

Iridium Communications, Inc.  
Second Quarter Earnings  
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**CORPORATE PARTICIPANTS**

**Ken Levy** – *VP of Investor Relations*

**Matt Desch** – *Chief Executive Officer*

**Tom Fitzpatrick** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Iridium Communications Second Quarter Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

### **Ken Levy**

Thank you, Anthony. Good morning, and welcome to Iridium's Second Quarter 2022 Earnings Call. Joining me on this morning's call are our CEO, Matt Desch; and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our 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 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. Well, as you all saw, Iridium's business outperformed nicely in the quarter, recording record revenue and operational EBITDA. This momentum gives us confidence to raise our top and bottom line guidance for the year. We're seeing sustained strength from our partner channel in signing up new customers and purchasing equipment, which is the result of Iridium's strong competitive position and unique offerings. This underlying strength helps to shield us against changes in the global financial environment. We believe we're positioned well to grow, just as we have through past cycles, even if recent concerns of an economic downturn come to fruition. Our business remains vibrant and resilient. This is owed to the unique business Iridium is focused on, characterized by safety services and mission-critical applications, as well as the durability of our business model.

While no business is recession-proof, we've grown nicely through past downturns, in large part due to the diversity of our customer base and the industries that we serve. Iridium continues to occupy a unique lane, even among satellite companies, and today that lane is characterized by its strong demand, growth opportunities, and some pronounced areas of upside, which I like to call accelerators. Let me speak to each of these three areas.

First, demand for Iridium equipment and services has never been stronger. This has been driving hardware sales over the last 12 months and kept net subscriber additions near all-time highs in our commercial business. In the second quarter we added 95,000 net subscribers, which means over the last year we've grown our subscriber base by 16%, to almost 1.9 million users. I can't think of another satellite communications company that makes more connections to things from space than Iridium. We've continued to see momentum in our core handset business, in part due to ongoing demand in Ukraine, continued strong growth in Iridium Push-to-Talk services for global workgroups and governments, and general acceptance by the market that our satellite phones and Iridium GO! smartphone hotspots are the gold standard for remote communications.

We also believe that our successful management of supply chain obstacles over the past year or so has allowed us to ship devices when others could not. Further, Iridium enjoys a global reputation for service reliability. This is particularly relevant to the recent demand we've seen in Ukraine. Partners and subscribers tell us that Iridium's handsets work much better in battle zones, where GPS is now being jammed, because our devices do not rely on this location technology to connect like others do. All these things are combining to create a very strong year of growth for these core product lines, and as Tom will go into further, we believe commercial voice and data is a resurgent area of growth for us into the future.

Moving on to IoT, our industrial partners continue to prosper and grow their subscriber counts, but it is the personal user that remains the real story lately. We've continued to ride a wave of demand for Iridium-connected personal satellite communications devices, as partners like Garmin, ZOLEO, Bivy and others have developed new solutions. These small, lightweight consumer devices are great for mobility and offer users reliable two-way connectivity, which they often pair with their smartphones, even when they're off the grid. Our personal satellite communications services have gained in popularity, especially as the prices of these devices have fallen in recent years and retail consumer awareness of them has grown.

In maritime, we're pleased to see the growing adoption of Iridium Certus reach quarterly installation levels that we long have been expecting. Ship owners are realizing that Iridium Certus provides highly capable and reliable L-band service at a price point that makes it accessible and attractive to both small boat owners and large fleet operators.

Net activation of these terminals continued to expand. Quarter two was another strong quarter, with subs up 12% from the same quarter last year. Overall broadband revenue growth also remained strong, up 14% from a year ago. This is even before we have started to see widespread use of the new lower-cost Iridium Certus 200 terminals that are just now getting into the channel. I think it's quite clear that demand for our commercial satellite services is healthy and growing across the board.

Now, in terms of opportunities, let me highlight three that I think you should keep a close eye on. First, within IoT I discussed the momentum we're seeing for personal satellite communications. We already have more than 670,000 active users on our network, and that number appears to be accelerating with the introduction of new products and features from our partners. We expect that these consumer-oriented devices will continue to be a long-term driver of IoT revenue and subscriber growth.

Our next big opportunity is being fueled by Iridium Certus 100 service, which we call midband. It delivers a higher speed data connection than our legacy narrowband offerings in a very small form factor, perfect for applications where size, weight, and power considerations, like in segments of aviation where our partners are introducing new terminals for the growing unmanned aerial vehicle market. Our opportunity has only expanded in the last year now that our technology partners have enabled efficient video transmission over the Iridium Certus platforms. The intersection of these applications with new Iridium Certus 100 devices should unleash a new wave of users and applications that have high ARPU's. Some of the early technical applications are now available to Iridium customers, and we expect these solutions to only grow in the quarters and years ahead.

Lastly, I want to highlight our emerging opportunity in aviation broadband. We're expecting to finally see Iridium Certus aviation terminals start activating on our network this year and next. The timeline for aviation services have been necessarily long, due to the regulatory testing and rigorous certifications required for each piece of equipment that enters the cockpit. As a pilot, this is one business opportunity that I remain very excited about and I can't wait to see come to market. Iridium has been working with a handful of partners, who will be launching their respective products using Iridium Certus in the second half of this year. These partners are closing critical certification milestones, performing successful flight tests, and some will be entering service with first installations in the coming months in both rotary and fixed-wing applications.

In terms of my third theme on future upside accelerators, Iridium is always active in looking to expand beyond our traditional markets to grow even faster. I'd like to highlight three accelerators that hold great promise for us. One of these new business opportunities was awarded in late May when the Space Development Agency chose General Dynamics Mission Systems and Iridium to build and operate their ground operations system for their new LEO satellite network. This \$324 million prime contract leverages Iridium's expertise in flying satellites and managing ground system operations to provide us entry into a new type of business with the US government.

We're proud of our capabilities, and know that this contract with the Space Development Agency will enhance knowledge of the advanced technology around an important network like this. The \$133 million in revenue that we expect to receive over seven years from this award will be seen in our top-line results, but the strategic impact of a closer alignment with the SDA is what is most important. We're excited to begin work and are honored to see our capabilities recognized and explore what else might become of this expanding relationship with the Department of Defense.

Another accelerator for us is Aireon and their continued product evolution and adoption. In late June, Iridium augmented its position in this 10-year-old joint venture. Our new \$50 million preferred equity investment will help accelerate Aireon's development of their commercial data service business, which will allow Aireon to monetize their high-quality ADS-B data set with customers beyond its core use in air traffic surveillance. Aireon's data has value to commercial enterprises that assess, manage and interface with the commercial aviation industry. In fact, Boeing just signed up with Aireon to use their data for its own safety tool kit and advanced data analytics capabilities. As Aireon grows, the benefit to Iridium will be an increase in the value of our substantial equity stake in this enterprise, as well as dividends down the line.

In another area of long-term promise to us, today you'll also see from the 8-K filing accompanying our press release that we've furthered our vision of connecting millions of consumer devices to our network by entering into a development agreement with a strategic partner to enable Iridium's technology in smartphones. We likely won't have much more to say about this arrangement until products are ready for market, but obviously it's a demonstration that we're making good progress on the execution of our vision and something that can provide some significant upside in the future.

In total, all three of these partnership opportunities are additive to Iridium's business. Rest assured that we will provide additional details about each as the time is right. However, it is safe to say that they serve as accelerators to our story, which should further excite our shareholders.

So to summarize, we are continuing to experience strong demand this year, we are excited about the areas of growth we're developing and we are actively working on some accelerators to our business, which we believe will be material in the future. We feel very good about where we are and look forward to continued strong growth in 2022 and beyond. I think you'll have to agree, whether you're a longtime Iridium shareholder or you've only recently come to our story, we're a particularly interesting company to watch in the space industry, or any industry for that matter, given our unique potential.

With that, I'll turn the call over to Tom for a review of our financials. 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 our increased guidance for 2022 and close with a review of our liquidity position and capital structure.

Iridium continued to execute well in the second quarter, in an environment characterized by robust equipment demand and meaningful subscriber growth. We generated total revenue of \$174.9 million in the second quarter, which was up 17% from last year's comparable quarter. The improvement reflects ongoing strength in our commercial business lines, a pickup in engineering and support work, and unprecedented demand for subscriber equipment. Operational EBITDA hit a record \$105.9 million in the second quarter. This was up 12% from the prior year's quarter and supported by strength across all business lines. These trends give us confidence in raising our full year outlook to better reflect the ongoing demand for our L-band services, which we expect to continue in the second half of the year and drive incremental subscriber growth.

On the commercial side of our business, service revenue was up 11% this quarter to \$106.4 million. This increase reflected continued strength in voice services, IoT, and broadband. Commercial voice and data revenue grew by \$5.2 million or 12% in the second quarter. As you know, we have historically characterized this business as a low single-digit grower. As Matt noted, there were two contributors to its outsized growth this quarter.

First, our newer service offerings, Iridium GO! and Push-to-Talk are really hitting their stride. We experienced combined growth of about 50% on these two products in the second quarter. Together, they accounted for about a third of the growth in the voice and data business line. We expect continued strong growth from these products going forward.

Second, we experienced materially higher sales of prepaid vouchers in the quarter. We believe this strength was driven by two factors. The first we have noted previously, higher sales volumes associated with the conflict in Ukraine, while the second we attribute to increased sales volume resulting from our primary competitors not having handsets in stock to meet demand. Prepaid revenues accounted for about a third of the growth in our voice and data business this quarter. The balance of our growth in this business line came from our core service offerings that also benefited somewhat from the competitive environment as described.

So in summary, the new product growth will recur, but some of the other growth may wane a bit as circumstances change. We expect the voice and data business line will generate high single-digit growth this year, and we'll see where things settle out, but it now appears that this business is more like

a solid mid-single-digit grower on average based on latest trends.

In commercial IoT, we continued to benefit from consumer demand for personal satellite communications. IoT revenue totaled \$30.6 million in the second quarter, up 13% from the prior-year quarter. While these subscribers generate lower ARPU than our traditional industrial IoT users, they remain a very attractive contributors to our service revenue growth in light of the minimal comparative network resources they consume. As a result, IoT ARPU was \$7.96 this quarter, compared to \$8.69 in the prior year period. Commercial IoT subs grew 22% from last year's second quarter, fueled in part by 80,000 net new additions. This was the second best on record. These data subscribers now represent 76% of Iridium's billable commercial subscribers, up from 74% in the year-ago period. Through June 30, we had over 670,000 personal communications devices on our network, and we continue to believe that these consumer-oriented users will drive IoT growth for the foreseeable future.

Commercial broadband revenue rose 14% from the prior year quarter, to \$12.1 million. Activations were driven by ongoing adoption of Iridium Certus terminals in maritime. Our partners are seeing good access to vessels which should keep subscriber growth strong in broadband, where we continue to grow our offering and are seeing strong adoption of Iridium Certus as a companion to VSAT terminals. Hosting and other data services revenue was \$15.2 million this quarter, up 5% from the prior year quarter on higher data usage.

Turning to our government service business, we reported revenue of \$26.5 million in the second quarter, up 3% from \$25.8 million in the prior year quarter. This increase reflects the contractual terms of our long-term EMSS contracts. Subscriber equipment continues to benefit from strong demand, rising 55% from the prior year period to \$33.8 million. As Matt noted, we continue to receive new orders for equipment, which support our forecast for full year equipment sales well above 2021's level. We expect equipment margin dollars to be up materially as well.

Equipment margin as a percent of revenue is expected to decline this year to a range of between 35% and 40%. The reduction in margin percentage is primarily driven by a mix shift toward chipsets that have lower margin, which are widely utilized by our personal communication partners and driving significant subscriber growth. We are also, to a lesser extent, experiencing some cost increases as we manage through supply chain issues.

Engineering and support revenue was \$8.3 million in the second quarter as compared to \$6.8 million in the year-ago period. The rise reflects activity related to the episodic nature of our contract work for the US government and commercial customers. In all, the trends we saw in the second quarter were quite strong. Accordingly, we are increasing our growth outlook for service revenue to between 7% and 9% in 2022 and raising our full year guidance for operational EBITDA to between \$410 million and \$420 million.

Some of the items helping to frame our thoughts on OEbitDA include the recent SDA award and our outlook for SG&A. With the award of the Space Development Agency's contract to General Dynamics Mission Systems and Iridium in May, we anticipate that Iridium will receive \$133 million in revenue under the award over its seven-year term, but this could grow with future opportunities. Revenue will vary from year to year and appear in our engineering and support line. We expect work under the SDA contract to generate small margins, which we view as acceptable given its strategic importance. This, in combination with the increase in equipment revenues and decrease in equipment margin percentage, will drive our OEbitDA margin percentage below 60% this year.

On the expense side of the ledger, we continue to expect spending on SG&A to rise this year as we incur higher recruiting and development costs, accrue for higher stock compensation expenses, and

also make additions to our support infrastructure. I noted these items back in April, and anticipate that in total they will result in SG&A being about 20% higher in 2022 compared to last year.

Moving to our capital position. As of June 30, 2022, Iridium had a cash and cash equivalents balance of approximately \$227 million. Iridium's growing cash flow is one of the reasons that our board upsized our share repurchase program with an additional \$300 million earlier this year. In the second quarter, Iridium purchased approximately one million shares of common stock at a total purchase price of \$35 million. Into July, we have remained active in the market, purchasing an additional 290,000 shares at a cost of approximately \$11.2 million. And since the original authorization of our buyback program in 2021, we have retired approximately 9.4 million shares at a total [purchase] price of about \$344 million, or \$36.47 per share. At this time, the remaining capacity on our program is approximately \$256 million. We will continue to be disciplined in executing on share repurchases.

Net leverage was 3.4 times OEBITDA at the end of the second quarter. This was down from 3.9 times a year earlier and includes the impact of our buybacks during the first half of 2022. Our long-term target for net leverage continues to be between 2.5 times and 3.5 times of OEBITDA at the end of 2023. We expect to be within this target range even after giving effect to all share buybacks authorized by our board.

Capital expenditures in the second quarter were \$17.5 million and included initial spend of \$7.5 million related to our launch of up to five ground spare satellites. You will recall that this launch of our ground spares is a one-time event, with a total expected cost of about \$35 million, which will be spent this year and next. We anticipate that the launch will take place in 2023.

We have previously indicated that we expect annual capex to average about \$40 million during our capex holiday, so inclusive of the launch of our ground spares we do not expect our capex spending in 2022 to exceed \$75 million. This spending can be comfortably supported by Iridium's strong cash and cash equivalents balance, and ongoing expectations for strong free cash flow in 2022. If we use the midpoint of our 2022 OEBITDA guidance and back off \$66 million in net interest pro forma for our current debt structure, the maximum expected \$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 approximately \$260 million. These metrics represent a conversion rate of 63% in 2022 and a yield of nearly 6%.

I would note that Iridium put in place an interest rate cap in July of 2021 to hedge \$1 billion of notional value on our term loan. This positions us well to weather the current interest rate environment. A more detailed description of these cash flow metrics, along with a reconciliation to GAAP measures, is available in the supplemental presentation under Events on our Investor Relations website.

In closing, we're very excited about Iridium's business prospects and the new revenue streams we will soon realize from the SDA contract awarded in June, as well as our entry into new markets. We have all worked hard through the challenges of the pandemic during the past two years to execute efficiently and get to this point. As Matt noted, we are enjoying strong demand trends today and executing on a number of promising business opportunities.

As I look back on the dozen years I've been with Iridium, I've witnessed an accelerated pacing of growth and technological capabilities. It took Iridium 18 years to get to one million subscribers, which occurred in 2018. We expect to reach 2 million subscribers as we exit this year, illustrating the acceleration of our business. It's very rewarding to see this progress, and given the strength of our personal communications business and current pace of growth, we'll likely surpass 3 million subscribers in less than four years. This is an especially exciting time for our company, our partners,

and our employees. We're committed to return capital to our shareholders while still investing in the business and pursuing new vectors for growth. I truly believe that for Iridium the best is yet to come.

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

## **QUESTIONS AND ANSWERS**

### **Operator**

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

Our first question will come from Ric Prentiss with Raymond James. You may now go ahead.

### **Ric Prentiss**

Thanks. Good morning, everyone.

### **Matt Desch**

Hey, Ric.

### **Ric Prentiss**

Hi. Obviously, I like to see the guidance raised, particularly in this economic environment. Matt, you talked a little bit about how you guys have weathered different economic situations. Help us understand where you're at today and looking into this current environment how you see it playing out into your mid-term guidance? Any thoughts about updating that guidance, or how those current market conditions are affecting that?

### **Matt Desch**

Well, I think we've been looking carefully at trends and everything and just haven't really seen much yet. You have to expect that there's some potential impact, perhaps more on equipment than anything else, just as people be more careful about purchases. Though, we're not seeing that at this time yet, but kind of considering that going forward. I remember the 2008 and 2009 period, we weren't public until 2009, but even looking at 2008, we really grew our service revenue, continued to grow well through that whole period. We had a down year one year in terms of equipment, I think in 2009, but it really popped back up in 2010 quickly too. And I think it's all just due to the nature of the highly diversified business that we have, the fact that most of our services are pretty life critical and important in the industries that they are. And so we're not currently really expecting to change our mid-term or even long-term look right now on any reason right now. Those signs just aren't clear at this point.

### **Ric Prentiss**

And you mentioned on your long-term accelerants, in 8-K talking about the development agreement to bring your technology to smartphones. I know you can't say a lot about that, but any thoughts about timeframe we should be thinking about that. And people haven't had enough time to get all through the 8-K, any extra language there that we should be particularly looking for?

### **Matt Desch**

Well, you're right, there's not much more we can say about that, which I'm sure is a little frustrating. But, we thought it was important to show some progress that we're making in that area. It's obviously an important strategic relationship and we're excited about the potential there. But, the timing really is not something I can speak to. I think you'll just have to wait until products are introduced. Mainly in some



ways I can't talk about it because it's not really got much within our control at this point. We have some work to do ourselves, but it's really up to our partner and others to execute on that.

**Ric Prentiss**

And obviously, some of the big news in satellite land over the last two days was a LEO operator start-up, OneWeb, now officially announced the merger with GEO operator Eutelsat. Any thoughts about what that says for the industry or anything that it means for Iridium?

**Matt Desch**

Well, I don't think it means much for Iridium. I think it speaks to the competitive dynamics in that commodity broadband space that we've long talked about – kind of ancillary to our business. There's a lot of competition in that space. There's a lot of concern about the future environments, I think. There's a realignment of partners that we saw from Inmarsat and Viasat. I think perhaps there's some consolidation in that market segment. I don't know that it speaks so much to orbital dynamics as it does to competition and other aspects there. But that's a story for others to really speak to besides us.

**Ric Prentiss**

All right. Thanks, guys. Stay well.

**Matt Desch**

Thanks, Ric.

**Tom Fitzpatrick**

Thanks, Ric.

**Operator**

Our next question will come from Landon Park with Morgan Stanley. You may now go ahead.

**Landon Park**

Great. Thanks for taking the questions. Everyone, good morning. I'll take one more swing at the smartphone announcement. Can you say anything about what type of company you're partnering with on this agreement? And I guess if we're looking out, five, ten years, do you think that this has the potential to be your single largest revenue bucket over time if the technology is successful? And I guess, what is your confidence level in being able to develop a successful integration of your technology into smartphones?

**Matt Desch**

Well, that was a good swing, Landon, and I'm not sure I can help much with either of those questions, and I'm sorry for that. But we've been talking a little bit about this opportunity over the last couple of quarters. This is a good milestone, but it's not definitive, nor are we representing it in any specific way at this time as to what it means, when it means, and who it means with at this time. But I can say, there are over a billion new smartphones a year. There are something like 7 billion smartphones out there in the coming years. Obviously, making a connection to those is something that others have hinted at and expect we'll try to do. I think it's going to be a sizable market to make any kind of connection to devices like smartphones. And I wouldn't even limit it to smartphones. We're talking about things that consumers might have or might be contained in many other kinds of consumer devices.

We believe that's our vision. That's what our network is very well-suited for. I think what we've been doing over the last 23 years is prepared us for this kind of market. And I don't want to speak to the size, but obviously we don't think it's insignificant.

**Landon Park**

Great. I appreciate that. And can you speak at all to the timeline that we should be looking for. The 8-K references a firmer agreement by the end of the year. Is that the next milestone we should be looking at?

**Matt Desch**

Yes, we do need to complete a service provider agreement, and even the development agreement subject to that agreement. But in terms of when this will affect our business, obviously that's out in the future. And it's really, like I said, not in our control. I don't want to set any specific expectations about that, which I appreciate is frustrating and won't help your models much. But I believe we at least needed to announce that we're making definitive steps here.

**Landon Park**

Understood. And then, just the last one on this element. How should we think about the capacity of the next network in terms of if you do end up loading on a lot more sort of low usage subs here, how should we think about what does the capacity of your network really allow for over the next decade? And then just on a separate item, I'd love for you to opine just on the Aireon investment and how you're thinking about the TAM there and the type of value you think you can create out of your holdings?

**Matt Desch**

Our network is built for very efficient, short communications, which IoT is, as you can see by our performance, is a key area of growth in our area. And what we do deliver to even more devices, there's a lot more capacity still to be utilized for that because those are very efficient uses of our network. So kind of will break the model of how many millions of subscribers we would have on our network obviously with that, but it's more about the amount of messages or data transmissions they'd have through it, which our network is well-suited to support.

So as far as Aireon terms of the addressable market, yes, obviously we believe Aireon is expanding their addressable market, which we already thought was pretty significant in managing the air traffic management aspect of it. The surveillance, which frankly with people back on airplanes – flying internationally is growing again and their revenues I think internally are growing in that area as they recover back to pre-pandemic levels and beyond, as they continue to expand their subscribers there. But as I said in the past, we were really quite interested in the progress that they're making, monetizing their data set in this commercial data services area. They've already got a number of wins. They have a number of new products that they have developed and they're marketing. And, with this additional investment, we saw them able to further out the offerings that they could make in terms of exploiting that data set in a number of new interesting ways.

So it is expanding the addressable market. I can't speak to exactly the numbers. I know we've talked to the surveillance market in the past. There are a couple of others out there that are also trying to get into this market, but they don't have the same data set that we do. They certainly talked to a pretty big potential for the market and [indiscernible] dispute that. But it's still early days and we think there's a lot of growth potential there. It's the reason why we kind of doubled down here and were able to sort of expand our investment in this, because we really think over the next couple of years that's really going to pay off.

**Tom Fitzpatrick**

And just in terms of sizing, Aireon has estimated their TAM to be \$750 million a year. They've said that for some time. And we've said that we expect our dividends from Aireon to exceed what we get out of them for hosting. So we get \$37 million in hosting and data out of Aireon, and so we expect dividends to eventually be greater than that. So we're excited by this opportunity.

**Matt Desch**

I would only say that \$750 million was sort of a pre-commercial data services sort of TAM, but it's hard to say exactly how much that adds to it in this case.

**Landon Park**

And on the dividends, when should we expect those to start flowing?

**Tom Fitzpatrick**

We've said eventually.

**Landon Park**

Fair enough. I really appreciate the questions.

**Matt Desch**

Thanks, Landon.

**Operator**

Our next question will come from Walter Piecyk with LightShed. You may now go ahead.

**Walter Piecyk**

Thanks. So what is the process for, I guess, how a technology gets enabled in smartphones? Meaning that, does the ultimate demand have to come from the device maker, is that who drives it? Whether any agreements with the device maker itself or a component guy or whatever it is, how does that typically manifest itself? Because I wouldn't imagine that if it's not the device maker that someone else would expend development dollars unless they knew that at the end of the day there was going to be a device maker that would actually want to put it in their phone.

**Matt Desch**

Yes. I mean, answering that question Walt, and it's a good one, but it's just not something I can kind of go into at this time. I mean, that really goes beyond what we're really capable of saying today. But I don't disagree with you that obviously you wouldn't sign agreements unless everyone viewed there to be a sizable opportunity in the future.

**Walter Piecyk**

Thanks. Why does someone need a service provider agreement? Because, if I think about my AT&T phone and I have got a soft SIM, I can be using AT&T in my terrestrial network, I go to Utah, whatever, and I can just flip to a soft SIM that's another service provider. So why is there a need in this case for a service provider agreement?

**Matt Desch**

Yes, so I'm not going to go into the business model that we are anticipating for this. But, we are not the service provider. So any time we provide service through others, there has to be an agreement on how it would be priced, and how it would be delivered, and that sort of thing. So it's more of our agreement with them about how it would be delivered.

**Walter Piecyk**

I understand that. But presumably, a device maker themselves could say, hey, buy my phone. And then when it roams off of the cellular provider that you're using it, then me, Apple, me, Samsung, whoever can say this phone's going to work in more places. So I don't understand why you would need a service provider in that context.

**Matt Desch**

I can assure you we need a service provider agreement, and so that's why we're negotiating it.

**Walter Piecyk**

Okay. Just last question. In the share repurchase, it was down. Obviously given the quarterly results and this announcement, is the reason you didn't buy as much stock back this quarter because you knew this announcement was coming, or is there other factors that went into the share repurchase activity this quarter?

**Matt Desch**

I don't think we're going to go into exactly why and how we do that. Obviously, that's sort of disclosing. But I think that's probably all we can say about that—

**Tom Fitzpatrick**

Okay. Well, the reason wasn't that—we would have liked to buy the stock at the levels that we saw in June, but that wasn't feasible.

**Walter Piecyk**

Why wasn't it feasible, though?

**Tom Fitzpatrick**

We're not going to go into that.

**Walter Piecyk**

Okay, thank you.

**Operator**

Our next question will come from Hamed Khorsand with BWS Financial. You may now go ahead.

**Hamed Khorsand**

Thanks. Good morning. I just wanted to see, how comfortable are you with channel inventory? How are you managing it and making sure partners aren't pre-ordering too much ahead of expected installs?

**Matt Desch**

Yes, that's been an ongoing process that our sales and marketing team has done in conjunction with our almost 500 partners. There's obviously been a lot of demand out there for us, as you can see, much higher than we were expecting at the beginning of the year. And we've been on allocations for a number of our components, a number of our devices, really for the last 12 months or so here. And while we're catching up, we've had to go back and kind of work with each of them individually, understanding, because a lot of them have supply issues of their own and everything.

So, trying to make sure that we allocated our devices to the places that could matter the most has been sort of a bit of an art, some science, but a lot of art and a lot of discussions. I feel good about how it's gone because our partners are telling us that, they feel that it's been an open, transparent, and productive sort of process. We've been catching up in some areas here, still behind in some others, could have an even better second quarter, but think that we'll be catching up on a lot of this through the rest of the year, assuming we don't have any other big supply chain shocks or anything. But [I have] a really outstanding supply chain team who's done, I think, an amazing job over the last year of managing quite a complex environment here to be able to continue equipment level growth through this unprecedented demand and manage through all the kind of little issues that keep popping up just due

to the normal environment everybody's having to go through.

**Hamed Khorsand**

Okay. And then, my other question was on these personal devices, is this predominately still a North America sales process or are you seeing partners come on board from different geographies?

**Matt Desch**

Well, it's never been just North America. I mean, obviously, North America has been a strong market for us, but we have partners in Europe, Asia, really everywhere around the world. I was just at a partner conference in Europe, and we have a strong group, and growing group of partners in Europe and the Middle East, definitely have quite a few, and have been growing nicely in Asia. I forget how many, I just saw the number that we added last year in Asia alone, which is across the region there too. So, no, it's a global phenomenon of the partner base that we have.

**Hamed Khorsand**

Okay, great. Thank you.

**Operator**

Our next question will come from Greg Burns with Sidoti & Co. You may now go ahead.

**Greg Burns**

Good morning. The hosted and data payload was up a little bit this quarter and it sounded like it was from growth from Satelles. Is there new growth opportunities emerging for Satelles? Should we expect that line item to continue to grow? Thank you.

**Tom Fitzpatrick**

Yes, Greg, we expect that to grow over time.

**Greg Burns**

Okay. And then in terms of the SDA contract, what is the timing of—it sounded like it's not like a straight-line revenue realization there, but what is the timing of when we should start to see revenue from that hitting the P&L?

**Tom Fitzpatrick**

It'll be heavier in the first two years, then it'll decrease for the final five years. There's a heavy lift in the first couple of years and then it just goes to maintenance in the back five.

**Greg Burns**

And revenues should start flowing this quarter, like in the third quarter?

**Tom Fitzpatrick**

Yes.

**Greg Burns**

Okay. And then, in terms of the timing on Certus 100, it sounds like you're making progress there bringing some new applications to market. When should we expect to see revenue start picking up from those new applications?

**Matt Desch**

Yes. I mean, you're going to see that flow into both the voice and data line as well as the IoT line depending upon the applications. I'm seeing, there's a whole bunch of new products that are getting

announced all the time. In fact, I just know Oshkosh is starting this week, and there's a couple of our partners that are announcing some products for the general aviation market built on Certus 100 technology. I think you're going to see some consumer devices in the coming quarters that are sort of built around that technology that supplies both voice and higher speed data services. [Indiscernible] UAV market, a number of different partners are going after that, but that all depends on how the growth of their individual markets go. But there's a lot of excitement about that. We see surveillance devices out there, just a bunch of applications. Also, a lot of interest in the government for applications [indiscernible] military kind of applications as well.

So it's a broad range. We're starting to see the first revenues already. I think that's going to build over time. Like anything, because there's often a lot of other development required for a very tailored development around technology like this that's never existed before, I mean, we've noticed this in other technologies like Push-to-Talk and other things, it kind of grows slowly in the first year or two and then gathers momentum and then really kind of takes off as the solutions are well-established and the sales channels are well established. So I'm expecting this follow that same trajectory.

**Greg Burns**

Okay, great. Thank you.

**Matt Desch**

Yes.

**Operator**

Our next question will come from Caleb Henry with Quilty Analytics. You may now go ahead.

**Caleb Henry**

Thank you. Hi, guys. I just had a couple of questions about the Relativity launch deal. I think it's been a couple of years since it was announced. So you said the launches are happening in 2023. How many missions do you expect? I think this is all their smaller rocket, that Terran 1, and then the original announcement was for up to six, and you said on the call that this will be five satellites that are launching. So I'm just curious what the logic was behind launching five and keeping one ground spare? Thanks.

**Matt Desch**

Hey, Caleb. I think you're assuming a little too much there. We do have an arrangement with Relativity for future launches that have been prescribed. But the vehicle that we were talking about there can only launch really one of our satellites. We haven't named the launch provider for our launch in '23, but you can probably figure out it's five satellites instead of one and that wouldn't necessarily fit the current profile for the launch provider you just suggested.

**Caleb Henry**

Okay. So the spare launches are not going to involve Relativity then?

**Matt Desch**

Well, I said we haven't named the launch provider, but I've given you a lot of information to figure that out, okay? I just haven't decided to name the launch provider yet.

**Caleb Henry**

Okay. And, I guess just one follow-up and then I'll let it go. Do you still have an arrangement with Relativity to launch spares or has that been replaced by this future agreement?

**Matt Desch**

We do have an arrangement still. That hasn't been terminated. It provides for the ability to launch satellites in the future at our discretion. But it offered the opportunity to launch, but didn't require a specific number of satellites to launch. And we'll still have a spare left after this launch, so we'll see.

**Caleb Henry**

Okay, thanks.

**Matt Desch**

Okay.

**Operator**

Our next question will come from Louie DiPalma with William Blair. You may now go ahead.

**Louie DiPalma**

Good morning, Matt, Tom, and Ken. What an action-packed earnings call.

**Matt Desch**

Thank you, Louie. I agree.

**Louie DiPalma**

First, I just wanted to commend Tom for hedging the floating rate debt, in that I cover another company who was downgraded recently because of floating rate debt exposure. So that was very savvy, Tom, and your team.

**Matt Desch**

I'm going to have to pay him more if you keep that up, Louie. [Indiscernible] that.

**Louie DiPalma**

Second, related to the smartphone announcement and the seven or eight questions that followed, are you looking to be exclusive with a smartphone OEM? Or, are you going to be open to several smartphone OEMs?

**Matt Desch**

That's a great question and one I can't really answer at this time. But obviously, our goal long term is to address the market as broadly as we can.

**Louie DiPalma**

Sounds good. And in response to, I think Ric's question, you mentioned other consumer devices potentially as part of the agreement. Just broadly, is it feasible for the Iridium technology to be embedded in a device as small as a smartwatch?

**Matt Desch**

Yes. First of all, this development agreement doesn't cover anything but smartphones, as you can read in the 8-K. But it doesn't preclude us from addressing other applications and other devices. And, while I can't say definitively because we have not tested it specifically yet, that's still to come. But the physics seem to suggest, with the right antenna, etc. and with the integration that we see in smartwatches that, yes, our technology is coming from a LEO orbit using L-band and technology we're aware of what would be able to address—should be able to address smartwatches and other very small applications. If it's in a smart enough chip and the rest of the components allow it, it's obviously a low data rate, you can make a connection with us. And the nice thing is I don't have to build a new network to do it either.

**Louie DiPalma**

Right. And in terms of the term service provider agreement, you already have service provider agreements with Garmin, ZOLEO, and other partners, such that they pay you either a wholesale rate per message, per byte, or per month and then the service provider actually charges their end customers whatever economic arrangement they set, right?

**Matt Desch**

Yes, that's right. I mean, that's, that's how we go to market. I mean, obviously as a wholesale supplier, we really don't develop retail prices. And we don't deliver the market to end consumers. So, we always go to market through what we call a service provider agreement. And doing so in this kind of area would require the same thing. It's an arrangement by which how is it that we would price, what it is that we would be delivering and on what terms, and that's just a natural evolution. We do it all the time. We just have to do it in this case as well.

**Louie DiPalma**

Excellent. Thanks, Matt, Tom, and Ken.

**Matt Desch**

Okay. Thanks, Louie.

**Tom Fitzpatrick**

Thanks, Louie.

**Operator**

Our last question will come from Chris Quilty with Quilty Analytics. You may now go ahead.

**Chris Quilty**

Thanks. Matt, can you give us the first letter of the name of the [indiscernible]?

**Matt Desch**

Well, that's an appropriate final question anyway, Chris. Thank you.

**Chris Quilty**

How about the second letter? You just didn't think somebody could come up with an original way to ask the question, right?

**Matt Desch**

Yes, you can do better.

**Chris Quilty**

Actually, I did have a legitimate technology question. So one of the reasons you've been so successful integrating with Garmin and GPS devices is because of the location of your spectrum and its adjacency to GPS signals and the ability to integrate with an internal antenna. And so from a technical perspective, as you look at smartphones, do you have the same ability with the existing hardware, either chipsets or antennas, which are kind of the two critical components for you to work with another device, or does a device manufacturer more likely than not have to do some significant or even minor hardware adjustments to the existing device?

**Matt Desch**



Yes, that goes in a little bit too much detail, Chris. It was a good try though.

**Chris Quilty**

It is a technical question.

**Matt Desch**

It is a technical question. I would just say that this is something, because as you recognize because I've been talking about this for the last three quarters or so at least, there's been a lot of work done at this point. And we feel confident that you can make a connection, a usable connection, between smartphones and low earth orbiting satellites. And obviously, that shouldn't be a total surprise based on a lot of others who would love to be in this market as well. And by the way, I really do expect this will not be something exclusive to Iridium. I mean, others will want to be in this market, but it's such a huge market that if you can address it in multiple ways, there are a lot of opportunities to build a new network to support this, which I don't know if that will occur but some expect to try, or even use other existing technologies.

But what I feel good about is with a truly global network and one which is a very flexible system that can be demonstrated over many years to be very adaptable, the physics are really pretty good about this right now. So it obviously won't be a stock device, but I think the changes obviously must be manageable because they look very promising.

**Chris Quilty**

So just a couple of real quick questions. Commercial broadband and ARPUs have been marching up, but you have some mix change in the future with new Certus products. Tom, should we generally expect the ARPU, given your expectation of product shipments to kind of trend up, or flat, or down just generically?

**Tom Fitzpatrick**

So the Certus 100, right, that's going to go into commercial voice and data and that should be accretive to those ARPUs, obviously, right, because it's more data used. So we think in broadband that the additional Certus and the replacement of legacy product OpenPort should be accretive to those ARPUs as well.

**Matt Desch**

There's a lot of movers in that whole broadband area. There are higher ARPU applications coming in commercial aviation. And some areas that we see there are lower priced products like Certus 200 that might go into lower applications that might not have ever wanted as high of ARPUs. I think that there's a broad range of ARPUs, but obviously as we've moved up from sort of the traditional OpenPort, lower speed stuff to higher speed stuff, that typically drives higher usage. And I think we're going to see broad-based continue—I can't tell you exactly where the ARPUs will end up in that whole area because it still seems to be fairly early in that whole stage, but we like the trends we're seeing.

**Chris Quilty**

And, I know this doesn't really impact revenues, but your government subs have been kind of trending down, and you mentioned the Space Force transition. Do you see a resolution in that and that being a potential driver for equipment sales looking out over the next year?

**Matt Desch**

Well, we've had a lot of positive discussions and know that it's a recognized issue. It is being worked to be addressed. It's complicated, like anything within a complicated environment like the US government. But they want to take more advantage of the contracts that they have right now and just have to make

some changes to ensure the incentives and other things internally sort of support that. They recognize that it's not really demand going down at all. There's a lot of applications and there's some really big programs coming that could drive significant volumes, depending upon their success and how fast they roll out and that sort of thing. So, we're still very bullish long-term on our relationship through this contract and through eventually another contract out in the future on sort of our core business, as well as continued growth in broadband and other applications as well. There's a big demonstration coming out in Asia this summer. I'm excited to showcase the applications. It's really a broad-based set of applications that potentially support them as well as many of their allies and everything.

So, it's still a very long-term strategic relationship. It just isn't showing up in subscriber numbers. But fortunately, we have the right contractual environment that it really doesn't affect the revenue numbers much.

**Chris Quilty**

And, are you still discussing a separate Certus contract? And is that something we should expect in the near to medium term?

**Matt Desch**

Well, Certus will be delivered separately through a number of partners. We've signed up now, I forget, six or so, around six, somewhere between five and seven, of our partners who are now going after a number of different broadband applications, some of which we've already seen come through on our commercial gateway. As the government gateway, they'll be increasingly coming through the government gateway, but those will really be per terminal, per pricing kind of applications as it goes. So you'll see government broadband revenues, I think, grow over the coming years here and add to our broadband revenues that way. But it's not going to be like a contract for a specific thing with the government. It won't be directly from us to the government. It will go through those designated government Certus partners.

**Chris Quilty**

Gotcha. So right now, any time you do international business it flows through your commercial line because that's where your partners operate through. So you're saying any Certus business, at least for now, the way the business is running, also with the DoD, would flow through the commercial line in those partners?

**Matt Desch**

Yes, that's correct. It goes through our commercial broadband revenue line.

**Chris Quilty**

And, I do have one other clarification question on the handset thing in the FD disclosure, Tom, it had indicated that there's some reimbursement for expenses. So are we to assume that on a P&L basis, it sort of looks like revenue goes up and R&D goes up and they offset?

**Tom Fitzpatrick**

So are you talking about the SDA?

**Chris Quilty**

No, no. This is for the handset.

**Matt Desch**

The 8-K.

**Chris Quilty**

The 8-K.

**Tom Fitzpatrick**

Yes. So will be in engineering and support revenues and engineering and support costs. Okay? They are the lines that will be affected by what the 8-K references.

**Chris Quilty**

Okay, great. Appreciate the color and congrats on a great quarter.

**Matt Desch**

Sure. Thanks, Chris. Appreciate it.

## **CONCLUSION**

**Operator**

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

**Matt Desch**

Well, it has been an action-packed quarter, we appreciate that. So it's great to be in a good environment. We really are enjoying some strong demand and love the opportunities we're working on. And we'll keep you updated on the progress of those accelerators as we've described them as. And appreciate you being on the call and see you in the third quarter. Thanks.

**Operator**

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