

Iridium Communications, Inc.

Third Quarter Earnings

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CORPORATE PARTICIPANTS

Ken Levy – *Vice President Investor Relations*

Matt Desch – *Chief Executive Officer*

Tom Fitzpatrick – *Chief Financial Officer*

PRESENTATION

Operator

Welcome to the Iridium Third Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star then zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

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

Ken Levy

Thank you, Andrew. Good morning, and welcome to Iridium's Third Quarter 2021 Earnings Call. Joining me on today's call are CEO, Matt Desch, and our CFO, Tom Fitzpatrick. Today's call will be with a discussion of our third 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 only 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 your views or expectations change.

During the call, we'll also be referring to certain non-GAAP financial measures including operational EBITDA, pro forma 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 in the Investor Relations section of our website for a further explanation of these non-GAAP financial measures and a reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matt Desch

Thanks, Ken. Good morning, everyone. As you saw in this morning's earnings release, we put up another exceptional quarter with really strong results. In fact, this quarter was our highest quarterly operational EBITDA in company history. The results are indicative of the strong rebound we've seen since last year during the early days of the pandemic.

In the third quarter, we saw broad-based demand for our many solutions and continued to witness the strength of our wholesale business model. The ecosystem of around 500 global partners that we've built over the past two decades remains a real differentiator. It has shown its resilience during various

economic cycles and market dislocations.

Back in May, you will recall that Tom and I laid out the vectors for Iridium's five-year growth plan during our Investor Day. At that time, visibility for growth in 2021 was still a bit clouded by how fast some of our partners' markets might recover from the previous year. However, we still had a strong grasp of the underlying demand for our services, and we had confidence that a full schedule of new product rollouts and planned service introductions, all supported by our substantial partner network, would deliver new subscriber additions just as it has in prior years.

This perspective supported our announcement in May of a return to average high single-digit service revenue growth from 2023 to 2025. We're definitely on schedule for that given our results this year. In light of the growth we continue to see across our commercial business lines, we're taking up our full-year outlook for service revenue growth to between 5% and 6% in 2021. This increase also supports a higher operational EBITDA which we now expect to reach approximately \$375 million this year which would represent about 5 and a half percent growth on a year-over-year basis.

We feel really good about the momentum we're seeing in our business, and it's not just confined to our bottom line. It's a combination of top line growth, good execution on operations, and strong partner activity which are all providing a clear runway for years to come.

I mentioned last quarter that global supply chains were affecting equipment production because of a shortfall of a key part in some of our IOT modules. I want to update you on this situation.

As you saw in our results, we had a strong quarter of equipment sales as demand from our partners remains particularly strong, even more robust than we expected earlier in the year. To date, our supply chain team has done a good job in managing the impact of this component shortage as much as possible. In fact, we now expect that the strong demand we continue to see will cause our equipment revenue in 2021 to exceed last year's level.

Still, I wish we were less constrained by this shortage, especially as we see demand outstripping current supply allocations for the next several quarters. Our partners seem to understand this constraint is a short-term problem. In fact, some of them are having their own issues. Based on the supply allocations we expect to receive over the next two quarters, it appears we'll catch up on the affected product lines in the summer of 2022.

So, this equipment constraint is limited, and at least at this time, I don't see this issue affecting our long-term growth trajectory or relationship with our partners. That said, we, our suppliers and our partners use a number of different chips across a great variety of products, and the global shortage of silicon chips is ongoing and wide-ranging, so we will continue to actively work these issues as they arise.

Moving along, let me talk to a few of our key market segments. To start, the personal communications sector has really shifted into top gear. After recording our best quarter of net sub[scriber] additions in quarter two, we followed up in quarter three with 71,000 net new IOT subscribers putting us on pace for another excellent year of growth in this segment.

As interest in these small, portable communicators has grown, there's also increasing anticipation that satellite technology will be integrated into a broader set of mobile assets, including smartphones and automobiles. We believe that the adoption of satellite connectivity into mass scale, consumer-oriented devices is inevitable, and Iridium's global L-band network is ideal for that application.

As cell phone use has become ubiquitous, the one limitation that remains is making connections outside

of major metropolitan areas and corridors. A satellite connection in a smartphone is an elegant solution to this problem, which extends connectivity when consumers wander outside of terrestrial coverage. This evolution would be a natural extension of our IOT business today with our 1.1 million connections, including well more than 500,000 personal communication devices on our network today.

During the third quarter, we reached the next big milestone of our Iridium Certus product line with the availability of Iridium Certus 100. Built on our Iridium 9770 module, this new midband service class offers much faster throughput than our current narrowband modems. It makes faster connections through standard IP, rather than proprietary protocols, and is still a very compact and light-weight device with a small, omnidirectional antenna, perfect for UAVs, maritime, aviation, and many new IOT applications.

Iridium Certus 100 is now available with the first VAM products, and more are coming in the next few months. There's a lot of excitement in our partner base about the solutions they can now address with these devices and speeds.

I'm also really happy with the continued adoption of Iridium Certus Broadband in maritime. This product is resonating with the channel both as a standalone service as well as a companion to VSAT, and this year's activations serve as an encouraging sign that the maritime market is recovering. In the third quarter, broadband revenue rose 26% compared to the same period last year.

During the quarter, we also introduced our new Iridium Certus 200 class terminals which are smaller and lower priced to complement our standard Iridium Certus 700 Broadband terminal portfolio. These new terminals are just starting to enter the market now and should have a noticeable impact on our broadband growth going forward. They're a perfect upgrade for the slower connections and limited coverage of our competitors' products and a great successor technology for our own legacy Iridium OpenPort terminals.

Broadband ARPUs continued to increase in the third quarter as we are seeing Iridium Certus 700 adopted as both a standalone solution and a companion to VSAT in larger vessels. These uses are exactly what we envisioned when we introduced Iridium Certus in 2019 and should continue to allow us to grow our broadband service revenues.

Aviation is another important source of future broadband growth, and our aviation VAMs continue to make progress with their various new Iridium Certus terminals. Some are on-air and testing, and from what they're telling us, the first ones should be ready near year end. This is a market where the end users already know Iridium and our capabilities very well. We still need to get these new terminals certified for safety services like our partners' legacy aviation terminals, but that process is well underway.

We continue to see a strong appetite for Iridium Certus for a number of cockpit services using small terminals in the 100, 200, and 700 class ranges in the commercial, corporate, rotorcraft, UAV, and general aviation sectors, and with these coming new terminals, we'll start to be able to satisfy that demand.

An area we haven't seen the subscriber growth that we had from past years is the US government. While service revenues remain as expected, administrative issues created by the transition of our EMSS contract from DISA to the US Space Force has slowed user activations.

As we mentioned last quarter, this has not been a seamless handoff, and we continue to support the process they are going through together to ensure that the US government can avail itself of all the benefits conferred by our contract. We still have a great relationship, and they highly value our network. The government had about 149,000 subscribers at the end of the third quarter, and we continue to work with them on a number of dedicated engineering development and gateway upgrade projects that are strategic to their needs going forward.

Switching gears to Aireon, the company continues to see its business slowly improve as air traffic rebounds. Aireon expects to generate positive free cash flow for the year and remains very excited about its newest offering of data services which could become a substantial contributor to their revenues. They continue to provide a very high quality and valuable service to their ANSP customers including the FAA and have additional customers in the pipeline even though reduced air travel over the last 18 months has delayed customer decisions on new contracts. Still, they're in good shape for a company that's only been operational for two and a half years.

We also continue to be very happy about our investment in Satelles which provides alternative position navigation and time signals to protect important infrastructure and augment GPS services. They are seeing success in a number of commercial and government market segments, and we expect they will need to expand their use of our network in the coming years as well.

As I said earlier this year, Iridium has more oars in the water than at any time in our history. New product launches are expanding our reach and allowing us to address the needs of a growing number of customers. With only a few months left in the year, we're very excited about our business position and the growth opportunities that we see. Iridium has emerged from the global pandemic with strong momentum, a pipeline of new products, and more demand than we can satisfy today. This positions us very well as we start planning for 2022.

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

Tom Fitzpatrick

Thanks, Matt, and good morning, everyone. I'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 which give us confidence in raising our full-year guidance. I'll then review our liquidity position and capital structure.

Iridium enjoyed another strong quarter with broad-based growth. We generated total revenue of \$162.2 million in the third quarter which was up 7% from last year's comparable period. The improvement reflects strong demand for our services across all commercial business lines and serves as confirmation that the strongest headwinds of the pandemic, which had slowed channel activities, are now largely behind us.

Operational EBITDA reached a record \$100.2 million in the third quarter up 7% from the prior year's quarter. The increase from last year reflects strong momentum in service revenue growth and ongoing demand for subscriber equipment which is on pace for one of its best years on record.

In light of this strength, we are raising our outlook for OEBITDA to approximately \$375 million this fiscal year based upon expectations that service revenue will increase between 5% and 6% in 2021. This change in forecast is a testament to the underlying strength of our business and the uniqueness of our offerings.

On the commercial side of our business, service revenue was up 11% this quarter to \$101.9 million. This increase reflected strength across all business lines. In addition to ongoing demand for IOT and broadband services, we also realized a material pickup in voice and data services. Commercial voice and data revenue increased 7%, to \$45.7 million in the third quarter, benefiting from the return of our normal seasonal business and a meaningful rise in net subscriber additions. This is a stark contrast to last year when a dearth of activity during the pandemic resulted in a decline in subscriber activations and voice revenue.

Voice communications are a core part of our business and continue to perform better than we had initially

forecast in part due to ongoing adoption of push-to-talk services which helps to support our strong outlook for the year. Push-to-talk devices from our VAM Icom are particularly popular. They've sold over 10,000 units since introducing them about two years ago.

Consumer interest in our satellite IOT services also remains very strong. In commercial IOT, retail-oriented subscribers fueled 71,000 net activations during the quarter. We also saw a pickup in aviation which continues its rebound from last year's headwinds. This drove an 18% increase in revenue from the year-ago period. IOT ARPU was \$8.93 in the third quarter compared to \$9.48 in the prior year period. The decrease in ARPU from the year-ago period was caused primarily by the increasing proportion of personal communications subscribers which use lower ARPU plans.

We have, however, continued to see a rebound in high ARPU customers, most notably in aviation which was hard-hit by travel restrictions last summer. During the quarter, we added 78,000 net new commercial subscribers. Commercial IOT helped to fuel this growth, and IOT subs now represent 75% of Iridium's billable commercial subscribers up from 72% in the year ago period. We estimate that consumer-oriented plans account for about half of Iridium's commercial IOT users.

Commercial broadband revenue was up 26% in the third quarter to \$11.5 million from the prior year period. We continued to see improvement in the maritime environment as terminal installers gained access to ships in many geographies, and ARPU grew with a rising mix of new Iridium Certus activations. We anticipate continued growth in broadband revenue as travel restrictions lift, and the offering of Iridium Certus maritime terminals expands with new product launches from Thales and Lars Thrane.

Hosting and other data service revenue was steady at \$14.6 million this quarter.

Turning to our government service business, we reported revenue of \$25.9 million in the third quarter up 3% from the prior year quarter. This increase reflects the terms of our long-term EMSS contract which included a contractual step-up in revenue in mid-September. Government subscribers grew 5% year-over-year to 149,000 in the third quarter.

Subscriber equipment sales continue to benefit from strong demand rising 7% to \$26.9 million from the year ago period. As Matt noted, we continue to work with our suppliers and explore options to source components in short supply. In general, we've been effective in utilizing inventory on hand, negotiating large allocations from suppliers, and finding alternative sources for certain equipment. As a result, we have largely managed the impact of the specific supply chain issue that Matt referenced through the first nine months of the year.

We anticipate that the brunt of this component shortage will impact our ability to meet full customer demand in the fourth quarter. The challenge of sourcing components from alternative vendors is likely to result in some margin compression as we absorb certain costs in an effort to respond to strong channel demand.

Engineering and support activities remain largely episodic and produced revenue of \$7.5 million in the third quarter compared to \$9.4 million in the year ago period. As we noted on our July call, we continue to expect engineering activities to ebb and flow with schedules and the needs of our customers.

Through the first nine months of the year, we've been very happy with our performance and the strong demand for Iridium's suite of services. It's clear that business activity has rebounded from the headwinds we experienced last year. The resumption of partner activities this year and continued channel demand is pushing revenue growth above our forecast. As a result, we're increasing our outlook for service revenue growth to between 5% and 6% in 2021 and raising our full-year guidance for OEBITDA to

approximately \$375 million.

Moving to our capital position, as of September 30th this year, Iridium had cash, cash equivalents, and marketable securities balance of approximately \$289 million. Our cash position has increased by more than \$100 million over the last 12 months even when giving effect to this year's share repurchases. Through the first nine months of the year, Iridium repurchased about \$125 million of stock under its \$300 million share repurchase authorization. With a balance of about \$175 million in our share buyback program, we continue to be opportunistic in executing these repurchases.

Net leverage was 3.6 times of OEBITDA at the end of the third quarter including the impact of our 2021 buyback program. This improved from 4.2 times a year earlier and 3.9 times last quarter. Our long-term target for net leverage continues to be between 2.5 and 3.5 times OEBITDA. We anticipate that we will be within this target range by year end 2022 even after giving effect to the maximum \$300 million share buyback.

Capital expenditures in the third quarter were \$8.8 million, and we continue to expect capex to be about \$45 million this year.

In light of our increase in OEBITDA, we have raised our outlook for pro forma free cash flow to approximately \$242 million this year. We continue to expect growth in pro forma free cash flow will outpace the rate of growth in OEBITDA. This figure is up from 20% from 2020 and highlights the strength of Iridium's business model. We arrive at this level by using our updated 2021 OEBITDA guidance of \$375 million and back off \$66 million in pro forma net interest, \$45 million in capex, and \$22 million in working capital inclusive of the appropriate hosted payload adjustment.

This free cash flow reflects a conversion rate in excess of 60% in 2021, representing a yield of more than 4%. A more detailed description of these cash flow metrics along with the reconciliation to GAAP measures is available in a supplemental presentation under events on our investor relations website.

As we highlighted on our July call, Iridium completed a repricing of its term loan in the third quarter. The improvement to spread and the LIBOR floor represent an overall saving of 50 basis points on interest costs which yields annualized interest expense savings of approximately \$6 million.

As I reflect on our strong progress to date, I am reminded of the long-term guidance Matt and I shared at our Investor Day in May. We expected that 2021 would be a slow year of growth for Iridium forecasting 3% growth at that time, but we were confident that given new products and generally bright prospects that service revenue growth would accelerate and average in the high single-digits for 2023 through 2025. Our updated guidance of 5% to 6% growth this year should give investors increased confidence in our longer-term guide.

Service revenue is the primary driver of growth in OEBITDA, and given our levered free cash flow profile, we believe that this growth will drive about \$2 billion in levered free cash flow between 2021 and 2025. We believe this is a significant consideration for investors as it represents about 40% of our current equity market capitalization.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on

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

The first question comes from Landon Park of Morgan Stanley. Please go ahead.

Landon Park

Thank you, and good morning. I'm just wondering if you can touch on the Certus aviation products. What type of timelines are you expecting, and where are you with the FANS certification? What type of use cases do you see on the UAV side?

Then, secondarily just on the EBITDA outlook, the \$10 million sequential step-down in 4Q, is that all driven by seasonality and supply chain, or are there any other elements that we should be thinking about on the sequential trend?

Matt Desch

Okay, well as I said, in aviation, that's a natural space for us. We're quite successful in aviation today using our sort of legacy devices. It has taken our VAM partners longer than expected to get their antennas completed, but they appear to be solving their issues right now. There's multiple suppliers, and a number of them have told us they're both on air. We've seen some of their terminal. They look great, and the first one should be available later this year, though I don't know that they will be in the market significantly until certainly well into 2022 and into 2023.

They're quite small. They offer services, in most cases, both up to 700 kilobits per second which is quite effective for an L-band service. They also have low-cost versions coming using our Certus 100 or 200 technologies, which are small and omnidirectional and perfect for things like GA, for UAVs, and for smaller aircraft.

So, FANS, they'll go on airplanes regardless. They don't need to be FANS certified to do that. They can be used for internet services and particularly cockpit but even smaller craft cabins, or we're seeing a lot of Certus 100 interest right now in the UAV market. A number of new VAMs and VARs that want to supply that service particularly for command and control kind of applications using Certus 100 since it's a global product, and it's very small and lightweight and fits on a lot of those platforms.

FANS certification is going to take longer. It, of course, requires the FAA and also additional development that's underway right now. I wish I could tell you exactly when FANS certification would occur. That will obviously help drive penetration onto the larger commercial aircraft, the long-haul aircraft for flight safety services in the cockpit, but that will just be a driver as opposed to a gating element for getting aviation terminals and revenues in '22 and '23.

So, that was the first part of the question. Do you want answer—

Tom Fitzpatrick

Hi, Landon, it's Tom. I'll take the second part. So, the fourth quarter is seasonally a tad weaker than the third. The third is a stronger quarter just seasonality-wise, and then we're modeling equipment revenues in the fourth quarter down materially from where you saw it in the third quarter. We see equipment revenues up on the full year, but fourth quarter will be down sequentially, and that kind of accounts for the decrease in our outlook for OEBITDA sequentially.

Landon Park

Great, thanks, and just one last one. On Aireon, you guys recently provided some commentary about

that payment, the next lump sum payment coming in '24. Can you just walk through how confident are you in that revised timeline and just some of the moving parts there?

Tom Fitzpatrick

Right, we're very confident in Aireon's business model. They're cash flow positive this year. Their business is performing very well. The effects of COVID on international air travel has just caused their business model to move to the right a bit, so their anticipated refinancing has moved to the right, but we're highly confident that they will make those lump sum payments in due course.

Landon Park

Great. Thanks very much.

Operator

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

Ric Prentiss

Good morning, all.

Matt Desch

Hi, Ric.

Ric Prentiss

A couple questions. First, the stock buyback obviously you said you'd be opportunistic. It was a big drop-off between the buyback levels in the first and second quarters to the third quarter. How should we think about how you view the timing and pacing of the buyback, and is there anything else going on out there like M&A for use of funds?

Tom Fitzpatrick

The way we think of it, Ric, is we want a handsome return to where we think intrinsic value is, and we think about it in terms of where we are in our level of leverage. So, we want a higher return if we're above our leverage guide, and so that's how we think about it. So, we were opportunistic in the third quarter. As we've said, in terms of M&A, there are some things that we like, but it's not like we're holding back because of M&A.

Ric Prentiss

Second one, obviously within the quarter [audio drops].

Operator

Excuse me, Mr. Prentiss, could you make an adjustment there on your end? I'm sorry to interrupt. It's kind of breaking up on, I assume, your cell phone.

Ric Prentiss

Okay, any better here?

Matt Desch

Perfect.

Ric Prentiss

You bet. No worries, guys. The second question, I appreciate that, Matt, you touched on it a little bit in your prepared remarks about the thoughts of L-band coming into smartphones. Can you walk us through kind of the timeline and the process of what's involved in making that happen technically but also in

talking with the OEMs?

Matt Desch

I'm not going to go into anymore detail on that, Ric. As you might imagine, I bring it up because it's been so much in the public sphere obviously around specifically Apple, the rumors around them, but also there's some other companies that have emerged that are out claiming that they're going to go after this with great expense and new satellites, and that sort of thing.

I just think it's important for people to understand this is core to our strategy. Our network is built for this sort of thing. We have the right spectrum and position for it, and we're pursuing it, but you know, when, if, all those sort of things—it doesn't really make sense for us to go into any kind of detail. I don't want to even presuppose exactly how and what we would do because that would give away way too much about what our approach and strategy would be towards that market segment. So, hope you understand.

Ric Prentiss

Makes sense, but conceptually, the concept of satellite linkages into smartphones are something core to your strategy and something you're working on.

Matt Desch

Yes, we view ourselves as a personal communications company when it really comes down to it. That's how we were built 25, 30 years ago. It was about a highly-efficient communications, globally to small antennas and small devices around the world, and you can see it's played out in our IOT business, it's played out in a way we have been successful sort of in the personal communications sector around evolving from satellite phones to personal communicators, and we've been licensing our technology into other products for other applications, and by the way, smartphones will be just one direction.

I mean, also, there's a lot of interest, I think, in a lot of connected and other consumer products in automotive sectors as well. So, it's how we're built.

Ric Prentiss

Makes sense, and last one from me. Obviously, a lot of other thoughts about the capital being raised in the space, as you mentioned. How should we think about how you guys look to position yourselves in kind of the new landscape of LEOs out there and anything you might be working as far as collaborative?

Matt Desch

Well, you know, in the segment I just talked about people who are trying to go after connecting to smartphones directly from space, either using standard protocols or terrestrial spectrum because they don't have any spectrum themselves. I think those companies have a long way to go. Most of them don't have the technology built or available yet, don't have sometimes the financing. Some of their plans, as most people know, are quite ambitious is probably a nice way of saying it.

So, I doubt that we'll be partnering with or working necessarily with any of those companies towards things unless there's some sort of future spectrum sharing or something, but we are keeping our eyes out for the IOT sector. There are lots and lots of companies trying to build networks to go after what I would call the low-end IOT sector.

There's been some sort of announcements in that space none of which really demonstrate that anybody's been successful any time soon. There have been some companies purchased, but I don't know that they're even [been] a demonstration of the success of those companies yet. They still have a long way to go, as we know, because we've been now in the IOT business for I think about 17 years or so of our 21, 22 years, and it takes a long time to build up the solutions and ecosystems in addition to having sort

of a low-cost, but yet low-end, product.

So, we're talking to a lot of them, and we're considering some of them want to use our network to possibly provide their services. We are open to that, but are considering whether that makes business or economic sense and whether we should have other kinds of relationships with them as well.

Ric Prentiss

Great. We'll keep our eyes on that. Appreciate it. Stay well, guys.

Matt Desch

Thanks.

Tom Fitzpatrick

Thanks, Ric.

Operator

The next question comes from Walter Piecyk with LightShed. Please go ahead.

Walter Piecyk

Thanks. Hey, Matt, do you think there's an opportunity for Satelles to have maybe a more formalized relationship with NextNav? If NextNav is successful in completing their SPAC, I saw the announcement from earlier in October, but it seems like they're highly complementary businesses and just curious on your thoughts on those two companies going forward.

Matt Desch

I'm not sure I can speak specifically to NextNav nor probably should. I do think I can say that—I mean, Satelles has a well-established revenue stream business and probably is backable themselves if that was a smart strategy. I don't, frankly, know that that is. I think SPACs personally, having been through one, and finding the pain that was associated when we did it—

Walter Piecyk

The original SPAC, you were the original SPAC.

Matt Desch

Yes, exactly. We were SPACs before SPACs were cool, as they say. It's an expensive way of going. It was an expensive way for us. It was required because of the 2008 recession and everything. It was the only sort of direction we had in place, and I would say if you absolutely have to go, I guess that's what you would do, but I don't know if I would wish it on anyone.

Walter Piecyk

So, your advice to Aireon and Satelles, it sounds like, would be maybe to do a traditional IPO process as opposed to a SPAC.

Matt Desch

Absolutely.

Walter Piecyk

Okay. Can I just move onto Tom? On your prepared comments, I understand that companies don't like to change targets, but in your comments you talked about like this 3.5 to 2.5 times [net] debt leverage target, and you want to get there by the end of '22. I mean, you're at 3.6 now if you go backwards on EBITDA. Like if you just took the current quarter and annualized it like many companies do, you're

already within the target range of 2.5 to 3.5 times.

So, I kind of want to come back to the share repurchase comment that I think Ric was asking you. I mean, if you bring up a year-to-date chart, and I look at the stock performance Q1 and Q2, I mean, yes, the stock kind of rallied on the whole Apple thing in September, but there was plenty of time in July and August to buy stock at the same price that you were buying it in the June quarter, and in the March quarter, your stock was in the low to mid-50s. Now, you might not have bought stock there, but you found an opportunity to buy \$50 million worth of stock in the first quarter, and then the same amount in the second quarter.

So, I think investors might want a better clarification on why you didn't buy stock in Q3 because saying that you're opportunistic and not getting the same returns, it just doesn't fit to the opportunities you had to buy the stock in the third quarter.

Tom Fitzpatrick

Right, so just your observation that we're at 3.6 times leverage now, the guide of being inside 3.5 times assumes the full \$300 million of buyback, so that we would buy back another \$175 million worth of the stock. So, that answers the leverage question.

I'm not going to get into anymore of our thinking around buybacks other than to say we wanted an appropriate return to what we consider to be our intrinsic value.

Walter Piecyk

You offered that as an answer, and the answer doesn't make sense if the stock was at the same price that you were willing to buy it at in Q1 and Q2.

Matt Desch

I don't know if that's truly accurate. We've demonstrated let's say, I would call it, discipline in terms of our view of value, and by the way, I think our value is increasing particularly given back in quarter one and quarter two we were still in the post-pandemic depth. We're now at a stronger place where we think our stock probably is even more valuable given our confidence in our direction and what we have now told people in May and where we believe our market is in the latter half.

So, I wouldn't say that the exact same place or the stock or the price that we should be buying the stock should be identical in every quarter.

Walter Piecyk

I know, but you supported the point though, Matt. If you're in a stronger position, if your intrinsic value is greater, and if the stock is at the same price that you were willing to buy it at in Q1 and Q2 because you had that price in July and August, I think investors just want to understand why more stock wasn't bought back in the third quarter. I don't disagree with anything you just said. It actually supports the argument.

Matt Desch

I'm not sure it does. I think it's actually the opposite, but you know, our view of what a valuable price might be going, if you will, up in some ways over time, where our stock trade was before and where we think it could trade again, but I don't really know it makes sense right now.

Like I said, I believe we have a process internally. We're careful, we're disciplined, and we're being opportunistic, as Tom said. I think you can almost evaluate what and where it was and what prices we are considering that to be, and if you analyze it correctly, you'll find that there is probably more discipline associated with it than you're giving us credit for.

So, I don't really know that it makes sense to argue and describe anything more than that because it would just be describing prices and other things like that don't make sense.

Walter Piecyk

Well, you're also just sending a message to investors that maybe they shouldn't be buying the stock if you're not willing to buy the stock at \$42 or whatever it is.

Matt Desch

I don't think that's what we're doing.

Walter Piecyk

Okay, thank you.

Operator

The next question comes from Greg Burns of Sidoti. Please go ahead.

Greg Burns

Good morning. Just to go back to the topic of increasing competition in space, I've seen a recent SPAC talking about having ADS-B receivers on like a micro constellation that they're putting up. So, I was just wondering what the potential for a competing [audio drops] to Aireon is, like how you view that market or potential for increased competition going forward, and maybe what the differentiator for Aireon is to maybe some of the other services [audio drops].

Matt Desch

So, I've seen that as well, and I have to say we kind of chuckle when we see people talk about building an aviation or an ATC-grade competing service. That would take many, many years and would require a different kind of network than these small sat networks are capable of doing.

So, we feel extremely confident, I don't know how to say it even higher than that, that those companies aren't going to be competition to Aireon certainly for many, many years to come. I mean, part of it is the network. Our service through interconnected, inter-satellite links through a network that can guarantee performance, that doesn't have satellites that just last a couple years, and then you try to bring new satellites into place, that doesn't just depend on certain locations based upon bent pipe -- that actually has a global connection. Those aren't easily replaceable things with a small sat network of any sort.

So, could there be data coming from aircraft that goes through small sat network that maybe could be sold as secondary data? Sure, but I think they're going to be competing with a golden data set from Aireon that truly knows where every aircraft is at every second everywhere in the world, as opposed to many—and not globally, etc.

The other thing, too, is Aireon through its ownership structure obviously its customers are big owners of it, and they demanded really the highest level of accuracy, and in fact, certifications by EASA, the Europe regulator, to prove that the service was bulletproof and worthy of the quality necessary to do air traffic control. That took many years and a lot of effort and demonstration of quality levels that are kind of unprecedented that I don't think a small sat network could achieve for many, many, many years to come.

So, I think there's a big competitive moat around Aireon. Perhaps there could be some competition around data services, but they're going to be competing with a really good set of data [from Aireon].

Greg Burns

Okay, great. Thanks. Then you had mentioned, it sounds like in the maritime space and the broadband front you're starting to see a bit of improvement there in terms of your access to [audio drops] the net adds didn't really increase too much year-over-year, and they're down a little bit sequentially. So, could you talk about that comment what you're seeing in the market, the additions to start [audio drops] now, or do you just have a growing pipeline or backlog that you're referring to? Just talk about the outlook for the maritime and broadband market,

Matt Desch

Yes, what I track is my monthly Certus activations in maritime and looking back from last year and then earlier this year, I see month-over-month improvements each month as more and more Certus terminals get activated on ships.

I think the net number of subscribers is that -- we are seeing some OpenPort terminal deactivated, not nearly as many as we thought many years ago. They seem to be holding on ships, and there's more new Certus terminals going onboard than open terminals that are replaced by others. So, I think that will probably accelerate a bit with Certus 200 now coming to the market and Certus 100 because that's a nice replacement for OpenPort, and that might actually accelerate that transition.

The bottom line is Certus terminals are much faster and higher revenue generating, and so as you can see in the revenue growth we're seeing, that adds for a lot more service revenue growth with that 26% growth we see year-over-year.

So, that's probably the most important metric that we continue to have strong growth in that area. In addition, with these new products and being more cost-effective in both land and then eventual aviation applications and more government subscribers, all that will add to continued broadband growth going out in the future.

Greg Burns

Okay, and then with the Certus 100 and 200, is the revenue going to be recognized in broadband, or is it going to depend—like with 100 depend on what the application is with the IOT? Like, how are you going to track that revenue from those new sources?

Tom Fitzpatrick

Broadband is just going to be above 128[kbps]. That's the only thing that's going in broadband, and the [Certus] 100 will basically follow what it replaces. So, we have L-band transceivers in voice and data. If it replaces that, it'll go into voice and data, and if it replaces IOT, it'll go into IOT.

Greg Burns

Okay, thank you.

Operator

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

Hamed Khorsand

Hi, good morning. Could you just talk about the earlier comments you made about the component issues that you went out and sourced different components? Does that change the quality of the product in any manner? How did you find a solution of alternative component, and how is that going to impact your partners in any way as far as feedback you've been getting from them as far as quality assurance is concerned?

Matt Desch

We would never make any change that would affect the quality of our products. We just won't sacrifice quality; that's our brand. So, no. A component is usually a like-for-like component that has absolutely the same capabilities, sometimes even better capabilities. We just wouldn't go through the trouble to replace it if it was a component change out.

In the situation I was describing on IOT, it was a specific component shortfall -- they decided earlier this year, earlier in the summer that where we had been ordering parts, and they had been delivering them within three months, they suddenly said, "Sorry, you can't get parts for 12 months because we're using those wafers for perhaps other things." Perhaps they're making car chips out of them or PC chips or whatever it was.

So, it was more that we were on allocation, and by the way, even with the great—we had great third quarter equipment sales, we were on allocation in third quarter. It just shows you the kind of level of demand we're getting right now that our partners [business and demand] are much stronger than we thought when we budgeted for the year and earlier this year as we wondered how fast they would really grow, they've demanded a lot more product from us than we expected.

So, it's obviously shown up. It's why our equipment revenues are up year-over-year even with allocations that have been going on for the last quarter and will be going on through the fourth quarter and the first and second quarters of next year as well, I think for some of those IOT components.

So, it has nothing to do with quality. This is something we do all the time. I mean, any high-tech supplier is constantly upgrading components, moving to different parts, different suppliers of the same sort of component, etc., but it's this shortage of silicon chips such as this one that's most concerning. That's this whole supply chain issue that primarily comes out of lack of wafers and stuff coming out of Taiwan. That's the one I think we're mostly watching here.

I said our partners are having the same sort of issues. None of them have expressed concerns that they could go anyplace, or want to go anyplace, else. They know that at least in this component that's in the IOT products, they know that that's a limited time. We're working allocations around to meet as much of their needs as we can, so it's a little frustrating, more than anything else because we would be just really killing it right now if this wasn't an issue, but it is a global supply issue.

Hamed Khorsand

Got it. Then, the other question was on the consumer side. You're doing fine as far as getting the components and making the devices, but are you certain they're getting to the shelf in time especially given the holiday season coming up?

Matt Desch

When you say we're doing fine, I said we'd be doing a lot better. I don't consider this to be fine. I mean, I would put up even bigger numbers in the third and fourth quarter and beyond if we didn't have any constraints here. So, I'm not happy with the situation there. Is it affecting some of our partners who may be putting products with their customers? Absolutely.

It is affecting a number of our IOT VAMS and VARS and their ability to get products on the shelves, as it is with many other companies right now. They're getting a lot of them on there, but it's not all the ones they want because they're getting high demand as well.

So, yes, it's affecting overall, but it affects the supply chain all the way out to the end customer. We'd have more subscribers but for this issue even through the third quarter and definitely through the rest of

the year.

Hamed Khorsand

Okay, great. Thank you.

Matt Desch

Thank you.

Operator

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

Chris Quilty

Thanks. Two modeling, housekeeping questions for Tom first. SG&A was up like \$2 million sequentially, \$5 million year-over-year. Looks like most of that was equity comp driven by the stock price, which was unknowable, but fair to assume we should model at the same levels or up from here looking out into the next several quarters?

Tom Fitzpatrick

I would say around this level is pretty safe, Chris.

Chris Quilty

No Q4 bonus and whatnot that we should see it up in Q4?

Tom Fitzpatrick

Let's see how the quarter plays out, but like I said, about where the third quarter level that feels right to us at the moment.

Chris Quilty

Okay. On gross margins, better than expected in this quarter, especially given the component shortages, I think you mentioned that you expect to see an increasing impact due to that on a go-forward, so should we be modeling in that same 40% to 42% gross margin range?

Tom Fitzpatrick

The third quarter was really strong because it was handset heavy, so handsets are our highest margin. So, I'd model it down a bit into the fourth quarter, because of the component shortage, but also we have mix.

Chris Quilty

Got you. A question on the consumer devices. Obviously, it's been very Garmin-heavy in past years. You've mentioned lots of new partners. Are you seeing any of those partners that are standing out in terms of gaining traction, and can you give us any color that you've gotten from your partners around use and applications whether it's mostly for the same thing, just people doing outdoors, or are you seeing other upticks in the application for those personal communications devices?

Matt Desch

Well, Garmin continues to still be the leader in that space, but they're not just a couple products. They're expanding their portfolio of connected devices, and that certainly is helping to drive in addition to driving growth in terms of where they distribute.

The other standout lately has been Zoleo. I really think it's been pleasing to see how that product has taken off and I think has exceeded expectations, certainly of ours, if not theirs, and I think that's a very

interesting product.

As we've said, there's a number of others from Somewear and Bivy and in the ACR Group there is three or four others. I know that have kind of unique channels that they go after, whether it might be a DOD application, or it might be a maritime application. It might be something very specific, and I think overall it's just demonstrated that people want to stay connected and there's a high demand for this. I think that's what's sort of been the interesting thing as people have realized how important personal communications are, and we've certainly seen that and are looking to play off of that.

Chris Quilty

Great, and final question on the push-to-talk and I guess maybe specifically Icom, are they yet at full global distribution for that product, and where are you seeing the demand? Is it primarily in government sort of first responder applications, or are you seeing it broaden out into more general, commercial enterprise applications yet, in PTT?

Matt Desch

Oh, in PTT, yes. PTT it is broadening out. It has really taken off in the last two years. The only thing it was missing was this Icom handset which is really, really—people really like that handset. I think a great example was this last week.

You probably saw us tweet out a little bit about this Rebelle Rally, the all-women car rally where all the—by the way, great place to talk to the automotive manufacturers who are in these extreme automotive areas because they see connectivity from satellites being very important, but everyone was using PTT and loving it because they're trying to coordinate a race over hundreds of miles, and these devices are just easy to use. They push-to-talk, and everybody hears exactly what you need to talk to, and they couldn't say enough about how the management of the race has really transformed since using it.

We're just seeing more and more applications whether they be first responders kind of evolving from satellite phones to push-to-talk. We see people firefighting. We see other [non-DOD] militaries around the world who are looking for alternate devices. We're seeing just—I think it's continuing to broaden out. It's not really, I would say, consumers at all. It's usually some sort of enterprise or civil application of some sort, but we've been really pleased with the performance over the assessment couple of years in PTT.

Chris Quilty

Great, thank you.

Operator

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

Anthony Klarman

Thank you. Most of what I had has been asked and answered, but maybe if I could, I'd like, Matt, try to get a little additional color on the commentary around the government contracting. In many ways, it's your simplest and easiest agreement you have. It's a fixed price contract with some modest annual escalators. Each side has tremendous transparency as to what the spend is. I'm wondering what the complexities or teething pains are as the agreement is handed off from DISA to the US Space Force and what the challenges are there. Do you think that will have any implications on how the contract gets renegotiated in the future? Thank you.

Matt Desch

Thanks, Anthony. No, it has nothing to do with the administration of our contact with the US government.

You're right. That's very simple, straightforward, and manageable. It's the issue of how the government itself manages it to their many end users, and so they set a pricing schedule that sort of recovers their cost to both internal and external users.

Unfortunately, because of the way they do their accounting, when they moved it over to the US Space Force, it caused all the prices to go way up on their products to their users, many of whom had budgets and couldn't afford the uses. So, in some cases, they moved their use over to the commercial gateway that suddenly became less expensive which is crazy because it's a fixed cost contract, but it was really an internal administration issue between how they accounted for with their users.

They recognize that. They are fixing it, and as with all things with the US government, it takes a long time to get news out and changes out to their end customers, so it will take some time to fix, but I expect over some period of time in the future and next year that we'll start seeing significant increases in subscribers again.

So, no, I don't think it will effect our long-term renegotiation because the strategic relationship and the general direction of that continues to be positive, but both they and we have been sort of frustrated with this issue that this resulted from sort of internal accounting stuff between two government agencies.

Anthony Klarman

Thanks, and maybe as just a quick follow-on, I think one of the untapped opportunities in the government contract was the ability to sell Certus offerings into that because it was not inclusive of Certus. I think it was just sort of a re-striking of the prior agreement. Would that also be, I guess, delayed or pending the resolution of this? I would imagine if end user pricing through some internal accounting has gone up, it might be more challenging to try to sell additional Certus revenues into that contract. Is that fair?

Matt Desch

No, it has nothing to do with Certus. It was really all about how you apportion a fixed price contract amongst the users in the different services and external customer bases, and that was—it was completely about an IOT device that used to cost X dollars a year, and now it costs Y dollars a year. Certus was completely independent. That is priced separately from that. They are buying it independently from our VARs, and that is mapped to sort of a competitive price range. So, no, it won't effect it for Certus purchases.

Anthony Klarman

Great. Thank you for the additional color.

Matt Desch

Thanks, Anthony.

Operator

The last questions today will come from Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma

Matt, Tom, and Ken, good morning.

Matt Desch

Hi, Louie.

Louie DiPalma

Matt, you mentioned that you are receiving interest from drone providers for your new Certus 100. Are

you pursuing partnerships with any of the very large consumer drone platforms?

Matt Desch

Yes. There's some very large platforms that are very interested in maybe if not primary control, but a lot of those really big platforms have multiple technologies on them, and there's a lot of interest because we're a very cost-effective and truly global service in those kind of environments, but we do scale down to smaller drones as well quite well which I think is what the attraction is.

Louie DiPalma

Great. One final question. You previously I think mentioned how certain government users are using a commercial gateway. What is the status of Iridium finishing building out the US government dedicated gateway for Certus connectivity?

Matt Desch

It's been dependent upon government budgets which start and stop. It looks like they're starting again, so I expect that that will be completed next year. I mean, I guess it will be finally completed. I thought it would be this year. It hasn't stopped the government from buying services because they just buy it through the commercial gateway, but they would prefer to buy it through the government gateway so I know it will eventually be additive to that.

We kind of wait for them to free up the money they need to sort of buy and contract for the work that needs to be done, but I believe that that's on track to be done now, I think next year, not necessarily at the end of next year, but some time in the next year.

Louie DiPalma

Sounds good. Thanks, everyone.

Matt Desch

Thanks, Louie.

CONCLUSION

Operator

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

Matt Desch

Well, like we said, it was a good quarter, and I know we'll see you all I guess next in probably February as we wrap up the year and give you guidance for 2022. So, we look forward to seeing you all then, and take care. Thanks.

Operator

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