Iridium Communications, Inc.

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Kenneth Levy – *VP, IR*

Matt Desch – *CEO*

Tom Fitzpatrick – *CFO*

PRESENTATION

Operator
Good morning, and welcome to the Iridium Communications First Quarter 2024 Earnings Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key, followed by “0”. After the today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*”, then “1” on your telephone keypad. To withdraw your question, please press “*”, then “2”.

Please note, today's event is being recorded.

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

Kenneth Levy
Thanks, Rocco. Good morning, and welcome to Iridium's first quarter 2024 earnings call. Joining me on the call this morning 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 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 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, and good morning, everyone. So, the first quarter often sets the tone for the rest of the year, and activity to-date has been upbeat and quite strong. Service revenue continues to expand on our growing subscriber base, and our partner ecosystem remains quite dynamic,

whether it be in IoT, maritime, aviation, or defense. We remained busy, as well, since the beginning of the year, with a lot of new product development and the completion of our first-ever company acquisition on April 1.

We met with a number of you during the many investor conferences in March and have been active in the debt market with our tack-on financing to upsize our Term Loan to complete the Satelles acquisition. We're really excited about this transaction and the business opportunities that bringing Satelles in-house provides Iridium and our partners. With this acquisition, we'll go from just a wholesaler of Satelles' secure signals to an end-to-end solution provider of PNT services for customers, globally.

For those who are not yet familiar with this new business area, this acquisition makes us the leader in satellite-based time synchronization and location services that complement and protect GPS and other GNSS systems. As the world, increasingly, has come to realize, the prevalence of GPS jamming and location spoofing during conflicts and for general mischief is on the rise and is impacting critical infrastructure, military operations, aircraft and shipping navigation, and other important functions for governments and enterprises, around the world.

Iridium's expanding PNT solutions can, cost-effectively, reduce these vulnerabilities and provide an alternative to GPS reliance, particularly for critical infrastructure that we all depend upon.

Going forward, this new business offering will be referred to as Iridium Satellite Time and Location, or STL, for short, and be reported within our hosted payload and other revenue lines.

The entire 70-person Satelles team is being integrated into Iridium as the PNT business unit, and Mike O'Connor, who was the CEO of Satelles, will report to me as the leader of that business. We anticipate that STL will generate over $100 million in service revenue per year by 2030, with additional revenue on top of that from equipment and engineering services.

These PNT solutions ride on Iridium's LEO constellation and utilize small, very low-cost hardware. With a secure signal that is 1,000 times stronger than GPS, Iridium STL can even be used indoors to add redundancy and protection to data centers, in building wireless networks and other critical infrastructure.

Best of all, STL is sold as a wide area broadcast service that can support an unlimited number of users, while using minimal capacity on our network. These applications are already proving their worth in the market today, and we think we enjoy at least a 5- to 10-year head start on other viable solutions that are global and have the resiliency of a space-based approach like ours.

With Iridium's broad and growing ecosystem of partners, we expect that STL will be able to address many additional customer challenges in maritime, aviation, the UAV market, protecting energy grids, as well as some innovative new applications in areas like cybersecurity.

I hope you can sense my excitement for this transaction. It's strategically in line with Iridium's priorities and vision, doing things that are unique, special, and important from our LEO L-band network and better than anyone else can do. We're ready now to step on the gas and expand the availability of Iridium STL to new markets and customers.

You will recall from our September Investor Day that I laid out a number of vectors that would support Iridium generating $1 billion in service revenue by 2030 and supporting our capacity to return $3 billion of capital to shareholders, over this same 8-year period. Let me be clear, there have been no competitive developments since last year's Investor Day that change our view on our long-term financial outlook.

STL is one of the financial drivers that supports this plan and is a great tuck-in acquisition that will create synergies across our other market vectors.

For those who had the opportunity to tune into our conference presentations during the first quarter, you've heard us reiterate many of these long-term growth drivers. It should come as no surprise that the largest opportunities we see for revenue growth through the end of the decade come from services we already know very well and are already working on.

To achieve our long-term growth objectives, we don't have to change our strategy or wholesale business model. Instead, it will be more of the same. We will stay in our lane, grow our network of business partners, execute on product launches and innovation, and deliver on our unique strengths. This is our objective, and we have a pretty good track record of delivering.

Beyond Satelles and other potential tuck-in acquisitions, we highlighted four other drivers during our September Investor Day that are key to Iridium's revenue growth in the coming years.

First, IoT. We are the leader in personal satellite communications, as well as industrial IoT, and we continue to believe that double-digit revenue and subscriber growth we have produced in these commercial applications will continue for the foreseeable future. You can see that really demonstrated again in our first quarter results.

Second, midband. Leveraging our leadership in IoT, we will continue to move forward with partners to roll out new applications and devices that take full advantage of our very unique Iridium Certus platform that is optimized for size, speed, mobility, and takes full advantage of our L-band spectrum position. Highly mobile, power-efficient devices using Iridium's midband services, which support speeds up to about 100 kilobits per second in a small form factor, will drive IoT ARPUs and open Iridium services up to new industries.

Some of these devices have already entered the marketplace, and we envision Iridium's midband services will offer added functionality and connected solutions to industries like security and surveillance, autonomous vehicle, and other remote applications that demand higher bandwidth, but still need mobility or operate on batteries and are often small and need to be lightweight.

Third, Direct-to-Device. You previously heard me speak of our investment in Project Stardust. This is a multi-year investment that will make Iridium technology available to chipset manufacturers, adopting new satellite oriented 3GPP standards for IoT devices and consumer devices like smartphones. This is a very large market, and our work will expand our IoT opportunities into a broader set of cost sensitive industries.

Lastly, Telephony. We strongly believe that satellite-based personal communication devices have a bright future, even as we and others develop direct-to-device capabilities. I want to underscore that Telephony is an important revenue source for us with more than 400,000 users of purpose-built voice devices of all types on our network, and we expect that number to continue to grow into the future.

These devices are mainstays for first responders, governments, and lone workers and they’ve become so completely integrated in their operations because of their reliability, global reach, and the challenging environments in which they are used. They allow organizations to plan and execute, without interruption, and ensure that communications facilitate the accomplishment of a goal, rather than hindering it.

The advent of high-quality push-to-talk services over the last five years is a proof-point of these purpose-built devices and remains a driver of expanding the subscriber base and revenue Iridium continues to see in this area.

Historically, Iridium has served the needs of niche and specialized communities of users. And while we are proud to have grown this niche to more than 2.3 million subscribers, globally, I assure you we are far from finished. My team constantly questions the status quo and given our history, has a healthy humility and even an appropriate level of paranoia about the continued leadership position we have attained in the satellite industry.

Some investors seem to be skeptical about our future, right now, but we think they underestimate the utility of our global services, misunderstand the needs of the particular customers we serve, and are discounting the capabilities of our network, relative to others in the satellite sector. We are highly confident in our long-term revenue drivers and capital generation through 2030, and we have a lot of visibility into the fundamentals of our business.

The vast majority of our revenue is recurring, what we refer to as service revenue. While we do not require our service to be sold with long-term contracts, our customers often opt to purchase iridium solutions for years at a time. In fact, they've often tried other L-band offerings prior to settling on Iridium's network, and they choose our service because it provides a level of reliability, coverage, and customer support that they cannot get elsewhere. I'm proud of this fact and encourage investors to validate this with their own due diligence.

We continue to show our commitment to return capital to shareholders. In the first quarter, we were active with our repurchase program and continued with our quarterly dividend. As we noted in February, our Board will increase Iridium's dividend, starting with our June payment. This will result in a dividend increase that is equivalent to about 6% in 2024. These programs underscore our confidence in Iridium's continued business growth and the strength of our enterprise to generate free cash flow.

I would be remiss not to touch on Iridium's stock price and the market's current assessment of our equity valuation. While Iridium is a satellite service provider, we don't operate or look like anyone else in the satellite industry. I would go so far to say that this group is not who we should be compared to for valuation purposes. Other satellite operators have continued to see competition grow and seen their fundamentals deteriorate. With perhaps one or two exceptions, they don't generate free cash flow like we do, don't have growing service revenue and subscribers like we do and, surely, none can claim to have the unique network and business profile that we do.

We continue to believe that Iridium is more comparable to other companies generating both growth and free cash flow. We encourage investors to look at Iridium's levered free cash flow to evaluate the strength of our business and assess the relative value of our common shares. When considering measures like free cash flow yield and conversion, we believe that Iridium continues to stack up quite well against the tower sector and data centers, some of which trade at twice our enterprise value to OEBITDA multiple.

We believe our competitive dynamics are also similar to these infrastructure companies and that we occupy a unique business space and have strong visibility to future growth. As such, we believe that the underlying strength and growth of our business should be rewarded with a higher valuation. Perhaps some of the decrease in our valuation comes from the market's overall concerns for the space industry, in general, and disruption impacting VSAT players.

I would remind you that Iridium faces a very different competitive environment and set of business opportunities than the commodity broadband players in the VSAT industry. In fact, we have been deliberate in avoiding commodity services like VSAT broadband and are focusing on being the L-band safety complement to VSAT and other K-band broadband services.

Our L-band ensures that mariners can operate, globally and reliably, in the face of weather, where service is unavailable, or in ports where VSAT services are restricted. And later this year, our companion Iridium Certus broadband terminal, will be able to provide the mandated GMDSS function, as well.

We continue to believe our shares offer a compelling value today, based on our fundamentals. We are converting on business opportunities, adding subscribers, growing revenue, and adding new avenues of growth. We remain an active buyer of our shares and continue to believe our equity is an attractive investment for investors looking to outperform the broader industry.

As we have previously said, we don't expect to spend any CapEx on a next-generation satellite constellation, through 2030. We expect that when we do commence spending post-2030, it will ramp slowly, as we shouldn't need to launch satellites until the latter half of the 2030s.

As we contrast the amount and profile of spending with our anticipated OEBITDA during the construction period, we expect to generate meaningful levered free cash flow, throughout a next-generation constellation build. This will support continued share repurchases and a growing dividend throughout the future construction period.

So, Iridium has a healthy balance sheet, strong business fundamentals and is positioned well for growth. We see no new competitive developments impacting our outlook or long-term guidance. As we have said during last year's Investor Day, Iridium expects to have the capacity to return approximately $3 billion to shareholders, through 2030. This represents just about 100% of the company's equity market value, as of this morning. You must admit, that's an extraordinary fact, at this time.

Everything we see supports our outlook for continued growth and achieving our long-term vision. While the market may not appreciate this at the moment, we expect that to eventually correct as we continue to execute, expand on our unique opportunities of our network and return capital to our shareholders, along the way.

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

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 2024 guidance, which we affirmed this morning, and close with a review of our liquidity position and capital structure.

Iridium continued to execute well, delivering another quarter of subscriber growth and strong service revenue expansion. Operational EBITDA was $115 million in the first quarter. This was a 3% increase from last year's quarter, driven by growth in recurring revenue.

On the commercial side of our business, service revenue was up 8% this quarter to $122.1 million. This increase was broad-based and reflected continued strength in voice and data, and IoT, as Matt mentioned.

Voice and data revenue rose 5% from last year's comparable quarter to $55 million. The increase was largely driven by subscriber growth, as we continue to benefit from strong demand for our push-to-talk services. The one-to-many service of push-to-talk has widespread application in organizations that coordinate and respond to dangerous and changing circumstances, like first responders, safety organizations, and government entities.

Commercial IoT revenue totaled $39.4 million in the first quarter, up 23% from the prior year quarter. It was favorably impacted by a new two-year contract with a large, fast-growing partner. This new contract has the effect of materially increasing revenue from this customer in 2024, compared to 2023. It also results in revenue being recognized approximately equally in each of the four quarters of 2024.

In prior years, revenue was recognized as subscriber counts ramped throughout the year, and as seasonal usage picked up in the second and third quarters. That will not be the case under the new contract, as we have agreed to a more deterministic approach to pricing with this large customer, which creates more certainty for both of us.

As a result of this contract change, this quarter's revenue growth will compare most favorably to our lowest prior year revenue quarter, and future quarters will show somewhat lower year-over-year growth than this quarter. Given the certainty of these contractual revenues and with positive developments across a broad range of other IoT customer segments, including personal communications, heavy equipment OEMs, fleet management and aviation, we expect full year IoT revenue to exceed the 13% growth rate experienced in 2022 and 2023.

Accordingly, we are guiding IoT revenue growth in the mid-teens in 2024. IoT is a central plank in Iridium's billion-dollar service revenue target for 2030. Developments in 2024 in IoT bolster our confidence in achieving this long-term target. Revenue in commercial broadband grew 2% from the year ago period to $13.7 million.

As we have previously noted, we are seeing the effect of commodity broadband pricing in a limited portion of our broadband business. We expect this impact to be short-lived and expect growth in broadband in 2025 to improve from 2024, as we are routinely used as a backup to VSAT and all K-band players. This impact was anticipated in our $1 billion service revenue target for 2030.

I would point out that while broadband was not one of our five central planks identified for growth in our September 2023 Investor Day, we do expect respectable growth in this area, over the period.

During the quarter, we added 54,000 net new commercial subscribers. Commercial IoT data subscribers now represent 81% of billable commercial subscribers, up from 79% in the year ago period. We estimate that consumer-oriented plans now account for more than 930,000 of our 1.8 million commercial IoT users.

Hosting and other data services revenue was $14 million this quarter, down 7% from last year's comparable quarter. As we outlined during our last call, we increased the estimated useful life of our satellites by an additional five years, based upon the health of these assets.

This extension of the satellite's useful life extends the time over which we recognize revenue from our fixed price hosting contracts. It's important for me to reiterate that this accounting update does not affect our cash flow.

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

Subscriber equipment, which is coming off two years of record sales driven by partners’ supply chain stock-up related to the pandemic, is now returning to more normalized levels. We sold $24.9 million in hardware in the first quarter and continue to expect equipment sales this year will be more in line with historical levels.

Engineering and support revenue was $30.4 million in the first quarter, as compared to $24.2 million in the prior year period. The increase reflects growing activity related to our government work for the Space Development Agency (SDA), a contract that we won in 2022. We continue to forecast year-over-year growth in engineering revenue in 2024, and again, expect growth in 2025, based upon an increase in the scope of work and new business opportunities with the SDA.

Our first quarter results, as well as the trends we are seeing into April allow us to affirm our full year guidance on service revenue and OEBITDA. In support of this outlook, I want to highlight a few items that may be relevant to your models. We remain comfortable with our outlook for service revenue growth between 4% and 6% in 2024. This equates to a 5% to 7% range, without the accounting update related to our satellites.

The Satelles acquisition, which we completed earlier this month, is accretive to our previous revenue guidance for service revenue growth of between 4% and 6%. However, we expect the effect to be less than 100 basis points in 2024. So, we are reiterating our previous guidance this morning, but now see ourselves higher in the stated range, after giving effect to the acquisition.

Commercial voice and IoT data continue to enjoy strong momentum and drive much of Iridium service revenue growth in 2024. Revenue from our U.S. Government EMSS contract will remain steady at $26.5 million per quarter in the first half of 2024 and will rise with a contractual step-up in September.

Full year revenue in the government business will be $106.3 million in 2024. Equipment sales will moderate this year with revenue expected to revert to pre-pandemic levels, as the channel absorbs safety stock it accumulated during the pandemic.

On the expense side of the ledger, SG&A is expected to remain stable in 2024, while R&D spending will nudge up about $5 million to support our Stardust initiative on NB-IoT and direct-to-device. Depreciation and amortization will decrease by about $83 million in 2024. This is entirely related to the change of satellite useful life, which I touched upon, earlier.

Iridium expects cash taxes of less than $10 million in 2024. This minimal level incorporates additional R&D credits we expect to realize, through '26. Taken together, these trends allow us to reiterate our forecast for service revenue growth between 4% and 6%, and operational EBITDA between $460 million and $470 million, this year. We feel very good about the momentum we're seeing, across our businesses.

Moving to our capital position, as of March 31, Iridium had a cash and cash equivalents balance of $174 million. Iridium received cash of approximately $125 million as a result of an increase in the term loan, which was used to fund the Satelles acquisition in early April. You'll see the full impact on our cash balance of this transaction when we report on our second quarter results.

Term Loan B tack-on funding was completed at an OID of 99 and 7/8, and with the same terms as Iridium's existing facility. We're very happy with these terms and appreciate the confidence the debt community continues to show in Iridium.

As of March 31, Iridium's term loan balance increased to $1.62 billion to reflect this new funding. When we report out our second quarter results, you'll see the full impact of this transaction on our balance sheet, which will have the effect of increasing Iridium's net leverage to approximately 3.4 times OEBITDA.

As we've said previously, we think Iridium naturally de-levers over time and expect net leverage to fall below 2.5 times OEBITDA as we exit 2026 and be below 2 times OEBITDA, by the end of the decade. This outlook gives effect to our planned dividend program and all share buybacks authorized by our board.

In the first quarter of 2024, Iridium retired approximately 1.8 million shares of common stock at an average price of $30.41. This left us with an outstanding balance of $277.4 million under our Board-approved authorization, through December 31, 2025.

During the first quarter, we also made a quarterly dividend payment of $0.13 per share, paid on March 28. Beginning in the second quarter of 2024, Iridium's Board will increase Iridium's quarterly dividend to $0.14 per share, representing an increase of approximately 6%, over the full year 2023. This reflects our confidence in the company's business opportunities and prospects for continued strong free cash flow generation.

Capital expenditures in the first quarter were $14.6 million. As we noted on our fourth quarter call in February, we expect capital expenditures to average $60 million annually, through 2030. CapEx will be over $60 million in the next couple of years, as we invest in new product development initiatives, like Project Stardust, and then trend below $60 million in the latter part of the decade.

Turning to our pro forma free cash flow, if we use the midpoint of our 2024 OEBITDA guidance and back off $84 million in net interest pro forma for our current debt structure, approximately $69 million in CapEx for this year, $5 million in cash taxes and $6 million in working capital inclusive of the appropriate hosted payload adjustment, we're projecting pro forma free cash flow of approximately $301 million for 2024.

These metrics would represent a conversion rate of OEBITDA to free cash flow of 65% in 2024, and a yield of approximately 10%. 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 general, we're happy with the performance of our business and believe that Iridium continues to make solid progress on the long-term growth initiatives it laid out at the 2023 Investor Day.

I also want to echo Matt's comments on our equity valuation. Iridium stands in stark contrast to the other satellite companies and occupies a truly differentiated position. We will generate approximately $300 million in free cash flow in 2024, and it will grow from here. We should not be compared to other satellite companies who face direct competitive challenges and many of whom don't even generate positive free cash flow.

With that, I'll turn things back to the operator and look forward to your questions.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press “*”, then “1” on your telephone keypad. If you are using a speaker phone, we ask that you pick up your handset, before pressing the keys. To withdraw your question, please press “*”, then “2”.

Today's first question comes from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss
Thanks. Good morning, everyone.

Matt Desch
Good morning, Ric.

Tom Fitzpatrick
Good morning, Ric.

Ric Prentiss
Hey. Appreciate the competitive landscape picture and all the details found on your part. I do want to hit on the Satelles side. So, it sounds like service revenue can move to the high end, but Satelles helps with that, but less than 100 basis points. How should we think on the cost side? I think, Matt, you mentioned 70 people coming in. Where are those--how much of the cost of Satelles coming in and kind of what line items should we think that's coming into?

Matt Desch
Yeah. I think mostly in SG&A, wouldn't it? Yeah. In SG&A and probably disproportionately, exactly as you would see it add to our overall total.

Ric Prentiss
Okay. And IoT, appreciate the color on that. Large contract, two-year contract, I think, I heard you say. Flattish effect, kind of, I guess ARPUs versus the seasonality. What should we think of in '25 on that two-year contract and what's the risk that it falls off after that, then?

Matt Desch
The risk at what falls off, Ric?

Ric Prentiss
You said it was a two-year contract. So, is that like a benefit and then those subs and revenues drop off or maybe give us a little more color on?

Tom Fitzpatrick
We think that's a growing customer. They just happened to sign a two-year contract, but that's a grower for a long time, in our view.

Ric Prentiss
Okay. And you said the revenue recognition is different this time around with this particular customer and that future quarters would be lower year-over-year percent increases versus what we saw in 1Q. Just trying to think of how should we be thinking about what that means throughout '24 and what it means for '25 on the initial two-year contract then?

Tom Fitzpatrick
Right. So, I think we're sitting on a 23% growth in the first quarter. What we're saying is future quarters, the next three quarters, is not going to be that. It's going to be down, but you should model mid-teens growth on the full year for IoT.

Ric Prentiss
Got you. Okay. And the final one for me. Obviously, you both touched on, which we agree with, the stock price looks very compelling. The stock buyback in the quarter was $57 million or so. What would allow you to ramp that higher? Obviously, you're keeping leverage in balance. You have the Satelles acquisition. But why not go heavier at the stock buyback program, since you see such compelling value there?

Tom Fitzpatrick
Yeah. I would say we agree with you. It could go higher.

Ric Prentiss
Was there anything that kept it muted in the first quarter or anything external we should think about that might have governed it?

Tom Fitzpatrick
There are constraints in terms of windows and that sort of thing. And as you saw, we took the leverage up for Satelles. There were some investors who thought that we would maybe back off of the share buybacks. There was no chance we were doing that. So, we took the leverage up for Satelles. And we think that the share price, right now, is a really compelling buy, so stay tuned.

Ric Prentiss
Message understood. All right. Thanks, guys.

Operator
Thank you. And our next question today comes from Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery
Great. Thank you very much. Good morning. Matt, you talked about the Satelles being your first deal here. I know you've been very disciplined over the years, and you've laid out the benefits that gives you. So, perhaps just a little bit more context about what got you over the hump here in terms of deciding with the Board that this was the right thing to do. And should we think that this might be the start of a more active deal environment for you?

And I know it's only been a couple of weeks here, but I presume bringing Satelles into the broader organization opens up a lot of other conversations. So, it'd be just great to hear what the early impact has been with your customers, etc., and your ability to leverage this and take it to another level?

Matt Desch

Yeah. Good question, Simon. So, I would say, we've always been interested in potential acquisitions, but there haven't been many compelling ones out there in our space that really fit our model, didn't really want to change our business model. Obviously, we knew Satelles very well. We were part owner.

I really feel personally responsible for having helped create the business, going back almost 15 years, and helping spin it out -- the technology out of Boeing and sort of nurturing the business along. They've actually done quite well. We were excited to see the space was … well, I'm not excited to see the space growing--that means that GPS jamming and spoofing, and all kinds of other issues are growing, quite dramatically.

But we saw the recognition of those problems were expanding, around the world. And Satelles was being well recognized for that, was being successful, and was at a turning point in their business.

And I think they recognized that as well because they had their Board approve the consideration of selling themselves. And in fact, it opened up a process. So, they were thinking with that additional growth that they might find a partnership, say, with another government contractor, another place that might expand them.

And I certainly wasn't against that because whoever bought them would be a partner of ours. But immediately started thinking, why are we not the one that really should be the right owner of this? This is a good time for us to jump into this segment. It doesn't change our business model. It doesn't put us in competition with our partners. It really has a chance of creating other synergies, across our business. And I would say that that has been, absolutely, the conversation we've been having over the last couple of weeks.

One limitation they had is that they were very limited in terms of where they could lay the signal down around the world and the applications that they could pursue because they didn't want to pay too much money to us in terms of that signal. Well, we're not limited in that way [post-acquisition, as a business unit within Iridium]. We can expand into things like maritime and aviation, which require the signal to be placed across the big part of the world.

They viewed those applications out, five, six, seven years as sort of organic growth opportunities, where we look at those as more near-term opportunities that we can pursue right away because we have the ability to broadcast that signal anywhere we want to.

So, there's been a lot of synergy discussions, already, a lot of things we hadn't even considered before. I will tell you their customer base was thrilled to hear that we were the acquirer. It gave them even more confidence about them as a supplier in the market segments they were pursuing, so it's been really a win-win. And we're really quite excited about the potential for that business.

Simon Flannery
Right. Good to hear. And maybe just one follow-up. I appreciate the color on the next constellation and really the spend being pushed out into the latter part of the 2030s. That would seem to suggest that 2.0 [time OEBITDA] on leverage is pretty conservative if you're not going to have a big step up in CapEx in the early part of that decade. Is--so has something changed there or why do you need to be there if you're not necessarily going to need that capacity for three, five years later?

Matt Desch

I think, when you give guidance eight years out in the future, it's really just model-based, at that point. I mean, I don't disagree that if we were still trading at this level, out later on in the decade that would be a crazy multiple to be keeping at, because there's many other things we could be doing with that, instead. So, I just think that that's the right kind of model right now for the future, and we'll revisit that as we go out in the future.

But, I mean, like I said, I think the more important part is continuing to show investors that this growth rate that we've experienced over all these years is going to continue. I think we've given lots of reasons why that should continue and why we believe our projections are appropriate, and we'll let the rest of it take care of itself.

Simon Flannery
Great. Thanks. Makes sense.

Matt Desch
Thanks, Simon.

Operator
Thank you. And our next question comes from Walter Piecyk with LightShed. Please go ahead.

Walter Piecyk
Thanks. Tom, I think in the prepared remarks, you said the free cash flow guidance is $301 million last quarter, and the supplemental is $309 million. I assume the difference, or it looks like the difference, obviously, is the $8 million for added interest expense for Satelles.

Tom Fitzpatrick
That's right.

Walter Piecyk
Which seems a little high, I think, relative to the amount, but whatever, that's $8 million. So, does that just imply that Satelles--it's basically a breakeven EBITDA business, or how do we think about that consensus?

Tom Fitzpatrick
Said that--we said it's breakeven.

Walter Piecyk
Got it. And then by year whatever, three, four, what's the expectation in terms of EBITDA contribution, specifically for Satelles? How do you expect that to ramp in the upcoming years to get to your longer-term targets?

Tom Fitzpatrick
Our guide on Satelles is it was $5 million in service revenues in 2023. We see it as $100 million in 2030, and EBITDA margins in that business are going to be as good or better than ours.

Walter Piecyk
All right. And then on Stardust, spending $5 million on it this year, is that early-stage spending? Does that go up in subsequent years and what are the decision factors? Well, I guess two-part question on this. Are there other applications other than direct-to-device that the Stardust investment enables? And if not, what are the decision factors in the upcoming quarters or years

If you see major manufacturers kind of go a different direction in terms of the connectivity that they want to implement in their devices, cell phone manufacturer, that is?

Matt Desch
Stardust is really a--there's some additional capital required in there, as well, as far as some standardized boxes and gateways and things like that, that perhaps we don't have, that we'll be purchasing. But most of it is development into our network, itself. We don't have to develop the end user device because that's being done by the standards community and by chip manufacturers, and we're having those discussions, today.

But it's really because we have a very flexible, software-defined network. Most of it is reconfiguring our network, over time. So don't expect that the investment's going to dramatically increase from where we're at, this year. It's a couple-year investment in capital and R&D and will enable us to do not just direct-to-device. I mean, when we say that word, I think the bigger opportunity really for us is narrowband IoT.

It's an expansion of the opportunities that we have in the IoT space. That is a more direct play, where our partners are excited about being able to offer standardized devices that really are very low cost and roam, flexibly, onto the terrestrial networks or roam from the terrestrial networks to space. And I would say that's the biggest part of the opportunity.

We also are having a lot of discussions about that technology being put into the chipsets that are going into phones and other consumer devices and would expect that that could be an opportunity in complement to other technologies because we'll be a global L-band capability that can be in every country where, at least right now, it looks like most D2D technologies are quite regional, limited by spectrum and regulatory issues and other things, right now, that a global capability that can do sort of a messaging and emergency services on a global basis could be very complementary to that service.

So, that's a pretty broad-based opportunity set that we're looking at with Stardust, and certainly justifies why we're investing in it.

Walter Piecyk
Got it. And I think I might have missed this when--I think Ric might have asked this question. So, I apologize if this is the second time. But on the IoT contract, was there a timeline on that contract? Tom, it sounded like from your comments--it sounded like a one-year deal. But is this like, does it auto-renew? Is it more than one year? Can you just give a little bit more color on, I guess, the terms? And I guess, more importantly, obviously, it doesn't show up in units, but it's showing up in revenue, like, just functionally, what--how is this--can you just give us a little bit more color on the customer, I guess, and the length, potential length of the contract?

Matt Desch
I'll take it. Tom, you can too. But I just want to say this is a longstanding customer who has been a big user of our services and expects to do that in the long term in the future. And they wanted more consistency, sort of in the expectations they had. So, we struck a two-year deal with them, which we've given good guidance about. Don't expect that to end because they're going to continue well out in the future. But we felt that would be a good place to start. And so, we struck a two-year deal, which was sort of a win-win for both of us and have provided you the effects of what that looks like in our business this year and what it could be.

Walter Piecyk

When you say consistency, are you talking like dedicated? What does that mean? Is that dedicated bandwidth or what exactly are they getting?

Matt Desch
A more view of exactly what kind of costs that they would be spending on their service revenue, over time, because we have enough experience with each other to know how they're using our network. And so, we were able to kind of, instead of going device-by-device and service-by-service, we could kind of spread that over time in a more consistent way, both for them and gave us more consistency, as well, to know what our expectations were looking like going out in the future.

Walter Piecyk
It sounds like a tower master lease agreement as opposed to what, basically charging them on a per unit basis, an overall usage-based contract.

Matt Desch
Yeah. I don't disagree. That's not a bad reference, somehow.

Walter Piecyk
Okay. Thank you.

Matt Desch
Yeah. Thanks, Walt.

Operator
And our next question today comes from Chris Quilty with Quilty Space. Please go ahead.

Chris Quilty
All right. The horse is not quite dead. One final hit on it. Is it fair to assume, like, I had been modeling kind of mid-single digit decline in commercial IoT subs or IoT ARPUs for this year. Q1 turned out to be your first increase since--I went back and looked at the first quarter of 2012. Like, we're not expecting the ARPUs for IoT to be up this year. They're still down. You don't have to confirm mid-single digit, but the long-term trend still holds because the personal communications is still sort of dragging down overall ARPU?

Tom Fitzpatrick
You have that right. You have that right.

Chris Quilty
Okay.

Tom Fitzpatrick
So, think about the picture this way. I think on the full year, this year, they're not going to--they will not follow trend. They're going to be better than that. I'd call it flattish on the full year. They're up in the first quarter but looks like flattish. So, that's atypical and that's this contract. But the longer-term kind of effects are two, right, it's the personal communications is outweighing the sub-growth by long shot, that's lower ARPU, so that's going to cause the ARPUs to trend down.

Kind of offsetting that is new functionality with higher data speeds, right, that will cause higher ARPUs within personal communications. So, that will serve to temper what should continue to be a downward sloping line in terms of ARPUs.

Chris Quilty
Got you.

Matt Desch
But I would say longer term, Chris, I mean, there's another effect as we get into the narrowband IoT space, which could be lower ARPUs, as we expand into new applications. But then there would be much bigger volumes and stuff as, well, to kind of counteract that. So, it's hard to exactly say where this is going to go but, certainly, it's positive.

Chris Quilty
I was going to say, even before the NB-IoT, when--so it's been a more than 10-year trend of declining ARPUs here, which has been good because it's the growth of the personal communication stuff. At what point does the growth of the midband, which should be higher ARPU, turn you into positive territories? Is that like a couple years out or five years out?

Matt Desch
Yeah, I don't know. I mean, probably a year or two, at least, before it really makes a major impact because the new 9604, which comes out late this year, starts getting into devices that would hit the IoT line. And then some of this midband is hitting more of the voice and data line, which is a positive there. So, it takes time for these new technologies to get into products and start ramping, that's usually a couple year kind of cycle.

And fortunately, the midband stuff started a year or two ago. And so, we're going to start, I think, seeing more growth as we get into this year and next year. But again, I mean, since we don't have really costs associated with it, I think the ARPU argument, as we made the point, is not like the argument made in the terrestrial wireless world, where CapEx sort of followed every subscriber, so ARPU declines had concerns. We more focus on how much resources are being utilized by the customer. And these low ARPU personal communication subscribers are using almost no usage on our network, so that's a fantastic use of our service.

Tom Fitzpatrick
So, I would just amplify, Chris, that Matt's point about the relative significance of ARPU, I think what investors should take note of is take a look at this IoT business. It grew the last two years, by 13%. We're saying here it's a much bigger business than it was two years ago, and you see accelerating growth. We're guiding mid-teens. I think that's the real takeaway on IoT.

Chris Quilty
Good deal. Maritime, so last quarter, you became the--probably, the very last company in the maritime service market to feel the Starlink impact. I think you said it was limited to those vessels that used a sort of Certus only terminal, which was fairly limited number of vessels.

Is that playing out as you thought? And the second part of the question is, as Starlink starts to penetrate the vast number of vessels that have no connectivity, do you have some kind of a definitive strategy to pull along with them, as the backup?

You've already established yourself as a backup to VSAT. And when I say VSAT, I'm talking about the traditional GEO VSAT. Technically, Starlink is a VSAT, but they're different, or do you think that those new users who, historically, haven't had connectivity are just not inclined to have a backup system, regardless of whether Starlink is blotchy or whatnot in its performance.

Matt Desch
Yeah. Great questions. To the first part, it's absolutely played out exactly the way we thought it would play out and over the same time frame. And, I think, will play out over the next couple of quarters, and we'll get back to growth in '25, as we expected there.

To the latter part, we've now talked to every one of our partners, all the people who are deploying both Starlink and VSAT solutions, and they all are absolutely, both committed and convinced it's the right strategy that Iridium be the backup, be a companion to Starlink because Starlink still is, despite all, it's a great product, which I think, by the way, is expanding the market a bit, too, but to the extent it's on existing fleets.

Fleet owners understand the limitations of where it can't operate. It's restricted to operate. It still has the same limitations around rain fade and that sort of things, as VSAT solutions do, and it can't be used in many ports. And a solution, particularly one as cost-effective as ours, that works 100% on the planet. And before long, we'll actually have a GMDSS and LRIT and SSAS function all embedded in the same companion terminal is the best way to provide a high-quality service to a fleet. And so, we're convinced that's the long-term approach of that market and will do very well, as a result of that.

Chris Quilty
Got you. Government question. You were one of, I forget how many now, sort of mid-teens number of companies that were awarded contracts under the P-LEO, which was like a $900 million ID/IQ. I think you're one of like only three companies that actually operates a P-LEO and the only one that does it in comms. Have you seen any activity on that contract vehicle, because I haven't seen any specific announcements?

Matt Desch
Yeah. There there's been a lot of activity around it. A lot of the other players want to partner with us and work together with us to provide an advantage, especially if they're a commodity supplier of sort of P-LEO services. But I haven't seen any big awards under that, right now, that are hitting our bottom line. There still is a lot of talk and activity around that, would expect to see some more activity over time. I mean, I think, as you said, we're very well positioned for business, but it's still early, early times for that, I think.

Chris Quilty
Got you. And final DoD question. In the last several weeks here now, the DoD and Space Force have come out with their commercial space strategies. And of the 13 mission areas they identified, GPS was one of the few that was identified as military, only. And yet, earlier this week, this Space Force came out, and announced that they want to use a quick start program on resilient GPS.

So, sort this out for me, or maybe the Pentagon needs to sort out its strategy here. How does that impact Satelles? I think you're primarily government, today. Do you think there is incremental growth opportunities or large programs on the government side, or is most of your focus commercial?

Matt Desch
We believe we're well positioned there. The government is deploying lots of different technologies and has additional science projects, well out in the future. Our expectation is we'll continue to be part of that, and we'll play across a number of different sectors, especially as we get into other critical infrastructure and other places, as well. I would say, the longer-term bigger opportunities,

as we talk about the $100 million, is probably in the commercial side, globally on the commercial. That's the bigger area. That's probably the area that we focused on in terms of potential growth.

We think both civilian and governmental and critical infrastructure all over the world needs this technology, and this is the easiest technology to deploy. It doesn't need ground infrastructure. It's not subject to the same issues on the ground that would cause the original problems, anyway. So, I would say commercial is the bigger opportunity.

Chris Quilty
Great. Thank you.

Matt Desch
Thank you.

Operator
Thank you. And our next question, today, comes from Hamed Khorsand with BWS Financial. Please go ahead.

Hamed Khorsand
Hey, good morning. So, first off, could you just talk about what's the cost component that your partner would be seeing? Are you increasing your costs? Are they seeing some sort of benefit because there's more clarity due to this contract?

Matt Desch
The costs associated--so this is all around service revenue, sort of pricing, and sort of creating more clarity on a quarter-by-quarter basis as to what they would be paying for the collected service that they have, which includes growing subscribers and everything. Instead of charging them on an incremental subscriber basis or on usage, we would supply an overall pool of service on a quarter-by-quarter basis. So, it's a win for them in that there's clarity on the amount that they really have to pay.

As they implement new products and get into the market and expand their market share, they kind of have a better idea about their cost structure. On our side, obviously, it's the same thing for us. We have more visibility on exactly what's going to happen and aren't as worried about exactly how many subscribers are added in that quarter or, etc. And we're able to do that because it's a big partner, and they've been in service with us a long time, and we have a lot of visibility to how they're using the network.

Hamed Khorsand
And then could you just provide a little bit more details of what you mean by normalization in the equipment revenue and where inventory stands in the channel, as far as you're concerned?

Tom Fitzpatrick
Yeah. I mean, for many years, we supplied about the same amount of equipment. Obviously, our equipment was, as we move from bigger devices to smaller devices, it was more equipment but, overall, the revenue was roughly about the same. During the pandemic, that spiked. I mean, it really went up. Our business was doing fine, as well. But a lot of other companies, well, some other companies had some real supply chain issues, and we were able to manage through that better than anyone else.

But a lot of our partners, certainly, maybe all of our partners, really were quite nervous about the fact that we couldn't supply on a three-day notice like we had been, before. And in some cases, it was taking three months or six months for us to be able to fill orders.

So, they all started ordering more to try to get in the front of the line and to be sure that they had enough so that their businesses, which were continuing to grow, even during the pandemic--as you saw, we did very well during that timeframe--that they wouldn't be in any way constrained.

Well, they're not as constrained anymore. They don't have the same concerns. They're able to deliver on a very short notice, now. We've worked through all that. And so, they had been stockpiling, I think, a number of chips or modules or whatever that they had been ordering through us, and they don't need to do that as much.

I know that there was a little bit of--well, that growing equipment revenues must mean accelerated service revenue growth--but I don't think we ever really suggested that, during that timeframe.

As you saw, we consistently grew at or a little bit above the service levels we're growing right now, but continue to grow exactly the way we're growing, and that equipment was feeding that. So, normalizing means we're going to get back to sort of the same level. It looks like a headwind on the overall revenue line, but it really doesn't mean anything in terms of our long-term potential or growth. Does that make sense?

Hamed Khorsand
Yeah. Great. Thank you.

Operator
Thank you. And our final question, today, comes from Louie DiPalma with William Blair. Please go ahead.

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

Matt Desch
Hey, Louie.

Tom Fitzpatrick
Hey, Louie.

Louie DiPalma
As it relates to revenue synergies with Satelles, why is Satelles' revenue only $5 million, today? Were they previously not utilizing your vast distribution network and now that they're part of your team that they have access to your 500-plus channel partners and whatnot? And I think if Satelles were standalone, would its revenue in 2030 be, significantly, below $100 million?

Tom Fitzpatrick
So, the $5 million you quote, Louie, think of that as wholesale. That's what they paid us in 2023 for the signal essentially.

Louie DiPalma
Okay.

Tom Fitzpatrick
And so, they then turn around and mark that up to their customers. So, their revenue is a markup on that five, which was their wholesale payments to us. Think of the $100 [million] that we quote in 2030 as us stepping into their shoes as the retail provider and providing the turnkey service, which includes our signal, but they're kind of proprietary service.

Matt Desch
Yeah, so we didn't tell you what their revenue was. We didn't give you what their markup was. It's obviously above that $5 million if they're roughly a break-even business on us today, already. So, their business has proceeded very well. And I think it's an inflection point because in technology that they've been developing, which will make their business even more cost-effective in the market. But I do believe that there are a lot of synergies that they weren't able to go after because we can lay down that signal. That $5 million was expensive to them.
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As you could imagine, that constrained their business. If they lit up the whole world, it would have been many times that cost, and they really weren't ready to do that. We can light up the rest of the world because we're not really using any additional capacity or anything to do that. It's a little more power on our satellites, which we have plenty of, and can start marketing services, say, to the whole maritime market and cover the whole Pacific Ocean or the Red Sea, where there's an awful lot of GPS jamming and spoofing and that sort of thing going on or other conflict zones around the world, without impacting their business. So together, I think there is a lot of synergy.

Louie DiPalma
That makes sense. And related to all of the commentary on the IoT customer seemingly going by a fixed price contract over the next two years, is that related to the new 9604 terminal that you're releasing next year and that you've discussed how the pricing for the midband multimedia applications will be higher than the traditional narrowband price plans? So, did the customer just want the visibility in terms of the spend that they would have for the Iridium network? Is that related at all?

Matt Desch
I believe it is related. About all I really want to go into that, at this point here. But certainly, as technology transitions occur and new offers go into the market, the ability to kind of manage that effectively, collectively, was in our common interest. So yes, I would say that that was somewhat related.

Louie DiPalma
And I guess, would there be other customers that could adopt similar pricing structures, this year, that would have an even greater positive benefit that's not currently contemplated in the guidance?

Matt Desch
I don't think so, but it's always possible. I mean, we're constantly working with our partners on what's the most effective way of kind of managing on a fair basis, what the cost and prices of our services. So, we're always in those discussions, but I don't think there's going to be any others like that.

Louie DiPalma
That makes sense. And one final one, you've discussed a lot of the competitive dynamics, and some of the competitors in the D2D realm have been talking about offering voice services.

And I was wondering, for Project Stardust, will it be possible for Iridium to offer voice services? And can you assess what you think of the viability of competitors offering D2D voice services?

Matt Desch
We're looking into that but, frankly, I don't really see that voice services are going to be in the market via D2D for, at least, a couple of years. And even when they do, they're going to be very limited in terms of the markets that they're going to be providing. I mean, as you know, that there's really D2D as has been projected for the next at least five to eight years is a regional-based solution that really expands the footprint of cell phone use within a market, not even clear if it roams, certainly doesn't operate in Europe or probably South America will not operate in the maritime environment, etc.

So, the fact that a cell phone can operate, go from, I don't know what, current coverage of cell phone usage is what, 11%, 12%, 13% of the Earth’s surface. And if it expands a couple of percent including voice and data, I really don't think, again, that's our business.

That is not how our devices are being utilized. It hasn't been our expectations, as we provided guidance. We don't, as I've said publicly in these meetings, we don't sell to Wyoming, Wyomingites, whatever the term for that is, I don't even know, to use in Wyoming. We--if the market expands there, we sell it to them because they are firefighters who are operating or going to South America for the latest flood.

We're not being used by the Broward County rescue services because they don't have cell phone usage. It's for when the hurricane happens or when they end up being redeployed down to Haiti or some other place where there is a disaster. So, this sort of focus that everyone has on what currently is the coming of D2D services on smartphones is really not something that we believe is really a direct competitor to us anywhere in the near to medium term. And we will be in that market in the same time frame, as well, with some services that, even if it sort of has an effect around the edges of our service, that we would make up easily in what we're doing, ourselves.

So, that's why we feel so confident in our projections to 2030. We believe our L-band global footprint and the 25 years we've been in operation and the services we have are very resilient and robust and are not really at risk as, apparently, people must fear. And I think that will just come to be understood in the coming quarters and years and we'll just have to continue to execute and demonstrate that.

Louie DiPalma
And related to this discussion, how unique is the push-to-talk service to Icom, in that you design your own satellite handset radio. Are you able to also offer push-to-talk, or is that something that only Icom does?

Matt Desch
No. Some of our push-to-talk, and that's a growing business for us, use our handset. I think the majority use the Icom handset, and we encourage that. I mean, Icom is a fantastic device. We promote it. We don't care if they use ours or theirs, it's just an alternative. Ours is maybe a better device if you're also doing point-to-point satellite phone usage, if that's more of an application.

But I think Icom integrates better into public safety networks because of their global scope and capabilities. So, I mean, yes, really, it's being offered by a lot of our partners today, and I'm excited if they're using Icom's portfolio, because it's great.

Louie DiPalma
Awesome. Thanks, Matt. Thanks, everyone. Thanks, Tom.

Tom Fitzpatrick
Thanks, Louie.

Matt Desch
Thank you, Louie.

CONCLUSION

Operator
And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to management for closing remarks.

Matt Desch
Well, you can see why we're probably going to be out talking to investors and conferences a lot more in the coming weeks and months, here. And I'm sure we'll see you on the road, as we do that and see you next quarter, regardless. Thank you very much..

Operator
Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.