

Iridium Communications, Inc.
First Quarter Earnings
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CORPORATE PARTICIPANTS

Kenneth 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 First Quarter 2022 Earnings conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing star then zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Kenneth B. Levy

Thank you, Andrew. Good morning and welcome to Iridium's first quarter 2022 earnings call. Joining me on this morning's call are our CEO, Matt Desch; and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our first 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 could 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 within 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 generally accepted accounting principles. Please refer to today's earnings release and the Investor Relations section of our website for further explanation of these non-GAAP financial measures and a reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matt Desch

Thanks, Ken. Good morning, everyone. As you can see, 2022 is off to a strong start. Like many of you, we're back in the office collaborating with team members, meeting with business partners, and starting to travel for conferences. It feels like things are getting back to normal, though the war in Ukraine shows us that none of us can take anything for granted.

Last month, my team and I were active at both investor and industry conferences, including the big Satellite Show in Washington, DC, where attendance was strong – approaching pre-pandemic levels – and we had a lot of very productive discussions with many in the industry. The space and satellite industry is quite vibrant and optimistic right now, and I'm proud that Iridium is right in the middle of that dynamic as a clear leader.

2020 promises to be another good year of growth for Iridium and we're off to a very strong start. As you saw in our press release this morning, Iridium's first quarter results maintained the momentum we experienced last year. At a high-level, the business environment continues to improve, and our primary business lines are "firing on all cylinders." In Land-Mobile, demand for handsets, which has long been the foundation of our commercial business, continues at a very strong pace. This is a function of number of factors, including the quality of our offering – with growing momentum from PTT – some supply issues apparently being experienced by competitors, and, of course, increased demand related to Ukraine.

IoT continues to experience strong demand, driven in part by the growing array of personal satellite messaging devices that operate on our network. Commercial IoT activations were 50,000 this quarter, and while that's a really strong number for the first quarter, it could have been even higher if we could have shipped more equipment. And on that front, we expect to be in a position to catch up to the growing demand later in the year.

Broadband also continues its growth trajectory. The maritime environment is improving for us, as most countries have returned to normal business operations. We're also seeing a rise in ARPU as Iridium Certus's faster speeds drive greater use, and increasingly represent a growing mix of our Broadband revenue compared to legacy Iridium OpenPort terminals.

We are actively working on our opportunities in Aviation and continue to expect new terminals for that market will launch in the later part of the year. Beyond commercial safety, business in general aviation, rotorcraft and drones all provide upside to our Broadband business, which we feel very good about.

The US government remains an important cornerstone of our service revenue and we expect to grow our business with them. You might have seen the new video compression technologies from partners that we announced in the first quarter to support live-action video efficiently over Iridium Certus. They will make Certus even more attractive to the USG, as well as for commercial customer applications.

Subscriber counts for the US government continued to lag as the Space Force and DISA continue work through their transition and administration of the EMSS contract. As I've said before, this has no impact on our revenue, but we want to see it corrected so the government can fully utilize our network. We have been assured that this is being addressed and look forward to continued collaboration so that the government can maximize their use of Iridium services.

I'll leave it to Tom to provide additional color on the first quarter results, but I did want to touch upon a few other items that are important in framing this year's outlook and how we may leverage our strong financial position.

First, an update on supply chain issues. Our supply chain team continues to do a great job of managing this issue, and we seem to be doing as well as anyone in getting the parts we need. Our problem is that demand continues to exceed forecasts. We shipped a record number of products in the first quarter, and while we still are not back to building up inventory for most of our products, as I said, we have a plan to get there through the end of the year. This is a high-quality problem to have, even though frustrating. We have the business and could ship even more units if our parts suppliers could meet our growing needs.

Even as we've been pretty successful working supply chain issues, we're also finding new challenges in the current environment, like expanding our team to address our growing set of business opportunities. We are bringing on some great new people, but the technical skills we need are in high demand, which is requiring a larger investment in this area, and is likely to move SG&A a bit higher

than we had budgeted for in 2022. Our needs are real and building, our technical ranks today will position us well to address the long-term opportunities we see. We're also seizing upon our strong business momentum to accelerate investments and re-tool some of our business systems. And, while I won't get into the details, we are planning to get ahead of some big new opportunities we're expecting to win later this year. These investments are among the reasons that we're not raising our full-year guidance.

In terms of Iridium's growing cash position and capital plans, I wanted to make sure that you saw that our Board has approved a new share repurchase authorization for \$300 million last month. This is on top of the \$300 million authorization we announced in February 2021, and underscores the confidence that management and the Board have in Iridium's business and opportunities for growth.

We took advantage of the volatility in the market to purchase close to 4 million shares of stock in the first quarter and will continue to respond to opportunities to execute on the program in a disciplined manner. I have tremendous confidence in my team and the business opportunities we're pursuing and believe that Iridium's shares continue to present an attractive investment at these levels.

Another opportunity that we're exploring this year is a rideshare to launch most of our remaining ground spare satellites. We've always said that we wanted to get our ground spares to space if the right opportunity presented itself, and we believe we've been presented an excellent value and fit, as the launch we're considering is planned for an orbit and altitude that are ideal for our satellites.

I want to be clear that we do not have an immediate need to launch these satellites. Our constellation is very healthy and is performing well, but our ground spares have little utility just sitting in storage. We view the launch of these spares as cost-effective insurance to ensure the maximum life of our network. It would provide for a similar number of spares to what we had with our first-generation network which lasted well over 20 years. On-orbit spares enhance the redundancy of our constellation, and, over time, I think this rideshare opportunity will prove to be a very savvy financial decision. We are finalizing the opportunity and we expect to announce the specific details in the coming weeks. This launch is a one-time, approximately \$35 million event, and aside from this does not change our overall CapEx holiday plans.

Before I turn things over to Tom, I want to highlight that Iridium recently released our new Environmental, Social and Governance Report for 2021. The report speaks to our Company's culture, priorities, and values. While Iridium is a financially successful services company, we're also a caring organization and work hard to support our people, the communities we touch and the industries we represent. We've stepped up our disclosures this past year, and I hope that you'll find it helpful to learn more about the way in which we go about our business, with good governance and a focus on social responsibility; how we engage with partners, to set strong standards for ethical behavior; and how we implement "best practices" across our organization to ensure that we continue to be a leader and set the standards for stewardship in LEO to maintain this shared resource for the next generation of startups.

Iridium's strong financial position and growth trajectory allow us to address these ESG matters without sacrificing on other priorities and business opportunities. And that's okay. We're happy to lead the industry.

Among the values that are most important to me—and highlighted in this year's report—are Diversity, Equity and Inclusion. I'm proud to co-Chair Iridium's DEI Committee and know that leading in this area is good for our Company, our employees, and our communities. You can see from recent public announcements and our proxy statement; our senior leadership and Board of Directors continue to

diversify and be more representative of our employee population and the world at large. This is an area of constant improvement and aligns with Iridium's cultural and philosophical values on representation.

In closing, I continue to be very happy with the progress Iridium is making, on both financial and social matters. We are executing well on our strategic objectives and rewarding our shareholders with each passing quarter. Two thousand and twenty-two will be another important year for us and I look forward to keeping you abreast of our progress.

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

Tom Fitzpatrick

Thanks Matt, and good morning everyone. I'd like to start my remarks by summarizing our key financial metrics for the first quarter and providing some color on the trends we're seeing in our major business lines. Then, I'll recap the 2022 guidance which we affirmed this morning and close with a review of our liquidity position and capital structure.

Iridium continued to execute well, generating total revenue of \$168.2 million in the first quarter, up 15% from the prior year's quarter. As Matt said, we're seeing continued great demand across the board. Operational EBITDA was \$103.2 million in the first quarter. This was a 15% increase from last year's quarter, and particularly driven by strong equipment sales in our effort to meet the growing demand for our many partners.

On the Commercial side of our business, service revenue was up 10% this quarter to \$99.6 million. This increase was broad-based and reflected continued strength in IoT and Broadband, as well as a rebound in voice subscriber growth. Voice and data revenue rose 8% from last year's comparable quarter to \$44.9 million.

In the first quarter, we benefited from new subscriber growth and strong demand for handsets. Commercial IoT revenue totaled \$28.4 million in the first quarter, up 15% from the prior-year quarter. We continued to benefit from the growing demand for personal satellite communications, which we view as a long-term consumer-driven trend. While these subscribers generate lower ARPU than our traditional industrial IoT users, they remain a very attractive contributor to our service revenue growth in light of the minimal comparative network resources they consume. As a result, IoT ARPU was \$7.78 this quarter, compared to \$8.39 in the prior year period.

Revenue in commercial Broadband grew 22% from the year-ago period to \$11.5 million. Supporting this growth was an increase in ARPU, driven by a mix shift among maritime subscribers to Iridium Certus from our legacy Iridium OpenPort service. Broadband remains an important component of our long-term growth and we continue to expect it will drive double-digit revenue and subscriber growth in 2022. During the quarter, we added 58,000 net new commercial subscribers, with the gain driven predominantly by IoT. As a result, Commercial IoT data subscribers now represent 76% of billable commercial subscribers, up from 73% in the year-ago period. We estimate that consumer-oriented plans now account for about half of our 1.2 million commercial IoT users.

Hosting and Other Data Services revenue was \$14.8 million this quarter, in line with the comparable quarter last year.

Turning to our Government service business, we reported revenue of \$26.5 million in the first quarter, up from \$25.8 million in the prior year quarter. This increase reflects the contractual terms of our long-term EMSS contract.

Sales of subscriber equipment came in better than we had expected, as we continue to see strong demand for hardware, which supports all of our commercial business lines. Equipment sales rose 41% from the prior-year period to \$33.7 million.

Engineering and support revenue was \$8.4 million in the first quarter, as compared to \$6.4 million in the prior year period. We saw a rise in activity in both commercial and government work, which tends to ebb and flow from quarter-to-quarter.

Our first-quarter results—as well as the trends we’re seeing into April—allow us to affirm our full-year revenue and OEBITDA guidance. In support of this outlook, I want to highlight a few items that should aid you in modeling Iridium’s quarterly progress for the remainder of the year.

In light of the activations and growth we are now seeing across all of our commercial business lines, we remain comfortable with our growth outlook for service revenue growth in 2022. Quarterly revenue from our EMSS contract with the US government will remain steady at \$26.5 million per quarter in 2022. There’s no increase in the contractual fee schedule this year. The next step up will occur in 2024. As I noted earlier, equipment sales are trending higher than we initially projected, due to higher demand for IoT hardware and handsets. In light of this trend, we continue to believe that hardware sales in 2022 will materially outpace last year’s results.

On the expense side of the ledger, as Matt mentioned, we are feeling the effects of higher recruiting and development costs and also anticipate making some incremental investments to re-tool business systems, which were not included in our original budget. This will result in higher spending on SG&A in 2022. These costs, however, will allow us to move faster on revenue-generating opportunities in future years. In addition to these higher cash SG&A expenses, we expect materially higher stock compensation expenses as a result of the accounting for a new retirement provision in our RSU award program and higher RSU awards. Both of these items are more fully explained in our public filings on compensation matters. In total, we expect SG&A to increase by about 20% this year.

We continue to forecast total service revenue growth between 5% and 7% this year. The higher equipment sales we anticipate this year will be balanced by higher SG&A and technology investment. Accordingly, we reiterate our outlook for Operational EBITDA between \$400 million and \$410 million in 2022.

Moving to our capital position, as of March 31, 2022, Iridium had a cash and cash equivalents balance of approximately \$232 million. Iridium’s growing cash flow has been a source of liquidity and is one of the reasons that our Board added to our share repurchase program with an additional \$300 million authorization last month.

In the first quarter of 2022, Iridium purchased 3.8 million shares of common stock at an average price of about \$35 for a total of \$134.2 million. Inclusive of the Board’s newest share repurchase authorization, this left Iridium with approximately \$302 million of capacity outstanding on our buyback program at the end of the quarter. We will continue to be disciplined on executing these authorizations.

Iridium’s net leverage was 3.5 times OEBITDA at the end of the first quarter. This was down from 4.0 times a year earlier, but up a little from December 31st of 2021 as a result of our considerable share repurchase activity during the first quarter. Based upon our newest repurchase authorization, our long-term target for net leverage is to be between 2.5 and 3.5 times OEBITDA at the end of 2023. We expect to be within this target range, even after giving effect to all outstanding share buybacks authorized by our Board.

Capital Expenditures in the first quarter were \$13.6 million. In light of our comments that Iridium may participate in a launch rideshare, we expect CapEx could rise above \$45 million this year to as much as \$80 million. We expect that at least half of the approximate \$35 million in launch and related costs would occur this year, subject to final launch timing, with the remainder in early 2023. This spending can be comfortably supported by Iridium's strong cash and cash equivalents balance, and ongoing expectations for strong free cash flow in 2022.

The launch rideshare is a one-time event, and only slightly increases Iridium's CapEx when spread across the duration of our CapEx holiday, given its cost of approximately \$35 million. Exclusive of this rideshare, we continue to believe that Iridium's CapEx will average approximately \$40 million per year during our CapEx holiday, as we've previously guided.

If we use the mid-point of our 2022 OEBITDA guidance and back off \$60 million in net interest pro forma for our current debt structure, the maximum \$80 million in CapEx for this year and \$14 million in working capital, inclusive of the appropriate hosted payload adjustment, we're projecting pro forma free cash flow of approximately \$251 million—up 2% from 2021. This is a conversion rate of 62% in 2022, representing a yield of approximately 5%. A more detailed description of these cash flow metrics, along with a reconciliation to GAAP measures, is available in a supplemental presentation under "events" in our Investor Relations website.

In closing, Iridium continues to enjoy strong operational trends and will be opportunistic this year in using its growing cash position to support incremental share repurchases, fund new business system investment, and potentially launch additional ground spares into space. We continue to be highly confident in Iridium's business prospects and our ability to generate meaningful returns for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss

Thanks. Good morning, everyone.

Matt Desch

Hi, Ric.

Tom Fitzpatrick

Hi, Ric.

Ric Prentiss

Obviously strong equipment revenue, as you point out in the quarter, but some supply chain issues hanging around the edges. First question is, obviously the IoT business usually has pretty strong summertime sales. You had really good 1Q sales, are you concerned of not being able to meet the

seasonal surge with what you've seen with the supply chain, particularly in the IoT personal satellite communications area?

Matt Desch

Not concerned. As I said, we're forecasting significant growth in equipment this year, and are going to deliver significant growth and equipment to the IoT space. It's just keeping up – continue to surprise us with higher and higher orders across broad areas, obviously, particularly in things like chipsets and devices for the personal communication sector, but really widely across the line. So far right now, it looks like we're going to clear most of the backlog at different times during the second and third quarter, but we're really not going to completely get out of being able to meet any kind of additional demand until almost near the end of the year. So, as I said, it's a high quality problem, I guess. We're keeping up with forecasts, but then they keep expanding them on us. So, I think we'll be able to deal with the growth this summer.

Ric Prentiss

Okay, good. Obviously, nice to hear there's some potential new opportunities and some wins coming. What exactly does re-tooling and investing in the business mean? Is that some accounting system? Is that sales, customer relationship type systems? What are you thinking about investing in that some of the SG&A higher levels provide?

Matt Desch

Yes, so we're talking about a couple of different things there. Obviously, people costs are going up a bit right now in terms of the competitiveness in markets we're in. We actually have an awful lot of demand for people right now, in terms of growing projects and customer opportunities, etc. But yes, in terms of the specifics on re-tooling the business, we're 22 years, maybe 25 years old right now. As we've gotten more and more successful our growth has outpaced some of our internal systems that support our growing employee base. Internationally, we brought in some new talent there and are seeing some automation and some other things we can do to make ourselves a lot more efficient. It will include our financial systems, our financial planning systems, our underlying financial systems, some of our employee management performance and other supply chain issues, also our technology development that needs to even have some. So not major, but around the edges we think it's time, particularly given all this growing success we're having, to put some of that back into the business and make ourselves better as a result.

Ric Prentiss

Okay. And last one from me is, obviously smartphones are starting to get a lot of interest. About a year ago we had the rumor that would smartphones start including satellite chips in them. Can you update us as far as your thoughts as far as the timeline to achieve that and if you have NR, new radio aspect to the bands that you're operating in in the L band?

Matt Desch

I don't know what you mean by new radio, Ric. What are you referring to there?

Ric Prentiss

Yes, so some of the 5G bands have NR categories behind them. And that just means it's a new radio, so it works better in some of the iPhone or Android chipsets that are being put into phones.

Matt Desch

Well, I mean, I'm not sure how that relates to L-band satellite systems. There's obviously new standards that support 5G directly from space that are sort of starting to mature. I think they're years away from implementation and no one's really committed to implementing them yet. So, I think that's a

longer term trend that will happen in the industry that we obviously will keep track of and consider how we might evolve to it. By the way, our underlying systems continue to evolve to meet what I would call 5G or 3GPP kind of standards overall.

In terms of the overall smartphones, obviously, I've responded to that in the last several earnings calls, told you that we believe that's a strong focus for us. You can tell in our results that we are ideally positioned for personal communications across a wide variety of areas, both standalone and we believe long term in terms of supporting that in all kinds of consumer devices, including smartphones. I'm not really prepared to talk any further about detailed plans on that until we're able to give plans, but we have been working on it for quite a while.

Ric Prentiss

Makes sense. Thanks, guys. Continue to be well.

Matt Desch

Yes. Thanks, Ric.

Tom Fitzpatrick

You too, Ric.

Operator

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

Landon Park

Great, thank you. I was wondering if you could update us on the broadband side and just how you think that the cadence is going to look for the full year? And maybe on the Certus 100 side, are there any particular new products that you see coming that are particularly exciting from your standpoint?

Matt Desch

Okay, well, broadband continues to, pace our expectations here, as we continue to have more products from our partners that are able to meet more market segments, like moving beyond maritime and land into aviation and government. As we move down from the original Certus 700 product to Certus 200 and Certus 100, we continue to see growing activations, growing adoption, I think we're becoming the de facto L-band standard for anything non-Inmarsat in the industry, which are all the VSAT players that do not make up the Viasat/Inmarsat continuum, continuing to be able to be more and more cost effective to go from the larger ships to smaller ships, or from commercial aircraft to general aviation, and UAV. So, I would expect continued quarter over quarter growth, particularly as we progress through the year and into the bigger parts of the summer, and that continues to be a strong market for us. It's obviously growing at double digit rates, and we expect that will happen for a long period of time.

As far as Certus 100 goes, yes, the portfolios of products that our partners are putting together continues to expand. We're seeing initial activations across a wide variety of areas, from drones to devices on ships, to systems on aircraft and land-mobile applications. We're going to see more IoT services coming about. You said ones I'm particularly excited about? I'm excited about all of them. I think you're going to start seeing that product hit the consumer segment this year and next year, where anybody can buy a product that could work, say, on the glare shield of a small airplane, or on a boat, or it can be portable devices, moving from power devices into the portable range. So yes, I'm very bullish on what Certus 100 will do to us long term. It's really a sweet spot for us.

Landon Park

Great, thanks very much. And just one clarification on the SG&A, guys. So, you're looking at about

\$120 million for the full year. Is that the right number?

Tom Fitzpatrick

Well, we said we said it would be about 20%.

Landon Park

Okay, thanks very much.

Matt Desch

Thanks, Landon.

Operator

The next question comes from Greg Burns with Sidoti and Company. Please go ahead.

Greg Burns

Morning. So in terms of the guide, maintaining the service revenue growth target, I would think with the strong demand, the strong equipment sales that would translate into service revenue down the road, maybe it's not this year and that's why the guide is unchanged. But can you just kind of unpack that, why the strong equipment sales is not translating into a stronger outlook for service revenue growth?

Tom Fitzpatrick

Hey, Greg, it's Tom, how are you? Yes, we're reiterating the guide just because of the comp. If you look at the sequential growth in 2021, you had over \$10 million of growth between the first and the third quarter. So the third quarter and the fourth quarter comps just get a lot tougher. Your point is well taken, we're keeping our eye on the subscriber increases. And should trends continue, you should look for that guide to get bumped, either in the second or the third quarter if current trends continue.

Greg Burns

Okay, great. And then in terms of your relationship with the US government, the space development agency under the new LEO constellation, what's the status there in terms of maybe the RFP process? And how is that opportunity significant to your relationship with the US government?

Matt Desch

Well, it's somewhat independent. The opportunity we are exploring to serve the new SDA opportunity as they build their new LEO network is independent of anything else we've done, but it's a perfect fit for our capability and history. And we're excited about it. It's something that they're going to award this year. And hopefully, we have put together the best proposal with our partner, and we'll hear good news about that. But it's kind of independent of anything else that we're doing. I would say it would be a continued growth in our strategic relationship and give us even better visibility to the future activities that the USG is doing.

But I would say, really impressed with the progress that they're making overall as they're building out that network. I think there's a lot of confidence amongst the government that that's going to be a network that will be increasingly relied upon. So it's one of the reasons why we've chosen to step out of what we normally do, to go after supporting and running and operating their LEO network in addition to the credible experience we've had running our own.

Greg Burns

Okay. And then, lastly, I recently saw some headlines around GPS jamming going on in the Ukraine. Can you just talk about Satelles? Is that something Satelles can solve, and just to help remind us what your equity stake or your ownership stake in Satelles is? Thank you.

Matt Desch

Yes, that's exactly the kind of thing Satelles is built for. And I'm sure they're offering to support and help in those situations. If their technology is built into something that utilizes GPS, it can provide protection, or an alternative to that – can provide a signal indoors, can help protect from spoofing, and jamming and other kinds of activities, in addition to just being able to provide a very reliable time signal to things that need digital information. So it's absolutely in the sweet spot, and one of the things that long term they're going to help protect other kinds of GPS and other kinds of GNSS issues around the Earth. As far as our share, 17% still.

Greg Burns

Great. Thank you.

Matt Desch

Thanks.

Operator

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

Hamed Khorsand

Good morning. I just had two questions. The first one, about this equipment revenue increase, could you just talk about, are these new customers that are buying equipment and haven't activated yet? Or is the mix more of existing customers making the change to Certus?

Matt Desch

So as far as equipment revenue overall going up in demand, it's really strong across the board. There isn't a product line that we have that isn't experiencing significant growth year over year, or say that in specific, but handsets are strong, IoT, everything from devices to chipsets, to everything we really have in that front is very strong, PTT devices are extremely strong. And then broadband is obviously still small numbers, but that continues to meet our expectations and grow.

So it's broad-based, it's new partners; it's existing partners. Pretty much everybody feels like they told us one thing last year that they wanted to buy from us and we planned for that. And then every month or two we seem to get more and more demand from all of them across the board. And it's challenging to keep up with it, as I said, because supply chains are limited in terms of how fast you can respond. Even though we've gotten most of the parts we thought we were going to need to meet the original supply – when demand exceeds that then you have to catch up, and suppliers can't turn on a dime. So, as I said, it's a really high-quality problem. I think it demonstrates just how strong our business is right now, it really bodes well for long term growth for us. So it's all good. It's just frustrating, as you can imagine, when you really want to exceed expectations of every partner and deliver what they want.

Hamed Khorsand

Okay. And my other question is, could you just update about your presence in Russia with the Teleport location and how are the sanctions going to affect your service there and just the service overall globally, having a location there?

Matt Desch

So, Russia is not obviously in our growth plan or growth projections, and certainly isn't anymore at this point. It's a small part of our business overall. But we serve 100% of the planet, and that's how we serve that landmass, if you will. So it continues. Sanctions, we're complying with all sanctions. I've taken some, I guess some encouragement recently, as they've been sort of lessened a bit, or changed

for telecom companies, internet companies like us and many others, to encourage us to stay in operation, or at least I've taken it that way. Because I think they want free flow of information to and from both the people there as well as the other activities that it supports.

But, this is something we're monitoring, we're being very careful about. Most of my focus is really on Ukraine and supplying the tremendous demand we've seen there, our services being used extensively there, many thousands of handsets, and IoT and other devices have gone in from our partners and others. We've been supplying, obviously, a lot of minutes and some free minutes, and some devices where we can. We've been stretched in terms of supply to meet all that. But, I would say that's been our bigger focus.

Hamed Khorsand

Okay, thank you.

Operator

The next question comes from Chris Quilty with Quilty Analytics. Please go ahead.

Chris Quilty

Thanks. Matt, and I guess maybe, Tom, I want to follow up on the aviation market. Back at the peak of COVID, I think you had quantified about \$1.5 million per quarter revenue impact, and was wondering how far you've come back from that trough. And, again, at the time you had indicated that you figured it might take two to three years to get back to normal levels. Is that still a reasonable estimate or are you feeling a little bit more optimistic?

Tom Fitzpatrick

More optimistic. I think we're just about to pre-pandemic levels now, Chris.

Chris Quilty

Great. And, likewise, I think you were looking at about a half dozen terminal vendors. I think you reiterated back half of this year you expect those to come into certification and use. Is it still that same order of magnitude in terms of vendors? And in terms of the actual devices, are these terminals designed primarily for commercial aviation or general or across other platforms like rotorcraft and UAVs?

Matt Desch

Yes, we're still seeing a lot of demand from our partners and from their customers for Iridium in the aviation market. We're seeing high gain and low gain antennas flying now and being tested and working to be certified. Still look at it to be roughly that number of suppliers. We're already starting to see, by the way, some aviation activations in the lower-end Certus 100, say, and drones and NGA. And I think we're going to start seeing Certus 200 and 700 type systems later on this year. It's really broad-based. There's a lot of interest in the larger avionics suppliers who are putting us into commercial aircraft, primarily for cockpit communications and eventually for safety communications. The earliest systems will be non-safety, and then safety certifications will come in, say, the '23/'24 timeframe.

And then I think the broader base, and we've always been the biggest supplier in terms of volume for rotorcraft, general aviation, drones, that sort of thing, with 30,000 to 40,000 at least devices installed already. I think that's still going to be a very strong market for us in the Certus 100 and 200 areas. And some of those are going to also be hitting this year. You'll be seeing more and more in aircraft of all different types, as we start getting built in. It just takes a long time with aviation, because of regulation and certification and everything else. But demand is high, and we're a perfect fit for that market.

Chris Quilty

Just to follow up on one point, the UAV market. We're actually seeing some larger scale operational tests in the drone delivery market. What is Iridium's suitability for the sort of command and control functions for that particular market niche?

Matt Desch

Yes, I think very, very high. Those companies obviously will rely on local technologies, if they can, but they really want Beyond Line Of Sight reliability, either as primary or as a backup communication capability. I don't know the number of drone companies now that are actively testing or deploying our systems, but it's quite a few. We keep meeting more and more every quarter that are adopting and becoming partners and deploying us. We seem to have a really good fit with, say, like a Certus 100 product, because it's lower power, it's lighter weight, it's quite small, antenna requirements are not very high.

So those very small drones can afford to put Iridium on them for the applications that require non-localized support, which could be many, many down the road. Obviously, it's still early days for that sort of delivery, that business. So we don't tout it, because it feels like it's not going to take off as our big demand business for '22. But it just does feel very positive for long term growth and how we're positioned with it.

Chris Quilty

Great. And I guess just a follow up on Aireon. I feel like it was only a couple of weeks ago we did your fourth quarter call. Any updates there? Or if not, that's fine.

Matt Desch

Yes, it hasn't been a lot of updates there. They're obviously raising some capital, which we've talked about in the past, to focus on this commercial data services. They've continued to have wins in that area. They continue to look for the rebound of travel, which is looking increasingly positive this summer and next. So I'm sure they'll be back to strong growth over the coming year or two. So there hasn't been any like specific ones that we wanted to call out necessarily in our script this time, about big new wins or anything. But I saw even this week that they were touting how they're supporting Isavia there in the northern region, quite a large airspace where aircraft travel over the poles, that that's open and operating. And, I think that you're just going to continue to see a lot of long term positive information out of Aireon.

Chris Quilty

Great. And final question, I guess, you reiterated the about half of revenues on the IoT side coming from commercial. Is there any way you could give us a sketch of perhaps how many SKUs you have currently versus where you were a year ago, two years ago, in order to get a sense of how broadly the partner network is expanding?

Matt Desch

Well, I've wanted that for a long time. And the problem is, it's so hard to qualitatively count and to know for sure what you have. I can only sort of talk more anecdotally in the case, I think it's quite a bit higher. When you say SKUs, I think you're meaning like how many ways does our device, the 9602 or 9603, or 9523, or a chipset or whatever it is, how many different individual products or solutions? And I think it's starting to get to be in the thousands at this point. We have 300 to 400, at least of our partners are fully IoT related and we're adding anywhere from 15 to 40 new ones a year. And we even added the last two years during the pandemic, quite a few new partners and a number of new product spaces.

And I would say even lately, it feels a little bit like anybody who really is interested in a satellite IoT solution is coming our way. I'm even seeing some of our competitors look like they're acknowledging,

by moving to, say, leasing their spectrum or something model that they're not winning the new opportunities. So I feel like we're still continuing to expand, we're adding everything from like heavy equipment suppliers still, and new ones at that, to these new applications, like drones, to industrial applications, to buoys and container tracking solutions. It's such a broad, broad range, and it's really hard to count numbers, I wish we could.

Chris Quilty

Well, maybe for Tom, just in terms of the mix of those consumers, overall consumer tends to be a lower ARPU. And then within that category the partners that are using either the chipset or who knows maybe a waveform in the future, again, takes the ARPU down. Is it fair to assume that we should continue to see through the balance of '22, this sort of mid-single digit type ARPU declines on an ongoing basis just due to mix?

Tom Fitzpatrick

Yes, that's how we see it. But the introduction of the Certus 100 is going to have the opposite effect, right, Chris? Because that's going to be the ability to push pictures and things like that, so that's going to fight the natural downward trend of the mix because of the personal communications. So I would say yes, that's right. What are we good at 7% year over year? That feels about right in '22 and '23. But then you're going to get pressure going the other way as additional functionality is introduced across that segment.

Chris Quilty

Okay. And you had mentioned government interest in the Certus 100, due to some of the video and image transfer. To the degree that that lands in the government bucket with the ARPUs attributed over to the commercial side, because right now it's to the commercial gateway, but the actual subs would show up on the government side and the government IoT?

Matt Desch

Good question. That's a new one really. I don't know if we'll be able to answer that.

Chris Quilty

As long as the revenues go up, that's fine.

Matt Desch

Yes, that's kind of how I view it, which is why I don't have an answer for you. I'm really focused more on that side of the bucketing of it.

Chris Quilty

Alright, great. Thanks, everybody.

Matt Desch

Yes, Thanks, Chris.

Operator

The next question comes from Mathieu Robilliard with Barclays. Please go ahead.

Mathieu Robilliard

Good morning. A few questions, please. First, in terms of this trend in the equipment revenues, maybe if you could give a bit more color as to what surprised positively compared to your initial expectations?

Matt Desch

As I said, it's broad-based, it is across almost every product line. And I don't know that every one of our 500 or so partners are ordering more, but a significant portion are ordering more than had been ordering – than possibly coming back less. We did a lot of our planning for the year that provided our initial view of guidance back in October, November, December of last year, and saw growth, saw optimism across our partner base for all the different applications and support that they use Iridium for. And we plan for that. And that was showing growth, in fact, challenging growth. And so we go back and buy lots of parts from partners who have extended, from weeks to months, in some cases and look like we were still going to be short, but catching up, in terms of what we're doing, and then everybody keeps ordering more every month.

So I've got to say, obviously, the personal communications side of things has been very strong. As we have added - Garmin has done very well, but so has Zoleo, we've had Bivy, who's lowered their prices and seems to be catching on in the market too, several others. But other IoT suppliers and of course, the handset, it's been very strong this year. Perhaps some of our competitors are stumbling there a little bit in terms of their supply issues might be higher than ours. So we're picking up a bigger percentage of the global market share right now for handsets, but certainly no one expected the demand in Ukraine – I think, a year ago – would be as high, so those things have pushed it higher. But so has broad based interest in PTT. That continues to expand and so devices going into those kind of push-to-talk are growing as well.

So it's really been broad based, I don't know what to tell you other than I think it's all coming together, all the work that we've done over many years to have a great network that performs very well, that is priced and positioned appropriately. And our partners really are excited about the potential they're seeing and all the different ways that they can use our network to meet their needs.

Mathieu Robilliard

Great, thanks for the additional color. On the competitive side, have you seen any change in behavior from Inmarsat since the transaction with Viasat was announced? Anything noticeable there?

Matt Desch

No, I haven't noticed any new change in behavior. They continue, I'd say business as usual, more than anything else. I think if anything, they're kind of not being more aggressive. There have been price increases and other things on their side that have indicated that maybe they're even struggling for some growth, but I think they're doing okay in the environment. But I wouldn't say that the overall environment that we work [in] with them has changed at all.

Mathieu Robilliard

Great. And then the last one on SG&A. So you pointed to a 20% increase for 2022. I was curious to understand if that was the place where it will bring you in terms of SG&A, would that be like the new normal and then it grows from there? Or there are some elements that would appear in 2023, 2024 because they're more one-off in nature?

Tom Fitzpatrick

No, I think that's a higher run rate.

Mathieu Robilliard

Okay, thank you.

Tom Fitzpatrick

I would model 22, you know, 120 to 125, somewhere in there. And think of it growing for inflation from

there.

Matt Desch

And I'd say this is a little bit of right sizing for the growth that we're seeing right now and where we're at. I mean, we're just seeing a lot of opportunity, and we're growing a lot. And we've got to reset ourselves a little bit for the environment we're in going forward, which is, which is a positive.

Tom Fitzpatrick

Yes, I agree, Matt. I think the competition for technical people is intense. We see opportunities, and we're hiring in advance of the opportunities that we see, and that's going to take our SG&A up.

Mathieu Robilliard

Okay, great. Thank you.

Operator

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

Anthony Klarman

Thanks. Pretty much everything I had was asked already. But I guess I did have just a clarifying question on the CapEx increase for this year, obviously, you see an opportunity to get the ground spares up. And I know that you've used ridesharing previously. Could you just give us some insights as to what actually getting the ground spares up does for you strategically or operationally? Is it just, you know, increasing the time or usable network time in orbit? What benefit are you getting from this CapEx spend? And how do you weigh that against some of the other capital needs or opportunities that you might have, whether it be buybacks or other sorts of strategic investments that you might be able to look at making?

Matt Desch

Well, I think, first of all, we're very fortunate to be in a financial position to do something like this. You know, when we originally built 81 satellites, we were expecting, especially utilizing SpaceX for the first time, we were expecting that wouldn't be out of the mix to have a launch failure during that timeframe, and we self-insured as we went along, hoping that we didn't. And fortunately, we had no problems and therefore ended up with actually more satellites in orbit than we expected. But also these ground spares, we had six ground spares left over, and they serve absolutely no utility sitting in the ground. In fact, you have to maintain them, you have to keep the technical expertise up, you have to maintain their solar arrays and batteries and that sort of thing. And while we may never really need them, because our network is performing so well, I will tell you as a CEO of a satellite operator, I'd much rather have 14 spares in orbit or so than 9 that are backing up your system.

So it's an insurance policy. And that's pretty much all they are. We were thinking, as I said, we were looking at maybe if there was an opportunistic situation where we thought it was a really good deal where we could get those up at a low price, we would take it, we've always talked about that being sort of outside our CapEx holiday spend. And we're seeing an opportunity now that we like where they're going, and we think it's the right time and place. So it's truly insurance only at this point, if you will, they don't have an operational improvement to our system. But the last network that we had operated for 22 years, I think – the satellites that were built to last for much shorter than these satellites are. I think this gives us a lot of long term hope that we will have at least that kind of network this time too, which obviously it does support and continues to support for the length of our CapEx holiday overall, because the need to build the next network technically reduces slightly as a result of this.

Does that help, Anthony?

Anthony Klarman

Sorry, I was on mute. Yes, that's pretty much what I was looking for. Thank you.

Operator

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

Louis DiPalma

Matt, Tom, and Ken. Good morning.

Matt Desch

Hi, Louis.

Tom Fitzpatrick

Hi, Louis.

Louis DiPalma

With your announcement about launching spares, I know you just touched upon this, is there any change to your forecast for the expected useful life of the constellation? Is the timeframe for replacing it still, like around 2035?

Matt Desch

Well, we've always really described a CapEx holiday of at least 10 years, and that continues to support that. Obviously, we're doing it because it will lengthen whatever the long term life of our network is, we're not calling out a different amount of time at this time, because you just never know what you don't know down the road. But obviously, every year that goes by will give us increasing confidence that we'll have a longer term. So there are I know accounting implications and other things. And I'm sure that that's all part of, but we're not changing any of that right now. It's not appropriate to.

Louis DiPalma

Great. And I think a few quarters ago, Garmin released a second edition of the inReach Mini, and you discuss how your equipment sales were very strong, and you highlighted handset sales. You have also discussed how your partner's plan to release Certus 100 devices over the next two years. I was wondering, does Iridium have plans to update its own mobile device lineup such as your satellite phone and your mobile hotspot with the Certus 100 functionality?

Matt Desch

You're making me tease out information that I'm not really quite ready to talk too much about. But yes, we believe that—how do I say that? The Certus 100 technology would I think be fantastic in a consumer type device. And I look forward to seeing that in the market before long, but I'm not going to announce anything today.

Louis DiPalma

Right. And I may have missed this, but can you discuss the potential applications for your video compression partnerships with AnsuR and Video Soft that you announced last month? Do you see, like adoption of that technology more so for the military market? Or is there an emphasis on like commercial end markets?

Matt Desch

I think it's both. We've definitely seen some very good interest. In fact, the initial applications were remote, video over low [bandwidth] in very remote places. And we saw it first in operation and were kind of blown away ourselves by how well it worked in our Arctic Lynx demonstration that we did last

summer. Sort of a big demonstration area in the polar regions, with a very broad range of DOD and other governments watching how well it worked. And so that really encouraged us to support those partners, because we've also heard a number of our commercial partners have also expressed interest in what they could do using the technology over very low data rates.

And, our network isn't about speed, we're not trying to provide tens or hundreds of megabits like others. And in fact, some other networks are better for those kind of applications, if you're doing those all the time. But our network is extremely well suited for certain applications and being able to do good video over a Certus 100 device, we think is really unique, there's just nobody that's going to be able to do that. So, yes, a number of our commercial partners are also looking at it as well. But I can't really announce or describe exactly all the applications that I've heard it possibly being used for.

Louis DiPalma

Great, but did you say that the Certus 100 devices will also be capable of transmitting video?

Matt Desch

Well, using this kind of technology, yes. If you use compression technology, you can get some pretty good video, even out of tens of kilobits per second they've been demonstrating, obviously, it's not going to be high definition TV quality stuff, but it may be exactly what you need for a game camera or an important video in a remote location where you really want to show what's going on in real life and in other applications. But it could even be that low of speed. But obviously I think more of it's going to go into the Certus 200, Certus 700 category where you can really get a lot of capability there.

Louis DiPalma

Great. Thanks for the color.

Matt Desch

Sure.

Operator

And our final question today will come from Walt Piecyk with Lightshed. Please go ahead.

Walt Piecyk

Thanks. Matt, I think at the end of the prepared comments, you mentioned funding new businesses as one of obviously multiple things to do with free cash flow. Can you describe what does that mean to fund a new business?

Matt Desch

Honestly, I don't remember talking about funding new businesses. I don't know what you mean.

Tom Fitzpatrick

Let me give you an example, Walt. So we've talked about Aieron doing a capital raise in support of their data business. That'd be an investment that we would take a very hard look at. That seems very compelling to us.

Matt Desch

I don't remember saying that in my prepared remarks.

Walt Piecyk

Well, maybe Bloomberg has it wrong. I just read it off of Bloomberg, it's the last sentence of the prepared remarks. So then in terms of other uses of cash, you mentioned Aireon raising capital, are

you guys committed to invest in a round and it has a term sheet? You're on the board, so is there a term sheet in terms of this existing round or is that still being sought?

Tom Fitzpatrick

We haven't said, Walt. What we said is that should they undertake such a round, that'd be something we'd be very interested in.

Walt Piecyk

And would you anticipate maintaining your existing percentage, increasing? What rights do you have to increase your percentage in terms of additional rounds?

Matt Desch

There's no restrictions on increasing. So obviously, if we took a bigger share of it than others did, then we would be increasing our share.

Walt Piecyk

Would you be contemplate actually being the lead investor in the next round?

Tom Fitzpatrick

I'd just say, we like that business and we remain as committed to it as we've ever been.

Walt Piecyk

Got it. And then just the other question on free cash flow. So last quarter, you provided the update, which gave us a good sense of the amount of stock that you repurchased in the first quarter, which is obviously almost as much as you did all of last year. Can you give us some sense of what's gone on? Or what you're planning to do in Q2, or kind of what sense of pace we should expect across 2022 in general?

Tom Fitzpatrick

Sure. So we're through the first authorization here in April. I can tell you that we're working on the second 300 [million dollars]. And it's the same balance of leverage, we poked above 3.5 times, we're going to be disciplined and watch our leverage, watch where we think the stock is most compelling. And as you can tell, Walt, we've fully exhausted the first authorization which was two years [in term], we exhausted it in one year. So we're very serious about this buyback program.

Walt Piecyk

Got it. Thank you.

Matt Desch

Walt, by the way, I noticed it was in Tom's prepared remarks, one of his closing statements was "fund new business system investment", he was referring to that discussion where we were talking about retooling some of our business systems or IP systems to work automation and other things. So I think that's what that was about.

Walt Piecyk

Okay, I appreciate that. Thank you.

Matt Desch

Okay.

CONCLUSION

Operator

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

Matt Desch

Well, we continue to be here to support your additional questions and support you and we'll be seeing you in the second quarter. Thanks for joining us this quarter. Take care.

Operator

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