

Iridium Communications  
Fourth Quarter Earnings Conference Call  
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**CORPORATE PARTICIPANTS**

**Matthew Desch** - *CEO*

**Thomas Fitzpatrick** - *CFO and Chief Administrative Officer*

**Kenneth Levy** - *VP, IR*

## **PRESENTATION**

### **Operator**

Good day, and welcome to the Iridium Communications Fourth 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 a touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

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

### **Kenneth Levy**

Thank you, David. Good morning, and welcome to Iridium's Fourth Quarter 2022 Earnings call. Joining me on today's call are our CEO, Matt Desch; and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our fourth 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 Web site.

Before I turn things over to Matt, I'd like to caution all participants that our call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical fact and include statements about our future expectations, plans and prospects. Such forward-looking statements are based upon our current beliefs and expectations and are subject to risks, which could cause actual results to differ from forward-looking statements. Such risks are more fully discussed in our filings with the Securities and Exchange Commission. Our remarks today should be considered in light of such risks. Any forward-looking statements represent our views only as of today, and while we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so even if our views or expectations change.

During the call, we'll also be referring to certain non-GAAP financial measures, including operational EBITDA, pro forma free cash flow, free cash flow yield and free cash flow conversion. These non-GAAP financial measures are not prepared in accordance with Generally Accepted Accounting Principles. Please refer to today's earnings release and the Investor Relations section of our website for further explanation of these non-GAAP financial measures as well as a reconciliation to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.

### **Matthew Desch**

Thanks, Ken. Good morning, everyone.

Well as you saw from our release this morning, we finished out 2022 even better than expected and are forecasting another strong year of growth in 2023. By all measures, 2022 was an amazing year. We grew in every aspect of our business from service revenue to equipment and engineering to subscriber count. We added new business partners, launched exciting new services and welcomed a number of new partner products.

We also invested in new people and systems to support the numerous opportunities we see and deliver an even better experience for our customers.

I'm proud to share that Iridium eclipsed 2 million active subscribers shortly after we entered the New Year. In fact, as of today, we already have almost 20,000 more than that. This was a big milestone for us. It took us 18 years to get the first million in 2018, so we're excited to see the acceleration in recent years, particularly as consumers and enterprise IoT customers have chosen our network.

To do this, Iridium relies on its team of almost 700 dedicated employees, to whom I would like to say thank you for your unwavering commitment to our customers, mission, corporate values and vision. You are the heartbeat of this company, and the reason that we continue to outperform even our own high expectations.

I assume that we may have a larger audience than normal on today's call. So with my remarks today, I want to provide a perspective on our network, our current business climate, and give some insight into the stability of Iridium's business, including our priorities and the growth opportunities on which we're now focused. Iridium is unique among satellite service providers. As a dedicated L-band service provider operating in low Earth orbit, our constellation delivers resilient and reliable two-way real-time communications optimized for small antennas and things as well as people in vehicles on the move. Our network was an engineering marvel when it was launched in the late '90s, and it remains one today.

We've always connected people wherever they are on the planet, starting with a single satellite phone model. But over the years, we've developed numerous ways and found fantastic technology partners to make even more valuable and wide-ranging connections. This may be why some of you have joined our call this morning and why Iridium is increasingly the subject of media coverage, with the impending rollout of satellite to smartphone messaging and other consumer-focused applications now on our partners' drawing boards.

While the current business environment is characterized by rising interest rates and sustained inflation, we do not believe this climate will change Iridium's operational plans or growth trajectory. In fact, we're guiding to another strong year of service revenue growth in 2023, which may even eclipse the 9% we posted in 2022.

Our business has shown remarkable stability and growth through a variety of business conditions and economic cycles over our history, as we posted compounded annual growth rates of 9% in service revenue, 10% in operational EBITDA, and 16% in subscribers over the last five years alone. I credit the stability of our growth to the diversity of our customers, applications and industries we serve. Iridium is often associated with safety services and mobile applications, but we are so much more. Our global constellation enables communication of the most remote regions on the planet and supports mission-critical applications for customers on land, sea or in the air.

With the exception of our longstanding service contract with the U.S. government, Iridium sells exclusively through a growing network of about 500 global business partners. These companies range from service resellers to value-added manufacturers and developers, all of whom leverage their deep domain expertise to create new products and applications that ride on our network to satisfy the needs of their customers. This business model has served us well over our history. Our partner base is as enthusiastic about market opportunities in their future with us as I've ever seen, and their deep integration with our network is something that a future competitor would find difficult to replicate.

This contributes to the competitive moat that surrounds our business and fuels continued innovation to attract new subscribers. Each new business partner, industry application and mission-critical service further fortifies our service-based model and stretches the use cases of our network. Importantly, they also deliver consistent recurring revenue, which has proven durable even in the face of changing economic conditions, natural disasters, political disruptions, and other exogenous events.

In my 17 years leading Iridium, we've retained and grown our partner base. In fact, I don't recall us ever losing an independent partner to a competitor, which is pretty amazing when you think about it. And I think that's indicative of the quality of our services and the uniqueness of our capabilities. We have a healthy growing ecosystem of distribution and technology partners.

As for Iridium's corporate priorities, they center around our commitment to our business partners, technology innovation and communities we touch in our ongoing efforts to unlock new business growth, all while delivering returns to shareholders.

Innovation is a part of our heritage and in our DNA. We have a history of investing alongside partners in new products and ways to connect to our network, which they value and will drive new business for them. Products like our range of small IoT modules and Iridium Edge line of turnkey IoT solutions were spurred by feedback and sometimes even some investment from our partners. Most recently, their feedback led to the development of our new Iridium GO! exec, which I'll talk about shortly.

Another example of this symbiotic relationship is our new partnership with Qualcomm to deliver satellite to smartphone connectivity. With this announcement, Iridium enters a broad new opportunity space thanks to our presence in Qualcomm's powerful Snapdragon processors. We expect that this platform will be leveraged across a variety of consumer-oriented devices.

In the near term, Qualcomm will be making this technology available through its network of premium Android smartphone manufacturers. However, we expect this same platform will one day be used in a broader set of consumer devices, like laptops, tablets, cars, and other vehicles, to name just a few.

Since our announcement in early January, we've continued to see a lot of excitement for this new platform by smartphone OEMs and smartphone applications to adopt our technology. Qualcomm tells us that the first products should hit the market in the second half of this year, with more to come in 2024.

Now I know there's a lot of interest in modeling the financial impact of this new incremental revenue opportunity, but we'll need to wait for more of the product announcements to come from smartphone OEMs and Android app providers in the future. We've mentioned that our revenues will come from Snapdragon satellite processors going into new smartphones and additional service revenues from application messaging. Exact revenues will depend on how many OEMs adopt a Snapdragon satellite platform and the usage of this messaging capability by users, which is dependent on how it's packaged and priced, all things that we understand are actively being worked out.

With the limited visibility we have today into these matters, we just can't forecast that for you at this time. We believe that there are something like 80 [million] to 100 million high-end Snapdragon processors produced each year by Qualcomm. And in the future, we hope demand for satellite connectivity will extend to their lower end processors as well, which is an even larger population of devices. That's a lot of potential customers each year, and it's all incremental to our current growth plans.

As Tom will discuss, we'll be spending a bit more in capex in the next few years to expand our systems and capabilities to support this new service, but it isn't materially changing our overall capex holiday profile.

As Iridium broadens its business partnerships and invests in new technology and infrastructure, we are also mindful of our environmental footprint, social impact and our stewardship of space. Our success over time comes back to the value we place in our employees, the communities in which we operate, and the initiatives that we support. We continue to support STEM education, value diversity of thought and expression as we grow our professional ranks, and are supporting local initiatives with our employees that are tangible and impactful to them and our partners. In fact, Iridium has become sought out as a trusted partner by iconic brands like the Smithsonian Institution, National Geographic, the National Zoo, and others. I particularly like the fact that we're working with global organizations like the National Geographic Society where their employment of Iridium technology for their exploration technology lab enhances system functionality and hardware development.

This allows scientists, conservationists, and educators to extend the reach of their work to some of the most extreme and inaccessible environments on the planet, whether it be for oceanic exploration with fully autonomous systems or cultural heritage sites. We're proud of the support we provide and look forward to building on these relationships and extending our impact.

Turning to another of my favorite topics, growth. 2023 will be another year of service revenue growth in maritime, land mobile, aviation and IoT, which will generate incremental free cash flow to support the return of capital to our shareholders and ongoing deleveraging. In 2022, we delivered double digit revenue growth in commercial business and believe that the momentum we have seen in voice, IoT and broadband will continue in 2023.

While not our primary focus, engineering services have also been growing well and have strategic relevance in supporting new service development. As you know, our team was awarded a sizable engineering contract with the U.S. government Space Development Agency in 2022. That contract has been going very well, with additional follow-on opportunities now becoming visible that will align us further with our largest customer.

In terms of new products to drive growth, we recently completed our new Iridium Messaging Transport, or IMT service, as we call it, which is our next generation IoT technology for Iridium Certus terminals. It will reduce development and service costs for our partners while being very efficient in the use of network resources. It's now in the hands of our partners and is available for Iridium Certus 100 service and will roll out to our higher transmission services here in the first quarter, as well as in the new narrowband IoT module, we're calling the Iridium 9704, which is in development now for 2024.

The other big product announcement from two weeks ago is the Iridium GO! exec, our latest generation Wi-Fi hotspot product for voice and data connections to smartphones and tablets of all types. It's built on our new Iridium Certus 100 technology, and it's been really well received by the market so far. It's a unique product and should generate good ARPU's for our voice and data business. I encourage you to check that out. It fits a unique niche in the portable satellite connectivity market, and I'm really excited about its potential.

In closing, I am very optimistic about Iridium's growth trajectory. While we will remain in our unique L-band lane, we continue to broaden our reach to our target audience by attracting strong partners to our ecosystem. This allows us to support technology innovation, while widening our competitive moat.

As Tom will soon describe, our financial position has also improved as we have successfully grown free cash flow, reduced leverage and returned capital to our shareholders over the past year.

Finally, I should highlight the initiation of Iridium's new quarterly dividend program in December. This program reflects the evolution of our long-term capital plans. We've always said that a dividend must be sustainable through our next capital cycle. Our Board's action to initiate this program reflects our collective assessment of Iridium's current trends, business opportunities, and strong free cash flow generation into the future.

We view capital distributions to shareholders as an important part of our capital strategy, and we'll continue to use a combination of share repurchasing and dividends to accomplish this. On this topic, I'm pleased with Iridium's stock performance in 2022. We were up 24% last year compared to a decline of 14% in the Mid Cap Index, and we're off to another good start in 2023.

This performance reflects the strength of our business model, our consistent execution and the new business opportunities on which we're focused. Having recently secured a venue and date for our Investor Day, we will have much more to share on these topics when we meet with many of you in September.

So with that, let me turn it over to Tom. Tom?

**Thomas Fitzpatrick**

Thanks, Matt. Good morning, everyone. With my remarks today, I'd like to recap Iridium's full year results for 2022 and provide some perspective on our performance in the fourth quarter. We also released our expectations for 2023 this morning, so I'd like to walk through the key components of that guidance and provide additional color on the assumptions supporting our financial targets.

As Matt noted, Iridium performed extremely well in 2022. We exceeded our initial revenue and operational EBITDA guidance, added a number of notable partners, and delivered another year of strong growth. The consistency of our business growth reflects the reliability of our services and the mission-critical nature of our offering, which continues to differentiate us from competitors.

In 2022, we delivered double digit growth in subscribers, total revenue and operational EBITDA. New contract wins, strong demand for equipment and recurring service [revenue] all drove 17% top line growth, supporting \$280 million in pro forma free cash flow during the year.

We continued to see strong momentum in our commercial business with double digit growth in IoT, broadband as well as voice and data. As a result, operational EBITDA grew 12% in 2022. In the fourth quarter, operational EBITDA rose 15% from the prior year's quarter to \$107 million, while total revenue grew 24% from last year's comparable period to \$194 million.

On the commercial side of our business, we reported service revenue of \$110.3 million in the fourth quarter, which was up 10% from a year ago.

Revenue from commercial voice and data rose 10% from the prior year period, reflecting an increase in subscriber count. Many of the trends that emerged early in the year have remained tailwinds. We've continued to see noticeable strength from our Push-To-Talk and Iridium GO! services as well as incremental demand for handsets. We continue 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.

In commercial IoT, personal satellite communications continued to fuel growth. Subscribers were up 21% from the year ago period. And in 2022, we added over 250,000 net new IoT subscribers. Our partners continue to invest in new retail-focused products to address growing demand and we believe that this sector will remain a strong driver of revenue and subscribers as new midband capabilities roll out. These opportunities provide us with the tremendous runway for growth with new consumer-oriented applications.

In our broadband segment, we reported revenue of \$13.9 million in the fourth quarter, up 22% from the year ago period. The growth reflects the success we're having with Iridium Certus 200 and 700 as access to ships has returned to normal. New maritime activations continue to be driven by the adoption of Iridium Certus terminals, where they serve as a standalone solution for smaller vessels and are paired as a companion to VSAT terminals on larger ships. We've also benefited from upgrades by existing subscribers, who previously used our legacy Iridium OpenPort service.

In all, commercial subscribers grew 18% year-over-year with IoT representing 78% of the total at year-end, up from 76% in the year ago period. Revenue from hosted payload and other data service remained steady at \$14.7 million in the fourth quarter.

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

Subscriber equipment, which has enjoyed strong demand all year long, rose 102% in the fourth quarter from the year ago period, and was up 46% to a record \$134.7 million for the full year. This growth reflects the increasing use of Iridium technology, our expanding ecosystem of partners as well as the benefit of higher than normal handset sales.

Moving on to our 2023 outlook, we forecast operational EBITDA in a range of \$455 [million] to \$465 million, predicated on total service revenue growth of between 9% and 11%. The key elements supporting this outlook are as follows. We expect commercial service revenue to benefit from ongoing strength in voice and data. Momentum in IoT is forecast to continue in 2023, as our traditional industrial IoT business and partner base continue to grow, and we do not see a let up in consumer demand for personal communications devices. These factors give us confidence in forecasting another year of double digit subscriber growth in IoT.

Broadband remains another bright spot for our commercial business. We expect that double digit subscriber and revenue growth will continue. In maritime, our partners have broadened their distribution and begun to leverage new Iridium Certus 200 services and terminals. Similar to past years, hosted payload will remain a steady contributor to service revenue at its contractual annual rate of approximately \$49 million.

Our U.S. government business will produce full year revenue of \$106 million in 2023. This reflects the contractual terms of the EMSS contract, which will maintain this rate until late 2024. We anticipate that partner demand for Iridium equipment will remain strong in 2023 and allow us to maintain sales in line with 2022's record revenue. Our expectation is for equipment margin percentage in the mid-30s. This, however, will be highly dependent on product mix.

Briefly, on our recently announced partnership with Qualcomm, the terms of our agreements include revenue to Iridium related to development, royalties, initial service fees and usage. Over time, we expect that the vast majority of these revenues will be included in other data service revenue line. Our guidance for service revenue growth between 9% and 11% does not include a material contribution

from our Qualcomm relationship. Qualcomm is not expecting devices to debut until the second half of this year. And at this time, we have limited visibility into the quantity of devices being delivered.

In 2023, engineering and support revenue will again benefit from new work associated with the Space Development Agency contract, which was awarded early last year. Contract work with the U.S. government tends to fluctuate from quarter-to-quarter. And while we do expect revenue and workload related to the SDA contract to increase in 2023, it is difficult to narrow this down to an accurate quarterly run rate. Remember that this contract is highly strategic for Iridium and aligns us with the U.S. government's long-term space priorities. The margin associated with this work, however, is lower than for our other business lines.

Our OEBITDA guidance incorporates a number of factors into expenses. First, we have considered the effects of inflation across our business lines and expect to spend materially more on research and development and new product development initiatives this year. Next, we have accounted for the impact of our hiring over the last 12 months as well as higher headcount in SG&A functions. While not affecting OEBITDA, we expect our stock-based compensation expense to be up this year as a result of retention grants issued in 2022, the effects of a larger workforce, and the accounting for performance shares and the retirement provisions of our stock plans. In all, these factors lead us to expect an approximate 20% increase in SG&A again this year.

Finally, on taxes, we continue to forecast negligible cash taxes through 2024 and maintain our outlook for an estimated cash tax rate at mid-to-high single digits until 2028.

We feel very good about the broad-based growth we are seeing across our businesses, and believe that the incremental expenses we will have this year are appropriate as our business continues to grow and important to maintain the quality of our services and customer experience. This business momentum sets us up well to achieve service revenue growth between 9% and 11% in 2023.

Moving on to our balance sheet. As of December 31, 2022, Iridium had a cash and cash equivalents balance of approximately \$169 million. Our cash balance is ample to fund our operations and we believe our free cash flow generation is more than adequate to support our newly announced dividend and ongoing share repurchase program.

In the fourth quarter of 2022, Iridium retired approximately 165,000 shares of common stock at an average price of \$46.51. For the full year 2022, Iridium purchased 6.8 million shares at an average price of \$37.83 for a total of \$257 million. This left us with an outstanding balance of \$180 million under our Board approved authorizations for the repurchase of \$600 million of common through December 31, 2023. We will continue to execute on our buyback program, balancing our objective for deleveraging with the desire to maximize return on investment.

As Matt noted, our improving liquidity position continues to support meaningful returns of capital to our shareholders, including the initiation of a quarterly dividend in 2023. Iridium's Board initiated a quarterly dividend program on December 8, and declared a dividend of \$0.13 per common share payable on March 30. The decision to initiate a dividend program reflects management's confidence in Iridium's business opportunities and strong free cash flow generation.

Turning to capex. We expect capital expenditures of about \$75 million in 2023, including \$15 [million] to \$20 million related to this year's planned launch of spare satellites. Excluding launch costs, our capex this year will be between \$55 [million] and \$60 million. This is higher than we had previously been expecting for a couple of reasons.



First, in reviewing our 2022 capital expenditures, we concluded that we absorbed about \$5 million in inflationary cost increases. We expect these to recur in 2023 and for the foreseeable future.

Additionally, we will incur costs in support of our direct to smartphone business, principally related to billing and provisioning. We also expect additional expenditures related to network efficiency and product development in support of higher business volumes. Taken together, these items result in an increase to our estimate of average annual capital expenditures over the forecasted 10-year capex holiday period to between \$50 [million] and \$60 million, up from \$40 million previously.

We closed 2022 with net leverage within our target range at 3.2x OEBITDA. This was down from 3.4x 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 the dividend program and all share buybacks authorized by our Board.

I also want to highlight some recent activity related to Iridium's term loan. In the fourth quarter, we elected to prepay \$100 million in principal as permitted under the terms of this agreement. This prepayment reduced our gross debt and the outstanding balance of the term loan to approximately \$1.5 billion and will result in about \$28 million in interest expense savings through 2026 at current rates.

You will also recall that Iridium entered into an interest rate cap in 2021, which hedges about two thirds of the term loan. We believe this transaction in addition to our principal repayment activity positions us well to weather the current interest rate environment.

Turning to our pro forma free cash flow, if we use the midpoint of our 2023 OEBITDA guidance and back off \$75 million in net interest pro forma 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 almost \$300 million. These metrics represent a conversion rate of OEBITDA to free cash flow of 64% in 2023, and a yield of approximately 4%. A more detailed description of these cash flow metrics along with a reconciliation to GAAP measures is available in the supplemental presentation under Events on our Investor Relations website.

In closing, I'm very proud of the strong execution that Iridium has shown this year and the tireless commitment of our employees. We continue to expand our partner base, drive new revenues and subscriber growth, while still returning capital to our shareholders. This will remain the model for our company.

With that, I'd like to turn the call over 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're 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.

Our first question comes from Ric Prentiss with Raymond James. Please go ahead.

### **Ric Prentiss**

Thanks. Good morning, everyone.

**Matthew Desch**

Hi, Ric.

**Ric Prentiss**

Hi. I appreciate the color on the guidance. Obviously nice to hear that not any real material Qualcomm in the guidance that you've laid out for us, so more to come on that. I want to understand a little bit further on – I know you can't give us a lot yet, but on how we should be thinking about modeling the different categories. You mentioned that there'll be some development revenues, there's royalty revenues, and then service and usage revenues. Maybe the way to ask the question is on the development, I assume some of that comes in earlier in the contract and where does that get booked? Is that going to get booked into like engineering services, or does that go into services or engineering support or services?

**Thomas Fitzpatrick**

Right. The development and the royalty will go into engineering and support. And all the rest will go into service revenues.

**Ric Prentiss**

Okay. And rough margins, I know we can't put revenues on it, but I would assume pretty healthy margins on the development and the royalty side.

**Thomas Fitzpatrick**

I think that's accurate.

**Ric Prentiss**

Okay. And then the services business obviously comes in, and we've got to develop earlier provision systems on capex and other items, but also the services business, should that be at and maybe above your existing service margins?

**Thomas Fitzpatrick**

I would say in line, Ric.

**Ric Prentiss**

In line, okay. Okay, that's helpful. And as we think about the longer-term guidance, Matt, I think you said you've got a day. Are you ready to give us the date for the Investor Day as far as when we should put something on the calendars?

**Matthew Desch**

Yes. I'm not allowed to know that. I guess it's September 21st. Ken is writing it for me here. I'm just ready to show up and perform for you when the time comes. But yes, September 21st is the date.

**Ric Prentiss**

Perfect. And maybe an update as far as we've been hearing some of the IoT partners, particularly Deere, but maybe some others are looking at some major contracts out there, maybe an update on that industrial and OEM side of the IoT. I know you're very excited about personal communications, but how should we think about that segment of IoT more on the industrial and OEM side?

**Matthew Desch**

Well, I think it's still a very robust sector for us right now. It's very broad-based. I've been visiting a number of those partners, and they're quite active in terms of their overall plans. You mentioned the heavy equipment sector is still quite busy and continues to put on a lot. But I think, in our case, it's the

fact that we're adding more capability, which is attracting more market segments. We're moving to higher speeds. Things like IMT, which I mentioned today, it's making it even more efficient to deliver more data to an IoT customer. We're really at the very, very early stages of that, and think that will drive new applications and maybe even higher ARPUs in some of the specific applications that might be utilizing that which will be good for the overall ARPU mix. But it continues to be a very robust sector on really every front. It's very broad-based, so it's hard to characterize it. We just keep adding new partners and new segments and previous sectors continue to perform well too.

### **Ric Prentiss**

And we get a lot of questions on the Qualcomm arrangement, obviously, but an easy to answer one is Qualcomm talks about the Snapdragon 8 Gen 2, you've talked about Snapdragon Satellite platform. Are there different chips that Qualcomm sells to these premium Android people that some of the Snapdragon 8 Gen 2s don't have the satellite component to it? I'm just trying to understand – I don't follow Qualcomm directly – but just trying to understand how what they produce with what you guys got how that fits into their product flow?

### **Matthew Desch**

So as I understand it, I believe I'm correct here, the Snapdragon, as you said, 8 Series 2 is their highest and most powerful platform. It, for example, I believe just went into the new Galaxy 23 phone, but it did not have the satellite capability in it. It just was too late to probably get into that phone. Hope it will get into future versions of that phone. I'm not suggesting I know one way or the other. But it was probably too late for that phone, but there will be a version of that same processor that does have the satellite functionality. And I assume premium phone manufacturers can pick one or the other, if they don't want to use it, they don't have to. But if they do, then it will have the capability in it. And I would like to think that most of them will choose it over time.

Our hope, as I said, is there are other lower cost and maybe less powerful chips in their portfolio that I would assume kind of operate in somewhat the same developmental platform, so it's not that hard to port our satellite capability into those over time as well. And our hope is that it moves, if you will, down market into even lower cost phones over time. But even if it just stays in those higher devices, as I said, that's possibly about \$80 [million] to \$100 million a year and love to get into a big portion of those even upfront.

So they do have a range of other products, as I understand as well. And perhaps we could be ported into those for automotive and for other applications that we think people are thinking about now.

### **Ric Prentiss**

Great, that's very helpful. Thanks, guys. Stay well.

### **Matthew Desch**

Okay. Take care, Ric.

### **Thomas Fitzpatrick**

You too, Ric.

### **Operator**

Our next question comes from Landon Park with Morgan Stanley. Please go ahead.

### **Landon Park**

Hi. Good morning. Thanks for taking the questions. Just one follow-up on Qualcomm. Are you able to provide any sense of what the unit economics are going to look like, even if it's just on the royalty

payments or anything like that, and how you would expect the variable usage fees to be priced? Is there anything that you're able to disclose on that front?

**Matthew Desch**

Not at this time, Landon. I understand the desire for it. But at this time, it's just too early to really do that. I think you'll be able to infer it over time based upon the revenues and units that people start announcing and the revenues we start eventually disclosing. But I think right now putting all that out there is not appropriate.

**Landon Park**

Okay, understood. And I guess the relationship is between you and Qualcomm. Is it then up to Qualcomm to essentially negotiate with the smartphone OEMs on a payment structure between them or how does that all work?

**Matthew Desch**

Yes, our deal is fixed with Qualcomm. We announced those relationships last year, and that's fixed. But they then go on and decide how to turn that business model into the applications both for smartphone manufacturers as well as application providers.

**Landon Park**

Great, understood. So moving on to some of the other segments. On voice and data, it's helpful to hear about the confidence in the mid-single digit growth outlook. Are you able to talk about your views on pricing power within that segment? I think you're coming up on your five-year anniversary of your last significant pricing change. Where are you guys at from that perspective?

**Matthew Desch**

Well, we still believe that we have a good position in the market. We're competitively positioned well and can raise prices. And I think in some cases that has happened in places over time. But yes, we still feel in a good place there on pricing.

**Thomas Fitzpatrick**

Yes, we think access will be very strong this year.

**Landon Park**

I'm sorry, what do you mean by that, Tom?

**Thomas Fitzpatrick**

Between access and usage, you'll see strength in access.

**Landon Park**

I see. Understood. And on the IoT side, there's been an announcement by EchoStar about the new IoT constellation, Globalstar has talked about trying to introduce a new two-way IoT device this year. How are you thinking about the competitive landscape within IoT? And maybe, Matt, your latest thoughts on sort of M&A potential that you had talked about last quarter and whether or not there's been any updates on that front.

**Matthew Desch**

Yes, I don't have an update for you. I continue to believe that that is a synergistic market segment with what we do. I think there's, in most cases, relatively small overlap. All the networks, including the one you just described there, are really going to take a long time to develop and are going to be what I would call lower end narrowband IoT segments that are in general not real time, not two-way, and will

take some time to really develop because while they can launch some satellites in the next year or two, it's not going to be permanent coverage or anything to provide people real-time services. So I think we're going to remain very strongly positioned for many years in what I would call the premium IoT segment. And then we're going to look to participate in what I would call this lower end, but important in volume business that has very low ARPUs likely but has very broad capability as well.

We want to, because we have so many partners right now and we want to serve them even more broadly and don't want to necessarily devalue our current network in some way to do that. So we continue to stay very interested. We're very active. We're talking to all of them and we'll consider what we do in that sector.

I don't think we're going to build our own network like EchoStar is looking to do, so you're not going to see us have a big capital outlay for that. But you could see us be interested in investing in the best of them and helping them achieve and become the breakout low end provider, and that may put us in a bit more of a competitive situation with someone like EchoStar. But we think we're extremely well positioned to do that.

**Landon Park**

Understand. Thanks for taking the question.

**Matthew Desch**

Thanks.

**Operator**

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

**Walter Piecyk**

Thanks. Hi, Matt. I'm looking at the release. Is the relationship with Qualcomm exclusive? And if not, has it spurred on new conversations with other device manufacturers that perhaps design their own chips?

**Matthew Desch**

Well, it is exclusive around smartphones anyway, and really important because we picked we believe the market leader there and a really strong platform to ride for the next couple of years anyway here.

It certainly has opened up a lot of discussions. I have, I wouldn't say the phone's ringing off the hook, but I'm getting lots of emails from people looking to participate or take the idea and go into new areas, and we're working through that. I think it's obviously really broadened our name in the industry as well and what we potentially have to do, and I think that's only going to be positive for future opportunities as well. But I wouldn't say we're not like exploring trying to get into every device that's going into smartphones right now. We really feel that Qualcomm is the platform we want to be on right now. That doesn't mean we won't be in other consumer devices down the road.

**Walter Piecyk**

Understood, like cars and everything. So the release also references emergency messaging. I understand that obviously over time, it should theoretically be all messaging. But emergency messaging in part implies that there might be a call center somewhere that's receiving some of these text messages. Is that something that you're responsible for integrating with? And if not, when you look at your future revenue opportunities, is that an area that you might want to invest in and maybe capture some of that incremental revenue as well?

**Matthew Desch**

No. So you might recall in the announcement that Garmin was part of the announcement. They have been the call center for a lot of their products, which is expanding rapidly and Qualcomm has selected them. It appears in their announcement that they have the arrangement to do that kind of call center work, and I think they're great at doing that. They already have a big market there. We wouldn't want to get involved in that business ourselves. I think it's a completely different business than being a satellite operator, and I think they do a great job of it.

**Walter Piecyk**

When do you think, on the roadmap, when I want to text someone to bring me a beer as opposed to save me from being stuck in a canyon somewhere, that just actual messaging revenue is going to be a part of the service?

**Matthew Desch**

It sounds like you're going to be a good customer, Walt. I look forward to that.

**Walter Piecyk**

I think I'd be a great customer. There's no coverage in Westchester County.

**Matthew Desch**

Yes. So I know that there's activity around that. We'll continue to kind of discuss as Qualcomm has those relationships and tells us how that activity is going. I think we're going to be learning more and more. I think there'll be announcements in the coming months, which will describe it. It's all software for the most part, but clearly there's development and pricing and packaging and all that kind of stuff I'm sure that has to go on. But I don't have a forecast for it. It could come as early as concurrent in the second half of this year. It might be more of a 2024 thing, but I know it's coming.

**Walter Piecyk**

Okay. And then just some questions for Tom. Obviously with the start of the dividend program, we might have some broader audience on this call now. So for those in income land, can you give us a sense of what they should expect in terms of regular growth of the dividend, either in a range or a minimum that you're thinking about for the dividend? And then also on leverage, given the interest rate environment, is there any difference in how you're thinking about where your target leverage should be at the moment?

**Thomas Fitzpatrick**

No. I'd reiterate our target leverage of between 2.5x to 3.5x. We like that area and that's where we intend to stay. And obviously when the Board initiated the dividend, they expected to not only sustain it all the way through the next construction cycle but also to put appropriate growth on it over time.

**Walter Piecyk**

And are you giving any sense of what that could be? Obviously, you don't want to get held down anything, but like maybe a minimum growth that an income investor should expect?

**Thomas Fitzpatrick**

Not at this time, Walt. We just said we would expect to grow it over time.

**Walter Piecyk**

Got it. Thank you.

**Matthew Desch**

Thanks, Walt.

**Operator**

Our next question comes from Mathieu Robilliard with Barclays. Please go ahead.

**Mathieu Robilliard**

Hi. Good morning and thank you for the presentation. I had three questions, please. The first one is on the equipment side, the equipment revenues, which continue to surprise on the upside, and you're now calling out some '23 in line with some [ph] '22. Is that kind of a new normal? And can it even grow beyond that? Because I think in the past, it was a bit more volatile. So that's the first question.

**Matthew Desch**

I don't really know exactly where we'll be long term on equipment. Certainly, we're really pleased to see how much growth there has been. I think that's just a result of our overall success as a network and how we're competitively positioned, and our partners really seeing lots of opportunities. And you're right, the last few years has been challenging, because with all the supply chain issues we had to work through, our partners were really asking for more and more each year and surprising us on the upside. So we're kind of going into '23 pretty comfortable with being in line right now. It feels like it's still going to be a big year like that, but we're also going to be building back inventories, which we have not been able to do for the last two years. So that will be another thing that we're kind of working to go beyond that.

But it's early. We have a pretty good visibility into '23. It's just hard to say exactly where we'll be in '24. It will be hard to believe we'll go backwards too much at this point, given all the opportunities, but we're not giving longer-term guidance on that either. We're not ready for that.

**Mathieu Robilliard**

Super clear. The second one was in terms of the capacity of your fleet. On that comment you made I think a few years ago that the fleet could generate maybe \$1 billion of service revenues. Obviously, things change in terms of how efficiently you can use your network, but I was wondering whether this opportunity with Qualcomm is something that could lead to a higher utilization of capacity and put you in a position where even before the launch of the next constellation you maxed out the capacity or whether that's actually quite complementary to what you do?

**Matthew Desch**

Yes, it's a good question we've been addressing a lot lately. And the way I would describe it is that our network was really built for messaging. It's extremely efficient at sending messages around, maybe a little less so in terms of broadband capacity, but we've found ways of doing that efficiently too, at least in what I would call the lower end specialty broadband areas.

But specifically, even as we modeled in a very successful smartphone and other consumer products, it still only looks like it's a few points on our capacity. And of course, it will depend on where that capacity comes in and how it is. Capacity typically in our network distributes itself pretty broadly, but there will be hotspots down the road. But we see those coming years in the future at this point and in very specific places.

So right now, it really doesn't affect in any way our view of our capex cycles, our capital holidays, our expectations for when we'll need to build a future network or anything like that. We really do still see that we're able to manage and support the kind of growing traffic that we're seeing in the coming years with the network that we have.

**Mathieu Robilliard**

Thanks. I'll push my luck here, because in the past you've never really given the capacity utilization, but you do mention here a few points more capacity utilization potentially for this application. So I don't know if you can share a range of where you are now?

**Matthew Desch**

The challenge, geostationary satellites can basically just tell you a capacity fill. They're positioned over a third of the earth and they can tell you exactly what the capacity of that satellite is, and whether it's half or two thirds, and obviously getting high fills. When you have a low Earth orbiting satellite where each satellite is moving across the Earth 11x a day and is around different parts of the Earth, what you have is widely distributed traffic and each individual satellite goes from being utilized more fully to being utilized less fully. So what we look for is where are we getting capacity on the ground? How much of a fill is there over a specific place on Earth?

And for the most part in most places on the Earth, we have a lot of capacity left. There are some spots that we have higher capacity utilization, typically over certain land areas around the Earth, but even there, we still have considerable capacity left in those areas as well. So it's really hard to describe it, because I can't give you a number like we're at 50% or at 40% or 60% or anything like that, because it's really based upon where you are on the Earth. And so depending on who you are, you might never see capacity utilization if you're in the oceans or places like that where we have certainly the most capacity in most cases, and that's where a lot of our broadband traffic is today and we've got plenty of traffic available for us.

So I know that's not a completely satisfactory answer, but it's a complex subject. And frankly, all I can describe is we're in good shape right now. We think we have a good runway ahead of us of capacity for the future and don't think it'll change our capex plan.

**Mathieu Robilliard**

Thank you. Very clear. And the last one maybe looking at this device-to-device opportunity from another angle, which is obviously we've seen other initiatives out there Starlink, Globalstar, et cetera, with their different partners. And I was wondering if you saw that as a potential threat to cannibalization of your IoT products?

Also your own initiative, could that not replace some of the IoT products if smartphones can communicate by text? I realize it may be not exactly the same users, the same characteristics, but doesn't that bring just more competition to some parts of your business?

**Matthew Desch**

Thanks for asking it, because while we've addressed it in the past, not everybody has heard us address that. Our belief is that, and our partners are kind of telling us they feel that particularly like the consumer market segments that have been growing so fast on our network we believe are going to continue to grow. And because they have focused so much on the consumer application, whether in specific market segments where people are that that is going to be the way that a lot of those market segments will continue to be addressed. And really, the smartphone won't do that. It will expand the market for that part.

So I don't think it's really going to affect our IoT business, certainly not what I call industrial. It's not going to help supply the engine status on a piece of heavy equipment or on an ocean buoy or on a fishing buoy or on an underwater glider or on an oil and gas pipeline or on a transportation sort of thing. That just isn't going to affect that segment at all. If it affected any, I would say it would be more of our



consumer segment. But again, our partners really feel very good about their purpose built solutions that are so popular versus sort of the casual use you're going to expect from a smartphone product.

**Mathieu Robilliard**

Thank you very much.

**Operator**

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

**Louie DiPalma**

Matt, Tom, and Ken, good morning and congrats to you and Qualcomm on closing the partnership. It seems like it was many years in the making.

**Matthew Desch**

It was. Thanks, Louie.

**Louie DiPalma**

First, I have a clarification question. I'm sure many on this call read the media pieces as it related to the announcement on January 5. And in that announcement, it discussed both emergency messaging and recreational messaging. And you touched upon recreational messaging in your answer to I think it was Walt's question, but did you say that it's possible for the recreational messaging service to be available in either 2024 or perhaps even earlier?

**Matthew Desch**

It's possible, yes. It could be I said in the second half of '23. I'm not suggesting I know one way or the other. It's just all the pieces are there for it. The capability exists in the Snapdragon Satellite platform. It just has to be exploited by an app provider. Qualcomm needs to work and we need to approve, say, a messaging provider or other application that wants to use that platform to go into operation.

We focused obviously that announcement in January on the emergency messaging piece, because that's the part that really kind of is baked in – Qualcomm is working on that and that will be what will be available day one no matter what. But I think you'll be hearing more announcements in the future as they're available for other applications that utilize the platform.

**Louie DiPalma**

Great. And now on that topic of the emergency service, I know this is somewhat of a subjective question, but do you think that it will be expensive for the smartphone OEMs to adopt the emergency messaging service? In other words, do you think any smartphone OEM would balk at adopting the service based upon price that would be charged by Qualcomm?

**Matthew Desch**

I have a hard time answering that. I know that there's a lot of interest and I can have some visibility to OEMs who are testing and analyzing that sort of thing, so I know that there's activity and can report that. I certainly don't know about discussions around it. I'd be surprised if there was concerns about pricing or anything around emergency messaging. I feel very confident that Qualcomm knows what it's doing in terms of how it works with its smartphone manufacturers on these things.

**Louie DiPalma**

Great. And another question that you may not be able to answer and this is also for Tom, but can you provide any type of commentary on the potential relative size of the data usage fees, bucket of revenue versus the royalty stream bucket of revenue? And should one bucket be much larger than the other?

And along these lines, is there any qualitative commentary that you could provide on the royalty streams just because it seems that you know what the royalty rate is, but you do not know what the potential data streams revenue will be as that has to be determined by your partner. Any very high level commentary there would be appreciated by investors. Thanks.

**Thomas Fitzpatrick**

Yes, Louie, if you listened to my commentary, what we've said is, over time we expect the vast majority of the revenue to be in service revenues, which would be initial service fees and usage over time. So we expect that to be more than development in royalty, which will be in engineering and support.

**Louie DiPalma**

Great. Thanks, Tom. And one last one, what are the barriers to the Snapdragon Satellite service being available on Tier 2 Android phones? Is there expensive hardware involved that's layered onto the chip, or is it mostly software?

**Matthew Desch**

I don't think there's a lot of additional costs that have to go in to support this. I don't think that's in any way . . . a slightly higher power amplifier or anything like that is going to really change the economics very much of, say, a mid tier phone adopting this. So I don't think there are many barriers to entry to move down. I think it will be whether OEM manufacturers want it, whether they think that there's any incremental value in putting it in, I think that that will come with the success of not just the service in higher end phones, but the success in other phones, for example, how Apple is doing. I'm kind of rooting for Apple to be very successful, because I think it will create even more demand across the ecosystem around this service platform to create more opportunity for everybody to demonstrate the value of satellite connectivity to the masses. So I think it's just a matter of time. We'll see how that works out.

**Louie DiPalma**

Great. Thanks, Matt, Tom, and Ken.

**Matthew Desch**

Thanks, Louie. Take care.

**Operator**

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

**Hamed Khorsand**

Hi. Good morning. So I just want to ask about the equipment line. That growth that you experienced last year, is that an indication of partners having or seeing a ramp in demand or is that just equipment refresh from the existing customer base?

**Matthew Desch**

Well, it would have to be more demand. Obviously, we're increasing our base across the board, so there has been more demand. We're certainly not just refreshing base. There are handsets and GOs and IoT devices and obviously broadband terminals, those are all growth areas. And almost across the board in every area we've seen strong growth in demand.

I would say there could have been a little bit of catch up in there from the previous year, just from the challenges of not getting devices, or not getting all that they wanted, to support the demand and growth that they had. There could be a little bit of refreshing inventories that have been depleted because of

supply chain challenges, so a little bit of that there too. But as I said, we still see good demand this year that continues at this high level. So I would expect that that will kind of work itself out. But that's the kind of thing we're watching closely, but it certainly I just think is a demonstration of the higher demand we see for our services across the board.

**Hamed Khorsand**

In the greater availability of Certus 200 by your partners, will that result in a continuation of this equipment revenue line going up? And what kind of impact would that have on your service revenue? Obviously, it would be a lower priced service.

**Matthew Desch**

Well, so Certus 200 [hardware] can be put into a lower cost terminal, and specifically right now maritime is the primary focus area for Certus 200. So it broadens the range of terminal types that a ship owner can determine. For example, in a companion application to a VSAT provider, they really want to make that even a lower cost solution, it will make it even go to maybe a lower segment of people who are more price sensitive and weren't looking for Certus 700 kind of backup capability. I just think it expands the sort of potential volume. But that's all in our sort of broadband growth expectations. We just think it will continue to support the growth that we're seeing in broadband because there are more products going to partners at even lower costs.

**Hamed Khorsand**

Okay. Thank you.

**Operator**

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

**Chris Quilty**

Thanks, guys. Good stuff. Two quick questions. First, just on the voice and data business, which congrats, we've seen the growth rate pick up there I guess beginning really last year. I guess the primary contributor to that are new services like the GO! product and the Push-to-Talk, but where are we in this sort of transition from where a couple years ago this was 100% traditional handset business? And where do you see that mix kind of evolving over the next couple of years?

**Matthew Desch**

Well, surprisingly, we've gotten a lot of growth in the core handset business as well in the last year. As you know, it seems to be our competitors have struggled a little bit more than we have, perhaps because we were further ahead and more diversified to manage that sort of better. And I think the confidence in the market segment, which still asks for handsets, has been almost focused more on Iridium than it perhaps ever has been before. And so it's been more of a focus business and a bit of a surprise, because it's driven things, driven some growth for us.

At the same time, GO! has been popular and with GO! exec, which we're quite excited about and have good demand for, that's certainly a driver there for voice and data services. And I think it's going to be a good driver. We're continuing to sell GO! and we've broadened our portfolio there.

As you said, Push-to-Talk has really kind of come into its own in the last year or too, and really continues to be a unique market service that is very sticky and broad-based and important, so that's added to it. But I wouldn't say it's completely changed the mix or anything or that we're going to move completely away from say basic satellite phones anytime soon.

And by the way, another thing that could be affected I suppose by smartphones down the road, but again purpose built . . . the first responders, the people who need satellite devices, backup services they provide, I just don't think is going to change that dramatically in the coming year even with all that for at least for a long time. So I think it's going to continue to be a good product area for us going forward too.

**Chris Quilty**

And is there any chance that the new mix of products helps pull up the ARPU?

**Matthew Desch**

Definitely, it could, especially since a lot of our area there is kind of moving into higher data rate services. I was using the GO! exec in the air yesterday and it adds a capability to that. Typically it costs \$15,000 as a minimum for a really low speed connection up to an airplane. [The] owner had to put \$50,000 up to \$150,000 to get basic connectivity on an airplane. Well, you can do that now for \$1,500. And you can get a really good WhatsApp connection and send pictures and even send email and whatnot. Not ideally and as fluidly as you could if you could put a Starlink terminal in your airplane, but you can't do that. They're too big and don't work in a small aircraft or on a small boat in the same way. And as soon as you start using it, you can't help but send a lot of emails and messages and whatnot in those things, and that's not what you could do with a satellite phone before or even a basic GO! device.

So yes, I think it's going to potentially around the edges anyway, because we're quite large, but it could certainly help on the ARPU front.

**Chris Quilty**

If you post a TikTok, can you send that directly to floating Chinese balloons?

**Matthew Desch**

I got to stay away from TikTok I think.

**Chris Quilty**

Good suggestion, Matt. Thanks, guys.

## **CONCLUSION**

**Operator**

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

**Matthew Desch**

Well, thanks for joining us. I'm really excited about the momentum we're carrying into 2023. You now know about our Investor Day in September. We'll prepare to describe what we think an even a longer term vision is for our business, and we'll have I think a lot more to share by September, I would imagine, especially as this smartphone sector continues to evolve. So look forward to continuing talking to all of you and thanks for being on the call. Take care.

**Operator**

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