

Iridium Communications

First Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ken Levy - *VP, Investor Relations*

Matt Desch - *CEO*

Vince O'Neill - *CFO*

PRESENTATION

Operator

Good day and welcome to the Iridium Communications first quarter 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 press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded. I would now like to turn the conference over to Ken Levy. Please, go ahead.

Ken Levy

Thanks, Sagar. Good morning and welcome to Iridium's first quarter 2025 earnings call. Joining me on the call this morning are our CEO, Matt Desch, and our CFO, Vince O'Neill. Today's call will begin with a discussion of our first quarter results followed by Q&A. I trust you've had the opportunity to review this morning's earnings release, which is available on the Investor Relations section of Iridium's website.

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

During the call, we'll also be referring to certain non-GAAP financial measures, including operational EBITDA, pro forma free cash flow, free cash flow yield, and free cash flow conversion. These non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles. Please refer to today's earnings release and the Investor Relations section of our website for further explanation of these non-GAAP financial measures and a reconciliation to the most directly comparable GAAP measures. With that, let me turn things over to Matt.

Matt Desch

Thanks, Ken. Good morning, everyone. The first quarter came in pretty much as we expected. Service revenue continued to expand with the rollout of new services and subscriber growth over the last year. We continue to see and forecast growth across most of our product lines, and our partners continue to be bullish about opportunities with our new product offerings including Iridium PNT.

Normally, the short window between our February call and the end of the first quarter doesn't allow much time for a lot of business surprises. That was not the case this year. The new tariff levels announced a few weeks ago that were implemented and then largely suspended have created more uncertainty than we had anticipated, particularly around equipment expense. We're working to mitigate as much of this impact as possible. Most of our equipment is manufactured in Thailand at a contracted facility. The quality is outstanding. Last year, we only had about 100 items returned out of more than 850,000 individual things that we ship to customers. That's an

amazing quality level that we're very proud of and that my supply chain management team has delivered both during and in the aftermath of the recent pandemic.

With U.S. trade policy still in flux, let me share some of our considerations to ensure you understand how we're reacting to these new regulations and how they would affect our bottom line depending on how and when they are implemented. Historically, Iridium has imported our finished goods from Thailand and to a far lesser extent, other countries, to our Arizona distribution center where they have been inventoried and packaged with other components prior to being shipped on to partners, both in the U.S. and overseas. Last year, however, we began working with a third-party logistics partner in Europe for regulatory reasons and began using their facility for shipments destined to the EU. In the current environment, we will be expanding this relationship quickly to mitigate as much of the new tariff costs as we can, utilizing it for almost all non-U.S. partner shipments, which is about 75% of the total.

Approximately a quarter of Iridium's annual equipment is shipped to U.S.-based partners. So, any import tariffs should only impact this portion destined for the United States. We've been working for several years to avoid exposure in our supply chain to China and now source very little from there, so the very large tariffs there have a relatively small impact on our bottom line. We estimate that the current U.S. trade policies based upon a minimum tariff of 10% for Thailand would result in approximately \$3 million of incremental cost to Iridium this year and flow through to OEBITDA. At this time, we think we can absorb this lower level of tariffs within our currently guided OEBITDA range. If tariff policies were to revert to originally proposed levels from April 2nd, Iridium would be subject to a 36% tariff rate for all equipment manufactured and imported from Thailand. Under this scenario, we estimate that Iridium would incur \$6 million to \$7 million in incremental costs this year. We have not included this scenario in our guidance assumptions in light of the uncertainty and ongoing discussions with countries like Thailand on tariff levels and exemptions. While we could choose to mitigate some of the remaining import costs through equipment surcharges to our customers, at this time, we prefer not to undermine our strong market position and business momentum.

Today, there remains much uncertainty surrounding tariff levels, their timing, and how our partners' businesses will fare in the evolving economic climate. As historical context, we know Iridium's business has been resilient in the face of prior economic shocks – we continued to grow service revenue through the 2008 recession as well as during the 2020 pandemic. I hope this color and the additional information Vince will soon provide will help you better understand how we are thinking about the current environment. At this point, it's a pretty deterministic expense once we understand what the trade policies will ultimately be.

Turning back to our activities during the first quarter. We spent a lot of time with the industry and our partners at the satellite show in February and our Iridium Partner Conference in Florida. Despite the overall market disruptions and changes in our industry, our partners remain bullish on their businesses and opportunities with Iridium, particularly around next-generation IoT, alternate PNT from our Satelles acquisition, and D2D with our development of Iridium NTN Direct. Our expansive partner ecosystem is unique in the satellite industry, and Iridium's partner network covers just about every industry that can use satellite communications. These partners understand and appreciate Iridium's unique capabilities including our high-quality and reliable satellite constellation, truly global coverage, and regulatory approvals. They give us a lot of visibility into their businesses, and we share with them our product road map and investments for the future, which is why we remain confident about our growth outlook in the face of new market entrants, like Starlink or regional D2D services like AST SpaceMobile. Our partners see us as

complementary to these new entrants and continue to invest in new Iridium solutions based on our investments and plans to go after new markets.

I feel somewhat obligated to talk about Starlink and other startups as it's clear from short interest that investors still don't understand how Iridium is differentiated from them. Starlink in particular has done a great job expanding their network and attacking new markets. They've made strong inroads into the consumer sector and drawn share from established VSAT broadband players in areas like maritime and aviation. Starlink, however, does not have L-band spectrum nor the global coverage required to support mission-critical applications. Further, they do not have the ability to address safety applications in GMDSS on ships or air traffic control (ATC) communications to the cockpit of airplanes. While there is some overlap between us specifically in maritime where Iridium has been used as a low-cost primary connection by some boaters, our distribution partners still see an important role for Iridium's weather-resistant global coverage as a complement to Starlink for their customers. The headwind we are experiencing on this small piece of our broadband business should normalize over time as more Iridium Certus GMDSS maritime products reach the market to address end market needs for low-cost safety applications, a niche within maritime where we excel.

As for direct-to-device (D2D), this industry segment is not a zero-sum game. We fully anticipate that satellite providers offering various levels of cellular-based services from space will develop regional services over time. But most of the services will be limited in geographic scope due to its spectrum interference and regulatory issues and will need to overcome service expectations with cellular customers. When I talk to our partners, I continue to hear that their customers want uncompromising, highly reliable global service and tailored solutions that address their unique business needs. Their preferences for purpose-built devices that remove uncertainty and obstacles from achieving customers' missions and objectives. As a result, we have no reason to believe that cellular-based D2D will replace the use cases that Iridium addresses. However, there is a growing role for D2D in the marketplace, especially with casual users, which is why we're developing Iridium NTN Direct. Iridium's new IoT and direct-to-device service will be available on standard-based chipsets with 3GPP Release 19. We will be in live on-air tests with Nordic semiconductor and potentially others this summer, and prospective customers will then have the ability to experience what a global, reliable D2D service really feels like.

For Iridium, standards-based chipsets will also have the benefit of lowering cost for manufacturers and customers who want to roam on to Iridium's global network for almost no additional cost beyond what they are spending for cellular hardware. This should be a boon to our IoT business and allow Iridium to find its way into new industries that had previously considered satellite technology too costly for integration. The IoT market is very large, and we expect Iridium NTN Direct to fuel material revenue growth for our company through the end of the decade. Despite suggestions from some, mainly investors who are short Iridium, the D2D will compete with and cannibalize Iridium's legacy services, we find the storyline hard to follow. As current D2D solutions based on cellular frequencies improve, they will still only provide a small extension to the cellular world's 10% to 15% footprint of the globe, far from Iridium's ubiquitous coverage.

With all the excitement about D2D, it's worth highlighting that we continue to see growth for personal satellite communication devices. This is even as free D2D services have debuted in the U.S. and elsewhere with Apple on smartphones and with very public beta tests of Starlink services. While there may someday be a large market for D2D, we believe that the relatively small investment we're making in Iridium NTN Direct will result in a robust service that will be complementary to others' D2D efforts and generate incremental IoT service revenue for us starting in 2026.

Continuing on this theme of incremental revenue, let me move on to position navigation and timing, an area in which Iridium has a big lead on competitors and which we believe holds a lot of opportunity. Our partners are really excited about integrating our satellite time and location services into their solutions, and we're seeing a lot of interest from new customers who want to solve GPS issues with Iridium STL. As I've discussed before, the prevalence of GPS jamming and location spoofing is on the rise and exposing the vulnerabilities of organizations and critical infrastructure that rely on these services. Thanks to our acquisition of Satelles last year, we can provide them with a timing signal and trusted location that can be delivered cheaply anywhere in the world and is a 1,000x stronger than GPS. We've already seen a big pickup in engagements on PNT since the beginning of this year, and we believe Iridium STL will be a major driver of revenue growth in both civil and commercial applications through 2030 and beyond.

Before I turn things over to Vince, I want to take a moment to touch upon some investor inquiries we received on the administration's efforts to reduce government expenditures and realize efficiencies. We do not believe that Iridium's existing contracts with the U.S. government will be impacted by these efforts and continue to believe that our long-term partnership with the government provides tremendous value. Our EMSS contract with the DoD gives the government reliable global coverage for as many voice and data units as they care to add to our network. At about \$65 per user per month, this may be among the most attractive deals in the satellite industry today. We do, however, believe that the geopolitical environment will remain in flux. There's no disputing that international dynamics are changing. Between the new tariffs and U.S. government rightsizing and shifting priorities, we expect to see impact on our industry, some potentially positive as space remains a priority right now, but some negative, as well. Foreign governments, agencies, NGOs, and even safety organizations may face funding challenges. We've seen examples of this in the last two months as USAID funding was cut to some international organizations who are apparently using satellite services to improve their internal security.

Right now, we have no reason to believe these changes will be material to our business. We believe Iridium is fairly insulated from the recent protectionism and nationalistic rhetoric. But like every company, we may face issues on the margin as we move through the year. We will continue to keep our ears open, mitigate issues that arise, and keep investors abreast of what we're seeing.

Despite recent global turbulence, as my team and I look out to 2030, we are highly confident in Iridium's ability to leverage our one-of-a-kind network to deliver new solutions and expand into new end markets. We have great technology, a strong spectrum position, and a clear path to grow our business, service revenues, and free cash flow.

Between our buyback program and quarterly dividends, we are also delivering additional value to shareholders. We continue to believe our stock to be undervalued and will be active to capture this value with the remaining outstanding authorization on our share repurchase program. These capital priorities, in addition to ongoing investments in our network, underscore our confidence in Iridium's business prospects and growth. With that, I'll turn it over to Vince for a review of our financials. Vince?

Vince O'Neill

Thanks, Matt, and good morning, everyone. I'll start my remarks today by reviewing our financial results for the first quarter and some trends we're seeing in our major business lines. Similar to Matt, I'd also like to discuss the evolving business climate and how it colors our outlook for the year. I'll then close with a review of our liquidity position and capital structure.

Iridium executed well in the first quarter and continued to deliver on our full year plan. Operational EBITDA was up 6% in the first quarter to \$122.1 million, driven by a combination of revenue from recurring commercial services and engineering and support.

On the commercial side of our business, service revenue was up 4% to \$127.5 million. This increase was led by strength in IoT and Iridium PNT. Voice and data revenue rose 2% from the prior year quarter to \$55.9 million and largely reflected subscriber growth in telephony services. As Matt mentioned, a small portion of the deactivations we saw during the quarter related to USAID and changes to program funding.

Commercial IoT revenue totaled \$43.8 million in the first quarter, up 11% from the year earlier. As noted previously, this reflects a step-up in our two-year contract with our largest IoT partner in addition to ongoing demand for personal satellite communication services. As previewed in February, we have experienced and continue to anticipate structural subscriber deactivations associated with changes to an IoT partners' retail plans, which are phasing out plans that allow subscribers to toggle between active and inactive status throughout the contract year. These deactivations have no impact on revenue under the terms of the contract.

Revenue in commercial broadband was down 6% from the year ago period to \$12.9 million. This decline was driven by the increasing use of Iridium as a companion service and the conversion of certain primary customers to lower-usage plans. We expect the ARPU headwinds from these conversions will become less pronounced over time, especially with the proliferation of new Iridium Certus GMDSS terminals by VAM Partners in the second half of the year and into 2026. Over time, we believe gains from subscribers' adoption of Iridium Certus GMDSS will offset the ARPU pressures we are now experiencing from primary user conversions.

Hosting and other data services revenue was \$14.9 million this quarter, up 7% from last year's comparable quarter. We continue to see a pickup in Iridium PNT after having fully acquired Satelles in Q2 last year and remain very optimistic about demand for PNT services as global organizations increasingly address the vulnerabilities inherent to GPS and GNSS-base systems.

Government Service revenue was up modestly in the first quarter to \$26.8 million, reflecting the step-up in our EMSS contract with the U.S. government this past September.

Subscriber equipment sales were \$23.1 million in the first quarter. While down from Q1 last year, which was the high watermark for 2024, demand continues to track expected levels. We continue to forecast full year equipment sales in line with 2024, though we will obviously be monitoring the impact that evolving tariff policies may have on equipment costs.

Engineering and support revenue was \$37.5 million in the first quarter as compared to \$30.4 million in the prior year period. The increase reflected our growing work with the USG including the Space Development Agency and two new contract awards from the prior year. One of the ancillary benefits of being involved with the SDA program is the insights that provides our team on new and evolving satellite technologies, which is informing our early-stage thinking on our next-generation network.

As you will have noted from our release, we are affirming our full year guidance for both service revenue OEBITDA, but I'll make a few points in a second about what that means.

Revenue in commercial voice and data is expected to accelerate from Q1, which is historically a seasonally soft quarter. As we move into the back half of the year, voice and data will also benefit

from select price actions. These price changes will phase in starting in July on certain commercial services. These actions were contemplated in our full-year forecast and communicated to partners late last year. We hope this additional level of transparency will be helpful as you model our service revenue growth for the balance of the year.

We forecast double-digit commercial IoT growth in 2025. This is driven by a step up in the two-year contract we entered into with our largest IoT partner and ongoing demand for personal satellite communications. We continue to see momentum in PNT and expect new work and contracts related to our satellite-based time and location service to support our forecast. Our government business benefits from a step-up in our EMSS contract, which will result in full year revenue of 108 million in 2025.

As Matt mentioned, there remains a high level of uncertainty on tariff policies. Even though the tariff policies were not contemplated in our February guidance, we estimate that if proposed tariffs of 10% on most of the world stay in place, while it would have a negative impact on our costs for the rest of the year, which we quantify is approximately \$3 million, it can still be absorbed within our current guided OEBITDA range, especially in light of our mitigation efforts. However, if the original tariffs announced on April 2nd were to be implemented, they would have a much more significant impact on our cost base, which at about \$6 million to \$7 million would likely cause us to be outside our OEBITDA guidance range. Taken together, this outlook supports our forecast for service revenue growth between 5% and 7% and operational EBITDA between \$490 million and \$500 million this year. We continue to feel good about Iridium's business prospects. However, we will continue to engage closely with our partners, and we'll monitor for any significant changes in business climate that may potentially impact end-user demand.

Moving to our capital position. As of March 31st, Iridium had cash and cash equivalents balance of \$50.9 million, which was bolstered by a \$20 million draw on our revolver this quarter. Our cash flow is ample to fund operations and support ongoing payments of quarterly dividends, as well as our buyback program. During the first quarter, Iridium retired approximately 2.4 million shares of common stock at an average price of \$29.48. This left us with an outstanding balance of \$360.3 million under our board-approved authorization through December 31, 2027. Over the preceding 12 months, we've been able to retire approximately 12% of our outstanding share count. We will continue to execute on our buyback program, balancing the desire to maximize return on investment with our long-term objective for deleveraging.

During the first quarter, we also made a quarterly dividend payment of \$0.14 per share, paid on March 31st. Beginning in the third quarter of 2025, Iridium's board intends to increase our quarterly dividend to \$0.15 per share, representing an increase of approximately 5% over the full year of 2024. This reflects our confidence in the company's business opportunities and prospects for continued strong free cash flow generation.

Capital expenditures in the first quarter were \$24.5 million. We expect capital expenditures to rise in 2025 to support our work with 5G standards and moderate thereafter through the end of the decade.

Turning to our pro forma free cash flow. If we use the midpoint of our 2025 OEBITDA guidance and back off \$91 million in net interest pro forma for our current debt structure, approximately \$90 million in CapEx for this year, \$6 million in cash taxes, and \$6 million in working capital, inclusive of the appropriate hosted payload adjustment, we're projecting pro forma free cash flow of \$302 million for 2025. These metrics would represent a conversion rate of OEBITDA to free cash flow of 61% in 2025 and a yield approaching 11%. A more detailed description of these cash flow

metrics, along with the reconciliation to GAAP measures, is available in the supplemental presentation under Events on our Investor Relations website.

Iridium continues to grow its business and make strong progress on new initiatives like Iridium NTN Direct and PNT. As I look at the competitive landscape, I feel very good about our positioning end prospects and with that our ability to achieve our long-term growth targets and continue to return capital to shareholders. With that, I'll turn things back to the operator and look forward to your questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speaker phone, 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, everybody.

Matt Desch

Hey, Ric.

Ric Prentiss

Appreciate the color on tariffs. Obviously, a very fluid and volatile time. That really helps us understand it on the cost side. But -- and it sounded like, Matt, if you -- if it's just the 10% tariff stuff, you would prefer not to raise prices to the customer at the time. But as we think longer term, any thoughts on what the tariffs would do to sub growth or service revenue as an indicator?

Matt Desch

It's too early to tell. As I said, we've had other economic shocks in the past. And given that we're a critical service in many cases, it usually doesn't affect really demand very much for us. So, I'm not expecting right now -- that's not the mood we're getting in the market today. Who knows? If tariffs go up, and they are -- remain in place for a long time and global trade wars continue indefinitely, no one knows what that territory looks like and how that would affect the global economies and abilities. But right now, we don't see demand changes that are anything that concerns us too highly right now.

Ric Prentiss

You're making the supply chain changes too to help mitigate some of that. Okay. The DOGE cuts and the government efficiency stuff might be a little more firm since you've seen some of those changes. We did note this quarter, the government subs were down. Was that the USAID or was that in the commercial side? And what maybe drove the change in government subs?

Matt Desch

That doesn't really have much to do with DOGE as much as it's just a government cleanup activity as they, I think, sort of position themselves for our next EMSS renewal in a couple of years. If they have units that they haven't been utilizing, different services kind of turn them off to change

their relative positions with other services. But it really doesn't speak to anything related to DOGE or anything like that.

Vince O'Neill

Yeah. And the only thing I would add there, Ric, is the USAID, you'll see that in the commercial voice and data numbers. So, that's a driver there. And there's also some conflict area drawdown, as well, there that you see in Q1.

Matt Desch

Yeah. We called that by the way out there, but it's one of the few things we've kind of seen that's been directly attributable that we can make aligned to. And as you can see, it's pretty small and probably relatively deterministic so far. Again, it's one of the few things that we could really draw a clear line to but I don't see many other things like that.

Ric Prentiss

And, Vince, you called out that we should expect some legacy voice and data price actions in the second half. Historically, you guys, what was it? Like every five years you've increased it maybe 10%. Should we think this is kind of more of that low single-digit increases that might happen annually instead of just such a long wait step function?

Matt Desch

Yeah. A year or two ago, we decided instead of having like price increases every five years, a smaller price increase every 2.5 years would be less noticeable really by the market and sort of in line with global inflation sort of things that are happening anyway. So, not expecting a lot of reaction from it. We've had this in planning really for the last nine months so far. Obviously, didn't communicate that publicly, so I'm sure you didn't have that in your models or anything, but it goes into effect as scheduled here middle of the year. And it's a little bit why our service revenues were a bit higher in the second half than the first half, one of the reasons anyway.

Ric Prentiss

Makes sense. And last one for me is, you touched on obviously the direct-to-device items. You might start seeing some service revenues it sounds like in '26 as you go through the summer '25 trialing. But how should we think about how that ramps up? And what line item would that benefit, your direct-to-device plans?

Matt Desch

Well, it really affects IoT, which is a strength of ours anyway. In some ways, the earliest revenues, I think, will be IoT roaming revenues coming from, say, a cellular device that has the right chipset and can just roam into our network without any incremental investment or really development by the end user partner. So, how fast that goes, it's unclear. It depends on how fast Release 19 chipsets get into the market and the MNOs that adopt us and that sort of thing. All the interactions we've been having are very positive. There's a lot of interest in having Iridium be a supplier in that marketplace. As I said, we feel good being this complementary service that sort of supports -- that is kind of a global glue that is there to support all those places where D2D won't be and even many places where it will be where people want to use this. It will take a little longer to get into phones and consumer devices, though I'm sure there's interest there, as well. So, that may not hit in '26 as much. It will be more IoT, but that will ramp up towards the latter part of this decade.

Ric Prentiss

Great. Thanks, everybody.

Matt Desch

Thanks, Ric.

Vince O'Neill

Thank, Ric.

Operator

Thank you. The next question comes from Edison Yu from Deutsche Bank. Please go ahead.

Edison Yu

Hey. Good morning. Thanks for taking our questions. First, just on the tariff situation. I know you called out the 3 million and 6 million to 7 million. Is that an impact for basically half the year? And then if they continue, we'd have to roll it through for the full year next year? Or what's the, I guess, assumption on the timing of when that hits?

Matt Desch

Well, the 3 million really kind of started already. So, it's three-quarters of the year kind of effect. The 6 million to 7 million by the way is not incremental. That's a total amount. So, think of it as an incremental 3 million to 4 million on top of that. That is presumably at the end of the 90-day period if those things go into effect, and that would affect this year. We're not giving guidance next year yet on this because, I mean, anybody who can forecast out next year what tariff policies will be I think is -- well, they're not certainly on the outside like we are. But I don't think that the overall incremental impact that we see is much more than that say \$6 million to \$7 million on a full year basis right now because we think we can mitigate everything else. So, it's a tax on our business. It's a known yearly kind of tax as we see it, but hopefully it won't have much impact on business momentum or other things as it relates to other things we're doing.

Edison Yu

Understood. Higher-level question. Obviously, a lot of geopolitical shifts happening. I think for the most part, we see a lot on the K-band side, especially in Europe, given the political developments. I guess how do you see that, or how do you think this could manifest, if at all, on the L-band MSS side? I realize it's much different market dynamics but curious if you have any news there.

Matt Desch

Yeah. I mean, there is a bit of protectionism. There's a lot of investment in EU space companies and supply to provide an alternate to Starlink. We see and hear that, as well. A lot of people are being careful about getting too tied to U.S. suppliers, et cetera. But so far, we seem to be more of an international global player viewed as having a unique, trusted and valuable service from partners who are all over the world. We obviously haven't aligned ourselves with anybody specifically, and we support governments all over the world in terms of critical first responder and other services. So, I don't think it has a lot of impact on us right now. We're obviously monitoring it, and are sensitive to seeing if there's any kind of issues with that. But right now, we're being, for example, put -- embedded into some of those European solutions as a backup say to protect against GPS jamming and outages. And really pleased to see that we're part of really what you could call an EU-centric solution.

Edison Yu

Understood. And just last quick one. On Aviation Certus, I guess what's the latest update there? Should we expect a ramp in the second half?

Matt Desch

Yes. I mean, it is growing now that we have terminals that are available. This is a year of flight trials to be certified for aviation safety services. So, they can put us on airplanes now to provide voice and data to say, a cockpit but to certify it for air traffic control communications probably won't happen until early next year according to the current schedule. It just takes a lot of time for enough data to fly on enough airlines for the FAA to kind of approve that application. But we are seeing a lot more applications. You've probably seen us on helicopters. Some of our partners are ramping Certus and other non-safety applications in general aviation. And so, it's happening -- also drones, which is still an early-stage market is very interested in our aviation applications, but that's also ramping slowly. So, I don't think it's a big driver of our second half service revenue growth, but it's a long-term positive trend for our service revenue.

Edison Yu

Thank you.

Matt Desch

Thanks, Edison.

Operator

Thank you. Our next question comes from Colin Canfield from Cantor. Please go ahead.

Colin Canfield

Apologies. On mute there. Matt, I thought your comment comparing 2020 and 2025 and 2008 was pretty prescient. So maybe if you could talk about kind of previous lessons and digging into lessons from 2008 around Iridium's product portfolio at somewhat of a consumer defensive. And then maybe some commentary around 2020 in discussing the trends you saw there regarding consumer electronic spend relative to the perception of a softening consumer environment.

Matt Desch

Thanks, Colin. Yeah, 2008, obviously, we're still on our first-generation network. Quite concerned about the economic shocks that were going around the world, the recessions and that sort of thing. And yet I was really pleased, maybe not surprised, that none of our product lines actually changed their growth trajectory almost at all because I think we found that in almost every case what we were doing was an extremely valuable part of an enterprise or a government or it was a critical safety application.

I remember some civil governments maybe had to cut back on their safety budgets and maybe had a few less phones, for example, in place, but we didn't notice it really in the total, and the growth continued to grow beyond it. 2020 obviously had a similar reaction but was different because of just the supply chain shock that occurred. And in that case, again, I think my supply chain team really showed out in terms of their ability to quickly manage the situation. We are actually the one with the most equipment and probably took share from other suppliers who are struggling. But again, it wasn't really a cutback in service. IoT continued to grow and other things, as well. New products that we're introducing also hit the market and grew, as well.

This tariff situation has been an exciting last ten weeks or so as we've been on lots of calls with my supply chain team, scrambling. Really glad we put in this third-party logistics center last year because that will enable us really in weeks to kind of move and mitigate the effects, which would have been a lot higher than \$6 million to \$7 million if we had kind of had a team that could respond so quickly and professionally. But I think we're kind of ready for this. No one knows for sure if things continue to escalate or change around the world, but right now, we're kind of responding to this in a fairly deterministic way.

Colin Canfield

Got it. Got it. And then maybe one exercise but kind of the way that you think about true government exposure for the total business. I think a lot of folks look at the engineering line and they look at the pure-play government contract line. I don't I guess, particularly appreciate the level of government exposure on the civil side, public safety, stuff like that. So, is there a rough way to think about what the total government exposure to the business is, not just direct-to-sales, but like what is the end use case of all the products?

Matt Desch

It's a good question. I can't say we've ever really analyzed it because, as a wholesale supplier, we don't have precise information about exactly whether a device is in government's hand or in a commercial or other kind of applications hands. And in some cases, whether it's a firefighting department or it's some regulatory -- it's hard to tell whether it's military or nonmilitary. Usually, these are an IoT device tracking and assets difficult to tell.

That being said, I think it's a relatively small part of our overall commercial business. If government is roughly 20 some percent -- 20% or so, U.S. government -- I would say combined, all the other governments in the world are much less than that really. It's still small parts. It's dominated really by commercial IoT and other applications. But they're solid PTT business and by other governments. There's voice and data services, and there's IoT tracking and a lot of applications, as well. Even using personal communication devices, as well, is in the hands of other governments. But I still think it's probably single digits.

Colin Canfield

Okay. Okay. And then last one for me, but maybe conceptually talking through -- I know this is like still early innings on all PNT, but conceptually talking through how you think about like pricing mechanics and pricing levers. I think one of the things that people kind of focus on is the dynamic of assured access and how national security in this environment is very much kind of a priceless feature, right? So, maybe talk about kind of what you're seeing from new adders in the government domain, how you think about that mechanic works relative to a jam environment, and then maybe like talking and longer-form view of the business of how you think of like the functionality in either a hot versus cold environment from a war fighting perspective?

Matt Desch

Well, I think we've talked a lot in the past about how the U.S. government and other governments in the world don't have a single choice for a communication device, whether it's in a vehicle or a dismounted soldier or whatever it is. They really want multiple things because, even in good times, things can be thwarted, whether it's the GPS signal being jammed or communications system. So, they talk in terms of PACE -- primary, alternative, contingency, emergency -- like four different kind of categories. Sometimes we're the primary, but almost always where the alternate contingency or emergency sort of in a solution, connecting an asset or a soldier or whatever it might be. In that environment, I think we're quite resilient around the world to a lot of things. Even as new solutions come forward, obviously we're seeing a lot of interest in Starlink and StarShield, but that doesn't really do what we do.

So again, we think that as solutions like that -- and others -- whether it's the OneWebs and Kuipers and others of the world in KA and KU, they're also looking still for L-band solutions that are more resilient, more global, and provide an alternate connection really or as backup or command and control or whatever it might be, particularly given our size, weight, and power is different than a lot of those solutions, as well. You talked about being denied. Of course, I think you're referring

to like our PNT solution. We do have a big advantage there and that we have, I think, the only global solution that can deliver protection to a GNSS system anywhere in the globe very cost effectively and provide even a timing signal inside a building or other asset. And on that basis, I think the whole world is realizing the importance of that application. And really, the interest has been exploding really over the last year or two, but particularly since we bought Satelles, I think we just have seen lots of applications where that's applicable to.

Colin Canfield

Got it. Thank you for the color.

Matt Desch

Yeah. Thanks, Colin.

Operator

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

Hamed Khorsand

Hey. Good morning. First off, I just want to see what kind of response you're seeing from your partners as far as equipment goes. Are they stocking more? Do they want to stock more? And what kind of level of conversation you've been having with them.

Matt Desch

Yeah. So far, we haven't seen, nor do we encourage, any kind of stocking up or anything like that from -- I mean, around the edges, I think we had an order on chipsets or something that was a little larger than expected, and perhaps there were some of that involved. But we don't see like a direct connection right now today in our supply chains. Still see the demand. Still see sort of our expectations from a yearly perspective. The fact that we're not passing on these costs right now to these customers is probably appreciated. If we would have told them that there'd be a big price increase or something on hardware later this year, we might have changed that, but I don't think that's really the direction we wanted to be going. So, we really haven't seen much difference so far.

Hamed Khorsand

And my other question was, as far as engineering revenue is concerned, this was the second quarter in a row it was \$37 million. Is that going to be the same going forward? I mean, this revenue line used to be very lumpy. Could you just provide a little bit more details about that?

Vince O'Neill

Yeah. What I would say, Hamed, is there'll probably be some variation in that going forward. But certainly, that level or up close to that level is probably a good assumption moving through the rest of the year.

Matt Desch

Yeah. A lot of that growth has been driven by our contract with the Space Development Agency as we've built their ground infrastructure and operation centers, and we're manning the operation centers for their new proliferate warfighter network that they're launching right now. That's getting to a maximum sort of spend rate here soon because they're launching satellites, and we'll be operating them before long. So, we've been ramping up as we've been building that system, and then we'll go a bit more of a steady state on that when we go into operational mode.

Hamed Khorsand

Great. Thank you.

Matt Desch

Thank you, Hamed.

Operator

Thank you. Your next question comes from Chris Quilty from Quilty Space. Please go ahead.

Chris Quilty

Thanks. Just a follow-on to that last statement around the shift from build-out to service. Does the margin profile or I should just say the margin gross profit contribution changed dramatically when you shift from build-out to service or low-margin build-out equal, high margin but smaller service revenue?

Matt Desch

No. I mean, the margins you can really charge on services or even equipment is pretty fixed. That's -- and so, margins are going to stay pretty consistent. The government pays us for work we do with a profit, and that's really the incremental margin we can get. So, it doesn't really change significantly.

Chris Quilty

Great. Circling back -- sorry. One more question on equipment. Customers have not been necessarily stocking inventory. But, Vince, you guys kind of ran up your inventory, which was historically like 30 million to 40 million even post-COVID, up the 80 million to 90 million level in late '23, and it's kind of stayed at those levels. Does that inventory and its sort of comparative advantage of the tariffs you paid become a use or a source of cash, you work that down on your -- from the inventory, or does the buildup of the 3PL in Europe sort of offset any inventory optimization you might try?

Vince O'Neill

No. That will definitely help, Chris. So, the fact that we have that equipment and inventory on hand certainly helps us as we move forward here and negotiate our way through the tariffs in the short term. So, I don't know that it will be dramatic, but you probably see some drawdown in inventory as we go through Q3 and Q4.

Chris Quilty

Okay. And one other sort of inventory hardware question. As you move to the NTN Direct, I mean, currently, you source chip billboard, sell to VAMs and VARs that build stuff ostensibly as you move to an NTN model, does the need for hardware diminish or go away because these all become standard D2D or IoT devices that exist?

Matt Desch

Yeah. Long term, certainly -- in certain product lines that will affect like our IoT product line, which we make modules and devices which we sell as we move to more chipsets in general, whether it be, by the way, proprietary, which we're kind of moving towards even a chipset sort of approach on our SBD service down the road. But as we move to standards-based solutions, certainly, there's a lot less revenue there. In some cases, still good margins when it's our systems, but it's certainly higher volumes, as well, there. So, I think that kind of evens out a little bit. I think that covers. But yeah, there's probably less hardware. As you know, hardware equipment has never been a line we have focused on. It's a driver for service revenue. So, the more equipment we can

send out with the least amount of margin is just great news because it just gets more potential for service revenue for us. So, that's definitely in line with what our approach is.

Chris Quilty

Great. And final question, just related to safety services both maritime and aero where you've picked up certifications last year. Is there any opportunity to sort of jump-start customer adoption in those products? I think you would claim relative advantage relative to your one competitor on sort of hardware and throughput and whatnot. Or is that simply a market where customers don't replace existing terminals? You're really just selling into the new market of new things that are being configured and set up with the GMDSS or aviation safety services.

Matt Desch

We have some ideas about that. I'm probably a little too early to talk about them very publicly, but we have some ideas in which we think we can expand both the adoption but also the kind of share of wallet that we can address in those areas, particularly around aviation where we have a unique capability. It's differentiated. The market really likes what we can do, and others can't do as well as we can. So, we have some ideas about how to move down the road but still a little early for that to talk about.

Chris Quilty

Alrighty. Looking forward to it. Thank you.

Matt Desch

Okay. Thanks, Chris.

Operator

Thank you. The next question comes from Mathieu Robillard from Barclays. Please go ahead.

Mathieu Robillard

Yes. Good morning. Thank you for the presentation. First one on the maritime, and as you flagged in many quarters, there's a negative impact from the fact that you're losing some connectivity revenues. And I wanted to understand when exactly you expect that to disappear, because when I look at the quarterly transit things, it seems it was really a big impact in Q2 last year, a little bit in Q1. But -- rather, it started then. And I was wondering if by Q3, Q4 this year, we could see a stabilization both in ARPU but also in terms of subscribers on that business line.

Matt Desch

I hope so. But, I mean, we're not really forecasting a specific time for it. It's hard to forecast precisely when that will end. But we do think that as more Iridium Certus GMDSS terminals come out -- there's like nine total if I remember correctly that our sort of forecast of which just a couple really are available now, one or two. And we do see some of our partners kind of waiting for specific terminals that they -- from suppliers they particularly like working with. And I think that's holding that transition up a little bit. Once that kind of -- and those are all supposed to get into our market this year sometime. So, I really kind of expecting 2026 to be the year when it's definitely over or when we're normalized, if you will. But exactly when, it's hard to forecast. Fortunately, this is still marginally around the edges. This isn't -- we're really looking more for stabilization and maybe even some growth there, but this isn't like a key part of our overall growth story or driver to 2030 revenues and cash. But we believe it's important enough, and we have the market position -- and a defensible market position -- to maintain a really solid position in this area based on just the success of our GMDSS services.

Mathieu Robillard

That's clear. So, I guess if we think about maybe some contribution from IRO as you flagged earlier and some sort of stabilization, that's how you're happy to indicate in the previous quarter that broadband revenues would remain broadly stable year-on-year, which obviously can be [inaudible].

Matt Desch

I think that's consistent or even going back to our Investor Day. This wasn't part of the driver. We would have liked to grow a small amount by now, but I think that that's going to turn around. And we really think we have a solid position that's important and critical and long term and have really kind of worked to make sure we had the best product and market positioning so that we could be that complement to other KA and KU solutions. And right now, that's the way the market sees us and is encouraging us and is telling us we should play out long term.

Mathieu Robillard

Thanks. And then, I had a second question on D2D. You made some comments at the beginning about what coverage competing services or new constellations could add to the current terrestrial coverage. And maybe I got that wrong, but I think you said 10 or 15 percentage points of increase in coverage, which, if that's the case I was surprised it's so low because I understand some of these constellations don't cover say the polls, but I would have thought it would be a much bigger extension of coverage for regular smartphones. Did I get your numbers right, or is there something you want to add on that one?

Matt Desch

No. What I was talking about is current cellular coverage of the whole world is 10% to 15%. That's how much of the world that -- it covers. I said that it would be incrementally pretty small. Even though those networks have satellites that go all around the planet and even polar, it doesn't matter. They can't provide service on the ground unless the frequencies that they're able to use using cellular frequencies are allowed by that government, by that land mass to be able to operate. And right now, we believe there's really limited markets where currently cellular-based D2D will be operating.

Certainly, the U.S. is one of them, and they can fill out the coverage in the U.S., which is very good today but isn't 100%. There are other kind of more island nations like Australia and Japan where I think it will also come into usage pretty quickly. But it won't cover water. It won't cover Europe. And it won't cover other areas because, in a lot of countries, the interference environment between those cellular frequencies and adjacent markets where those cellular frequencies are also used would create a lot of interference and inability to really offer those services. And so, governments won't allow them to operate globally.

So, unlike mobile satellite service frequencies like our L-band or even S-band frequencies that some others have, those are globally allocated. They don't cause interference market to market because they're coordinated on a global basis, which is why our Iridium NTN Direct service being global can be can be really differentiated and complementary to a regional solution that's providing kind of cellular infill in a specific market where it's not causing interference and the regulatory agent approves it, and we can provide sort of the glue that provides a global service that complements that.

Mathieu Robillard

That's very clear. Thank you.

Matt Desch

Okay. Thank you.

Operator

Thank you. Our last question comes from Louie DiPalma from William Blair. Please go ahead.

Louie DiPalma

Matt, Vincent, and Ken, good morning.

Matt Desch

Hey, Louie.

Louie DiPalma

Should IoT subscribers turn positive later in 2025 after the cleanup is done?

Matt Desch

Yeah. I would hope so. I don't know if it's -- it depends on when it kind of started at the -- when it ends. I think it was sort of -- was it late last year?

Vince O'Neill

Late last year.

Matt Desch

Late last year. The changeover that partner made to having customers go to a monthly basis sort of affected. So, we expected sort of a one-year transition. And so, I don't know that we'll see it in the fourth quarter, but I would certainly expect to see it in '26 where that effect of anybody who was -- the deactivations really that were occurring on that sort of come out of it. And then we'll be in a bit more volatile environment where people will see the subscribers on the network as they use -- only the months that they use it as opposed to all the time, whether they're using it or not. But again, as we said, that doesn't really affect our revenues since that customer has a fixed price contract.

Louie DiPalma

Great. And should that contract stay fixed price going forward? Is that the expectation?

Matt Desch

Well, we're talking about that now. I think what we want to do is just have a win-win situation with that partner to encourage their growth, and I'm sure they feel the same about us. So, we grow together, and we're having good discussions about that now.

Louie DiPalma

Great. And secondly, should the main CapEx associated with NTN Direct be complete in 2025 in terms of the software updates and modifying your ground network?

Matt Desch

Certainly largely. The big lump, if you will, the kind of incremental amount that would probably in budget a couple of years for is certainly going to be mostly completed this year, but there's always some kind of cleanup afterwards. So, it will leak into '26 as we get into further tweaks and upgrades and things like that. But largely this year is the biggest part of it.

Louie DiPalma

Great. And one final one. Do -- are all of the 75 original Iridium NEXT satellites are -- do they all remain functional? And you previously extended the accounting useful life. But is there the potential sometime that you also extend the CapEx holiday?

Matt Desch

Yeah. So, all 80 satellites actually we have in space, the 66 and 14 spares are all healthy, operating fully well. Haven't needed to use, knock on wood, a spare. Probably would have thought we would maybe by at least one by now, but actually the network has proven to be extremely resilient and healthy and performing far greater than our original expectations -- certainly what we bought them for, which is why we extended the useful life. And could there be other extents? Yeah. If we continue to operate in this way, we'll extend it again. Certainly, won't do it this year I don't think. But at some point in the future as the network continues to perform well and we see that we have all these extra satellites in space, then probably extend it further.

Vince O'Neill

Yeah. And just to add to that, Louie, we extended the useful life from 12.5 to 17.5 years, which when you do the math, take you the middle of the next decade. And to Matt's point, we'll continue to monitor the performance of the network and kind of go from there.

Matt Desch

I think I've said before, I'd be disappointed. Our last generation satellite lasted over 20 years, and they weren't built to anywhere the standards as the satellites today. So, we haven't -- we haven't projected that yet and may not. But right now, I'd be disappointed if they don't extend at least the same length of time as the first generation of satellites did.

CONCLUSION

Operator

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

Matt Desch

Yeah. Well, thank you. I mean, obviously, it's kind of crazy times globally right now, and as you can tell, we're one of the first to announce, so I'm interested in seeing what everybody else is doing. I feel as that -- pretty proud of my team for how we're kind of managing the current environment as business continues to track to our expectations and to our longer-term expectations, as well. So, look forward to talking to you individually, but I hope this is helpful to you. Thanks.

Operator

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