Iridium Communications, Inc.

Third Quarter Earnings

October 20, 2022 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Kenneth Levy - *Vice President, Investor Relations*

Matthew Desch - *Chief Executive Officer*

Thomas Fitzpatrick - *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Iridium Communications Third Quarter Earnings Conference Call. All participants will be in 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 touchtone phone. To withdraw from the question queue, please press star then two. Please note, this event is being recorded.

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

Kenneth Levy
Thanks, Kate. Good morning, and welcome to Iridium's third 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 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 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 non-GAAP financial measures and a reconciliation of the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

Matthew Desch
Thanks, Ken, and good morning all. Well, as you saw on this morning's release, we put up another quarter of very robust growth. Commercial revenue was up 10% and we also showed strong trends in equipment sales and engineering services. And we feel really good about the momentum we've continued to see this year and the ongoing demand for our services. It certainly shows a clear appreciation in the market for the unique attributes of our network. In light of these trends, we're taking up our 2022 outlook for service revenue growth to between 8% and 9% and now expect operational EBITDA of approximately $420 million this year, which would be up 11% from last year. By any measure, this has been a very strong year of growth.

The satellite industry overall has been a hot sector in recent years, though investor sentiment has tapered in recent months. A tremendous amount of capital poured into space oriented companies over the past few years, though often not enough for most of them to complete their networks or technology. Many of these companies are likely finding the current investment environment to be particularly challenging.

With a few exceptions, like SpaceX and Amazon, rising interest rates and investor uncertainty are materially changing the flow of capital our sector had enjoyed in recent years. Iridium is fortunate to have our network upgrades behind us and now be in an extended capital holiday phase during this broader market slowdown. With the industry in this new, more challenging environment, we are seeing some new strategic relationships emerge to weather the capital slowdown that many of us expect will endure for at least the next few years.

In this environment, Iridium is very well situated and considering how best to take advantage of our unique position, perhaps in partnerships with some of these companies. For example, we continue to evaluate the narrowband IoT area, as we think those types of networks could be very complementary to our current leadership position in satellite IoT, and only a few of the many announced networks are likely to survive the current investment climate.

Personally, I think the cooling investment trend is probably good for the industry over the long-term. Eventual shakeouts will rationalize competition and present some consolidation opportunities for healthy growing companies like Iridium. We continue to monitor activity, though there's nothing specific we'd share right now. I think our stock's performance in the market this year has been a function of investors' recognition of our unique combination of strong cash flow production and growth, as well as our continued potential for growth going forward even in this environment.

We're very happy with our position in the industry and in particular our location in the L-band. We've differentiated ourselves from other satellite companies through our history of high growth, and consistently delivering on our promises. Staying in our lane and not straying from our strengths has been a winning strategy. We are executing well, comfortable with our focus on reliable connectivity and mobile applications and are very optimistic about our continued opportunities for long-term growth using our existing L-band spectrum and constellation.

We expect that the next 9 to 12 months will be especially impactful. We anticipate some new product launches and new partnerships, especially in IoT and personal communications. As Tom will discuss, we also expect Iridium's free cash flow to remain strong as we grow revenue and OEBITDA. Our balance sheet will continue to strengthen and we are committed to rewarding our shareholders even in an environment now characterized by higher interest rates.

Getting back to our current results, into the third quarter our voice and data business continued to be particularly strong, with subscriber growth up 8% from last year and revenue up double digits. We remain very optimistic on the outlook in this core business over the next few years as demand for these services goes beyond first responders and public safety and reflects the adoption of newer service offerings, like Push-to-Talk and satellite Wi-Fi for smartphones, which have come of age since their introduction more than five years ago.

In our IoT business, Iridium has been thoughtful and deliberate to steer into new industries and areas like heavy equipment, clean energy, autonomous vehicles and personal safety messaging. We have also developed new products with our partners that make our services more accessible for business and commercial applications, and even recreational personal users.

By the way, I'm not referring to smartphone connectivity, for which our plans will become clear in due time. The whole direct connection to smartphone area is just additive to our already strong position in IoT, and the areas we already play in for personal connectivity of all types. Even with all the news and activity recently from other industry players to connect people directly from space, we think we are particularly well-positioned to address this growth segment in a number of ways.

We continue to see strong demand across the board for our IoT services. This is part of what's been driving strong demand for our equipment, modules, chipsets and finished Iridium Edge devices. Even as we continued to navigate supply chain challenges over the last year, we remain on pace for a record year in overall equipment sales and shipments.

Today, Iridium's IoT services are quite diverse. We're being embedded by industrial, commercial and government partners in more geographies and applications than ever before. They provide critical real time data about operating conditions, asset position and equipment health, allowing for control and remote access to resources in the field, which results in better decision making and greater efficiency for their subscribers.

IoT solutions powered by Iridium touch every facet of our existence. They control wind turbines, divert pipeline flows and route electricity to minimize transmission losses. They also facilitate crop irrigation, monitor water levels from municipalities and allow for better agricultural yields. Our network's ability to deliver real time monitoring generates more uptime for heavy equipment and better tracking of fixed and moving physical assets. It also serves as a critical lifeline for lone workers in often dangerous remote settings.

These are just a handful of examples of how Iridium's IoT technology supports commercial and industrial activities. And we continue to invest in concert with our partners to facilitate less costly, more efficient technology and end user solutions. This helps to support broader use of our network and adoption into new industries.

For example, we're developing a new cloud native IP-centric data module called the Iridium-9704 that will be ready next year and that is even more efficient and cost effective at moving IoT data across our network. It will be even easier for existing and new partners to develop their applications with this new module. It will utilize our Iridium Certus technology platform for faster data transport and quicker connections. And it's the kind of product our partners are telling us they are really excited about for their own IoT applications, and the new solutions they want to invest in. It will add new functionality in a very small form factor and continue to support our IoT growth well into the future.

Thanks to investments like these and our global network, we remain very successful with mainstream consumer products using our IoT technology, like mobile personal satellite communicators. This market alone has driven compound annual revenue growth of greater than 50% for us since 2017. Personal satellite communications have driven significant subscriber growth for us, and we expect it to remain a strong avenue for growth in the coming years even as smartphones start making connections to our satellites.

Today, personal satellite communication devices account for about 740,000 of the short burst IoT connections on our network. And we continue to see strong demand in this area. In terms of higher speed connections, the launch of our midband technology, something our partners know as Iridium Certus 100 services, is bringing greater functionality to our commercial customers and we are in the early days of our partners taking advantage of these services and driving growth.

Higher throughput, up to almost 100 kilobits per second, supports higher ARPU services like feature rich messaging, image transmission and even real time video. Importantly, the modules and antennas we've developed for these services are very small and lightweight, so subscribers can leverage this functionality on the go. And there's a wide funnel of use cases, from autonomous assets in aerial vehicles like helicopters and unmanned aerial vehicles, to commercial and recreational sensors and even consumer devices. The low power usage of these battery powered mobile devices is what makes them so appealing. They have unique utility to mobile users, which is why Iridium's name and network remain the

standard for any discussion of satellite mobility applications.

We look forward to sharing more about the adoption of Iridium's midband technology and plan to do a deeper dive on all of our services, industry penetration and market adoption when we host our next Investor Day in mid-2023. The day will allow us to put all these opportunities for growth into perspective and focus on what they mean for our future and for continued shareholder value creation. More on this to come from Ken as we plan for 2023.

So an update on our business would not be complete without commenting on Iridium's broadband success. So let me touch on our progress there. As you know, Iridium's L-band services are used in maritime as standalone and paired with VSAT for companion services. The introduction of our lower cost Iridium Certus 200 service last year now complements our flagship Iridium Certus 700 service and has only deepened our penetration of the maritime market.

In 2022, we have seen an acceleration in sales for both these broadband classes and expect that new terminals from our VAM partners will drive incremental growth. It's a strong statement that our broadband revenue grew by 19% this quarter from the year-ago period. So we're performing well and believe Iridium Connected solutions now continue to take market share and make up the majority of new maritime business for L-band satellite connectivity.

We also continue to work with a number of partners who are launching their respective Iridium Certus broadband products in the aviation sector. Some are already seeing success. For example, SKYTRAC's new product that is finalizing certification has already been adopted by the French Armed Services for helicopter service. With the antenna certification activities we have underway now, I expect you'll be hearing from additional partners as their products come to market over the next few months.

Before I turn the call over to Tom, just have some more comments on a few other facets of our business. Aireon’s business has had strong revenue growth this year from its customers, as air travel recovers. They’re at early stages with investment into new data products and services that mine their unique global dataset, and we look forward to their continued business development in that area.

You might notice that our engineering and support revenue is accelerating. That's been driven by our continued strong relationship with the US government. We're already doing more R&D and specialized support projects for the government prior to this year's big award of an operations and maintenance contract for the Space Development Agency's new LEO network. That project has gotten off to a very fast start and is going well. We expect our business with them will continue to expand beyond the $133 million base contract as we execute on the plan and find ways to help the SDA in even more areas over the coming years.

Beyond the SDA, you may have seen news of our field exercises with the US government and others in the Indo-Pacific region during the third quarter. This series of demonstrations, called Operation Pacific Waves, involved more than 20 of our partners in collaboration with the US and its allies around the region. It was a big success and should lead to deeper relationships and broader adoption of solutions across our commercial and government platforms.

So, Iridium continues to occupy a unique lane, even among satellite companies, and today that lane is characterized by strong demand and numerous growth opportunities. We're benefiting from current industry trends for mobility and remote connectivity. We have all of our oars in the water and are excited about new product launches and their ability to expand our geographic reach and relevance to a growing number of people.

We believe that this year's results will surpass our initial estimates and we have good visibility into demand for 2023. The vectors for the 5-year growth plan we shared with you a few years ago remain intact, and we continue to be on track to generate at least $2 billion of free cash flow by 2025 since the new constellation deployed. We look forward to updating you on future projections and growth vectors at the Investor Day we're planning for next year.

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

Thomas 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. I'll then review our full year guidance, liquidity position and capital structure.

Iridium continued to execute well in the current uncertain macroeconomic environment. We generated total revenue of $184.1 million in the third quarter, which was up 14% from last year's comparable quarter. The improvement reflected ongoing strength in our commercial business lines, growing engineering work supported by the SDA contract, and continued strong demand for subscriber equipment.

Operational EBITDA was $107.8 million in the third quarter, up 8% from the prior year's quarter. Strong fundamentals and ongoing momentum in our business give us confidence in increasing our full year outlook for service revenue growth to between 8% and 9% and delivering OEBITDA of approximately $420 million this year.

On the commercial side of our business, service revenue was up 10% this quarter to $112.5 million. This increase was supported by growth across all business lines. Commercial voice and data revenue grew by 10% in the third quarter to $50.3 million. As we noted last quarter, our Push-to-Talk and Iridium GO! offerings are experiencing robust growth. Additionally, we are seeing increased demand due to the lack of available handsets from our competitors. These factors lead us to believe that our voice and data business will grow at a mid-single-digit rate on average for at least the next several years, up from the low single-digit rate which had previously been the norm.

In commercial IoT, revenue grew 12% from the prior year quarter to $33.8 million in the third quarter. We continue to benefit from strong demand for our personal communications services. Year-over-year, commercial IoT subs grew 22%, with a record 89,000 net activations during the third quarter alone.

IoT ARPU was $8.24 in the quarter compared to $8.93 in the prior year period. The decrease in ARPU from the year-ago period was caused primarily by the shifting mix of subscribers using lower ARPU plans, largely attributable to the increasing proportion of personal communications subscribers. These subscribers use less data and so have lower ARPU than other IoT subscribers.

We continue to view IoT, and specifically the personal communication sector, as an attractive market opportunity even with the advent of direct to smartphone satellite communications. Iridium maintains a leadership position in IoT for mobile assets. As Matt described, our network is being used broadly for mission critical applications by commercial and industrial subscribers.

The devices that our partners design and manufacture are purpose built, meaning they are rugged, weather resistant, engineered with long battery lives and meant to remain in the field without maintenance for years. These consumer oriented devices are purpose built, with specific software applications, durability and battery life in mind that address the needs of end users.

Today, about 50% of our commercial IoT users are personal communications subscribers. This

population of users remain a very attractive contributor to our service revenue growth in light of the minimal comparative network resources they consume. In total, IoT subscribers now represent 77% of Iridium's billable commercial subscribers, up from 75% in the year ago period.

Commercial broadband revenue rose 19% from the prior year quarter to $13.6 million in the third quarter. Activations continue to be driven by the adoption of Iridium Certus terminals in maritime. Iridium Certus is increasingly being paired as a companion to VSAT terminals and is also being installed as an upgrade to our legacy Iridium OpenPort service. Hosting and other data services revenue was $14.8 million this quarter, consistent with the prior year quarter.

Turning to our government service business. We reported revenue of $26.5 million in the third quarter, up 2% from $25.9 million in the prior year quarter. This increase reflects the contractual terms of our long-term EMSS contract. Subscriber equipment continued to benefit from strong demand, rising 4% from the prior year period to $28 million. Based upon the backlog and order volume we have received, we believe that equipment sales this year will come in well above 2021's level. As I noted previously, equipment margin as a percent of revenue is expected to decline this year to around 35%, driven by higher component costs and product mix.

Engineering and support revenue was $17.1 million in the third quarter as compared to $7.5 million in the year ago period. We have reached a new level of ongoing engineering work with recent contract wins from the US government, much of this coming from the award of the Space Development Agency contract earlier this year. This contract is highly strategic and aligns Iridium with the US government's long-term space priorities.

While contract work from the US government tends to be episodic, we expect Iridium's engineering and support revenue will rise this year from 2021’s level and remain higher going forward. Through the first nine months of the year, we've been very happy with our performance and the ongoing growth we've realized as a result of demand for our equipment and services. These trends support our revised outlook for service revenue growth and give us confidence in raising our full year guidance for operational EBITDA. We also expect to exit this year with 2 million subscribers, a figure that amounts to a doubling of our subscriber base in just four years. We expect to be able to reach 3 million subscribers even faster.

I would remind investors of our expectations for operational EBITDA margin percentage to be below 60 for 2022. This level of margin percentage is driven by materially higher equipment and engineering and support revenues this year. Those revenues are accretive to OEBITDA margin dollars, but dilutive to OEBITDA margin percentages. As Matt noted, we expect work under the SDA contract to generate low margins which we view as acceptable given its strategic importance.

Moving to our capital position as of September 30, 2022 Iridium had a cash and cash equivalents balance of approximately $219 million. In the third quarter, Iridium purchased approximately 1.8 million shares of common stock at a total purchase price of $80.2 million. Since the original authorization of our buyback program in 2021, we have retired close to 11 million shares at a total purchase price of about $413 million, or $37.63 per share. We will continue to be disciplined in executing on our authorization.

Net leverage was 3.4x OEBITDA at the end of the third quarter. This was down from 3.6x a year earlier and includes the impact of our ongoing buyback activity. Our long-term target for net leverage continues to be between 2.5x and 3.5x 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 third quarter were $13.7 million and included spending related to next year's launch of up to five ground spare satellites. You will recall that this launch of our ground spares is a one-

time event, which we now expect will cost us between $35 million and $40 million and be incurred this year and next. We anticipate that the launch will take place in mid-2023. We expect CapEx, including launch costs in 2022, will not exceed $75 million.

Let me remind you how we calculate free cash flow. If we use our 2022 OEBITDA guidance and back off $67 million in net interest for our current debt structure, approximately $75 million in CapEx for this year, and $14 million in working capital, inclusive of the appropriate hosted payload adjustment, we're projecting pro forma free cash flow of approximately $264 million. These metrics represent a conversion rate of OEBITDA to free cash flow of 63% in 2022 and a yield approaching 5%.

And of course we've hedged the term loan and believe this positions us well to whether the current interest rate environment. A more detailed description of these cash flow metrics along with a reconciliation to GAAP measures is available in a supplemental presentation under Events on our Investor Relations website.

With only a few months left in the year, we're very excited about Iridium's business prospects, and the strong competitive position we maintain in our industry. We continue to work with partners to develop new products, and believe that these will provide us with momentum and drive revenue and OEBITDA growth. This positions us very well as we look to 2023 and beyond.

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 touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

The first question is from Ric Prentiss of Raymond James. Please go ahead.

Ric Prentiss
Thanks. Good morning, everyone.

Matthew Desch
Good morning, Ric.

Thomas Fitzpatrick
Hi, Ric.

Ric Prentiss
Hey. Matt, I know you mentioned smartphone satellites will become clearer in due time, but I'd be remiss if I didn't ask a couple of questions around it. I think previously, a few months ago, you mentioned that you're working on the service agreement with the unnamed technology development partner. Can you update us as far as timeline as far as when you expect to have that service agreement in place?

Matthew Desch
I think I previously said we expect it to happen before the end of the year. And I think we're still certainly on that track right now. Sorry, we'd love to talk more about that subject. As I said, we're very well-positioned in that area and excited about our plans, but it really is more an announcement for our partners to make and those who are really more directly involved in here. So it will come in due time.

Ric Prentiss
Makes sense. I just want to make sure the service agreement was still on track for end of year. How should we think about the potential impact that might have then on your capacity of your existing satellite constellation or the timeline as far as how long this capital holiday might last? How should we think about both those items and what they might mean? Obviously, people have seen the Apple Globalstar announcement and they want to consume a large amount of capacity on those birds, just trying to think what this might mean from the capacity and life of satellite standpoint.

Matthew Desch
Our network was built and designed and architected really to be extremely efficient at sending information all over the planet. And we've done our estimations and expectations of at least what we can see so far, and we think we have plenty of capacity to support the services that we're expecting using our existing network and existing spectrum. So our plans are it doesn't really change our expectations on the capital holiday timeframe. We don't need to invest in another network, and kind of excited about the potential upside it brings to our plans right now, which really aren't in our plans today.

Ric Prentiss
Okay. So capital holidays, still thinking that it can last through most of maybe this decade?

Matthew Desch
Yes, I mean, we've always said at least a 10-year CapEx holiday, and we're still on that track.

Ric Prentiss
Okay. And I think previous calls, you've also mentioned spectrum, you might be interested in. Is there other spectrum out there, something beside the L-band, or is it just finding more L-band? And maybe just an update on what's happening with the Ligado situation.

Matthew Desch
Yes, I think it's only been in the last year or two, probably through all these discussions around direct to smartphone capability that everybody suddenly woke up and realized that the L-band and our neighbor next to it, the S-band, are probably the most ideal spectrum for that kind of connectivity for small portable consumer type products of any sort. I think we're seeing that right now in the narrowband IoT sector where people were thinking about other spectrum like even UHF and VHF, but they realize none of those are as good as L-band and S-band for that.

And there are a couple of us with L-band and S-band. We're one of the few complete networks right now that has gone up and is able to provide services to those types of devices and is ready to go with very little effort to do that. Others would have to build whole new networks potentially to support it. You've seen the announcement with Apple and Globalstar, there's a fair amount of investment that even has to happen there since Globalstar's network was getting a little long in the tooth. So they have to invest in that as well to maintain and support and grow that. We don't have that same situation. So we're in a great environment really to make this an incremental activity on top of what we're doing.

As far as Ligado goes, I think as we reported previously, I think the last real news there was the National Academy of Sciences report, which was as we expected, described that Ligado would be an interferer to us and to GPS, and that certainly has sort of changed the focus. I think Ligado announced that they were terminating their activities for their demonstration system that they were planning and are in negotiations, which I think is a positive sign that things won't be moving forward anytime soon on that front. So that's certainly consistent with what we believe should happen there anyway, and believe that the FCC should never really allowed that satellite spectrum to be reused so closely to important global satellite services.

Ric Prentiss
Great. Thanks for that. Looking forward to see you guys in December and then for the Analyst Day sometime in mid '23.

Matthew Desch
Okay. Thanks, Ric.

Thomas Fitzpatrick
Thanks, Ric.

Operator
The next question is from Landon Park of Morgan Stanley. Please go ahead.

Landon Park
Good morning, everyone. Thanks for taking the questions. I was wondering if we could start on the Certus aviation side, just given that those products are finally coming to market now. Can you maybe just remind us of your expectations there over the next couple of years in terms of what the TAM looks like and what kind of ARPUs you're expecting on those devices?

Matthew Desch
Yes, so the expectations would be our sweet spot is going to be the aviation safety part of the market, as well as the smaller platforms using say Certus 100 and 200 technology, and to some extent the safety side of the commercial aviation world, the cockpit communications and data transfer to commercial airlines, particularly on long haul flights. There's a lot of excitement. We have a lot of partners working that front. In some ways our network is more suitable for a lot of applications that other networks aren't, particularly things like rotorcraft of all types. I was just visiting, if you follow me on Twitter, a Medevac helicopter company, and it's real clear globally we're just one of the few things that really worked well on something like a helicopter or, these days, a UAV, which is a very early stage market.

A lot of areas are focused on smaller platforms, so Certus 100 and Certus 200 are going to be very well used on those. The ARPUs are quite attractive. They're certainly above where they are today in voice and data services. Hard to say exactly what they're going to be because they're going to be a broad range from UAVs, which could be quite high in some applications. Some of the monitored rotorcraft etcetera could be quite high, commercial safety, those airplanes are always in activity. But in general aviation, some other areas that might be a little bit lower, because those aircraft aren't flown quite as much. But I'm just real pleased to see that these products are finally within weeks and months as opposed to longer than that in being introduced.

Landon Park
Great. Thanks very much for that. And then turning to the government side, I'm just wondering if you can update us on your relationship there, the recent demonstrations in the Pacific and you formally announced the new partners there. Can you talk about how you're thinking about that TAM and your ability to execute? Are you still thinking about it as a $100 million sort of opportunity over the longer term?

Matthew Desch
Well, the narrowband services, of course, are covered by our fixed price contract. And that's been pretty steady, and still has time to go and will be eventually renegotiated. And I think, when I looked out in the future on what that will be, hard to tell exactly where that will go. I think the value of our services, our strategic relationship with the government has only grown. Our impact in a number of really important programs is actually coming online. I think another way of kind of looking at the relationship with the government is through the engineering and services side. And you can see that's really grown quite

dramatically over the last year or two. And now with the SDA relationship, which is a very important network and relationship, that's at a much higher level now and will remain that way for a while.

I do think we're still at the early stages for Certus with the government, both in midband and in broadband. You see we've signed up a number of new distributors now. I don't think our go-to-market strategy was optimal a couple years ago, but I think we're in a much better place now with more companies going after more opportunities. And I think that will start to pay off here before long. And then of course, government continues to find new ways of using our network and we'll keep looking at those ways going forward.

Landon Park
For on the Certus side, you guys have previously talked about a $100 million market share. Is that still the right way to think about it in terms of what you can go after over time?

Thomas Fitzpatrick
Yes, the installed base of the government for what we call broadband is that $100 million number, and that's just taking market share away from the incumbent, Landon. The way I think about it is if you look at our broadband business, we put up a 19% growth in the quarter, there's not much government, we haven't taken much of that $100 million away, so that takeaway should be helpful in that broadband growth as we look forward.

Matthew Desch
It is some takeaway, but also if you looked at Operation Pacific Waves, the kinds of applications that were being demonstrated across the board, things like UAVs, and safety services and real time video in really remote places, including at the poles, at the South Pole and across wide ranges, those were lots of new applications that can't be done any other way than Certus. So I think midband will be a unique place for growth there with the government.

Landon Park
Right. That's very helpful. And just one follow-up on the government side. Can you help us think about how to model the engineering revenue, the cadence over the next quarter or the next year or two? Just how should we think about that $133 [million] flowing through?

Thomas Fitzpatrick
So its heavy in the next two years, this year and next and then it tapers. So think of it two years is almost like construction and then the last three years of the contract is kind of the service agreement.

Landon Park
All right. Well, I really appreciate you taking the questions, guys.

Matthew Desch
Sure, Landon.

Operator
The next question is from Greg Burns of Sidoti & Company. Please go ahead.

Greg Burns
Good morning. Just a follow-up on the aviation opportunity. Can you just remind me, is that mainly being deployed on to new crafts, or is there a retrofit opportunity there? And could you just remind me about the size of the opportunity there maybe relative to the size of the market for maritime?

Matthew Desch

Yes, it's smaller than the maritime market in the near to medium term. I mean, we're only getting really started. We've already been in aviation for a while, and it's recognized in both voice and data and IoT revenues right now. I mean, we've talked in the past about being installed in our narrowband services, in both safety and IoT and other applications as being in the 30,000 to 40,000 aircraft around the world have been installed. So I think a lot of those could be upgrades to faster services with more capability, with higher speeds and a more efficient way of doing that. But I think that a lot of this will be new applications, like the UAV segment is completely new to us. And we've got a whole number of partners that are doing work in that area, and I believe that will be the future opportunities.

And of course a bit more of the low end of the broadband space, most solutions out there are $150,000 to $300,000 to put on a big aircraft. That's not what we're typically talking about for a Certus 100 type application or even Certus 200 application, or even Certus 700 is going to be much more cost competitive. And so there may be a lot of aircraft that want to be connected, that aren't connected today. So I think there will be a new growth market. But you're right, we haven't necessarily called out an exact TAM for the market. And that's something we'll do some work on and help you understand maybe next year at this Investor Day, which I think we're kind of, by the way, penciling in May sometime, but we'll see exactly where that works out to be.

Greg Burns
Okay, thanks. And then in terms of the cell phone connectivity, what is the functionality that you're envisioning there versus what you're doing now in the personal communication device market with like DeLorme? Why do you think there won't be any cannibalization there? Is there different levels of functionality? I'm just trying to understand why the cell phone connectivity won't cannibalize that core personal communication business?

Matthew Desch
Well, I think that you're going to see at least in the next couple of years, whether it be Apple or the approach that we take …[smartphone connectivity] it's going to be unexpected use around the world, emergency and remote activities that you didn't plan on through a much larger base of devices, but it will be casual use occasionally. I think what we're seeing and what we hear from Garmin and all our other personal communication providers that work today is that they really have very dedicated and focused applications for recreational users, for hikers, for emergency workers, for maritime users, and they really focus on delivering specific things to those users who need to depend on a service, and it's obviously been very successful. But they're telling us and probably been sharing a little bit more of our plans with them, obviously, as partners, and they're pretty comfortable competing in that kind of environment going forward. They're not too worried about our solution, or the kind of solutions, say, coming from Apple and others.

So that's what gives us a lot of confidence that I think both those markets are going to grow quite nicely.

Greg Burns
Okay, great. Thank you.

Matthew Desch
Sure.

Operator
The next question is from Hamed Khorsand of BWS Financial. Please go ahead.

Hamed Khorsand

Hi. Good morning. I just want to ask you what your expectations are on the maritime area. Are you expecting any acceleration in subscriber growth in that area and how are you going about as far as marketing and capturing more customers there?

Matthew Desch
Well, I mean, since we introduced Certus 700 service a couple years ago, we've added terminal manufacturers. So adding Intellian was I think a great move, moving down into the Certus 200 market segment, which is a much lower cost device, particularly in companion applications or standalone applications, all those have hit the market. And you can see the performance, I mean, 19% growth year-over-year is pretty good growth. So we're taking market share. And I believe, really, for almost all non-Inmarsat activity out there, which a lot of companies sell VSAT services and are looking to put L-band as a companion service with it, or looking to just sell an L-band component alone, are really using Iridium. I think the majority of that are really going to the market with Iridium. So with adding GMDSS to that has added another reason to buy Iridium and we're working to put GMDSS on Certus now too as well.

So, all those things have put us in a very good competitive market, we believe we're taking share. We're well-positioned for future business in that market. It's a large market and everybody is very happy with our service, and taking it to market and you can see it in our results. So I think we're in a very good place in the maritime market right now.

Hamed Khorsand
And my other question was on the R&D line. Is that related to what you're working on as far as Push-to-Talk and maybe even smartphone? Or is that a one-time push up in the expense line, and would that ever come down?

Matthew Desch
Tom, do you want to address that at all?

Thomas Fitzpatrick
When you say, you mean, sequentially? What's your specific question, Hamed?

Hamed Khorsand
Well, R&D went up sequentially and year-over-year. So I'm just trying to understand what's the normal expense line for this? And what's the reason that it's all of a sudden increasing?

Thomas Fitzpatrick
So, just our installed base of products, modernization. So we do expect R&D to be up year-over-year. But it's not materially, so it's probably $5 million or something like that will be up. And that's just investment in our modernization of our product line.

Matthew Desch
Yes, and I mean as we've gotten larger, it's a target rich environment for things to work on. In fact, there's so many things we want to do. And in fact, I think you're going to see the results of a lot of our R&D coming over the next 12 months through the activities that we've been spending it on. So it's really broad based. We're really working across the whole number of areas in IoT, and voice and data and broadband, and really retooling our network in many ways for even greater efficiency. So it's just a recognition of the opportunities we have.

Hamed Khorsand
Okay, great. Thank you.

Operator
Again, if you would like to ask a question, please press star then one. The next question is from Mathieu Robilliard of Barclays. Please go ahead.

Mathieu Robilliard
Hey, good morning, everyone and thank you for taking the questions. I had two, please. The first one is regard to Starlink. So obviously, we see them moving to lots of different verticals and I realize the vast majority are not areas where you compete. But some time ago, they did buy a small, real IoT constellation. So I suspect that some additions there, and I don't know if you think that could represent a competitive threat at some point?

And the second one was back to the project for handset connectivity. I just want to clarify that the service was being considered for using L-band, and whether you have all necessary regulatory approvals to use that service with L-band? And how should we think about when and how L-band could be included in some of the chipset? Is that something you're also working on? Is that more something that would fall on your partners? Thank you.

Matthew Desch
Yes, so the first question was about Starlink, and are they a competitor? And we still don't see them in the market or believe that they're going to be a major competitor. I think you're referring to their acquisition of Swarm, which was one of the 30 or so narrowband IoT networks that were announced. And I said in my prepared remarks, I really think that there's not going to be very many of those in the end that are probably going to survive, but there will be some and we're very interested in that area and potentially could get into that market.

So to the extent we're both going after what I would call, non-real time low end, extremely low power IoT, either using standardized 5G technology coming, or proprietary technology like Swarm, we would see them in the market, I guess. But we're such big players right now in IoT with so many solutions and partnerships around the world, we have such a natural advantage there to kind of add that into our portfolio, we think we'll do very well. But the IoT market is huge, I think long-term. And so, we may see them in the market, but I just don't think I would call them a major competitor to us. This will be around the fringe of us right now.

And also their activities right now, I think it goes into your second question, their announced activities so far with T-Mobile were really around not using L-band spectrum, it was using terrestrial spectrum that is used the T-Mobile's, I think AWS spectrum in the US and probably other spectrum around the world, if it happens. Doing that, as you kind of imply, requires a lot of technical development to go on. But more importantly, a lot of regulatory work too, a lot of approvals still have to go on around the world for using terrestrial spectrum because you are basically using spectrum where it hasn't been approved and where it may interfere with other services. So there's a lot of coordination and regulatory approvals market-by-market, country- by-country with a lot of business agreements to make that sort of activity happen.

The better way, the more immediate way to connect smartphones from space is to use L- or S-band today. Maybe more S-band is the Apple Globalstar way, our approach would be to use L-band and that exists. As I said, there is no regulatory requirements. We already have global license to operate from satellites to any small device on the ground, including a smartphone. There is no approvals required or more landing rights that we don't have today. So really it's just a matter of adding that capability. I won't say any more about how we added because I think that's what we've left to the announcement in the future, who we're adding it with or how that will go to market, but I think most people can probably get a rough idea how that works. So does that help, Mathieu?

Mathieu Robilliard
Yes, that's very clear. I guess, the question on L-band – nothing at the moment – something that is embedded in your traditional smartphone. And how that could be sort of, I guess, [indiscernible], it may be something for your partner to deal with rather than you directly?

Matthew Desch
Yes. If I told you that I would be giving your plans away. But I think you can kind of see, obviously, Apple embedded Globalstar's technology into their iPhone 14, that certainly has been the way that they have made a direct connection from space to satellite. It doesn't require, as you can see, they've announced that initial service will be operated in North America alone. It's not for regulatory purposes or anything, it's really probably more for technical reasons and where the service can be deployed, or where they want to deploy the service. We would be focused on delivering Global Services, whatever we do, and obviously our L-band has to go into a device.

Mathieu Robilliard
That's very clear. Thank you, Matthew.

Matthew Desch
Okay. Thank you.

Operator
Our final question comes from Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma
Matt and Ken, good morning.

Kenneth Levy
Hey, Louie.

Matthew Desch
Hey, Louie.

Louie DiPalma
Matt, following up on your recent answer to the cannibalization question, do you expect for smartphone satellite connectivity to entail some casual use beyond emergency use? For instance, could a smartphone send 10 satellite text a year, as you obviously wouldn't expect someone to have 10 emergencies in a year unless that person were very, very accident prone. Whereas Garmin [indiscernible] devices on your network perhaps send 100 messages a year or 500 messages, including GPS pings for hardcore campers and hikers. So in terms of usage, what are your expectations?

Matthew Desch
Well, that's a great question, Louie, and gets into almost specifically clever way of trying to get me to tell you exactly what our service will do and how it will work. I think you're kind of moving off of the Apple announcement, which we tracked as well. Obviously, if you make a connection to a smartphone, you can do a lot more than just push an emergency button. I won't go into exactly how and what more you can do, but our network is very efficient at sending information back and forth. So lots could be done. And by the way, not just with smartphones, I mean, our really long-term future is to be connected in other types of consumer devices. Maybe tablets, watches, vehicles, cars, maybe long-term – not for everyday use, but as a complement to other technologies that are going into those vehicles. And if you have a messaging platform that can go back and forth, I'm sure you can think of all kinds of things to do.

But coming back—I really believe strongly that there's not going to be considerable cannibalization. I mean, we really do see based upon really more discussions with our partners around that base is it's going to be I think multiple product classes that are going to exist. Maybe around the edges that would be, but I think it's going to be very much additive to our business and anybody's business that does this. I've seen some people out there forecasting that the direct to smartphone market could be tens of billions of dollars.

As you could probably see in the Wall Street Journal article last week, I'm a little skeptical about that, because that is really implying a high speed, seamless, works in your pocket anywhere on the planet kind of activity. And I think that's many, many years away, if ever, because of just the investment that would require a network to do that, it would require completely different systems in space. It would require a lot of regulatory work on the ground and will require a lot of work in terms of standardization. And that's not what really I think is going to be the way these services roll out in the next couple of years and what you're going to see.

So I really think you're going to see very complementary services in that. And I'd say near-term meaning next 3-, 5-, 7-years or so, particularly, what's beyond that? Who knows. There's a lot of innovation and investment that could occur, but I think they're quite a far ways out.

Louie DiPalma
Great. And I think you've added 89,000 quarterly net adds IoT, which appears to be the highest level, or highest number that you've ever added. And Garmin recently announced the new inReach messenger device. Are there more consumer devices expected over the next several months that could allow that, like, very high cadence of IoT net adds to continue? Or should we expect like a tapering of those net adds?

Matthew Desch
I don't think what you saw this quarter is unusual. It's a new high watermark for us. But just based on what you can see in terms of equipment supply right now, we're at a much higher level and we're really seeing really strong demand going into next year already, too. So I would be surprised if those really kind of high numbers especially as new products like that messenger looks great and other products come to market. I just think you're going to continue to see really good demand in that sector.

Thomas Fitzpatrick
As I said in my remarks that we expect to get to 3 million subscribers in less time than it took us to get to two.

Louie DiPalma
Great. And Tom, one for you. Last quarter, I believe you added additional investment into Aireon. Are you able to say whether Aireon is free cash flow breakeven, or free cash flow positive? And like, would they need more equity funding over the next year or two?

Thomas Fitzpatrick
They're cash flow positive, and we don't expect more investment unless there's an opportunity that presents itself. Certainly not just to kind of pay their bills.

Louie DiPalma
Great. And on Aireon, can you provide just a high level target? I know, you've announced or Aireon has announced that the FAA had a successful trial of their services in the Caribbean? What's the timeline for a greater expansion or integration of the Aireon services into the FAA?

Matthew Desch
Our expectations from the interactions we've had with them is that that's still quite a few years away. They are just very slow. And I think, perhaps a lack of leadership at the FAA, lacking administrator, lots of other activities they have underway right now. Don't know why that Don is signing contracts with Azerbaijan this week and it's not deploying services with the FAA yet. So I think that's still out in the future, not in the near-term, because they just have a lot of work apparently to do and decisions to make and other things to decide if and when that's going to happen. So they're still out in the future. But there's still a lot of other markets they have, they don't serve yet.

So I think they're busy with other business development around the world with other services they're deploying. Of course, they're busy in these data products now and quite enthusiastic about the market for exploiting their datasets. But yes, I don't have an update on the FAA in terms of when and if they'll be deploying in a big way. Certainly quite a few years out, I think still.

Louie DiPalma
Great. Thanks, Matt, Tom, and Ken. Looking forward to perhaps taking the trip to Tysons Corner in May.

Matthew Desch
Yes, well, we'll figure out where we can even have that. I guess we could have it here. We'll figure out a good place to have that as well here, but I think just wanted to give you kind of a heads up on when we'll put together and kind of have a reset on the future business.

Louie DiPalma
Awesome, thanks.

CONCLUSION

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

Matthew Desch
Well, thanks. I guess you can tell we're quite optimistic about not just this year, but our business going forward and are enthusiastic about really putting it all together so that you can see sort of a longer term view even when we get together in the second quarter of next year. But look forward to continuing to talk to all of you and we will see you after the fourth quarter. Thank you.

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