

Iridium Communications, Inc.

Second Quarter 2023 Earnings Conference Call

Tuesday, July 25, 2023, 8:30 AM

CORPORATE PARTICIPANTS

Ken Levy – *Vice President, Investor Relations*

Matt Desch – *CEO*

Tom Fitzpatrick – *CFO*

PRESENTATION

Operator

Good morning and welcome to the Iridium Communications Second Quarter 2023 Earnings Conference Call.

All participants will be in a listen-only mode for the duration of the call. Should you need any assistance, please signal a conference specialist by pressing the “*” key, followed by “0”.

After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*”, then “1” on your telephone keypad. And to withdraw a question, please press “*”, then “2”.

Please also note that this event is being recorded.

I would not like to turn the conference over to Ken Levy, Vice President, Investor Relations. Please go ahead, sir.

Ken Levy

Thanks, Joe. Good morning and welcome to Iridium's second quarter 2023 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 second 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 Web site for further explanation of these non-GAAP financial measures and reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matt Desch

Thanks, Ken. Good morning, everyone. It was another good quarter. We again posted double-digit revenue growth and record operational EBITDA. Interest in Iridium's unique network services

is broad based, running from commercial and industrial customers through to consumer products, and we continued to see tailwinds from our expanding and strategic R&D and network development work for the U.S. Government.

Since our last call, we were happy to add five more spare satellites to our network, which increases our network's resilience. These were existing ground spares that were built as part of the original Iridium NEXT mission, and we launched them in May on a rideshare with OneWeb.

They've all checked out now in space, and our Ops team is moving them to position each optimally across our six orbital planes.

Though our operational constellation is young and very healthy, I'm glad we took this cost-effective opportunity to get these assets into the sky, rather than keep them in storage on the ground.

They give us a total of 14 on orbit spares to enhance the redundancy of our network for years to come. We haven't needed to use any of our spares yet. The primary 66 satellites are not only operating well, but they're performing even better than our original engineering models and statistical expectations, which is also why we're so confident about our extended CapEx holiday.

The quality and resilience of Iridium's network remains a strength and continues to be a strong selling point to partners and their customers. This fact and our best-in-class coverage have really differentiated Iridium in the market and made our brand synonymous with reliability, safety, and performance.

Many of you may also be aware that Iridium made its second quarterly dividend payment on June 30. We expect to return about \$65 million to shareholders in 2023 through this program and also expect to complete the full outstanding share repurchase authorization.

In general, I'm very happy with Iridium's performance and execution, this year. We are growing our top line nicely, executing well on operations in innovation and returning capital to our shareholders.

All of this is happening as we prosecute on a growing number of opportunities in the L-band mobile satellite services sector and remain true to what I've often called our lane and identity. There's a lot of disruption underway in our industry caused by the new broadband players, and I'm glad that we're not part of that.

We also don't believe that any of the merger activity in the industry, like the recent Viasat Inmarsat closing impacts our business, actually has probably been a net benefit to us ever since the deal was first announced in 2021.

Iridium is unlike any other satellite company in the industry, today. That's because we've largely avoided the allure of delivering commodity services and speeds to, instead, focus on the niche services that we do better than any other company in the industry.

Our commitment to invest in our unique network architecture and service focus has continued to pay dividends, literally. Iridium is very well positioned to capitalize on new demand for L-band services in the commercial sector. Many of the opportunities that I've spoken to over the past 12 months are now taking shape and could add to Iridium's already strong revenue growth and drive additional new users onto our network.

A good example of one of these is Iridium Certus 100. You will recall this midband service, as we call it, delivers a data connection that is about 35 times faster than our legacy narrowband offering, but still uses low power and requires a very small antenna. The service is perfect for applications where size, weight and power are considerations.

Like for the new Uncrewed Aerial Vehicle (UAV) market or for connectivity to smaller aircraft or helicopters. The service has been adopted by many of our partners, and some of the first applications are now available in market, including our new Iridium GO! exec, which is getting good early traction. We expect the new opportunities that our midband service creates will help increase ARPUs, over time.

I'm quite excited specifically about the UAV, or drone opportunity. I haven't mentioned it much on past calls because the market was so early in development, but we see a lot of momentum underway recently from all the drone companies we've attracted to be partners. They plan to use Iridium in their command and control architecture.

Some of you may have even seen that we recently put out a very innovative white paper on that topic. It introduces an approach and justification for using satellite networks for Beyond Visual Line of Sight control of drones, or BVLOS as it's often referred to.

The feedback we've received over the past few weeks from that paper has been incredible, and it's attracted even more partner interest in industry discussion.

BVLOS has been a real issue that needs to be overcome for the growth and long-term success of using drones for industrial applications. The solution proposed in our white paper would enhance situational awareness and safety for remotely piloted UAVs.

This study was made with a consortium of partners and has generated a lot of interest from drone operators and regulators who are all seeking to more effectively and safely commercialize the use of UAVs in the nation's airspace.

This is a fast growing industry, and we think Iridium is well positioned with its Iridium Certus 100 services to support the long-term growth and operation of these aircraft.

Another early example of the utility of Iridium's midband services comes from partners like SKYTRAC, who are leveraging our network to support real time messaging in fixed wing and rotorcraft, and even inflight payment verification for smaller airliners.

These services have already gained a lot of industry attention and are being positioned for deployment on narrow body aircraft run by low-cost carriers.

Leaning further into aviation, I'm also very excited about the progress of our partner, Honeywell and Collins, on their respective Iridium Certus broadband terminals.

They've already announced some big customers like Bombardier and Dassault, who will line fit this new equipment on some of their business jet models, which should allow service revenues to start in 2024.

These aviation services are incremental to our existing broadband revenues coming from maritime and land mobile and are just in time for the backlog of commercial aircraft orders expected in the coming years.

Overall, our broadband subs grew at 14% during the second quarter, helping us pass 10,000 commercial subscribers using our Iridium Certus platform.

This is a great milestone to reach since we introduced our broadband services in the maritime and land mobile industries about four years ago and only recently expanded our Iridium Certus offerings.

We continue to take market share in the industry, and our momentum in broadband has remained strong as our partner ecosystem has broadened and they've experienced our competitive advantage. Next, I want to highlight our emerging opportunity in direct-to-device.

We think this offering is a great way to leverage our satellite network and expand into more consumer applications, as well as into a variety of new industries, starting with Android smartphones using Qualcomm's Snapdragon processors. We see a lot of opportunity here and are awaiting adoption and service introductions, as I'm sure you are.

The evolving market for satellite connectivity to smartphones is potentially very large, but to really achieve the big numbers some analysts are talking about could take a long time, probably 10 to 15 years when you factor in the need for many players to build and launch new satellites and get global regulatory approvals to achieve the full promise of D2D.

We believe the near to midterm opportunity is in SOS, like the service being pioneered by Apple with the iPhone 14 and that we plan to support for the Android ecosystem. Our service also provides for real time messaging and I expect Apple's will eventually, too. The good news for customers with Iridium technology inside is that our solutions will have our trademark reliability and superior global coverage.

I don't have any more news for you today on our D2D rollout. We've completed our qualification work with Qualcomm but know there's development and integration work required for those smartphone OEMs that adopt this new satellite technology. We don't have very good visibility into the timing or volume of specific smartphones, but from what we do know, we now expect the first activations will move into 2024.

Specific information on what products and their specific timing will all come from Qualcomm and their smartphone customers in due time. Our full-year guidance continues to assume that direct-to-device will not be material to our service revenue in 2023.

We believe that Iridium's network is ideal for differentiating smartphones using our service by providing a reliable, valuable SOS and messaging capability that is truly global and that users will appreciate.

Longer term, we're also excited about the potential Qualcomm provides us in a number of other markets beyond smartphones. The initial development work we've done with Qualcomm on the smartphone capability can be readily tracked on our income statement. You can see it flow through the commercial portion of our engineering and support revenue.

As I've said, we expect that it will take time for direct-to-device services to be adopted and generate meaningful revenue. But it is clear, even from the current limited reach of the iPhone 14, that SOS services on smartphones do save lives, and that's something that we want to be a part of.

Lastly, I want to highlight Iridium's work with the US. Government. You're no doubt aware of our fixed price EMSS contract with the DoD, but it is our expanding strategic relationship with the government that is our long-term focus and real opportunity.

The Space Development Agency's (SDA's) selection of Iridium, along with our partner General Dynamics, to build the ground network and operate their next generation network is a testament to Iridium's experience and the strong relationship we've cultivated with the government, through decades of collaboration.

Work on this seven-year contract is largely responsible for our record engineering and support revenue over the past year, and it should continue to drive new revenue through the end of the decade. Working with SDA on this contract will also help expand our core expertise in the technologies for our own future next generation network.

These are but a few of the projects on which we've been working that are now coming to fruition. Tom will share details on our financial performance from the quarter, but I think you can see that we're making good progress, continue to be well-positioned, and focused on longer-term growth opportunities.

Even in Iridium's core sat phone business, which is largely driven by traditional voice and data services, we're experiencing strong demand. We are a leader in voice and data services, and with our traditional core businesses growing well and strong opportunities in the newer business lines I previewed today, we are confident in our forecast of high single-digit service revenue growth, on average through 2025.

We see lots of new opportunities after 2025 as well, some of which we will unpack during our Investor Day on September 21. For this event, we'll be focusing on our growth plans and cash generation through 2030 based upon the efforts underway with partners today and those that we anticipate in the coming years. We have an exciting long-term vision, which we look forward to sharing with you.

We take great pride in the way our business is performing and our ability to add new partners and create new network functionality to drive their growth and support our free cash flow. Like our past, our future is based upon continued strong execution and staying in our unique lane.

With that, I'll turn the call over to Tom for a review of our financials and I look forward to your questions. Thanks, Tom?

Tom Fitzpatrick

Thanks, Matt, and good morning everyone. I'll get started by summarizing our key financial metrics for the quarter and providing some color on the trends we're seeing in our business lines. Then I'll recap the 2023 guidance, which we affirmed this morning and close with a review of the liquidity position and capital structure.

Iridium continued to execute well in the second quarter generating total revenue of \$193.1 million, up 10% from the prior year's quarter. The improvement reflects ongoing growth in our commercial business lines and continued strength in engineering and support and subscriber equipment.

Operational EBITDA hit a record of \$115.8 million in the second quarter. This was up 9% from the prior year's quarter and was driven by strength across all commercial business lines and engineering and support revenue. On the commercial side of our business service revenue was up 12% this quarter to \$118.6 million.

Strength was broad-based and reflected continued momentum in voice IoT and broadband. Commercial voice and data revenue grew \$6.5 million, or 13% in the second quarter to \$55 million. The increase was largely driven by the price changes we implemented earlier this year, our first since 2018.

To date, we've been pleased with how the new pricing has been received and expect that voice ARPU this year will remain in the mid-40s. In commercial IoT, we continue to benefit from demand for personal satellite communications. Revenue rose 13% from the prior year quarter to \$34.6 million.

As we enter our seasonally strong summer period, we continue to see strong consumer demand for personal satellite communication devices. This ongoing trend and the shifting mix of subscribers using lower ARPU plans resulted in an IoT ARPU of \$7.48 during the quarter. As I've discussed before, we love the service revenue these subscribers generate, given the minimal comparative network resources they consume.

Commercial IoT subs grew 19% from last year's second quarter, fueled in part by 77,000 net new additions. This was the fourth strongest in our history. IoT data subscribers now represent 79% of billable commercial subscribers, up from 76% in the year ago period. We estimate that consumer oriented plans account for about half of our 1.6 million commercial IoT users.

Commercial broadband revenue grew 16% from the year ago period to \$14 million. In maritime, we continue to benefit from new subscriber adoption of Iridium service to 200 and 700. These new customers predominantly use Iridium as a companion service to VSAT and have higher usage trends than our legacy Iridium OpenPort subscribers. At the same time, we continue to see those OpenPort subscribers upgrading to Iridium service for the faster speeds.

Maritime remains an important component of our broadband growth. But as Matt detailed, our partners have also made good progress with their respective aviation terminals, and we expect that these will add to our broadband revenue, as this equipment is installed on commercial aircraft.

Hosting and other data service revenue was \$15.1 million in this quarter, in line with last year's comparable quarter and consistent with our hosting contracts.

Government service revenue was also steady in the second quarter at \$26.5 million, reflecting the terms of our EMSS Contract with the U.S. government.

Subscriber equipment remained strong at \$27.4 million in the second quarter. We continue to believe that hardware sales will remain robust this year and will be in line with 2022's level for the full-year.

Engineering and support revenue was \$20.6 million in the second quarter, as compared to \$8.3 million in the prior year period. The increase reflects ongoing work for the U.S. government related to a Space Development Agency contract that we won, last year.

We continue to expect engineering revenue will be up significantly this year but will fluctuate from quarter-to-quarter, based upon execution and milestone achievements. Based upon our results through the second quarter and the trends we're seeing into July, we're reaffirming our full-year guidance for service revenue growth between 9% and 11% in 2023 and operational EBITDA between \$455 million and \$465 million.

I'd like to highlight a few items coloring our guidance, as they may be relevant to your models and the cadence of Iridium's growth. We continue to expect strong subscriber activations across all our commercial business lines which will, together with price increases in commercial voice and data, drive service revenue growth between 9% and 11% in 2023.

This year's outlook continues to support our three-year expectation that total service revenue growth will average in the high single-digits from 2023 through 2025. To put that in context, given that our current year guidance at the midpoint is 10%, our guidance indicates that average growth in 2024 and 2025 is expected to be less than 10%.

This is because 2023's growth is being favorably impacted by the price increase in commercial voice and data that occurred earlier this year. This increase is not expected to recur in 2024 or 2025. Our average growth rate guidance of high single-digits also includes our best estimate of Qualcomm service revenues, over this period.

With regard to our EMSS Contract with U.S. government, there is no increase in contractual fees, this year. Therefore, quarterly revenue in our government business will remain steady at \$26.5 million for the balance of the year. Equipment sales, while a bit off their recent record pace in the quarter, continue to be on track for another strong year in line with 2022.

Engineering and support revenue will also grow, as we continue contractual work for the Space Development Agency and recognize Qualcomm development revenue this year.

On the expense side of the ledger, we continue to forecast higher costs this year related to stock-based compensation and new employee hires, as we also retool and upgrade business systems.

These dynamics resulted in a 30% increase in SG&A in the second quarter, which was down from the first quarter and is expected to moderate further during the second half of the year. We continue to forecast that full-year SG&A will be up by about 20% in 2023.

As previously guided, R&D will run higher in 2023 as we support a number of new products coming to market, including the new commercial aviation terminals, which Matt highlighted earlier and new mid-band technology we're developing with partners.

In all, we believe the incremental expenses we will incur in 2023 can be comfortably absorbed, while still achieving our OEBITDA guidance for the year. These expenses, as well as our investments in new products and systems, are appropriate as our business grows and we prepare to capitalize on a number of new business opportunities.

Moving to our capital position as of June 30th, Iridium had a cash and cash equivalents balance of \$103.5 million. Iridium's growing cash flow has been a source of liquidity and is one of the

reasons that our Board continues to support our share repurchase program and initiated a quarterly dividend program. Iridium paid its second quarterly dividend on June 30th and expects this program will return approximately \$65 million of cash to common holders in 2023.

In the second quarter, we also purchased approximately 1.1 million shares of common stock at an average price of about \$59.48 for a total of \$66.1 million. We have approximately \$60 million of capacity outstanding on our share repurchase program, and will continue to execute on buybacks balancing our objective for deleveraging with a desire to maximize return on investment.

Iridium's net leverage was 3.1 times of OEBITDA at the end of the second quarter. This was down from 3.4 times a year earlier, even when factoring in our share repurchase and dividend activity during the second quarter. Our target for net leverage continues to be between 2.5 and 3.5 times of OEBITDA at the end of 2023, inclusive of quarterly dividends and giving effect to all outstanding share buybacks authorized by our Board.

Capital expenditures in the second quarter were \$22.4 million, including one-time spending of approximately \$6 million related to May's launch of five spare satellites. We continue to expect annual capital expenditures to average \$50 million to \$60 million over Iridium's forecasted 10 year CapEx holiday period, excluding launch related costs, 2023's capital expenditure should fall in line with this long-term forecast.

With the successful launch of five of our ground spare satellites and in assessing the overall health and performance of our operational constellation, we also made the operational decision that we would not need to launch six and remaining ground spare we constructed for the Iridium NEXT mission. This determination resulted in our writing off the full value of this satellite by recording accelerated depreciation expense of \$37.5 million in the second quarter.

Turning to our pro forma free cash flow, if we use the midpoint of our 2023 OEBITDA guidance and back off \$75 million in net interest, approximately \$75 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 almost \$300 million.

These metrics represent a conversion rate of OEBITDA to free cash flow of 64% in '23 and a yield of approximately 4%. A more detailed description of these cash flow metrics, along with a reconciliation to GAAP measures, is available in a supplemental presentation under "Events" on our investor relations website.

In closing, we remain very excited about Iridium's ongoing strength and its many partnerships and prospects for growth. Demand for our L-band services and equipment remain strong and our business continues to perform well.

We are incredibly excited about our future and are in a good position to continue to return capital to our shareholders as we fund new projects and make strategic investments.

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

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your telephone keypad. If you're using a speaker phone, please pick up your handset, before pressing the keys. And to withdraw your question, please press "*", then "2".

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

Ric Prentiss

Thanks. Good morning, everyone.

Matt Desch

Hey, Ric.

Ric Prentiss

Hey, first question on '23 guidance. Appreciate a lot of the color you guys provided. Sometimes, by this point in the year, you might have the ability to be taking up guidance, given your style. Anything in particular that's causing guidance to remain kind of in the zone? Is it maybe the slower uptick on some of the activations for the direct-to-device, or is it something else we should be aware of?

Matt Desch

Certainly isn't direct-to-device. We never really forecast anything in that for this year. I would say some years we take guidance up by this time, sometimes we don't. The global macroeconomic situation, the supply chain challenges we've experienced over the last year. I mean, our business is solidly growing right now, but it just felt like it wasn't the quarter to reevaluate that any more than where we're at right now and felt reiterating was appropriate.

Our goal is always to overachieve and forecasting that too early in the year isn't necessarily a corporate goal or strategy that we take. So, I don't think there's anything in particular. Tom?

Tom Fitzpatrick

I agree with you, Matt.

Ric Prentiss

Okay, appreciate the extra color. Obviously, we've all been trying to get our hands wrapped around direct-to-device opportunities, so it sounds like we want to understand that it will take some time to get this really getting traction. It sounds like then when you mentioned that your '24 and '25 thoughts are that service revenues will be less than 10%.

How should we think about us trying to model in royalties and other items? And when would usage fees kind of exceed royalty fees, as we try to put models out there into '24 and '25 before you've given a lot of guidance?

Matt Desch

I think it's got to be really challenging to do that right now, to model out something that we haven't given you much information on. And I'm sorry about that but, frankly, we don't have a whole lot more information on it either. We know we've developed a great capability; we have a solid partner in Qualcomm. As I said, we don't have a lot of visibility to their sell through into the work that has to be done with the OEMs to adopt the technology, integrate it, test it out and deliver their models.

And since we don't, it's just very hard for us to be able to tell you a lot more and I wish I could. When the time comes, I take some solace in that this is all upside for us, and we believe we're very well positioned in the right place, but it's just going to take some time to develop, I think. And we'll have to wait for the announcement to come from those smartphone partners or smartphone people and Qualcomm about what they're going to do.

Ric Prentiss

Okay, and Tom, you mentioned the cost, SG&A 20% up for '23 versus '22. A good chunk of that is stock based comp. We like to adjust that out. I think that's also adjusted out of your OEBITDA. How much stock comp change should we expect is happening between '22 and '23 of that SG&A line?

Tom Fitzpatrick

About half, I'd say, Ric.

Ric Prentiss

Okay, good, appreciate it. Stay well, everybody.

Tom Fitzpatrick

Ric, it's clearly marked out in our OEBITDA reconciliation. You can pick it right from there.

Ric Prentiss

Exactly. Yeah, I was just thinking on the forecast going forward for the second half.

Operator

And our next question will come from Chris Quilty with Quilty Space. Please go ahead.

Chris Quilty

Thanks, guys. Tom, what's up with the inventory? It looks like you have a big slug of finished goods in there?

Tom Fitzpatrick

Right. So, we invest in safety stock. We're a believer in our satellite phone business. And if you see how our business performed versus our competitors, I think they stocked out. We were the beneficiary of that. And so we're making sure we don't stock out, Chris.

Chris Quilty

Planning on a big hurricane season?

Tom Fitzpatrick

I mean, just in general, it makes no sense to stock out, and we're not going to.

Matt Desch

I think we're getting back to traditional levels. We always had tried to be able to deliver to immediate needs, but the last two years obviously wasn't able to do that. And so it was a real struggle to even have any inventory, whatsoever. And that was challenging for our partners and for our growth. Now to finally be able to build back some safety stock in is just smart business for us, right now.

Chris Quilty

Got you. One other Tom question. Are there any remaining SpaceX payments that show up in the CapEx in the back half of the year, or you're done?

Tom Fitzpatrick

No, we're done.

Chris Quilty

Okay. Can you talk about the midband products and specifically what product categories you think you're going to be launching on first and timeframe. We've been kind of waiting for a while for the mass of those products to roll through different categories?

Matt Desch

Yeah, well obviously, it's already started in the land/mobile area because the Iridium GO! exec is built on midband technology. But the ones I mentioned today on the call – aviation is a particularly good example. The UAV market, helicopters, I think are going to roll out in terms of the tracking of Medevac helicopters and the like. You need a small, lightweight, low power device in that kind of area, as well.

We're seeing, an innovative one is like aircraft payments, a lot of bad credit cards on small to medium sized airliners and they like to actually validate them in real time and don't really have the technology or the size to have high speed service on there. So having a really low cost device with an antenna that doesn't even need to be on the top of the aircraft would be a positive. We are seeing some DoD kind of applications with it, as well. But this is the first generation of Certus 100 and we have some additional new transceivers that are going to be available in that area here in the next year, as well, they're kind of being purpose built for things like general aviation and some other applications. And then, I think there's maritime applications there as well, and some of those are rolling out, too.

Chris Quilty

So, specific to the aviation market, I mean, you've got a pretty high penetration rate in smaller aircraft. Does that mean that most of this you'll have to have customers upgrade, or do you see a pretty good new installed market?

Matt Desch

I think a lot of it's going to be new installed. It's purpose built kind of technology that goes into new aircraft panels to provide higher speed services, better weather, better interaction with air traffic control and all that sort of thing.

And so, the activities we see from a number of those partners are really going into a lot of new aircraft, small- to mid-sized. You see I think that's the best way to look at it. And then as I said, we're just seeing an awful lot of activity in the drone space. We have a lot of partners right now who are using in their early activities. And I think when that business starts to take off – I would call industrial IoT – I suppose would that be, but it has an aviation component here to it. I think you'll see us extremely well positioned for that, too.

Chris Quilty

Got you. And final question, I'll use it on aviation, also. I think you talked about the approval for safety services, and that's distinct from your mass market of sort of cockpit safety communications. Are you still in the process of getting the FAA certification for that and when do you expect it?

Matt Desch

Yeah, we're well into the middle of that, right now. The program is going really well. We call it our Certus Aviation Safety Program, or CASP. It's one of our many R&D projects this year that is well underway and sort of is in the later stages. It takes some time, but I think it's within the next 12 months or so, I think we're expecting to kind of complete that program and get the certifications that will allow those products, some of those products that you've seen introduced already by the Honeywells and Collins and SKYTRACs, etc., be upgraded to CASP versions of those, which will allow safety services as well as general communications.

So, yeah, it's an important one for us because again, it's a unique one that only we can supply on a global basis.

Chris Quilty

Great. Thank you, gentlemen.

Matt Desch

Thank you.

Tom Fitzpatrick

Thanks, Chris.

Operator

And our next question will come from Hamed Khorsand with BWS Financial. Please go ahead.

Hamed Khorsand

Good morning. Just to follow-up on the inventory question, is this any related to your equipment revenue declining and your partners destocking, anyway? Or is this more that you're just trying to stay ahead of the demand?

Tom Fitzpatrick

We want to stay ahead of the demand. It's highly profitable revenues, and we want to avoid a stock out. It has nothing to do with the year-over-year kind of the quarterly performance. We're reiterating that we think equipment revenues will be in line with 2022, which was a record year.

Hamed Khorsand

And then on the consumer side, is there an interest to raise prices there on the IoT service?

Matt Desch

No, I don't think so. I think we're competitive and we see a dynamic market with a number of partners in that space, and they are expanding their product lines and see a lot of potential there. So, I don't know that that's like a target, really for us to do something really specific that way. I mean, we are always looking to adjust our portfolio of pricing and that kind of normal course of events. But I wouldn't call it like raising prices on personal communications.

Operator

Okay, thank you. And our next question will come from Mathieu Robilliard with Barclays. Please go ahead.

Mathieu Robilliard

Yes, good morning. Thank you for the presentation. If I could follow-up first on the equipment revenue question. Could you give us a bit of color as to why there was variation in Q2? I realize it's very hard to predict but still, if you had any color as to why it decline this quarter, it'd be great?

Matt Desch

I think you could probably say it's more of a year-over-year comparison to a really strong second quarter of last year. I mean, I think we were getting unbelievable demand that we were struggling to meet with absolutely no inventory last year and hand to mouth. This year, I think we see an overall demand levels as we said, is similar to last year's record levels.

But it just--we probably did really, really well in the first quarter and fourth quarter of last year and expect to see just a slight sort of downturn in comparison from a quarter-over-quarter, this year. But I don't really think that it means anything. I think just as you started out, it's really hard to predict exactly what quarter will do on a quarter-by-quarter basis.

Mathieu Robilliard

Fair enough. Thank you. The second question was on the--yes, I think you mentioned the drone opportunity to put equipment in drones. Any sense of what kind of market potential that could represent? I mean, I guess it's early days, but what kind of number of drones may we be speaking about in terms of potential – a TAM?

Matt Desch

Well, there's a whole industry that's developing, right now. And as I said, it's everything from replacing and automating a lot of work activities that people do that are difficult, like monitoring oil and gas wells or monitoring oil rigs and things that perhaps helicopters might have been used for that drones might be able to do more safely, quickly, and cheaply.

There's ,obviously, package delivery. I don't know that it's going to be dropping a six pack of beer or a front door anytime soon. But there's an awful lot of industrial applications there that we've started to see where everything from medicine delivery to areas that are remote, that have to get samples back and forth and that sort of thing. And there's just a lot of companies right now going after that space.

I was mentioning one of the big issues for that is that today you have to control those drones from the ground via line of sight. So, if you really want to do something, you have to be able to see it. And if you're doing that, you might as well just use a direct line of sight technology between the controller and the drone. And if it even goes a little further, you might use cellular technology.

But the market is not going to grow on that basis. It really needs beyond visual line of sight capabilities so that drones can go long distances, and they'll need to know where they are at all times, and they'll need to know whether they were successful in the mission that they had, etc. And you need a small lightweight radio that can connect to it, no matter what. And that's what we do. So that's where a lot of the energy has been around.

I think the numbers are going to still be small for the next year or two, but I think there's a lot of hope in the industry that that will ramp up quite quickly, particularly as some of these regulations are worked out. And that's why we were focused on that paper and why there's an awful lot of interest in regulators talking to us about that because they want to solve that problem, too.

Mathieu Robilliard

That's very helpful. Thank you. And then a last one for me, in terms of the Qualcomm contribution today in your revenues, if I understand correctly, that at the moment it's in engineering and support. Can you give us a little bit of color as what is the magnitude of that currently and how long that will last? Because I understand that at some point we move to the next phase, the royalties and the service revenues on this has a finite life, the engineering, and development ones?

Tom Fitzpatrick

So, yeah, it's development fees from Qualcomm, and I would characterize it in the area of \$5 million to \$10 million on the full-year.

Mathieu Robilliard

Thank you very much.

Operator

And our next question will come from Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma

Matt, Tom, and Ken, good morning.

Matt Desch

Good morning, Louie.

Louie DiPalma

First on Aireon, international airline traffic is rebounding in a big way. What needs to happen for Aireon to pay the remaining money that it owes Iridium?

Tom Fitzpatrick

That's caught up in a refinancing, Louie, that they intend to do but that's, in our estimation, a couple of years out.

Louie DiPalma

Okay, great. And for Matt, you previously discussed the plans for multi-media personal consumer handheld devices, potentially, for next year. I think research and development expenses are elevated this year on preparations for those devices. Are those devices still on track for next year?

Matt Desch

Yes. That's work with partners, as well as the work we're doing ourselves on taking that Certus technology and creating basically a next generation IoT capability that's much more flexible and fast and easy to deploy.

That technology is going to go into IoT devices in general but into personal communications devices specifically and will support things like picture transfer and richer data, sort of flows and that sort of thing into, I think, new personal communication products that could hit the market as early as next year.

So, yes, it's on track, going very well. We're excited about the potential it has for the future and I think the user experience that people have when they use those personal communication devices.

Louie DiPalma

Great. And there's been a lot of discussion about providing Iridium connectivity for drones. Is there also applicability to provide Iridium connectivity for the eVTOL (electric vertical take-off and landing) market, as that emerges in the United States?

Matt Desch

Yes, we're already doing work with, I know one partner. I won't mention who they are, but they're actually doing quite what I would call large autonomous aircraft today and have expectations for moving into the eVTOL space. That whole uncrewed air mobility market, eVTOL is exciting. I think it's taking a long time to kind of develop for lots of different reasons, both the technology and the standards and the regulatory bit.

I think it's going to have the same expectations, particularly as it moves to autonomous sort of capabilities. I think the early ones are going to be all probably crude but eventually, the desire in that industry is to move to autonomy. And you need connectivity to those aircraft. And they're not real big, and they have rotors on them. So, again, a perfect fit for someone like Iridium's network, given our size, weight, and power type of our transceivers.

So it's still early days for those. I've had some discussions with them. They all express interest but they seem to be more focused on certification of their platforms today than the connectivity of them because that's more of an implementation into user--into the national airspace.

Louie DiPalma

Thanks. And one last one for Tom. Regarding SG&A, is the 20% increase for this year unusual, relative to your long-term view?

Tom Fitzpatrick

Yes, it is. As we said, we hired a lot last year and you saw our SG&A ramp on the full-year, last year. And so, we have basically easier comps in the third and fourth quarter. So, we're sitting on what, up year-to-date like a 35% increase or something like that, Louie, and we're guiding to 20. So you're going to see that rate of increase moderate here in the third and fourth quarter to result in a 20% increase on the full-year.

We're not going to keep that pace up, Louie. I think there was a little bit of catch up after we completed Iridium NEXT and we were really kind of focused on the capital build out of our program. As a result of having a new network, we have this innovation platform that we wanted to exploit and still see lots and lots of opportunities to do that in a number of different areas and realized we just didn't have the staff in all the places we needed to be able to accomplish that.

So, we're filling out doing in marketing and sales as well as in operations and technology, and we think we have a pretty rosy environment to going forward that we're going to talk more about in that Investor Day, next month.

Louie DiPalma

Sounds good. Thanks.

CONCLUSION

Operator

That's all our questions today and we will now conclude our question-and-answer session. I would now like to turn the conference back over to management for any closing remarks.

Matt Desch

Well, again, thanks for joining us. I look forward to visiting with many of you two months here on September 21st in New York City, and I think we're going to have a productive session that's focused particularly on sort of our long-term potential opportunities, which we're quite excited about and look forward to talking more about that. So, thanks for joining.

Operator

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