, especially given how long we've been working towards this day. But most importantly, it will usher in a new era of growth for our company and a 10-year or longer CapEx holiday that benefits our investors. This final launch will indeed be a great way to end the year.

Today a little over 90% of Iridium's global traffic is already managed by the new Iridium NEXT satellites. And while we eagerly await completion of our network upgrade, the truth is that our steady execution on the Iridium NEXT mission has already begun to pay dividends. It's a fact that the Iridium NEXT satellites provide a better experience in areas like voice quality, network availability, and IoT latency for existing customers. They are also giving confidence to new partners who may have previously questioned Iridium's prospects. This performance has spurred new business relationships and sparked many existing and new partners to invest in and develop exciting new products and applications for our network.

You don't have to take my word for it, because you've seen it in our subscriber growth and our revenues for several quarters now. Iridium's brand equity has grown and the excitement surrounding this us surging, particularly as we prepare to introduce Iridium Certus broadband services. As you saw in our press release this morning, we continue to enjoy accelerating subscriber momentum and strong sales growth, and I think a lot of this is due to the enthusiasm and support we have garnered from our expanding partner ecosystem.

A few weeks ago, we hosted partners from around the world in Nashville for our Iridium partner conference. This was the first time we've held one of these events since we began launching Iridium NEXT satellites, and as you might expect it drew record attendance. You could really feel the excitement from partners and their enthusiasm for Iridium's future. I heard repeatedly from attendees how different Iridium is from other satellite operators, both in the way that we support and encourage our partners to succeed and in how they like working with us because we don't compete with them. We have more than 400 individual partner relationships today and I'm proud of their confidence in Iridium and the trust they place in our network.

There is a lot of interest in particular from our partners in the imminent launch of our new broadband service, Iridium Certus. We're currently in live operation on a number of ships, a train, as well as dozens of ground vehicles. Our partners are testing it in real field conditions to fine-tune their installation practices, observe how customers use the higher speeds, and evaluate the integration of their provisioning, billing and value-added services. The feedback has been consistent that our network is working extremely well. We are timing our service launch with the completion of those partner beta trials, which are expected to conclude in the fourth quarter. It's an exciting time for us to be coming to market with Iridium Certus, and we look forward to the broadband revenues and market growth it will bring in 2019 and beyond.

This most recent quarter was the third time this year our numbers have topped consensus estimates, which should serve to underscore the strength of our core business. While Tom will cover the quarterly numbers in greater detail, our commercial segment is on pace to post another record year, and we don't see a slowdown any time soon in our IoT business. IoT has posted double-digit subscriber growth every year we've been a public company and enjoyed accelerating subscriber growth in each of the last ten quarters. Revenue from commercial IoT continues to grow at an accelerating pace, and I think it's notable that into 2018 we're experiencing that growth on what is now a much larger base of business.

While we spend a lot of time speaking about Iridium's expanding relevance in maritime and aviation, particularly with the launch of a real broadband service, our investors shouldn't overlook our growth opportunity in IoT nor discount the long-term recurring nature of revenue from this part of our commercial business.

Another noteworthy harbinger of growth has been the acceleration in equipment sales this year with revenue over the first nine months up 35% from the year ago period. These equipment deliveries service near-term customer demand and also foreshadow our partners' expectations for continued growth on the Iridium network.

Within our government business, as expected, the U.S. government has officially notified us of its intent to exercise their option to extend the current EMSS contract for six months into April 2019. We will be continuing our negotiations with them for a new multi-year contract over that period. Our conversations on that front have been productive and we continue to work with them to finalize the length, scope, and pricing of the new contract. Accelerating subscriber growth this past year, and the doubling of USG subscribers since the previous contract was signed in 2013 demonstrate the value of our services to the U.S. government and we want to work with them to support future growth.

Finally, on Aireon, I'm proud to report that the FAA recently made a strategic decision regarding the path to adopt and deploy Aireon technology, and has informed Aireon that it is planning a phased rollout of space-based ADS-B for improved surveillance and aircraft control within their airspace footprint. This phased approach will start with an operational evaluation in the Caribbean in 2020, when the U.S. mandate to have ADS-B on every aircraft comes into effect. Subsequent phases provide a path to oceanic implementation, as well as a backup surveillance capability for the FAA's continental airspace.

Now this is great news for the FAA, the airlines and Aireon as it sets the table for Aireon to be an important part of the FAA's air traffic management system in the coming years. We're happy with Aireon's continued progress and the FAA decision serves as another nod of confidence to Aireon's services becoming the global standard for satellite-based aircraft surveillance. I'll let Tom talk about the state of Aireon's financing, but will comment that Aireon is in good shape, given their early contracts and the strength of their core investors. So we're looking forward to them starting global aircraft surveillance service in 2019 with the completion of Iridium NEXT.

In closing, our business remains very strong ahead of the launch of our new broadband services. I'm quite confident that the completion of our satellite network will usher in a new era of growth for our company and bring to fruition the financial transformation and new revenue streams that we and our stakeholders have envisioned. As we peer into next year, we plan to host an Investor Day in early March. Please keep a look out for this invitation and reach out to Ken if you're interested in attending. 2019 should be as pivotal and exciting a year for Iridium as 2018 has been. And believe me, that's a high mark.

So with that I'll turn it over to Tom.

Tom Fitzpatrick

Thanks, Matt, and good morning, everyone. Today I'd like to review our key financial metrics for the quarter and highlight some trends that continue to support this year's strong performance. Then I'll discuss our balance sheet and provide additional color on our updates to full-year guidance.

This was another fantastic quarter. Strong subscriber momentum, commercial revenue growth, and equipment sales all drove third quarter results. Iridium generated total revenue of \$136.8 million, which

was up 17% from last year's comparable quarter. Operational EBITDA increased by 11% from the prior year period to \$79.4 million, and our operational EBITDA margin this quarter was 58%.

On the commercial side of our business, we delivered another quarter of double-digit revenue growth across all commercial lines. Commercial service revenue rose 23% from last year to a record \$83.7 million in the third quarter. This increase reflects accelerating hosted payload revenue driven by an increase in Iridium NEXT satellites in service, and growth in IoT subscribers.

Voice and data revenue increased 11% this quarter driven primarily by price changes adopted earlier this year. As a result, voice and data ARPU increased to \$47 in the third quarter from \$43 in the year-ago period. Improving voice quality from satellite upgrades, as well as evolving competitive dynamics, continue to support Iridium's premier position in the satellite phone market.

During the quarter we added 39,000 net new commercial subscribers driven predominately by growth in IoT. Commercial IoT data subscribers now represent 63% of billable commercial subscribers, up from 57% in the year ago period. Demand for personal location and asset tracking continued to fuel net subscriber activations, which rose 44% from the comparable quarter last year.

Revenue from hosted payload and other data service was \$9.6 million in the third quarter compared to \$2.2 million a year earlier. With 60 Iridium NEXT satellites operational through the third quarter, hosting and data services revenue from Aireon and Harris contributed \$6.9 million this quarter. Aireon has made excellent progress on its financing and expects to close its facility in the fourth quarter of this year. Under the terms of the facility, Aireon will pay Iridium \$35 million for hosting fees at the time of closing versus the contractual minimum payment of \$6 million due in the fourth quarter.

The facility will allow Aireon to make an additional payment of \$15 million to Iridium in 2019, assuming expected new customer contracts are in place. This will bring cumulative hosting fee payments to Iridium to \$58 million through December 31, 2019, versus the contractual minimum of \$30 million.

Iridium's net leverage guidance of approximately 4.5 times OEBITDA at year-end 2019 assumes the payment of only contractual minimums for Aireon hosting fees. As a reminder, all hosting fee payments from Aireon will go to reduce the outstanding balance of Iridium's facility with BPI.

The Aireon facility can be expanded upon the execution of sufficient additional customer contracts. If the facility is expanded, additional hosting payments above contractual minimums could be made to Iridium in 2020.

Aireon expects that it will have paid Iridium the full \$200 million in hosting fees and accrued interest by 2021. Aireon is in a particularly strong position given the quality of their investors and recent favorable developments at the FAA.

Within our government service business subscribers grew at a strong 19% pace from a year ago to 113,000 subs at quarter-end. Revenue remained steady at \$22 million under the terms of the EMSS contract.

In equipment, revenue from subscriber equipment remained robust, up 20% from the year ago period to \$26.1 million. Demand for satellite handsets has continued to be the leading driver of equipment sales this year.

Engineering and support was \$4.9 million in the most recent quarter and continues to reflect episodic work on commercial and government projects. All-in-all, the third quarter was strong across the board.

In light of continued subscriber momentum, particularly in IoT, we now expect service revenue growth to come in at the top of our previous range at approximately 14% in 2018 and are raising our full year guidance for operational EBITDA to approximately \$300 million, up from a range of \$290 million to \$300 million previously.

With the final launch of Iridium's NEXT satellites now scheduled for late December, we expect that about \$60 million to \$65 million of capital expenditures tied to launch-related activities and acceptance testing will now shift into the first quarter of 2019 rather than being incurred in fiscal 2018. As a result, we now anticipate full year 2018 CapEx of approximately \$435 million versus our previous estimate of approximately \$500 million. Consequently, excluding capitalized interest, we expect total capital expenditures in 2019 of approximately \$95 million to \$100 million, comprised of \$60 million to \$65 million in Iridium NEXT carryover and \$35 million in maintenance CapEx.

As you can see in this morning's 10-Q filing, Iridium enjoys a strong liquidity position with cash and cash equivalents totaling \$381.5 million as of September 30. Given the improved OEBITDA outlook and delayed Iridium NEXT capital spending, we now expect that net leverage will peak between 5.5x and 5.75x EBITDA in the fourth quarter, down from previous guidance of approximately 6x OEBITDA.

In closing, I feel very good about the momentum in Iridium's business today. Our team continues to build many new partner relationships and is executing well on products and sales that will generate meaningful growth as we enter the Iridium Certus era.

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

QUESTION AND ANSWER

Operator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, you may press * and then 1 on your touchtone 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 * and then 2.

Our first question is from Ric Prentiss of Raymond James.

Ric Prentiss

Good morning, guys.

Matt Desch

Good morning, Ric.

Ric Prentiss

It was nice to have the final launch scheduled and to hear Certus launching is imminent as well. Along the Certus lines, I think you've mentioned in the past that maybe you can see that ramp up to I think it was \$100 million exit rate in 2021. Can you update us? Is there any revenue in that line item expected in '18 or does it really go from zero to \$100 million over that timeframe? And how should we think about how we from the outside are going to be able to track your progress of sales or financial reporting to help us watch that growth in Certus?

Tom Fitzpatrick

Let me just say, Ric, it's not zero to \$100 million. Our existing broadband business is in the area of \$25 million, so think about it that way, just to clarify that.

Ric Prentiss

Yes, I just wanted to make sure that's right, because some people are like it goes from zero to \$100 million. I just wanted to make sure I thought it was the \$25 million to \$100 million.

Matt Desch

Why don't you also address, Tom, the Certus reporting is essentially going forward as to whether expectations about breaking that out.

Tom Fitzpatrick

Yes, I think we recognize that Certus is important, it's an important part of our growth story and we'll be transparent with how we're doing as we go through the quarters of 2019 to 2020.

Matt Desch

And then, you could say that we're already \$25 million in '18. It's not going to really grow our revenues at all in '18, because the launch would be here in probably next month and month and a half, and so as that happens there's just not enough time for putting on much.

Our current expectations are actually not real high for 2019, because it just takes times for fleets and others to go. Even though we see high demand, it will take time for it to rollout in the year and it certainly will be bigger in the second half than the first half. And so, a big percentage of that \$100 million or that \$75 million incremental won't come in 2019. But we think it will accelerate as we go into 2020 and then 2021, particularly as we bring on aircraft, because we're really just launching in maritime and land. The aviation parts are being developed, we've seen some terminals here at NBA and others that are going to get introduced in the middle of 2019 and as SPCs get on aircraft, we think that's another growth leg that we really won't even pick-up till late in 2019.

And we're also really kind of excited about the government opportunity as well, but that always takes the government longer to put it into platform. So I think you're going to see it continue to accelerate. And as Tom said, we'll continue to be transparent about how we're doing and tell you about the progress, because we're quite excited about what that will be.

Tom Fitzpatrick

We have to estimate the opportunity, and sort of our competitors installed base is around \$700 million as best we can tell, but we've said, we don't underestimate, we think we have a better product, flat out, than the competition. But we don't underestimate the fact that the incumbent is a 30-year incumbent and we expect it to be highly competitive in each instance where we're unseating them.

Matt Desch

Probably one final thing, Ric, on that, and this goes to the \$700 million kind of market opportunity. I think that there are certain areas, because of the way our product works, that it may even expand the opportunity set a little bit, particularly in the land environment. We're increasingly excited about the fact that our product is really an on-the-move kind of product where the current broadband products in that space are kind of on-the-pause, as they say. Where you have to kind of set up and point in the right direction to get a land-based operation. I'm seeing from some of the early trials just a lot of interest in things being put on vehicles like trains, military, and first responder vehicles that can be operated on-the-move rapidly. And this Thales MissionLink terminal is dual-band and has cellular capability in it, too, so I think it's going to be a very popular item on the ground environment.

Ric Prentiss

Great. Yes, all that transparency will really help watching the ramp there.

Second question, obviously nice to see the peak leverage come down a little bit. EBITDA is up. CapEx maybe slipped out a little bit it sounded like into '19. But if we think about the balance sheet and the timing of when you might be able to refinance as you move from a construction and a launch company to a sales and operational company, how should we think about what you guys are watching as far as the debt market? What would be important as far as leverage levels or other business targets to hit before you think about when you might refinance the lender-vendor financing?

Tom Fitzpatrick

Certainly no later than the first quarter of 2020, and I would say the second half of '19 is entirely possible.

Matt Desch

I think we would look at the market conditions and when we think that the pricing and everything else would be optimal. And obviously, the earlier the better because the positive nature of what that will do to our flexibility and ability to do shareholder friendly things. So we'll obviously be encouraged to move as fast as we can, but we want the best conditions possible for the optimal refinancing.

Ric Prentiss

Makes sense, you're going to live with that for a long time, obviously, so makes sense.

Final one for me, the hardware margins really seemed to be doing quite nicely. Obviously, you've talked about hardware sales are coming up, but also the margins. How should we think about the price increases you've put in place and the ability to sustain those kinds of margins as you look into the new Certus world?

Tom Fitzpatrick

So, no price increases have affected equipment, Ric, that's all service. That's our access rate. I mean, this year the headline on equipment this year is handsets. As you know, we don't live on equipment margins, or think about equipment margins --- I should say expanding equipment revenues and margins. We plan our business around recurring service revenues but we've had particularly strong handset equipment year this year. And handsets have the highest margin. So our blended margin is whatever it was this quarter's 42% or so, handset margins are over 50%, and so when you sell a lot of handsets, it's very accretive to the margin. And so that's the kind of year we're having this year, and we're very happy about it because we think it suggests strength for subscriber additions as we look into the next couple of years.

Matt Desch

Obviously, the handset side of things has been a little bit of a surprise for us this year. It's not the only year of strength. As Tom said, we're kind of doing pretty well across the board, but with the price increase --we hadn't done one of those in a couple years. We sort of had modeled that that would be flat or even maybe some declining subscribers. And in fact, we've had growing subscribers, which has been a really nice thing.

And I think that's the economic environment around the world, it's certainly the competitive dynamic in the MSS space is different than a few years ago. And it's the improving network quality that I think all our customers are getting from a brand new satellite system. I mean, they just keep telling us how great the voice sounds and how well the system is working. So, we think that's generally sustainable, going forward, too.

Ric Prentiss

Good. Thanks, guys. Good progress on a lot of fronts there.

Matt Desch

Thanks, Ric.

Operator

The next question is from Hamed Khorsand of BWS Financial.

Hamed Khorsand

Good morning. First off, could you clarify something for me? You've been mentioning that you have 60 satellites and I thought it would be 65, because in May you had 55 in your press release. Then you launched another 10, so that gives me 65 and you're talking 60 right now.

Matt Desch

So a couple of numbers. Sorry to be confusing. Let me go through quickly, I mean carefully here. So 66 satellites is the number of operational satellites in our network. We have launched 65 new satellites, but we have positioned 60 of them into (yes, 60) into position, so there are 6 old Block-1 satellites still in operation in our network. Of the five satellites that we've launched that aren't in operation, those are spares right now, they're set up in spares or drifting to their final position. So when we launch these final 10 satellites into plane 3 (which have those 6 Block-1 satellites) we'll use 6 of those 10 to replace the 6 operational satellites, and we'll use the other 4 as spares. So that will bring the 5 plus 4 spares into 9 in orbit spares. So, sorry for all the numbers but that's how the math works out.

Hamed Khorsand

Okay, that's helpful. And could you just talk about what drove the ARPU increase in IoT this past quarter? There was a sequential increase and I thought it would trend down?

Matt Desch

No, it wasn't an increase in IoT, I think it was flat if I remember correctly.

Tom Fitzpatrick

Flat year-over-year. It sequentially would just be seasonality, the third quarter is seasonally stronger in terms of usage.

Hamed Khorsand

Okay. And then and as far as seasonality is concerned, how much of a weather impact did you see at all with usage this year.

Tom Fitzpatrick

If you look at our commercial voice and data, we said we saw it kind of stable at \$45 on the back of the price increase, which was up year-over-year on the price increase. And if you look at the current quarter, it was \$47. That delta between kind of the \$45 average for the second half, think about that as kind of higher usage which has some seasonality drivers.

Matt Desch

That's the ARPU answer. Of course, the general answer on seasonality is that we have slightly more traffic in the northern hemisphere than we do in the southern hemisphere. And given that more ships are out in the summer (when there's less ice) there are more people outside, there is more activity, we do have the strongest two quarters in our second and third quarter, and then slightly less usage in the

fourth quarter and first quarters. And that's always been the trend. I think the trend is about the same -- though maybe even less as we get bigger and bigger -- but that's just how the MSS works.

Hamed Khorsand

No, I understand that. What I was trying to understand was last year Q3 you had 368,000 voice subscribers, this year you have 367,000. So it's not really overcoming that level in last year's Q3. So I'm just trying to figure out what drove the numbers this quarter that you couldn't grow it further beyond last year's number?

Tom Fitzpatrick

Year-over-year are you asking?

Hamed Khorsand

Yes. Total subscribers.

Tom Fitzpatrick

Total subscribers, our guidance of voice and data subscribers is low single-digit grower. This is a mature market. You see the increase in revenues and that's on the back of higher access fees on pricing actions.

Hamed Khorsand

No, I get that, but last year you had 368,000 voice subscribers, right, and this year in Q3 you ended with 367,000.

Matt Desch

That subscriber base is largely handsets, but includes our LBT or L-band transceiver. There are still some of those that are on ships, in some other places on aircraft. It includes PTT devices and includes some open port devices on the voice side. When you take the pluses and minuses -- remember we had a service increase and that sort of depressed that a little bit, and of course there is a transition on those L-band transceivers to higher speed devices. And so, net/net that's about exactly where we expected that line item to be. The subscriber growth area is really going to be in the IoT area in particular. It's in the government area in terms of IoT and voice subscribers on that side and it's in other areas. It's never been forecast or expected to be in that area. And then, of course, it's also in the future going to be in Certus, which we'll break out and show you how those devices --those are much higher ARPU devices and they will also drive revenue growth.

Tom Fitzpatrick

Let me just amplify. So our characterization of voice and data is a low single-digit grower. What we've seen historically when we do a price increase is we get some attrition on the back of the price increase and that it settles out. What we've said is in this year in 2018 the subscriber deactivations have been less than we've anticipated historically, and we're pleased with that and that drove some of our increase in guidance over time. So we're not surprised by the slight step back in subscribers. We see that historically when we put a price increase in.

Hamed Khorsand

Thank you.

Operator

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

Chris Quilty

Thanks, gentleman. I think for about the last three or four quarters you've cited the personal tracking as one of the lead drivers for the IoT business. And I was wondering, I mean obviously Garmin is the lead horse there in terms of driving volumes. Can you talk about potential for expansion to other OEMs or other applications and where you are now in that process?

Matt Desch

I don't think that any will be as big as Garmin, because Garmin really is a consumer brand and recognized one around the world it's preeminent and they have really put a lot of effort, not just into the distribution and sales but also into the product as they've kind of optimized around a number of products. And I think they're going to expand into new SKUs and other things as well in the future, which I think bodes really well for the future.

But I'm really pleased that there are a lot of other products in this category, including some really unique, small and interesting ones that really are optimized around a number of other segments. Just closed a deal recently with a sizable partner who plans to develop a unique product in this general space, maybe a bit more focused on enterprise than the consumer space. But there is an awful lot of enterprise business still to come in this personal highly portable, highly mobile kind of tracking environment. But I think it's going to always be swapped by Garmin in terms of raw numbers, but I do think that there is still a lot of other products in this category to come.

Chris Quilty

Because I can't remember the actual unit designations. When do the NEXT compatible hardware solutions become available and do those solutions with higher data rates become a driver for incremental growth? And when?

Matt Desch

That was probably the main discussion point at the Iridium Partner Conference as we talked to them about our new devices that are coming late next year, they're broadly around the banner of what we call the SFX, that's sort of the internal name for it, but it will have numbers well attached to the individual devices. That sort of roughly stands for small-form factor. Think of it as the initial broadband product, which is called the BCX, that's the core of the new Iridium Certus turn-rolls that Thales, Cobham, and others are making for introduction this year and into aviation next year, that's going to be reduced in size and power. It will not have the speeds that the broadband units have. It will go from 22 to 88 kilobits per second, but it will be optimized for power, weight, antenna size and cost, and will be in a broad range of products we think going from portable products and IoT up to aviation and other applications that really are looking to cost optimize a connection to our network.

So we think we'll have units in partner's hands in the second-to-third quarter of next year so that they can start developing applications. We think that product becomes commercially available in wide distribution towards the end of next year - so 2020 will be a big growth year [we think--first big growth year] for those expanded applications into a number of new markets in maritime, aviation and IoT and land really for higher speed services than our current, what we call Short Burst Data services or RUDICS services are able to offer.

Chris Quilty

And circling back to Garmin for a second, am I correct that the current--obviously, the in-reach device is not using a 9603 as you did in previous in-reach models, that's more of a chipset. So we shouldn't see any real hardware impact for Iridium from increasing sales. But to the degree that that product is successful, we should expect to see it in the subscriber numbers probably more in Q1 sort of post-Christmas. Is that fair?

Matt Desch

Probably I think you're right. I'm sure they're gearing up for the Christmas season and everything and this has been an outstanding year on IoT and subscribers. But I don't really know breaking that out exactly how much of that will come in the fourth quarter with their new products. But you're right, there is a shift going forward with increasing chipset sales. The revenue in that area is not as high as if we developed a whole device. But of course the partner is able to really optimize their whole solution much more effectively. They are able to get cost out of their product, which means they are more successful, which means more subscribers and more service revenues for us, so we're happy to see that kind of mix shift, if you will, as chipsets become prevalent.

And by the way, this is an advanced point, but that small form factor transceiver, we will be producing a device in that regard. It will have a number. I can't remember what it's going to be. And there will be a couple of variants of it, but we also are already starting to talk to some partners about taking that in eventually as a chipset device. We really want to see Iridium Certus technology embedded into a number of partners' applications going forward. And I just think that's our strategy long-term is to embed ourselves in as many of our partners capabilities, because it optimizes the solution for the end customer and it really embeds us into their strategy as well.

Chris Quilty

And final question. I saw the DOD contract award on the six month extension, which is what you said you expected to happen, which gives them I think to April timeframe?

Matt Desch

That's right.

Chris Quilty

So the question. There's two separate discussions. There's around the existing EMSS service contract and Certus is being handled as a separate discussion. Are you trying to do the two of those in parallel or given the fact that you're really not looking commercially to see an impact until 2020, are you just taking the Certus discussion and kind of putting it aside for now in those discussions?

Matt Desch

No, we're not putting it aside. In fact, it's been an independent discussion all along. We announced the award of a distributor for the government and ComSat. We've had discussions and have had contracts with the government to evolve the government gateway to put Certus technology into it and that is underway. There are trials, and actually there is activity right now underway for trials and services right now with the government with Certus. So it's an independent activity of which there is frankly a lot of momentum and a lot of our partners are excited about building solutions for the government in Certus.

It is not going to be part of the EMSS contract. We have no intention of putting them together, because we still anticipate that the EMSS contract would be a fixed-price contract. We're still evaluating the scope and number of years we've set an exact price for that contract by year, but that is really more traditional products, whereas Certus cannot be a fixed price service, being it's broadband and has to be sold by the byte, megabyte, or gigabyte. And so that's completely independent and we will have a separate sort of distribution mechanism for that.

Chris Quilty

Great. Thank you and congrats on the results.

Matt Desch

Great. Thanks, Chris.

Operator

The next question is from Louie DiPalma of William Blair.

Louie DiPalma

Good morning, Matt, Tom and Ken. You recently had a multi-day partner conference. How was attendance relative to past years? And how many partners now does Iridium have relative to past years in the context of how you now have a multitude of Certus partners?

Matt Desch

Yes, I keep quoting exact numbers here and there, but I can't keep up with the exact number of partners but it's north of 400 partners. I don't know exactly whether it's 420 or 425 or what the exact number is, but it continues to expand. We add really sometimes one or two or more a month at times. But I'm really more pleased at sort of the active number of partners, the ones that are growing seems to be expanding as well. So it's the health of our partner base and how they're performing which is important too.

We don't have a specific number for partners. We're looking more for the health of distribution channels. So certain areas we're not looking for partnerships, but there are so many new areas, particularly in IoT where I think there's still a lot of opportunities for growth and we'll continue to see that.

As far as this partner conference, this was one really targeted to more senior level partners than we had in the past. It wasn't just open, it was by invitation-only, and yet we still had almost 20% more attendance than we've ever had in the past. A big percentage of our partners were represented, and it's like a trade show. So they not only come to listen to us but they actually work with each other and demonstrate each other's products to each other and that usually creates more distribution channels for solutions and licensing for solutions to other partnerships and that's all just healthy for our whole ecosystem.

But you're right, we haven't really necessarily grown the number of partners with Certus either, because a lot of those have been existing partners who've done very well selling Open Port or selling the existing services. There have been a couple of new ones, for example, someone like Navarino hadn't really been working with before. That was a new one that was at the partner conference and glad to see them join us, but really a lot of those are existing partners like KVH, and Speedcasts, and Marlink, and--I don't want to leave anybody out, there is an awful lot of big ones that are out there, but those are the ones that have been licensed now to sell Certus and that's a limited group of the total group.

Louie DiPalma

And you mentioned Garmin in response to the several questions and you also implicitly referenced Amazon. I was wondering what Amazon brings to the table in terms of your IoT service.

Matt Desch

Yes, that was the big topic at the partner conference too because of the timing. Actually, we announced it during the partner conference and that's been something we'd been working on for the last year with Amazon Web Services. We're quite excited about that relationship because, as I've mentioned in previous earnings calls, IoT growth and even accelerating IoT growth is about making our service easier to deploy. I think we've learned as we've brought in more and more of these IoT partners that it takes a long time from the time that they sign-up to the time that revenue starts flowing, because they had to develop not just the device sort of structure around that, but their whole back office systems

had to be designed to tie in uniquely into the Iridium system and that takes time and effort. But if we could lower the barriers to entry and lower the barriers to revenue, then we can help them get into service faster and we can make their business cases better. And tying into AWS -- for AWS to basically put the Iridium toolset into their tool bag, that means that a lot of their existing customers--their partners around the world and they are the biggest cloud company today--can add an Iridium component to their terrestrial services much more quickly than they could, because it doesn't take them that much to talk Iridium language. That is embedded in sort of their toolkit already. And it also helps our new partners when we add someone, they might have already developed their back office using AWS already and it's not too hard to basically add the Iridium component.

So it's just going to accelerate time to revenue and time to subscriber growth for new partners and probably attract us to a number of partners who thought it might be too costly to put a satellite component, but they really wanted to expand their footprint beyond the 10%, 15% or so of the world that they currently have access to. So it's a good thing. There has been a lot of enthusiasm. Our partners are excited about it and I think it's already starting to bring a few new partners into the mix as well.

Louie DiPalma

Great. And in the prepared remarks regarding Certus you mentioned several trials involving the land and maritime verticals. In the defense industry right now there has been a shift towards small form factor, unmanned aerial vehicles and this would seem to be pretty conducive to Iridium and its small form factor transponders. So I was wondering if there are any plans in the future for trials in terms of deploying Certus on drones or even military drones?

Matt Desch

Yes, a number of partners we've been talking to are in the drone space and there's been some interesting sort of discussions about how they would use both the Certus broadband devices that can operate say next year up to 700 kilobits per second, which gives streaming video kind of capability. But there's a lot of excitement about that new SFX platform as well because for command and control aspects, for resiliency and redundancy, and small-sized power wave, that could really scale down into smaller drones as well. So yes, there is a lot of interest.

As I said before, our goal isn't to be the high definition connection for those pictures and everything. That will be FSS-type services and will remain that way with K_u and K_a-Band kind of systems. But these drones increasingly want some sort of technology, both command and control and to maintain and manage and support that K_a and K_u -Band connection as well on a drone in the same way they want it on a ship or on an aircraft. So we could be increasing on more and more autonomous vehicles of all types.

Louie DiPalma

Thanks. That's great color. Congrats on the quarter.

Matt Desch

Thanks, Louie.

Operator

Thank you very much. As a reminder, if you wish to ask a question, please press * and then 1 on your touchtone phone.

The next question is from Anthony Klarman of Deutsche Bank. Please go ahead.

Anthony Klarman

Hi, thanks. Most of the operating questions were answered, so I wanted to hit on a few financial ones. Maybe for Tom, you took the service revenue growth outlook up to the high end of the range to 14% that prior was 12% to 14%, but you left service revenue guidance unchanged and the long range outlook at \$440M. I was trying to tie that out, given that it seems like you're going to be ending the year at a higher run rate than when you introduced that. And then on the same line, I'm not sure if you've given this previously, but can you remind us what is embedded in the 2019 service revenue outlook with respect to the government contract, given that you'll have about three quarters of 2019 under a new contract?

Tom Fitzpatrick

You have that right, Anthony, we haven't said how much of a step-up we expect in the government. We do expect a renewal and we do expect a step-up. But you're right to say that it's just going to affect the stub period after the renewal in April.

As far as the interplay of the short-term raise and the long-term affirm, I would just observe that we introduced that long-term guidance a few years ago when we had something like \$100 million worth of revenue to grow, to get to the 2019 guide of \$440M. And so, the performance this year in 2018 makes us confidently reiterate that long-term guide, which would seem like it was a long way away back when we introduced it a couple of years ago. So that's kind of the explanation.

Anthony Klarman

Understood. And then just on Aireon, I was hoping you could remind us. Obviously, I think previously we had talked about the fact that the FAA would maybe be an important catalyst to Aireon closing on its financing, and I know that's been going on for a while. I was hoping you could just remind us of the sequencing of payments that come to you with respect to Aireon, both as it relates to the completion of your constellation, as well as the contemplated completion of their financing at some point in the future?

Tom Fitzpatrick

So let me just clarify. The FAA is not a driver of the Aireon financing closing. So we've contemplated that the financial would close without the FAA, and that remains the case. And so, as you'll recall, last quarter we got an amendment to our hosting agreement to establish contractual minimums of payments that exactly equal our revenue recognition for hosting.

So, of the Aireon revenues of \$39 million at full ramp the data piece of that it is now and has always been cash pay and due. We amended the hosting agreement last quarter to establish contractual minimums which are \$14 million in 2018 and then \$16 million thereafter, and that is a firm commitment just like the data revenue is by Aireon to us.

So the financing essentially would enable Aireon to make payments over and above the contractual minimums, as I said in my prepared remarks. Does that answer your question, Anthony?

Anthony Klarman

Yes, it does. So essentially there is two pieces. One is the stuff that Aireon pays you with its existing capital base or presumably its equity financing, and then as the debt financing gets completed that triggers the second set of payments.

Matt Desch

Yes and it's backed up by a very healthy set of investors who basically signed up to say that no matter what would happen that we would get those payments going forward. And just a reminder here too that as we said last quarter even though we've got these contractual minimums, anything above that

then would go to pay down debt. I mean it goes straight to the Coface/BPI facility and improves leverage I guess on that side but doesn't really affect our liquidity or any other factors. It doesn't affect our revenue recognition. So I think we're in a really solid position around our relationship with Aireon financially and going forward, and it gives us a lot of clarity and consistency and visibility to really how we report and how we're going forward.

Tom Fitzpatrick

I would characterize Aireon as being very--there is a tension, right, among the equity investors in Aireon excluding Iridium. They're happy to bridge whatever Aireon's operational needs are, including the contractual minimums on the hosting. There happens to be financing, it's expensive financing that's available that is a substitute for that bridge that gets Iridium additional payments over above our contractual minimums. Aireon is expected to close in that financing in the fourth quarter, but there is a tension and the expense of that facility as it's currently contemplated is acceptable to the investors, and as long as that stays that way they will close it. But there is not a kind of a desperate need on the part of Aireon for this financing because look at the equity investors in Aireon. They are very well heeled.

Matt Desch

And by the way, a great relationship, too. I have to say, we really got a home run here in terms of building a strong team of both users, customers and relationships here for the long-term which I think is really healthy for Aireon and that's why we're able to make these kind of decisions together about going forward on financing. It looks like that's what's going to be that will provide us additional hosting fees. That's great, that will help our leverage to pay down debt.

Anthony Klarman

Great. Tom, one last question. You were coming up to the final constellation launch in December. I think previously you've indicated on this call that obviously CapEx drops off precipitously after that happens and everything checks out. I think there are some interim payments that you have, either completion payments or other things that sort of happen after December 30 before you actually get to the clean \$35 million run rate. Can you remind us of what level of payments are still to get made after the last launch goes up?

Tom Fitzpatrick

To be clear, the last launch is now the 30th. Payments for the launch and final payments of Thales, we estimate that there is probably \$60M to \$65M will spill into next year.

Matt Desch

So that doesn't increase the amount of CapEx in any way, it just sort of smoothens it out. That precipitous fall that looked kind of weird on the chart will just smooth a little bit. A little less high this year and a little higher next year, but it's the same amount of cash.

Tom Fitzpatrick

Right. We've painted this picture of what the profile of the company looks like as we finish NEXT. And if you just think about it, we had nine years of capital expenditures of approximately \$3 billion, so that's about \$330 million a year. And what we said is that number goes to average approximately \$35M, and that's what we've said and that's what we expect that 2019 will look like.

Anthony Klarman

Excellent. Thanks very much.

Matt Desch

Thanks, Anthony.

Operator

Thank you very much. Gentlemen, we have no further questions in the queue, so I'm going to hand the conference back to the Iridium management for some closing comments.

Matt Desch

Well, obviously, a great quarter and great to talk to all of you. Looking forward to our final launch here in December. Join us for that. And then we're really looking forward to seeing you again with the fourth quarter results when those happen. Have a good day. Take care.

Operator

Thank you very much. Ladies and gentlemen, that concludes this conference call. You may now disconnect your lines.