

## Iridium Communications, Inc. Fourth Quarter Earnings

Thursday, February 17, 2022, 8:30 AM Eastern

### **PARTICIPANTS**

**Ken Levy** - *Vice President, Investor Relations*

**Matt Desch** - *Chief Executive Officer*

**Tom Fitzpatrick** - *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning and welcome to the Iridium Communications Fourth Quarter Earnings Conference Call. All participants will be in 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 your touchtone phone. To withdraw from the queue, 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

### **Ken Levy**

Thanks, Kate. Good morning and welcome to Iridium's Fourth Quarter 2021 Earnings Call. Joining me on this morning's call are our CFO, Tom Fitzpatrick, and our CEO, Matt Desch. Today's call will begin with a discussion of our fourth quarter results followed by Q&A. I trust you've had an opportunity to review this morning's earnings release, which is available on the Investor Relations section of Iridium's website.

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

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

During the call, we'll also be referring to certain non-GAAP financial measures, including operational EBITDA, pro forma free cash flow, free cash flow yield, and free cash flow conversion. These non-GAAP financial measures are not prepared in accordance with GAAP. Please refer to today's earnings release in the Investor Relations section of our website for a further explanation of these non-GAAP financial measures and a reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

### **Matt Desch**

Thanks, Ken. Good morning, everyone. Well, as you can see from our release this morning, we finished out 2021 even better than expected, and we're forecasting strong growth again in 2022.

Before I get into that, though, I really want to acknowledge my incredible team here at Iridium, as well as our large and our growing ecosystem of partners who take us to market all over the world. Those of you who know our business and have worked with our team know that this is a very special company and our employees share a work ethic and camaraderie that is unique.

We're all really proud of our mission and what our satellite network does every day for our end-users. Despite the challenges of the last two years, we've learned to live and execute well in this environment, and I'm really pleased with how our team and business partners have performed.

But as I said, 2021 exceeded our expectations. As with many companies, we were not entirely sure what to expect at the outset of the year, but we continued to see strong partner and subscriber activity across all our business areas and continued to develop and launch a number of new services that we expect to deliver meaningful subscriber and revenue growth over the next decade.

For the year, we delivered service revenue growth and operational EBITDA at the top end of our forecasted range, and saw billable subscribers climb by 17%. This figure would have even been higher if not for the tight supply of some component parts due to the global supply chain issues.

The last two years have certainly demonstrated that Iridium's business model can weather most any environment. Our services are mission critical for enterprises and governments around the world, and we've shown consistent strong growth and resilience really over the last 20 years during economic downturns, geopolitical disputes, and now even a global health pandemic.

Iridium has become a leader in our industry by doing what few others can do, and we do it very well. It shows in our results. Our operational EBITDA has grown at a compounded rate of over 8% over the last five years and, in recent years, pro forma free cash flow has grown substantially faster than that.

This growth is a function of our ability to address important markets better than anyone else. We scale very well through a vibrant expanding channel of technology and distribution partners, who are also developing more and more solutions that use our network. This has resulted in our subscriber base growing at a CAGR of greater than 15% over the past five years.

We've avoided the commodity markets that other satellite networks continue to chase, and we have supplied critical cost-effective communications for a diverse set of industries and use cases including mining, energy, transportation, heavy equipment, safety, science, forestry, humanitarian relief, and of course maritime and aviation.

We're also seeing an acceleration of growth in personal communications because of our ability to deliver information anywhere through a small form factor. It's hard to duplicate the reliability and coverage of our services. And perhaps most important, we are viewed as a great corporate partner by our channels. We collaborate with about 500 companies building and selling Iridium-based products. We help them win business and be successful, and in my opinion we do this better than anyone else. As a result, we've made it difficult for our competition.

While you on the call understand this, I'm constantly reminding new investors I meet that, while there is a lot of investment in our industry lately, it's primarily going towards commodity broadband suppliers in Ka and Ku band that are not planning to, nor really able, to effectively compete in Iridium's various personal communication markets. This means we have good visibility into market dynamics, and it gives us a strong level of confidence in our growth projections.

Iridium has many vectors to grow going forward beyond an improving and more normalized global business environment. Many of these opportunities leverage the powerful Iridium Certus

platform that we launched in 2019. Since that time, we've continued to expand this capability with new antennas, service classes, and data speeds for various industries, scaling the technology from specialty high-speed broadband services down into highly mobile IoT and faster data applications.

Since we completed our new network in 2019, you can see how strong our capital position has become. We generated \$245 million in pro forma free cash flow in 2021, a 21% increase over the previous years. This enabled us to reduce our net leverage by a half turn even as we repurchased \$163.4 million in common stock in 2021.

Into 2022, the equity markets are down and our stock with them. We are taking advantage of this opportunity by continuing to repurchase our shares. You'll recall that in February 2021, our board authorized the repurchase of up to \$300 million through the end of 2022. Into 2022, we've purchased another 3 million shares of common stock through February 15th at an average price of \$34.53 per share. We will continue to be disciplined in executing the remainder of our authorization even as we grow our cash balance.

I'm pleased to report that we've now arrived within the leverage window that we've been targeting for several years after seeing our leverage peak during the Iridium NEXT capital program. During the last few years, not only have we been able to greatly reduce leverage and grow free cash flow, but we've also grown our user base and partner network while returning a significant amount of capital to shareholders. We've had a good plan, and seeing it come to fruition now is something I wanted to highlight and celebrate.

So, Tom will speak to the details of our business performance for the quarter, but I want to take this opportunity to highlight the strength of our core voice and data business, which is foundational to our company. It was the business on which Iridium was launched and here, three decades later, it is still performing very well. It actually grew nicely last year, fueled in part by our push-to-talk service. In light of our new lineup of mid-band services, which are starting to penetrate the market, we expect continued strength in this revenue line for years to come.

I'm also pleased with the ongoing growth we're seeing in commercial IoT, particularly with personal communication customers as well as our growing broadband business, both of which logged double-digit revenue and subscriber growth in 2021. We expect these two areas to remain the key drivers of growth for Iridium into the future.

In late 2021, we launched Iridium Certus 100, which delivers a speed, size, and power combination that's never before been seen in satellite connectivity. The first small form factor devices for land, air, and sea applications are already in the market, and we're seeing early and growing activations. Iridium Certus 100 products are generating a lot of buzz with our partners. They're excited about applying this technology to new growth opportunities in agriculture, transportation, maritime, and aviation, in addition to new consumer devices and defense applications. To date, we have over 25 partners developing mid-band products now, and believe this new service will be a key part of our growth going forward, driving higher ARPU applications and new revenues in both our voice and data as well as IoT lines.

In broadband, we now have over 13,000 subscribers and have enjoyed steady revenue and subscriber growth since we broke this business line out as its own separate revenue item in 2019. We grew our broadband subscriber base by 13% in 2021, and believe that will accelerate in 2022 as maritime installation environment keeps improving and some of the new products and markets like Japan that opened up last year take hold.

Specifically, we introduced a new Iridium Certus 200 broadband service class in 2021 to create a new value offering to complement our traditional Iridium Certus 700 terminals. This smaller, less expensive, but still very capable terminal fills a customer niche at the lower end of the L-band maritime market as both a standalone service and as a companion option for VSAT services. New Iridium Certus 200 terminals are also providing lower-cost alternatives for land mobile, aviation, and government applications.

Now, as you know, while equipment is a profitable business for us, we look on it primarily as a way to drive service revenue. We make finished equipment like handsets and satellite smart phone hotspots like our Iridium GO!, or sell transceivers of various types for partners to embed in their hardware solutions. We also sell chipsets to several partners who are capable of making their own Iridium transceivers, and we'll even license our air interface directly in specific circumstances.

In 2021, we initially expected equipment sales would be flat year-over-year to 2020, but demand was much higher than expected across the board. Even with the supply chain challenges we faced in 2021, I'm really pleased that equipment grew 7%. What we expect supplies of these components to continue to be constrained, we still anticipate that equipment sales will grow in 2022 over 2021 as we continue to see strong broad-based demand from our partners.

Turning to the U.S. government, our long-term relationship continues to be an important part of our business and drives new service and product innovation. The fixed-price EMSS contract has provided a lot of stability in our relationship in revenues, even as DISA and the U.S. Space Force work through the administrative transition of our contract.

Their internal transition issues are impacting subscriber levels, but have no bearing on our EMS contract revenues or our work on new applications like blue force tracking, tactical radios or, of course, the further deployment of Iridium's Certus technology, particularly in the land mobile area. We have a strong relationship with the U.S. government and continue to be very busy working with them across a broad range of areas.

Finally, a few words on Aireon, which continues to develop nicely as a business even as they wait for global air travel to recover to pre-pandemic levels. Aireon is cash flow positive today and continues to expand their customer base. If you're keeping score, Aireon's space-based ADS-B services have now been deployed by 21 air navigation service providers covering more than 41 countries, and supports air traffic management for more than half the world's airspace.

While the company continues to revolutionize air traffic control, they are starting to really leverage the large data set they've amassed on commercial aircraft movements over the past four years to support other commercial applications for aviation stakeholders. They're finding that this data is valued by airports, airlines, and financial stakeholders, as data analytics and machine learnings can be applied to the data to create applications to improve efficiency and mitigate safety risk.

Given this growing value, Aireon has engaged bankers to consider expanding this part of the business, which they call CDS, or commercial data services, with additional investment. Even with the current global air traffic environment, which has been challenging in recent years, we continue to see significant opportunities for Aireon's business to expand and grow. We're pleased with the value they've created to date from the initial founding investment that we made back in 2012, and expect their business to continue to expand with CDS.

So, in closing, I remain very excited about the many business opportunities on which Iridium is executing. We continue to see a clear lane for long-term growth and are focused on maintaining our leadership position in L-band for satellite mobility, IoT, broadband, and safety services. I think we're well-positioned to continue our strong customer revenue and bottom line growth, and the growth in free cash flow that it's creating.

So, with that, let me turn it over to Tom for a review of our financials. Tom?

**Tom Fitzpatrick**

Thanks, Matt, and good morning, everyone. With my remarks today, I'd like to recap Iridium's full-year results for 2021 and provide some perspective on our performance in the fourth quarter. We also released our expectations for 2022 this morning, so I'd like to walk through the key components of that guidance and provide additional color on the assumptions supporting our financial targets.

And as Matt noted, Iridium's business performed quite nicely in 2021. We and our partners have moved beyond the pandemic challenges of 2020, and we were able to deliver another strong year of growth, which was better than we had initially expected. Over my 11 years as Iridium's CFO, I have observed how well our business has held up even during periods of economic stress and uncertainty. The consistency with which we perform reflects the mission-critical nature of our offering and the reliability of our services, which differentiate us from our competitors.

In 2021, we delivered double-digit subscriber growth and another year of solid gains in operational EBITDA. Recurring service revenue drove topline growth, and effective execution helped Iridium generate \$245 million in pro forma free cash flow. We continued to see strong momentum in IoT and broadband this year, and saw a nice rebound in our voice business. As a result, operational EBITDA grew 6% in 2021 on the back of a 6% rise in total service revenue. In the fourth quarter, operational EBITDA rose 10% from the prior year's quarter to \$93.4 million, while total revenue grew 6% from last year's comparable period to \$155.9 million.

On the commercial side of our business, we reported service revenue of \$100.2 million in the fourth quarter, which was up 10% from a year ago. We saw growth across every business line, led by commercial IoT and broadband revenues. Revenue from commercial voice and data rose an impressive 8% from the prior year period, reflecting a pickup in activations and global usage. We also saw noticeable strength from our push-to-talk services, which allow one-to-many communication and are increasingly used by commercial and industrial customers.

In commercial IoT, personal satellite communications continued to fuel subscriber growth. Subscribers were up 24% from the year ago period. In 2021, we added more than 230,000 net new IoT subscribers, and we continue to see strong momentum among retail consumers using personal communications devices. Partners continue to invest in new products to address this growing sector of the IoT market, and we believe that it represents a multi-year growth opportunity for Iridium, especially as we roll out new mid-band services to add functionality and speed for these retail customers.

In our broadband segment, we reported revenue of \$11.5 million in the fourth quarter, up 19% from the year ago period. For the full year, our broadband business grew 20% over last year, which reflects the success that we're having in sales and installations.

In all, commercial subscribers grew 19% year-over-year, with IoT representing 76% of the total at year-end, up from 73% in the year ago period. Revenue from hosted payload and other data service was \$14.7 million in the fourth quarter, which was consistent with the year ago period.

Government service revenue grew 3% in the fourth quarter \$226.5 million, reflecting the scheduled step up under the terms of our EMSS contract with the U.S. government. Subscriber equipment, which enjoyed strong demand all year long, saw fourth quarter revenue rise 3% from the year ago period. For the year, equipment revenue was up 7% to \$92.1 million, which, as Matt said, is really great in light of supply chain issues last year, and shows the continued strength of our partner demand.

Moving on to our 2022 outlook, we forecast operational EBITDA in a range of \$400 to \$410 million, predicated on total service revenue growth of between 5% and 7%. The key elements supporting this outlook are as follows. We expect commercial service revenue to benefit from continued growth in IoT and ongoing activations and adoption of our broadband services. Momentum in IoT is forecast to continue in 2022, with ongoing contribution driven by sustained demand for personal communications devices. Our traditional industrial IoT business is also growing nicely and gives us confidence in forecasting another year of double-digit subscriber growth in IoT.

You'll recall that we introduced Iridium Certus 100 for mid-band services and Certus 200 for maritime in 2021. We anticipate that these new service classes will see broader distribution in the new year as partners begin to showcase each with customers and integrate their own service offerings with these platforms. Iridium Certus continues to log consistent subscriber additions, and received strong sales support from channel partners. With the addition of new service classes in our broadband offering, we remain confident in another year of double-digit growth from this business line.

As we've previously discussed, hosted payload will be a steady contributor to service revenue now that it has reached its contractual annual revenue run rate of approximately \$47 million. Our EMSS contract with the U.S. government will produce full-year revenue of approximately \$106 million in 2022. This reflects a contractual step up from last September, which will remain at this rate through 2024.

We anticipate that equipment revenue will increase again in 2022 from the \$92 million we generated in 2021, including a catch-up on equipment orders delayed by supply chain issues. As we address this backlog of orders this year, we expect our product mix will shift to a higher proportion of sales of lower margin chipsets, given their high demand in our partners' satellite personal communications devices.

Finally, we continue to forecast negligible cash taxes in 2022, and are updating our long-term guidance, which now estimates negligible cash taxes through 2024 rather than 2023. Thereafter, our outlook continues to call for an estimated cash tax rate at mid to high single digits until 2028.

We feel very good about the growth we are now witnessing across our many business lines and believe this momentum sets us up well to achieve our medium-term guidance for service revenue growth. We continue to expect service revenue growth to average in the high single digits between 2023 and 2025.

Moving on to our balance sheet, as of December 31st of 2021, Iridium had a cash and cash equivalents balances of \$321 million. Our cash balance has continued to grow even as we bought back our shares. As Matt noted, between January 1st and February 15th, we acquired 3 million shares of common stock at an average price of \$34.53 for a total of \$103.6 million. In combination with repurchases through December 31st, we have acquired a total of 7.3 million shares at an average price of \$36.38 for a total of \$267.1 million, leaving approximately \$33 million remaining under our existing authorization.

This activity reflects the confidence that our board and management have in Iridium's business opportunities and free cash flow production. We will continue to execute on our share repurchase program, balancing our objective for deleveraging with the desire to maximize our return on investment.

We expect our improving liquidity position will continue to support meaningful return of capital to our shareholders. At the current pace of purchasing, we anticipate that our existing authorization will be exhausted in March and expect a new substantial authorization to be approved by our board at our board meeting in March.

Moving forward, we continue to anticipate total CapEx of about \$45 million in 2022 and 2023. This near-term spending supports new product development, network investment, and real estate improvements that kicked off last year.

We closed 2021 with net leverage within our target range of 3.4 times of EBITDA. This is an important milestone, as net leverage has come down very quickly and deliberately since peaking at 5.6 times of EBITDA in 2018. I'm very proud of the discipline we have shown and pleased that we closed 2021 within our leverage target range. Iridium will continue to operate with a long-term target for net leverage between 2.5 and 3.5 times of EBITDA.

Lastly, I wanted to highlight Iridium's term loan, which we repriced in January and July of last year. In total, we shaved 150 basis points off the annual interest rate in 2021, inclusive of the reduction to the LIBOR floor, which materially reduces our interest expense moving forward. The current rate of LIBOR plus 250 basis points should result in pro forma annual interest expense of approximately \$60 million in 2022, a savings of about \$30 million from 2020.

If we use the midpoint of our 2022 EBITDA guidance and back off \$60 million in net interest pro forma for our current debt structure, \$45 million in CapEx, and \$14 million in working capital inclusive of the appropriate hosted payload adjustment, we're projecting pro forma free cash flow of approximately \$286 million, up 17% from 2021. This is a conversion rate in excess of 70% in 2022, representing a yield in excess of 6%. We expect growth in pro forma free cash flow to significantly outpace the rate of growth in EBITDA again this year. A more detailed description of these cash flow metrics, along with a reconciliation to GAAP measures, is available in a supplemental presentation under events on our Investor Relations website.

In closing, we're happy to have delivered another strong year of growth, especially in light of unpredictable environment we have lived in over the past two years. Iridium is a one-of-a-kind company. Not only do we have a unique business model in constellation, we also enjoy a business culture and partner collaboration that we believe puts us in a very rare breed of enterprises. Matt and I remain very excited about Iridium's continued prospects for growth, and look forward updating you as the year unfolds.

With that, I'll turn the call over 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 touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

The first question is from Ric Prentiss of Raymond James. Please go ahead.

### Ric Prentiss

Thanks. Good morning, everyone.

### Matt Desch

Morning, Rick.

### Tom Fitzpatrick

Hey, Rick.

### Ric Prentiss

Hey. The first question is on the ARPU side. Matt, in the past you've mentioned that you think there could be some seasonality on the broadband side. Obviously, voice and data always has seasonality. But talk to us a little bit about seasonality that you're seeing, because we were pleasantly surprised to see the broadband ARPU stay pretty high. And then also, is there any seasonality on the IoT business, and should we assume continued trending down in IoT as you sell some of these personal communication devices?

### Matt Desch

Well, so seasonality in broadband, I know there's a little--there's obviously seasonality in terms of more ships are sailing in the northern waters in the summer than there are in the winter, etc., and so there's a little bit of that. I think the ARPU increase you're seeing is a greater mix of Certus terminals over open port terminals. That was our original terminals that provided low speed. Now that they're higher-speed and more capable terminals, you're seeing them used more and generating more ARPU as a result. And that sort of shifts the mix a bit.

It will always vary a little bit based upon how many are standalone terminals versus how many are VSAT companion terminals. But overall, we're seeing good growth in the number of terminals. We're seeing sort of a recovery a bit in terms of the installation rates. We're seeing stronger lower end devices that are lower cost but still are going to provide probably more speed than the original open port terminals. So, they're more capable and therefore will be used more often. So, overall, a long-term very healthy potential for that.

In terms of IoT, I mean, the ARPU shift has always kind of shifted more with this massive growth in personal communication devices. That's always going to kind of shift the mix a little bit to these lower end devices. But they don't use the network very much, so it's absolutely appropriate that they deliver more than--a few dollars and that overwhelms the IoT devices that may be delivering \$15, \$20, or \$50 in just terms of raw numbers. So, the mix of devices will continue to sort of bring down, but that could only go so far.

And again, I've said this many times on the calls. I don't really track the ARPU like you would a wireless terrestrial company, because our capital and other expenses don't track ARPU. They're

relatively fixed. So, as long as we're continuing to add new subscribers at any ARPU, we're driving bottom line growth, and you can see good bottom line growth.

**Ric Prentiss**

Okay. The second question is on the service revenue guidance, 5% to 7% as your initial 2022 guidance. You guys have a long history of kind of over delivering on your promises, which is a good thing. How should we think about what would cause service revenue to head towards that low end of the guidance, given that you've done really high single digits 2Q, 3Q, and 4Q in '21 versus the high end or going above the high end? What would cause you to head towards the low end, and why such a large range on the guidance?

**Tom Fitzpatrick**

Well, it's a question of the comp, Ric, right? So, in 2020, right, you had--it was COVID affected, right? So, you had negative growth in our commercial voice and data business in 2020, and then that snapped back up to 8% growth this year. So, the comp's going to be tougher in 2022 as to that than in 2021.

**Matt Desch**

I'd also say, demand is really strong, and we continue to see it even strengthening. But we are restricted somewhat, like everyone else in the high-tech communities, by parts availability. And while our equipment is up, how many of our partners can get devices? And they're having their own supply chain issues many times. And while they're having good demand, they're still struggling meeting that as well.

So, we believe what we've sort of forecast here is appropriate for where we see the year. I'm hoping we can improve upon that, but you just don't know in this kind of environment with the global challenges everyone is experiencing.

**Ric Prentiss**

Makes sense. Sure feels better this year than two years ago or one year ago. So, glad we're coming hopefully out of the other side of it.

Other question for me--final question for me would be how you view the industry dynamics and one particular aspect, Viasat buying Inmarsat. How does that impact how you see the industry playing out?

**Matt Desch**

I don't really think it has much of an impact, to be honest with you. I think that that combination was primarily focused on broadband aviation, Wi-Fi to the back of airplanes. And to the extent that consolidation helps drive that highly competitive kind of commodity environment to the improvement of both them, good on them, I guess.

In the L-band world that we compete with, I don't really think it changes the dynamics at all, might even improve them in the short term because of complexity, I mean the confusion and synergies that they'll probably be driving, etc. I don't see anything really, changes from partners or any other dynamics in the industry, that makes me worried in a different way about our future. So, I don't think there's a lot of change, really, that that creates.

**Ric Prentiss**

Great. Thanks, guys. Stay well, and look forward to seeing you when we can actually get together in person.

**Matt Desch**

You too. Thanks, Ric.

**Tom Fitzpatrick**

Thanks, Ric.

**Operator**

The next question is from Landon Park of Morgan Stanley. Please go ahead.

**Landon Park**

Thank you. Good morning, everyone.

**Matt Desch**

Hey, Landon.

**Landon Park**

So, yes, I wanted to start on the government side. Maybe can you update us on where you are with the gateway upgrade for Certus that they've been working on, and maybe when do you think you can start attacking that sort of \$100 million opportunity that you guys have outlined on the government Certus side?

**Matt Desch**

Well, we're starting to attack it this year, but we're having to provide it on the commercial gateway, which is fine for many government customers. So, it's not like we haven't started. There are a number of terminals, particularly in the land mobile area, that the government is using. And they are looking to expand upon that with our other Certus technologies, Certus 200 and Certus 100. There's an awful lot of activity around that space and will continue to be.

We are told that the gateway funds are authorized and approved, and we'll be seeing those for completion of the Certus gateway this year. I think that will improve sort of the dynamics a little bit because of even the additional security that would provide certain applications that the government would use. But we're really not waiting on that to really, I would say, attack this through a number of partners.

We're also expanding the partner base that's going after the government. We had traditionally focused on a single partner in sort of an exclusive arrangement. We're now expanding that to a number of partners, all of whom have different solutions and relationships with the government. So, I think that will also be a nice dynamic going forward for government broadband business particularly.

And then I should also say, and this is outside of Certus broadband, but our activity with the government is extremely high and continues to be very high around lots of projects, almost more than we can handle right now. There's just a lot of things that they see future opportunities to use our network in unique ways. And frankly, it's a people challenge, like every other business, kind of growing to meet those challenges right now. But we're really being embedded in more and more of the government's kind of core architecture plans for their communication needs. And that's exciting but demanding, if you will. So, it's a good thing and really bodes well, I guess, for the future.

**Landon Park**

Great. That's very helpful, Matt. And then maybe just on the broadband side, you said that you expect better net adds in '22 versus '21. The 4Q number was weaker, I think sequentially and year over year. Can you just talk about maybe what kind of cadence we should expect on the net add side there, and what level do you think you can get to as you look out a few years?

**Matt Desch**

Well, I mean, it's an issue of oars kind of--I call it oars in the water. We have a lot of oars and more oars coming here. The product range has expanded. It's even become more cost competitive with the Certus 200 product. We have more ships. Our partners are telling us they're getting on ships easier right now to--there's actually backlog that they're starting to clear, which we're starting to see.

We're seeing activity in specific market segments. For example, as you know, we got approval in Japan, which is a large maritime market that hadn't been allowed to install broadband on Japanese flagged ships. They are now able to do that, so we see sort of a backlog there that's starting to get cleared. We're seeing land mobile doing well, including a number of new opportunities that are emerging, but we're also finally starting to see some aviation activations and revenues from--and we're going to see, I think, the first terminals come out for aviation later this year.

So, that all combines to a general higher cadence, not an order of magnitude greater, but incrementally greater year-over-year. And I track it literally day by day in terms of the number of activations. We get a report every day, and I'm seeing continued quarter over quarter strength in unit activations, and we're expecting that to continue through 2022.

**Landon Park**

Great. That's very helpful. And maybe can you talk about, just as the last question, what your expectations are on the buyback, and where you guys are comfortable in terms of targeting leverage at the end of the year at the three times range, but are you comfortable running at sort of the high end of your targeted range for an extended period of time?

**Tom Fitzpatrick**

We're comfortable in the range of 2.5 to 3.5. We haven't narrowed it down, and our guide is that we would be at 3 times as we exit 2022 pro forma for the existing \$300 million authorization. As I said in my remarks, we expect another substantial authorization at our board meeting in March, and we'll give the appropriate leverage expectations that would be pro forma for that authorization when it's authorized.

**Matt Desch**

Given our strong cash flow generation right now, I mean, that's great. I had to celebrate that we got between the 2.5, 3.5, because several years ago I remember Tom and I seeing that was--seemed like a distant measure when we were over five times. But we knew the cash flow generation of this company would be quite strong given our structure and formality.

We may not always stay exactly within 2.5, 3.5 times. That is not exactly like a target to remain constantly in. If we vary above it for a quarter or something, we're doing that because we really know, with all the cash flow we're generating even with these additional share purchases, we can get back into that kind of range pretty easily. So, I think that's why we have so much confidence. We still have to have the board approve an additional authorization at the next board meeting, but would expect that they would look favorably on that sort of thing, given our current environment.

**Landon Park**

Great. Thank you, everyone.

**Operator**

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

**Chris Quilty**

Thanks. Matt, I just wanted to follow-up on something you just said. What would cause you to move above that 3.5 other than perhaps a really aggressive buyback program? And maybe one option here is, we haven't talked about this in like a decade, but are there acquisitions? Are there M&A things that you think you could do, and are you starting to explore some of those options?

**Matt Desch**

Yes. I mean, first of all, obviously, if the market--and there's many reasons why we could imagine the market would move down for just general purposes, that could be a very opportunistic opportunity for us to be more aggressive. And if that's true, then that would obviously pop us above that 2.5 to 3.5 level, at least temporarily. But I'm sure we'll grow back into it. I said we're trying to be disciplined.

As far as acquisitions, absolutely. I mean, I don't have--I don't think we collectively have aspirations to move into other areas, because the area that we're focused on is--frankly, we like our position, we like our potential, we like our growth opportunities, but I can see us doubling down in the area that we're in.

And we look around and see a couple that are interesting, and we're certainly keeping our eyes open. If there was an opportunity to do something that would be consistent with our strategy and would help long-term growth even go faster and allow our network and our model to extend and grow, we'd take advantage of that. But obviously nothing eminently. We wouldn't call out somebody specific anyway. Right now, it wouldn't be appropriate for anybody to do.

**Chris Quilty**

On the growth front, and you kind of touched on this, but historically a lot of your growth was driven through new product introduction by your partners. And you mentioned several potential products, aviation and land, and you just had a slew of new products that came out last year. Are your partners having problems introducing new products because of some of the chip shortages, or do you see a reliable schedule of new products coming out this year? And anything--I mean, I don't want you to give away a big surprise, but do you have any meaningful products that you expect to hit the market this year?

**Matt Desch**

Yes to the last answer, but I'm not giving anything away. But, yes, we have a number of products, both internally and externally, that we're excited about and think that will drive long-term meaningful growth based upon these new technologies that we've been developing over the last couple years.

As far as--I don't think we're holding back our partners. I have heard other situations with some other satellite companies that are significantly constrained, and I'm sure that's a real challenge for them. In our case, we're constrained but still able to get supplies of products to our partners for them to continue developing new products and introduce new products.

And I continue to have sort of strategic meetings with them regularly, and they're very optimistic about their future. They're--not to say I'm pleased, because we hate not being able to deliver everything a partner wants. It's frustrating. But then they tell us they're having the same sort of issues with other parts that they're trying to deploy and maybe challenged around that as well.

But everybody seems to be creating new products. It just may hold up them being able to promote them at the lowest price, or I think we saw little bit of trimming around the Christmas season perhaps for some of the operators because they were afraid that they may not have quite the supply that they otherwise wanted to have, but it didn't dull their enthusiasm for the future, let's just say.

**Chris Quilty**

Got you. On the new product front, you've mentioned in the past some of the new personal communication products with partners. When you started this back years ago with--DeLorme original architecture was a hardware device you would sell that would connect via Bluetooth, and then you began installing a module inside the partner device. And now it sounds like you're moving almost entirely towards chipset or software. Where are you in that process in terms of today, your PCS sales? What percent are more chipset and/or software versus a hardware install, and where do you expect that to go over time?

**Matt Desch**

Well, as you get closer and closer to even a direct air interface licensing to a partner, it's more and more effort, R&D, and complexity for a partner to deliver. So, not everyone can take a chipset and deliver that into a full range of products. Obviously, our largest partner has and does very well with that, and we've seen that drive an expansion of their portfolio of products, that they can then embed us into more and more things, because they have a lot more control over their design processes.

Not every consumer product we have is chipset-based. Some are transceiver-based, and perhaps some will move into chipsets over time as they get larger and more capable. Obviously, I'm also excited about the potential of moving directly to more of an air interface, into a more generalized processor out there. And that's happened a little bit particularly on the government side, but I think that that will eventually evolve into the consumer or certainly commercial side as well over time.

That creates a lot of flexibility in terms of size and form factor and really potential volumes as well. And we're getting better at doing that. That takes a lot of effort, by the way, in terms of close partnerships to do that. And you kind of--we're getting more and more mature to be able to do that with more people as well.

**Chris Quilty**

Great. And final question, you mentioned on the government side earlier, a mention of blue force tracking. If I recall, historically most of the stuff you did with BFT was on the international NATO side, and the U.S. program has been in a bit of flux in recent years. What are your expectations there in terms of program funding and what your position or role might be?

**Matt Desch**

Well, our network is extremely well-positioned for blue force tracking, particularly with our fixed price contract and long-term sort of relationship there. So, I believe we'll be long-term embedded in almost any going forward blue force tracking solution, which will drive volume and

growth. Many people are talking to us. The government is high on using Iridium as one of the technologies in future blue force tracking programs.

I can't speak to how fast it will evolve out, nor will it necessarily drive revenues. It will mostly drive, I think, subscriber growth in the future. As you know, we've been sort of constrained--been a little constrained in terms of the subscriber growth with the government, just because of accounting issues as they transfer between DISA and Space Force and the way they priced it to partners, etc. But when and how blue force tracking next generation stuff hits, then I think that could really drive a lot more subscribers as well.

**Chris Quilty**

Is there any equipment revenue opportunity associated with that for Iridium or is that just--?

**Matt Desch**

--Yes, there would be some equipment revenues with that as well, you're right, because unless it's--it still would be licensing sort of behavior if it was air interface all the way to chipset or other kind of--depending on how it was implemented.

**Chris Quilty**

Thank you, guys.

**Matt Desch**

Thanks, Chris.

**Tom Fitzpatrick**

Thanks, Chris.

**Operator**

The next question is from Walter Piecyk from LightShed. Please go ahead.

**Walter Piecyk**

Thanks. Matt, when you talked about seeing a couple of acquisitions that might be interesting, without getting into details, can you characterize this like a new constellation or a planned constellation or things that are leveraging your existing constellation?

**Matt Desch**

Well, look, I'm most interested in things that leverage my existing constellation. Those are potentially no-brainers, anything that would be--and by the way, we have a few investments out there today in Aireon and Satelles and DDK. And I think that provides a kind of a path forward, at least for one obvious way, that we can continue to see if there was something that would make one of those or another partner even more successful and drive more usage, and it would become a big player itself. We'd want to support that as we have in the past.

Like I said, I'm not interested very much in moving outside what I would call this area of personal communications we're in. I think I've made it pretty clear I'm not interested in Ka and Ku band. So, it won't be a surprise there that we don't really want to get into commodity kind of areas where there's oversupply. But love the business model we have, the area that we're in, and anything would be more aligned in that area.

**Walter Piecyk**

Thanks. You received the \$8 million from Aireon in the fourth quarter. Do you expect to also receive the \$150 million prepayment from them this year as well?

**Tom Fitzpatrick**

That was--.

**Walter Piecyk**

I know that would have been tied to--I'm sorry. Go ahead.

**Tom Fitzpatrick**

No, we don't expect to receive the \$150 million. The \$8 million is a contractual minimum. So, we get \$16 million of the hosting. That's the contractual minimum. They'll pay the balance of the hosting when they do a refinancing, 2024 or something like that.

**Walter Piecyk**

Understood. And then on the March meeting at the board level, dividend wasn't mentioned. Is that out of the potential mix of options for the use of your free cash flow going forward, or is that something that might be discussed at the board meeting?

**Matt Desch**

Well, we always discuss every potential opportunity. Obviously, dividends is a possibility going forward, but it has its own profile that you'd want to do. You'd want to have it be meaningful. You'd want it long-term and have it continue and grow, etc. We understand sort of the differences. We won't take that off the table, but obviously we've been successful at share buybacks. That's the most obvious near-term sort of focus area for us.

**Walter Piecyk**

Okay. Thank you.

**Matt Desch**

Yes. Thanks, Walt.

**Operator**

Your next question is from Louie DiPalma of William Blair. Please go ahead.

**Louie DiPalma**

Matt, Tom, and Ken, good morning.

**Matt Desch**

Hey, Louie.

**Tom Fitzpatrick**

Hey, Louie.

**Louie DiPalma**

You are a rarity in the space industry with your free cash flow and growth. But I wanted to ask about you indicated how you expect sustained demand from the personal communication devices. And Garmin recently released the inReach 2, which is the sequel to its popular original inReach. A couple of questions ago, you discussed the potential to license your chipset to additional vendors besides Garmin. And I'm wondering what types of verticals do you see



licensing opportunities in that could further expand Iridium's traction within the consumer vertical?

**Matt Desch**

Well, I mean, Iridium's network is really suited very well for any kind of thing that requires a small, very low cost, battery powered, tiny antennas, etc. So, you can imagine all kinds of not just people, as Garmin's demonstrated its ability to do, but you could see many other consumer devices that would benefit. I mean, we're starting to see that you could really make a connection to something on your arm in some cases, like a watch, or you could--and certainly could scale up to things like personal recreational vehicles and all kinds of things that perhaps you wanted to track or create a communication.

So, I've had a lot of discussions with people who make lots of stuff. And when we do that, you can see we have a raft of possible ways we can go. It's very easy to just--we have both purpose built devices that you could tack on and, with very little development, get into business; a little higher cost and obviously less flexibility, because you have to take the form factor the device was in.

But we can scale that all the way down. If they have the sophistication and the volumes and the desire to spend the R&D on it, we could go all the way down to, say, our air interface, or what we sometimes call waveform, being in a smart processor or a smart kind of radio. So, there's just a wide variety of opportunities, and we talk about them all when we talk to a new partnership.

**Louie DiPalma**

Great. And you just mentioned smart processor or smart radio. The satellite connectivity to smartphone chatter has somewhat subsided over the past several months. Is there any change to your prior view that potentially Iridium down the road could be embedded into smartphones?

**Matt Desch**

No. I mean, that's my short answer. We absolutely believe that we are the best choice for doing that.

**Louie DiPalma**

Awesome. That's it for me. Thanks. Thanks, Matt, Tom, and Ken.

**Matt Desch**

Okay. Take care, Louie. Thanks.

**Operator**

The next question is from Hamed Khorsand of BWS Financial. Please go ahead.

**Hamed Khorsand**

Good morning. Just a question I have was, given the equipment shortages your partners have been facing, is there pent-up demand on installing these terminals? And what would your subscription revenue look like when you're adding on these terminals with these pent-up demands later in the year?

**Matt Desch**

Hard to characterize that, because honestly we're giving guidance and I don't want to like presuppose. But we have significantly more demand than we can accommodate right now. I

mean, I don't know how else to describe it than that. It's with 500 different companies. Obviously, the real--the very small ones who need 100 devices are probably not that constrained if they get 90 instead of 100. But if you're ordering 100,000 of something and you're getting 70,000, you're pretty well constrained for 30,000.

So, it's across the board. Demand is higher with almost everyone than we can currently fulfill. At this rate, we should be through all of it before the end of this year and get into more of a backlog consideration by the end of the year. But we don't know how the year will continue to turn out in both increased demand or in terms of if there is some other supply shock that we're not aware of. I think we've seen almost everything, but you just don't know. So, I don't know how better to characterize than that. It's just--it is high demand and we're not meeting all of it yet. But yes, definitely the results in '21 and '22 would even be better if we could have.

**Hamed Khorsand**

And then what kind of feedback are you getting from your customers or partners about this lower offering of a Certus 200 versus the 700?

**Matt Desch**

There's a lot of enthusiasm by it. They really like--they think it fits another sort of niche in the market for themselves. There seems to be a high backlog for it, from what I've heard. I think it just hit the market, and the supplier of that hasn't met all the need there yet either for it. But the price and performance sort of point that it's meeting is apparently quite attractive.

And that's--the start is in the maritime industry, but we're also seeing sort of a land mobile version, which I think will be very attractive there. And then it's also a platform, I think, that's a little easier to install in some aviation applications. It'll be a little easier in terms of size and capability for some of those, too. So, yes, I think it's going to help drive broadband.

**Hamed Khorsand**

So, no risk to cannibalizing the Certus 700?

**Matt Desch**

Well, I don't--you want to cannibalize yourself, I guess. I'm more interested in the combined total of them. I mean, I don't have a--it won't take away any installations. Those things that need 700 kilobits per second aren't going to get that from more of a 200 kilobit per second product. And so, high volume users will be drawn to that. Lower volume users will be drawn to 200 kilobits per second, if that's enough for their applications. And then things that are really small will go with the Certus 100 devices in some cases. So, it just adds more potential opportunity for people to pick what they really want and need.

**Hamed Khorsand**

Okay. Thank you.

**Matt Desch**

Sure.

**Operator**

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

**Anthony Klarman**

Hi. Good morning. Thanks. Most of my questions were already answered, but maybe a couple follow-ups. Tom, I think what I recall hearing you say was we're now sort of in that flat period in the government contract. I think it stepped up in September and kind of stays there for a few years. Confirming that I think that's what you said?

**Tom Fitzpatrick**

That's right, Anthony. Yes. We're at one--.

**Anthony Klarman**

--And so--yes, go ahead.

**Tom Fitzpatrick**

We're at 106 in '22.

**Anthony Klarman**

Right. And so, with that as the case, I guess there is a couple percentage points of growth in the government contract this year, because I think it runs September to September, which would imply that the service revenue guidance that you gave is being dragged down by lower growth from the government contract, and so you're growing faster than your guidance range in commercial. And I guess I'm wondering, with 19%, almost 20% growth in billable subs in commercial with ARPU's where they are, I guess I'm wondering if there's a chance that perhaps that growth rate continues to escalate on a run rate basis throughout the year, and if you could maybe give us a sense as to how you think the commercial business sort of exits 2022 if we think about the linearity of your service revenue guidance, given that government now looks pretty flat for the foreseeable future?

**Tom Fitzpatrick**

Right. So, I think we've kind of colored that in, right? So, we were saying 5% to 7% growth this year in 2022. And then we're out there with the guide that we're going to average high-single digits for '23 through '25. So, that's a picture of accelerating growth that we painted.

And if you recall our Investor Day back last May, right, we initiated that intermediate term guide of high-single digits when the visibility that we had for 2021 was, coming out of COVID, we thought we'd be around 3%. Well, we beat that considerably here in '21. So, we feel very good about the high-single digit guide '23 through '25.

**Anthony Klarman**

And then going back to government, it doesn't look like there are really any material revenues that are coming from the non-EMSS contract. I know at the time you talked about other services like Certus would be incremental to the fixed price rate that you're receiving. I guess I'm wondering why that is and what you think the government's view is on how they think about usage of kind of the next generation technology.

**Matt Desch**

Well, it's still early days, I think. It takes the government a while to kind of ramp up. And based upon budgets and forecasts and all kinds of reasons, they take time. When they do, they are very reliable and they're sustained.

We see a lot of activity across a number of programs that would drive everything from Certus 100 all the way up to Certus 700 technology into the government. We still believe that will happen. It's not gated completely on a government gateway upgrade, but that's one of the many

things that they're involved in. We think that'll continue to ramp. It's just hard to kind of forecast exactly when it will be. We think--it's included in our guide for '22 as we stand right now, but really are pretty bullish long-term in terms of their adoption of all of our Certus technologies and driving additional revenues there.

**Anthony Klarman**

Thanks, Matt. And I just want to make sure that I'm clear on what you just said. Your guide for '22 really doesn't assume anything new or incremental other than what's being realized already with the government, correct?

**Matt Desch**

Well, there's continued revenues there. We don't call it out specifically as to what their part of the broadband revenues will be. But there are some revenues coming from the government already, and will continue to be and possibly more in 2022 as well. That's included in our guide. So, obviously, we'll talk about it more--a lot about it when it gets bigger and everything, but right now it's just sort of included in everything else.

**Anthony Klarman**

Thanks. And then finally for me, the incumbent provider that you've been going after in maritime and taking some share from is in the process of being acquired themselves. And I guess I'm wondering if you think that will change at all the market opportunity that you see there, given that they may have, on a combined basis with their merger partner, more capacity, more coverage, and if you think that changes the market opportunity at all or makes it even more competitive already in what you are pursuing as the opportunity in maritime.

**Matt Desch**

Yes. Honestly, we don't. I really don't see it changing the dynamics very much, particularly in the area--like I said, in the L-band area. This doesn't fix any of the issues that we were addressing or attacking, as I think you might describe. It doesn't really change the market dynamics for those things.

I mean, obviously, it could always have lowered prices or done that, and perhaps has even tried. But we've gained ground against it based upon performance and partnerships that we have and the applications we're able to support. And I don't know that getting together really does a lot for that. It might do a lot more for the Global Xpress Ku, Ka band side of things, but I just don't really see it impacting L-band very much.

**Anthony Klarman**

Great. Thanks, Matt and Tom. Appreciate it.

**Matt Desch**

Thanks, Anthony.

**Tom Fitzpatrick**

Sure, Anthony.

**Operator**

The next question will be the last question for today from Mathieu Robilliard of Barclays. Please go ahead.

**Mathieu Robilliard**

Yes. Good morning and thank you for taking the questions. I have two questions. The first one is on the competitive environment in maritime, if there's anything you want to flag there in terms of how things are going over the last quarter. And also related to that, I was trying to understand where you're getting your customers from. Do you see it as a market expansion? Is it you taking market share to existing players? Is it the mix of the two? So, that's the first question really.

**Matt Desch**

It's the mix of the two. I mean, the competitive dynamics haven't changed over the last quarter, other than perhaps it's--perhaps people are finding more ways on ships as people--as the pandemic normalizes. And what you see probably in your own country is happening in ports and on ships as well. And so, it's getting a little easier to travel and easier to get onto ships and that sort of thing.

But in every case, as fleets look to upgrade, there are drivers. In some cases, their contracts end and they look for what a good solution will be, and they're attracted to ours instead of the current incumbent that they may have. In some cases, they may be putting some new ships online. And we look better in terms of price performance, and coverage and all kinds of other things, where our product is pretty much attractive on just about every basis you could want. And so, I think we're seeing some of that.

I think also just the go-to-market dynamics are very good for us right now. The incumbent really kind of competes on their own, and doubling down even with this acquisition, to be in sort of a monopolistic all-in, you got to do it our way and no other way. And they don't really work very well--as well with their channels as I think we do. And I think the channels see us as a more attractive offering to supply--to give their customers, because we're not going to try to compete with them down the road and take their customer away when we decide that they're better taken direct than going through a partner and giving them margin.

So, I think the competitive dynamics are good. They're not, I'd say, in any way getting worse. I don't know if they're getting better, but I think we're in a very good situation right now in terms of having the right product at the right time for the market.

**Mathieu Robilliard**

Thanks. And just to follow-up on that, when you talk about new ships going online, are you seeing other segments of the shipping industry basically willing to buy communication solutions that were not in the market, or is it still quite the same traditional clients that are maybe building more ships?

**Matt Desch**

Well, I think communication on ships is almost a given anymore. So, it's not like we still have large swaths of the market that have no communication. You would never be able to get a crew member to go out at sea for months at a time and not be connected in any way. And so, I don't know that that's it.

I do think that the market--we are expanding the market a little bit in the case of the fact that, for example, we've GMDSS now, which we never had before. And so, there are people who are attracted to us for a very core capability that have to be on a ship that wasn't there before. And we're also--as we've said in the past, there are more and more ships that now are putting GMDSS devices on, the smaller ships who can find it more affordable now that we have a product that they couldn't afford before. So, in some ways, we're expanding the market during--

around the edges of some of these areas. But it's both expanding the market a bit and also obviously taking away market share.

**Mathieu Robilliard**

Got it. And then just the last question, a clarification on something you mentioned earlier, which was about a dedicated gateway for the government related to Certus. I don't know if I get that right, but that Certus today is on commercial gateways, but you were working on putting it either within the existing gateway or building another one. I just wanted to make sure I understood that clearly.

**Mathieu Robilliard**

Yes. I mean, as you know, we have a commercial gateway or a set of terminals around the world that supply commercial services through a central point. And when we implemented Certus, that is where we implemented it. The government then has their own private gateway, a private sort of network on us. That's one of the reasons they like Iridium service so well, because of its sort of operational visibility. We don't have visibility to how and where they use it, nor does anyone else. And it's secure because all the links are in space.

And so, but it isn't--it needs new hardware devices to be installed and certified and integrated in, and they haven't completed that work yet. They haven't got the funding and all the work necessary to have us do that work for them. We expect that to happen in 2022. The activity, we believe, will complete mostly this year, if not by the end of the year very shortly after, and that will be a driver.

But in the meantime they've had need for using Certus because it's a great technology for them that works anywhere on the planet, etc. So, they have implemented it. They've just bought it and deployed it using the commercial gateway, I mean using the commercial gateway suppliers. And we think, when the operational security of having it on their own gateway is finally achieved, that will even give them more confidence to use it in more applications.

**Matt Desch**

Okay, something to look forward then for 2023. Thank you very much.

**Matt Desch**

Okay, Mathieu.

**Operator**

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

**CONCLUSION**

**Matt Desch**

Thanks, everyone. It won't be long before we see you at the end of the first quarter. So, I look forward to seeing more of you in person when we can, so take care. Thanks for joining us.

**Operator**

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