

Iridium Communications, Inc.
Second Quarter Earnings
July 20, 2021 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Ken Levy – *Vice President of Investor Relations*

Matt Desch – *Chief Executive Officer*

Tom Fitzpatrick – *Chief Financial Officer*

PRESENTATION

Operator

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

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

Ken Levy

Thanks, Rocco. Good morning, and welcome to Iridium's second quarter 2021 earnings call. Joining me on this morning's call are our CEO, Matt Desch, and our CFO, Tom Fitzpatrick. Today's call will begin with a discussion of our second quarter results, followed by Q&A. I trust you've had an opportunity to review this morning's earnings, 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 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 in 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. So, Iridium's business accelerated in the second quarter, as we saw strong demand across the board, and very healthy business activity across our partner ecosystem. While the whole world hasn't completely reopened yet, we've seen our subscriber growth recover to the kind of levels we were seeing in 2018 and 2019, before the pandemic slowed things down.

For example, commercial aviation partners are experiencing a nice rebound in activity, and end-user demand in maritime is also showing signs of improvement. This progress helps to frame our views for the full-year. Accordingly, we are raising our forecast for service revenue to reflect the strong demand we're now seeing on the back of increased usage and strong subscriber growth. We've also seen more normal seasonality again this year, which began in March and should carry through to October. The seasonal move, which was largely absent last year, was visible in the strong activations in commercial voice and data subscribers during the second quarter, and it goes down as our best first-half performance

in nine years.

Subscriber activity was strong in IoT as well. In fact, we've logged the best quarter of commercial IoT growth in Iridium's history, adding a record 82,000 net new subscribers over the past three months. Some of the strength may surely relate to the new love we all have lately for outdoor activity, as personal communications subscribers continue to grow at a record clip, and we don't see this demand slowing anytime soon. We've added a number of new consumer-oriented partners in recent years, and many are now seeing an acceleration of unit sales and activations.

As these personal satellite communications devices proliferate, in part driven by falling retail prices, there is increasing awareness among consumers of the great value and utility they provide when traveling off the grid. We believe that we're still in the early days of adoption, and Iridium's network is better suited for these mass scale consumer-oriented devices than any other existing or planned satellite constellation. We're very happy with the rebound in usage and subscriber growth in the first half of the year, as well as the strong equipment demand which is indicative of future activations.

I'm sure you're aware, however, that there are global supply chain shortages of semiconductors affecting high-tech companies, driven in part by high demand for automobiles and personal computers. This demand has recently impacted a specific component used in our legacy IoT modules, and the supplier we use for this part has reduced their monthly shipments to us until later in the year. Fortunately, my supply chain team has worked to limit the impact of this situation to IoT modules scheduled for delivery to partners, for the most part, in the third and fourth quarters of this year. We should catch up quickly with demand in the first quarter of 2022.

While this is slowing down a percentage of our monthly IoT module shipments over this period, it's a bit frustrating given the strength we are now seeing in our business. We really didn't want to be held back in IoT, even in a small way, as this business continues to gain steam and is a driver of meaningful growth in the future.

Apart from this unexpected challenge on some equipment, we've been extremely happy with how 2021 has unfolded. The industries we serve have opened up, our partners have resumed normal operations, and subscribers are returning to their normal seasonal usage patterns. We're about halfway through our peak season, and we're getting better visibility into full-year trends. The acceleration of service revenue growth that we had expected to see, and spoke to last quarter, now seems to be playing out.

For those who attended our Investor Day in May, you heard about the strong progress that we're making on new products and services launching this year across several industry verticals. It feels like we have more oars in the water than at any time in our history. We believe that new product launches will expand our reach, and drive new subscriber adoption in the coming years to help us achieve high-single digit service revenue growth.

I'm really excited about the recent commercial launch of our Iridium Certus 200 service. This new service class offers the best performance to value in the industry for maritime and land mobile applications, and we expect new aviation products to follow later this year and in 2022. Iridium Certus 200 is a perfect upgrade for ships that use Iridium OpenPort service, of which there are still around 9,000 active, and it's a better alternative than Inmarsat's Fleet One product. It provides good data speeds at a very attractive price point, and its small, omnidirectional antenna will fit unobtrusively on small boats, airplanes, trucks, and trains. Iridium Certus 200 will be an even more cost-effective companion to VSAT on ships, and partners are excited about adding it to their existing Iridium Certus portfolios.

By the way, installation on ships are getting a little easier for some partners, and it's showing in our

numbers with the activation of more Iridium Certus broadband terminals. We added twice as many net new broadband subscribers this quarter than we did in the first quarter, and three times more than we did in the same quarter last year.

Iridium GMDSS is also performing well for us, with more than 500 terminals sold since service commenced late last year. We continue to expect that our growing maritime offering will drive double-digit broadband revenue growth well into the future.

In aviation, our terminal manufacturers are finally making real progress. There are several antennas under development for commercial corporate rotorcraft and general aviation markets, and when they're ready, I think they'll disrupt the status quo in aviation with their size, cost, and performance, in the same way we have in maritime and land mobile.

We're also making good progress on the regulatory front for aviation safety services. The global standards organization recently approved our detailed safety plans for Iridium Certus to be used for controller-pilot data links and other safety services on commercial aircraft this quarter, and it's clear from those efforts that we have a lot of supporters in the industry who want more Iridium L-band aviation broadband products for their aircraft and customers as soon as possible.

I'm pleased to be able to share today that Garmin's aviation team is now integrating Iridium into their groundbreaking Autoland aviation safety system. Installed on some of the latest Garmin-equipped aircraft, Iridium will soon provide a reliable source for real-time weather data into the system, which will complement other Garmin inputs to assist the system to safely, and autonomously, land the aircraft in emergency situations.

In addition, we continue to explore other opportunities with Garmin to leverage Iridium's global network, and recently signed an agreement enabling them to integrate Iridium Certus technology into their products. We're excited about the possibilities that increase data speeds, and the most up-to-date L-band technology can offer Garmin's many customers.

Moving to IoT, we feel really good about our position in this growing market, and know that the momentum we've enjoyed with personal communications devices will be a driver for many years. We continue to add new IoT partners to the fold, eight more in the second quarter alone, who should further extend our industry and geographic reach. We've also begun to see a bounce back in demand from heavy equipment manufacturers as the pandemic recedes. Kobelco has now started deploying their Iridium solution, and other major Asian OEMs are also beginning to hit their stride.

Heavy equipment now accounts for more than 10% of our commercial IoT base, and is forecasted to provide continued meaningful growth, especially as global construction returns, and as investment in infrastructure becomes a priority. In the first half of the year, we've also formally lab-certified 14 new IoT solutions at the request of our partners, and continue to see a healthy pipeline of new product innovations from them, especially those based on the Iridium 9770 midband module. That's the new device that supplies what we call Iridium Certus 100 class services. Several partners are now selling their first products in this class, and many more are developing new applications today to replace legacy voice and data and IoT solutions with faster data speeds and other capabilities.

On the consumer side, personal communications devices account now for nearly half of our IoT subscribers, and are among the most efficient users of our satellite network. With consumer subscriber growth averaging 46% over the past two years, we want to augment our capabilities with these users beyond basic texting and SOS services, and embed Iridium connectivity into more consumer devices. Midband products are coming in 2022 that will allow our consumer satellite users to share feature-rich

text, photos, and update their social media more easily. We're very excited about the potential of all of these.

The US government continues to be an important long-term partner. In June, we hosted a two-week Arctic exercise with the US government, and more than 20 organizations were involved showcasing Iridium technology for operational needs in the vast regions north and south of 70 degrees latitude, where few other highly mobile system choices exist. This expedition, which was called Operation Arctic Lynx, brought together partners and users to demonstrate the Iridium Certus platform, and other Iridium products, to customers for high-valued communications on the move.

Participants got to utilize many of Iridium's capabilities and partners' products that support unattended sensors, command-and-control, real-time communications, imagery and full-motion video. We were very happy with the broad participation in this event and the collaboration of these partners with so many end-users, and plan to host these types of programs on a more regular basis.

Despite having 153,000 government subscribers, we would have anticipated higher growth and subscribers in engineering services revenues this quarter, but for some teething pains the US government is going through as they work through the transition of our EMSS contract and gateway support from DISA to the US Space Force. We're working with the DOD to manage through their budgeting and contractual issues, to continue to foster growth and innovation under the EMSS program.

Switching gears to Aireon, Aireon is starting to see signs of growth as air traffic rebounds from the pandemic. Last month, they made use of the favorable credit markets to close on a refinancing of their credit facility that provides them access to capital on much improved terms. The company continues to deploy its solutions to partners, and will already service about half of the world's airspace when its existing contracts are deployed.

As I said before, we're really pleased with the quick progress Aireon is making on what they call commercial data services. We believe this will provide a nice upside to their longstanding business plan, which was initially focused primarily on air traffic control data. As an example, EUROCONTROL recently announced the deployment of Aireon's real-time traffic surveillance data for flow management to boost air traffic predictability and safely adapt to varying traffic demands across the organization's 41 member states. We're proud of the progress that Aireon has made since it went operational in 2019, and are happy to host their technology, which is now redefining the standard for global aircraft surveillance and safety.

So, as I reflect on the first half of the year, Iridium has emerged from the global pandemic with momentum, and our accelerating growth and strong free cash flow generation allow us to pursue many avenues for expansion. This year, we've continued to add new products, partners, and services, each of which should bolster our unique position in the satellite industry. We feel very good about our progress, and look forward to continued strong revenue growth to meet the objectives we laid out for the next five years at our recent Investor Day.

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

Tom Fitzpatrick

Thanks, Matt, and good morning, everyone. I'll get started by summarizing our key financial metrics for the quarter, and providing some color on the trends we're seeing in our business lines. Then I'll recap our updated guidance for 2021, and close with a review of our liquidity position and capital structure.

Iridium executed well in the second quarter, and continued to grow sales as the broader business

environment continued to return to normal. We generated total revenue of \$149.9 million in the second quarter, which was up 7% from last year's comparable quarter. The improvement reflects ongoing demand for our L-band services, and is an encouraging sign that the headwinds associated with the COVID-19 pandemic have decreased. Operational EBITDA was \$94.8 million, which was up 11% from the prior year's quarter. The increase from last year reflects a return of seasonal activity, including more customary business operations for our partners, most of whom were still reacting to the pandemic in the year ago period. In light of our expectations for improving revenue growth in the second half of the year, we now expect service revenue to increase between 4% and 5% this year.

On the commercial side of our business, service revenue was up 8% this quarter, to \$95.6 million. This increase reflected a rebound in our seasonal business compared to last year's pandemic headwind, which weighed on travel and usage. Strength in IoT and broadband, as well as a seasonal uptick in voice, more than offset the decline in hosting data revenue, which was entirely attributable to a true-up in the prior year period on the L3Harris hosted payload. Commercial voice and data revenue increased 4% to \$43.3 million, driven by a seasonal uptick in activations, including continued strength in Iridium Push-to-Talk.

In commercial IoT, retail-oriented subscribers fueled a record 82,000 activations during the quarter, and drove a 20% increase in revenue from the year ago period. Through June 30th, we had over 500,000 personal communications devices on our network, and continue to believe that these consumer-oriented users will drive IoT growth for the foreseeable future. Last year, IoT growth was constrained by the COVID shutdown, and was especially acute with lower data usage in the aviation industry. As business activities have begun to normalize, we have seen a rebound of aircraft usage, which is helping to augment commercial IoT ARPU.

IoT ARPU was \$8.69 this quarter, compared to \$8.91 in the prior year period. The slight decrease in Q2 from the year ago period was caused primarily by the increasing proportion of personal communications subscribers, which use lower ARPU plans. Offsetting this trend was an increase in usage in aviation, which was also evident in the increase in ARPU from the first quarter. As we noted during our Investor Day in May, IoT ARPU trends should revert back to our long-term historical norm. The 20% revenue growth we saw in the most recent quarter supports our expectation that IoT revenue growth for the full year will be up materially from the off-trend 1% we saw in 2020 during the height of the impact from the pandemic. The return of air traffic is a key variable, as it removes a significant headwind we faced last year.

During the quarter, we added a record 98,000 net new commercial subscribers, driven by the surge in IoT activations. Commercial IoT data subscribers now represent 74% of Iridium's billable commercial subscribers, up from 71% in the year ago period. We estimate that consumer-oriented plans now account for nearly half of our commercial IoT users.

Commercial broadband revenue totaled \$10.6 million in the second quarter, up 25% from the prior year quarter. A rise in maritime activations drove this growth, though limited access to vessels continues to restrain the installation of Iridium Certus terminals. With more than 5,600 Iridium Certus terminals shipped to date by our manufacturing partners, we continue to expect strong broadband growth as travel restrictions lift.

Hosting and other data services revenues was \$14.4 million this quarter, down 7% from the comparable quarter in 2020. The year-over-year decline related to a revenue true-up in last year's second quarter related to usage by L3Harris.

Turning to our government service business, we reported revenue of \$25.8 million in the second quarter,

up 3% from \$25 million in the prior year quarter. This increase reflects the contractual terms of our long-term EMSS contract. Government subscribers grew 10% year-over-year to 153,000 in the second quarter.

Subscriber equipment continues to benefit from strong demand, rising 10% from the prior period, to \$21.8 million. As Matt noted, we have received notice from suppliers that equipment that was previously ordered is in short supply, and not likely to be delivered in the timeline that we had originally contracted. While we continue to work with our suppliers and explore alternative sourcing options, we now expect that full-year equipment sales will be below our initial expectations. We are also having to absorb some price increases that could compress equipment margins.

Engineering and support revenue, which is largely episodic, was \$6.8 million in the second quarter, as compared to \$7 million in the year ago period. We continue to expect engineering revenue to ebb and flow, and have recently experienced some delays that will cause our engineering and support revenues to be lower than our original expectations. In all, the second quarter was quite strong, as we saw demand for Iridium's services improve with a resumption of more normal business operations by our global sales partners. We remain optimistic that pandemic-related restrictions will continue to abate, and industries that have been hardest hit over the past year will increasingly see their business return to pre-pandemic levels.

This assessment gives us confidence in increasing our growth outlook for service revenue to between 4% and 5% in 2021. Due to the uncertainty with supplier constraints, and the resulting impact on equipment revenues and costs, and given the softer engineering revenue we now expect, we have not increased our guidance for operational EBITDA. We reiterate our full-year guidance for OEBITDA of between \$365 million and \$375 million.

Moving to our cash position as of June 30, 2021, Iridium had a cash, cash equivalents, and marketable securities balance of approximately \$219 million. Our strong liquidity is a key reason that our board authorized a share repurchase program earlier this year. In the second quarter, Iridium purchased \$63 million of common stock at an average price of about \$37 a share, leaving the company with a balance of [about] \$178 million in its \$300 million share buyback program. We will continue to be opportunistic in executing these repurchases.

Net leverage was 3.9 times OEBITDA at the end of the second quarter. This was down from 4.4 times a year earlier and includes the buyback during the first half of 2021. Our long-term target for net leverage continues to be between 2.5 and 3.5 times of OEBITDA. We anticipate that we will be within this target range by year-end 2022, even after giving effect to the maximum \$300 million share buyback.

Capital expenditures in the second quarter were \$9.8 million, and we continue to expect maintenance capex to be about \$45 million this year. We continue to expect pro forma free cash flow of approximately \$232 million this year. This is up 15% from 2020. We arrive at this level by using the midpoint of our 2021 OEBITDA guidance at \$370 million, and back off \$71 million in pro forma net interest, \$45 million in capex and \$22 million in working capital, inclusive of the appropriate hosted payload adjustment. This free cash flow reflects a conversion rate in excess of 60% in 2021, representing a yield of more than 4%. We continue to expect growth in pro forma free cash flow will outpace the rate of growth in OEBITDA this year. A more detailed description of these cash flow metrics, along with the reconciliation to the GAAP measures, is available in a supplemental presentation under Events on our Investor Relations website.

As you may have seen, we launched a repricing of our term loan yesterday, with indicative pricing of LIBOR plus 250 basis points, a 25 basis point improvement in the current spread, with a LIBOR floor of 75 basis points, down from the current rate of 1%. This pricing would represent overall savings of 50

basis points on our current interest costs, which would yield annualized interest expense savings of approximately \$6 million. We expect this transaction to close next week, and will be able to confirm details at that time.

This is the second time we've undertaken a repricing of our term loan in the calendar year. We think this demonstrates the strength of Iridium's business model, along with the acknowledgment from investors of the strong and stable recurring nature of our free cash flow profile. In light of the expiry of an interest rate swap later this fall, and the impending close of our current repricing transaction, we would expect pro forma interest expense of less than \$60 million in 2022, which represents a significant decrease from the 2021 level, and is approximately half of what it was in 2019, just two short years ago.

In closing, Iridium is capitalizing on many growth opportunities now that most of our business partners have reopened and returned to normal operations. We will continue to keep you informed on the supply chain challenges that we may face, but believe that we are navigating the current environment well, which will allow us to drive revenue growth this year, as we also generate incremental free cash flow for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star then one on your touchtone phone. If you're using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Today's first question comes from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss

Thanks. Good morning, guys.

Matt Desch

Hi, Ric.

Tom Fitzpatrick

Hi, Ric.

Ric Prentiss

Hi. Obviously, big quarter on the adds. A little overhang with the supply chain issues it sounds like. But if we think longer-term, you've mentioned in your Analyst Day, high-single digits for service revenue growth in 2023 to 2025. As we think about getting there from what we're seeing currently, how much of that is driven by pricing and how much is driven by quantities?

Matt Desch

When you say pricing, do you mean raising prices?

Ric Prentiss

Yes, just kind of ARPU, yes.

Matt Desch

Well, it certainly isn't about raising prices because we don't have to do that to achieve that kind of level. I'd say most of it is quantity really. Almost 100% is quantity, in terms of adding subscribers, new products that deliver additional revenues. The fact that we're moving more broadly into broadband at all different levels, in the multiclass level of all the products we have/offering, we're entering into broadband and into aviation. We're really increasing service revenues across the board in that area. So, it really is volume driven, and not a big change from the trajectory that we're currently seeing right now and expect into next year to get to that level.

Ric Prentiss

Okay. And on broadband pricing, it's obviously still a fairly small base, but the ARPUs bounce around a little bit in the broadband category. Is there seasonality there, or is it just as you're installing? I'm just trying to think of how we think about the Certus ARPUs going forward.

Matt Desch

Well, Certus 700 is the only service we offer today in maritime and land mobile, and we offer a number of different data packages based on time and data levels, etc. The general level of the amount of usage of our new Iridium Certus terminals is higher than what we were used to in the previous Iridium OpenPort timeframe. OpenPort still makes up the majority of our broadband revenues today, but that will be, quarter-by-quarter, overtaken by more and more higher-speed Certus terminals which deliver higher ARPUs.

So, in terms of bouncing around, higher ARPU Certus terminals will continue to dominate over a longer period of time. I think that's about the only way I can kind of look at it. There probably is a little bit of seasonality of usage in the summer, I assume. And so, I'd say because of the predominance of maritime right now, and the land mobile offerings, there's going to be a little higher seasonality in the, say, the second and third quarters particularly. So, that might affect things a little bit too.

Ric Prentiss

Makes sense. And in the past, we get a lot of questions about all the new LEOs, the space race with billionaires going on out there. Talk a little bit about where you're at, as far as maybe partnering or collaborating with these other LEOs, and how the L-band and Iridium services might play into what the future networks look like.

Matt Desch

Well, again, what is going on in these mega constellations in the Ka and Ku band is very different than what we do. I've called that commodity broadband services, offering really, really high-speed services from a larger antenna, in some ways to consumers, but even when it's in enterprise and government applications, these are through really large terminals that operate in very different applications than we either do today or ever aspired to do.

And in most cases, almost every service that we offer saying—I mean, I always use the example, we dominate in the cockpit of commercial airplanes, where the Wi-Fi system that is used in the cabin would be the kind of systems that those systems would compete over with the existing geostationary satellite systems that operate in the same frequencies of Ku and Ka band. So, very different services, I believe complementary.

And, yes, we are complementary to existing operators. When these new mega-constellations come in, our partners will be offering their services in complementary fashion with our services, in the same way they offer them today. So, it really doesn't affect, in many ways, what we do. As you know, we really focus on what I would call smaller, more highly-mobile battery-operated consumer devices and that kind of build – very small, smaller kind of vehicles, etc. And again, that's a completely different area that those

networks can't really address.

As far as partnering with them, we do have discussions with them. They all recognize that we're complementary. They talk about possibly having joint offerings together. We haven't announced anything like that. I would say that most of them are a lot more focused on just getting their networks in operation right now and a single, first service together. And I expect most of those kind of discussions will be more something that happens in the coming years, as opposed to any time real soon.

Ric Prentiss

Makes sense. Thanks for that extra color, Matt.

Matt Desch

Thank you.

Operator

And our next question today comes from Walter Piecyk with LightShed. Please go ahead.

Walter Piecyk

Thanks. I may have missed this in the prepared comments. I apologize if this was addressed. When I look at the quarter, that 20% growth in IoT specifically, obviously a very big acceleration, much higher rate than, I guess you could say, just an easy comp off of last year. But, Matt, can you just kind of talk about like where is that coming from, in terms of either products, distribution channels? Just peel the onion on that one a little bit, and how you expect that to play out over the next couple of quarters.

Matt Desch

Well, it's very broad-based, Walt. We have hundreds and hundreds of IoT partners, and all of them seem to be back to normal and performing very well in many, many industries, really across the board, from things like I mentioned, heavy equipment, to maritime, to scientific, to oil and gas a little bit of recovery probably, and really across the board. So, obviously, the biggest one, in terms of numbers, has been personal communications, and that is definitely up, though those are much lower ARPU subscribers.

But when you take the full collection around, there really isn't an area that is performing badly right now. And, of course, the big headwind they got last year, when you said an easy comp, was aviation, which really kind of dragged on that whole thing, and was the biggest reason why it was only sort of a 1% grower, and that has come back quite a bit. The majority of that has really sort of come back, because those airplanes are flying again and they're using safety services. And so, we're seeing really those revenues come back as well. So, it's really broad-based.

Walter Piecyk

Should we start to look at this as like a sequential revenue business? Obviously, there's a recurring revenue nature to this. This has been one of the higher growth, or the highest growth engine. I guess broadband will be a big one as well. Like is that the way we should start to think about this? And can you do you like steady sequentials, or will there be some quarters that the sequentials will be more aggressive than others?

Matt Desch

Well, it has been a strong sequential year-over-year growth business for us in the past. You go back, actually, 15, 16 years right now, but, I mean, go back to, as a public company, every quarter, I mean, every year we've been able to put on significant new revenues, and it's been very consistent, except for last year, was a little bit of a, obviously, because of primarily the second quarter and third quarter of last year, and aviation really, it took a little bit of a bite out of it.

But that has come back largely this year, as we expected, and with a lot of new products coming in to bear that are soon going to provide higher speeds, more capabilities. I mentioned the more partners that are being added into it, the more solutions that are being driven to it. So, I think the kind of success you saw this year will continue out well into the future. I've always thought that this was always going to be one of our biggest growth engines. Broadband might be a more immediate real opportunity because we started from such a small base on that front, but IoT is going to be a constant engine of growth for us.

Tom Fitzpatrick

Yes, and I would just add, Walt, that if you think about personal communications, right, so we have half a million subscribers. I mean, there's 3.5 billion smartphones in the world. This is an accessory to a smartphone. If you look at the penetration at wireless in the '90s, it grew by 50% year in and year out. So, the potential here is significant for what we think is a very long time.

Walter Piecyk

And I can just end on—Yes, I'm sorry. Go ahead, Matt.

Matt Desch

No, no. I would just mention, I know I didn't really say it, I sort of said it a bit in my script, but I really think putting up almost 100,000 subscribers this quarter was really quite an eye-opener in some ways for us, in the sense that that was such a record, but it really doesn't feel unusual to us anymore. It was only a couple years ago that would have been a good full year. That probably is not going to be that unusual a second quarter for us in the future. And I think with the potential that these increasing number of partners that we see, and the discussions and activity we see, that could be a level mark down the road here. So, it's strong business to be part of.

Walter Piecyk

And then just lastly, I guess, on share repurchase. Any kind of thoughts on how we should expect—I mean, another solid quarter relative to last quarter, but free cash flow was kind of ramping up. It looks like your capex is under-pacing. Just kind of your thought process on share repurchase as we hit the second half of the year, and any new thoughts on whether dividend is going to be a part of the capital return policy.

Matt Desch

Well, you have to tell me what the stock price looks like it's going to be in the next coming weeks here, and months, and then I'll tell you how much we'll buy. I mean, obviously, we're being opportunistic, right, Tom, and this is, I think market's been down a bit, and obviously we've continued to buy at different times there. And we've talked about the envelope which the board has approved, and we'll keep working within that right now. But I just would expect that if the market improves, you won't see quite as much, at least in the near term, but continues to give us opportunities, we'll take them.

Walter Piecyk

And then thoughts on dividend?

Tom Fitzpatrick

As we said in the Investor Day, Walt, it's on the menu. We'll consider at the appropriate time. Right now, we're focused on the buybacks, but dividends aren't out of the question down the road.

Walter Piecyk

I mean, hopefully it's not – just feedback – not opportunistic dividends, because I think investors prefer to see, if and when you start this thing, regular growth, as opposed to saying like, well, our stock has

rallied, so we'll drop a dividend this quarter versus none. I think, obviously, regular dividend and growth is going to be what investors will prefer, and new investors even.

Tom Fitzpatrick

Right. That's how we think about it. So, certainly, the primary concern is that any dividend we put on the stock, we want to be sure that it is sturdy through the next capital cycle, the next time we have to replace our constellation. And so, as time passes, we get greater clarity on what that looks like. Then eventually, we think—

Walter Piecyk

Oh, that's a long ways off. Okay, I got it. Thank you very much.

Matt Desch

Yes. Thanks, Walt.

Operator

And our next question today comes from Greg Burns with Sidoti & Company. Please go ahead.

Greg Burns

Good morning. Can you just give us a little bit more clarity on how the supply chain issues might impact IoT activations in the second half of the year?

Matt Desch

Right now, we don't think it's going to impact our growth much in the second half, in terms of activations, and obviously service revenue, because we called that up for the year because most of our partners have the devices they need in the next quarter or two, or certainly in plans to get their current products fulfilled and everything with their customers. So, I really don't think it's going to affect too much.

The bigger issue we had more was, could we contain it? This is something that a couple, really found out about it about a month ago, and I'm really fortunate to have such a great supply chain team who jumped on this thing really hard, working closely with our supplier, getting increased allocations from what we originally feared, I think, and kind of constrained this thing to primarily two quarters, the third and the fourth quarter, in terms of sort of reduced shipments to them.

So, it is affecting some equipment revenues for us the second half of this year. As I said, we'll really be caught up pretty quickly in the first quarter of next year, so all the growth requirements that everyone has. We were fortunate to go into this with a bit of inventory on hand. So, we're using that as well to fulfill our partners' requirements in the next quarter or two.

But there's a few we're going to have to allocate a little bit, which is, as I said. It's frustrating because we and they are doing so well right now, and we don't want to hold anybody back. So, I think it's going to a bit of a blip in the road, in terms of our overall growth, but it's one of the reasons why can't call it up yet until we see exactly how that all plays out.

Greg Burns

Okay. And then in the voice and data, obviously, a nice snapback from last year in terms of seasonality, but even so, the net adds were probably the highest I've seen since I've been covering the company. Has there been any other change in that market that, maybe from a competitive perspective, that is driving stronger demand for your services?

Matt Desch

Well, I think our portfolio, as I said – it's the best first half in nine years. I think we have a really great portfolio of products. For example, had really good activations of our GO! product this year. Iridium GO! has performed very well. People, I think, are really appreciating sort of its potential.

The other one is PTT. I mean, PTT has been very strong. We introduced that a number of years ago. It takes time, because it's a more complicated sale, because you're selling that to a workgroup, or a government, or agencies and everything, and they need to integrate it into their service portfolio and in their systems. But more and more of that's happening around the world, and so PTT has been really strong in the last six months as well.

And obviously, people returning back out is also an important driver. As you can see, people appreciate sort of the value of the service wherever they are. Everybody wants to get out and socially distance, I guess. They're using their satellite devices. It has been strong.

Greg Burns

Okay. And then, in terms of in the maritime market with the different levels of Certus offerings, in terms of the 200 and the 700, how are those products differentiated in the market? In fact, like I'm thinking like in terms of like what applications are they more used for, and is 200 potentially going to cannibalize some of the 700? Like how should we think about the dynamic of demand for 700 versus 200?

Matt Desch

Yes, obviously, they're two different speeds. The 200 is very small, and offers about—I mean, it's called 200 because it's about—200 kilobits per second-type service, which is good enough for many applications, and a lot of lower end, more price sensitive kind of applications that aren't really going to use service all that much, like the fact that it's a lot less expensive terminal, like half the cost. And therefore, it might be used for that. It's going to be used in some VSAT companion applications where they just want to really even reduce the cost further for the L-band component. As I've said before, almost every VSAT terminal seems to go out there with one of our L-band terminals on it, at least if it's anybody but one K-band provider.

And then the 700 kilobit per second unit obviously provides a lot more speed. It's a little more expensive, but it's a lot more competitive to those standalone applications you might want to have, where you really want a pay-as-you-go kind of service, as opposed to an always on VSAT unit. But even if you wanted a premium backup to your VSAT unit, which will provide a much more comparative kind of service to it when you can't use your VSAT terminal, or it's out of coverage, or it goes into more northern or southern hemisphere coverage areas, or whatever the reason might be, it provides even a higher level of service.

So, our partners see that both of them are going to be heavily used in their portfolios. They don't see really one over another. I will say, I believe that, long term, the Certus 200 product will cannibalize our OpenPort units which, I will say, have been holding up much better than we, I think, thought a couple years ago. We thought a lot of people would probably replace those OpenPort units with Certus, but many of them are still out there in the field. As I said, almost 9,000 are still out there. But as they do come up for replacement, I think the Certus 200, for those who are really, really cost conscious, will be a great replacement choice for them.

Greg Burns

Okay, thank you.

Operator

And our next question today comes from Chris Quilty at Quilty Analytics. Please go ahead.

Chris Quilty

Thank you. First a question for Tom. With the higher anticipated service growth rate, but not raising the full-year EBITDA, is it fair to assume that all of that is related to the lower engineering services, and potentially lower revenues and margins on the equipment side, or are there other factors in play?

Tom Fitzpatrick

Yes, it's those two, Chris.

Chris Quilty

Okay. And then, Matt, a question for you on the personal communications. Obviously, the big anchor there is Garmin, and I think nearly all of those products today are the sort of handheld GPS-type of units. So, two questions here. How do you see that broadening out in terms of customer concentration? And number two is, what do you think is the next major class of products beyond handheld GPS that becomes a large unit volume market?

Matt Desch

You know, I understand where you're going. Obviously, Garmin has embedded us into more and more of their products, and has plans to, I believe, introduce other products based upon our services. And as I mentioned, today, they just kind of signed a deal to embed Iridium Certus technology into their products in a very integrated way, much more than you might expect. And that will create even new opportunities for additional products that use higher speeds, and can transfer pictures and that sort of thing much more easily than you can today with the current lower-speed devices.

So, I'm looking at a lot of opportunity for growth from Garmin in the coming years. I really would hate to start trying to describe what they should really describe, in terms of their product plans and how they plan to address different markets. I do know they also continue to look to expand geographically as well. They're very adept and effective at managing that consumer-focused business, and they do that carefully around the world in ways that are advantageous, and that also drives some growth. So, I think that's what's exciting, but I don't really want to try to analyze their business for you here.

Chris Quilty

Got you. And final question just on the service margins here. Given some of the mix issues that you see going on, is it fair to assume that they stay around the 80% level, or do you see any room for expansion?

Matt Desch

In terms of service revenue percentage of our portfolio?

Tom Fitzpatrick

There's no incremental variable cost from one product to the next. It's just network utilization. So, I think, if you're modeling 80%, I don't see a change in that.

Chris Quilty

Perfect. Thank you, gentlemen.

Matt Desch

Thanks, Chris.

Operator

And our next question today comes from Hamed Khorsand with BWS Financial. Please go ahead.

Hamed Khorsand

Hi, good morning. So, first off, I just wanted to see if this growth that you've seen in Q2, was that a lot of built-up backlog that a lot of your partners were able to clear out, given the reopening after COVID?

Matt Desch

I don't know that they characterize it to us that way. I believe a lot of them were meeting their backlog going back, even into late last year, as we started seeing this growth really not just in the second quarter, but it was building in the third quarter of last year, or the fourth quarter, the first quarter. I just think as we hit the tsunami of seasonality and a number of our business areas, full growth in some areas, new products coming on, all these things are coming together to get us back to what I would call more traditional year-over-year growth rates. And that's what I think you saw in the second quarter.

I don't think it was some unexpected backlog flowing out. Perhaps a little bit more in the broadband. I mean I know that there is sort of a pent-up backlog of Iridium Certus terminals to go on to ships. And obviously, we saw some of those start getting on to ships in the second quarter, but I don't think that that's complete yet either. So, I think [indiscernible] sort of natural growth.

Hamed Khorsand

Okay. And then on what you've been seeing on the IoT front with the component shortages, is that going to cap your revenue in some capacity? Because you're still raising service revenue. So, I'm just trying to understand, are you just expecting just growth to slow down compared to what you achieved in Q2?

Matt Desch

So, it relates specifically to equipment revenue. We had expectations at the beginning of the year for a certain level of equipment revenue. I will say the demand has far outstripped what our original expectations were. And while we can meet some of that demand growth in certain areas, this one component will slow us down a bit in IoT modules in the third and fourth quarter, so that we can't meet all the additional growth that we're getting from those IoT partners in the way we'd like to. Still, a lot of it, and I don't think—we're not going to be way, way off, but it will affect equipment revenues.

I would say we would definitely have had an up year in equipment revenue without this, but that now doesn't look like that's going to necessarily happen. Though we'll see. I mean, we're really, as I said, we're still working to maximize the revenue right now, and we'll be able to report a lot more on that in the third quarter about exactly where we were, or where we think we'll end up.

Hamed Khorsand

Okay, thank you.

Matt Desch

Yes, thanks, Hamed.

Operator

And our final question today comes from Mathieu Robilliard with Barclays. Please go ahead.

Mathieu Robilliard

Yes, good morning and thank you. First question maybe on maritime. Can you give a little bit of color in terms of how the competitive environment has evolved, I mean, from legacy players, or from more recent player? Any change that is worth flagging?

Matt Desch

Well, we've obviously gotten very strong in the last year or two with both products and almost every category that are better, cheaper, work more places of the earth, etc., and we're only making that even

more dramatic with now adding Certus 200 maritime products this year. There'll be [Certus] 100 products in the maritime market. GMDSS is now fully certified and expanding. In fact, we'll report on it in the probably coming quarter, but there's one country that needs to certify Certus terminals, and they should be certifying that soon. All these things are adding up to probably the best competitive position we've ever been in.

And the response to this, of course, there is a little bit of response, but there can only be so much, I think, a really strong position across the board. And so, it's showing up in our results. We're getting growth in maritime. I mean, others aren't and are struggling in those areas. And, we're taking share. And I think that's the strong position we're in. So, I don't think that's going to change dramatically. In fact, if anything, we're stepping on the gas everywhere we can to even compete more effectively.

Mathieu Robilliard

Thank you. And second one was on aviation. You mentioned some progress on different fronts, in terms of being ready to launch the Certus product in that segment. Any update in terms of when you think you can be in the market commercially with that product?

Matt Desch

Yes. If the partners continue to progress the way it looks like they are, could be hitting the market late this year, or certainly in 2022. We've had some of their terminals now into our labs for testing to make sure that the antennas work well with our network, and they seem to meet our network requirements. So, looks like they're in sort of the finishing up of their products right now. And as I said, they're going to be—I'm really excited about the potential of them because they're quite small, in terms of being able to offer the speeds and capabilities they are, and I think they'll be able to fit on a lot of aircraft that previously wouldn't have gotten that kind of capability before, whether it be rotorcraft, or general aviation, or corporate aircraft, certainly commercial as well.

And in parallel, we have to also deliver this safety capability, a safety certification, so that these terminals could be used on commercial aircraft in cockpit applications for safety. We're making good progress this year on that, and are on track to get those certified, to be allowed to have those things certified when they're coming in 2022 and 2023. So, it's taken a long time to get there. And really excited about it. As I said, there's a number products that will be here in the coming quarters.

Mathieu Robilliard

Sounds great. And then maybe last question, which is a bit more long term. But, obviously, the capacity of your satellite [indiscernible] is limited. And so, I guess the maximization of revenues is a mix of volume and ARPU. And I think back in 2019, you had kind of said, well, we think, based on our internal assumptions of how much we charge for capacity and what the volumes are, that we can generate maybe \$1 billion of revenues in the long term with this fleet. And I guess the question was, how have things developed? I mean, can you comment a bit in terms of how has the mix between volume and price per megabyte evolved? Is that in line with what you guys were seeing, or are we seeing more higher prices or higher volumes? Just maybe some color there.

Matt Desch

Yes. I can't reproduce my complete discussions, so I encourage people to go back and look at that Investor Day discussion where I sort of made that summary. That was more of an anecdotal summary at the time, but it was based upon a number of assumptions, based upon all the new products we're offering, the growth that we were expecting, and the different kinds of mix. For example, extremely efficient and personal consumer products, versus a little less efficient broadband products, and how they'd operate around the world.

The other part of it, too, is that we are doing a lot of development right now to mine a lot of capacity out of our existing network. We're redesigning our existing satellite software and gateway hardware to basically, significantly improve the capacity of our system in the coming years.

So, all that being said, that led me to believe, just anecdotally, let's say we could at least do, say, a billion dollars, and our view hasn't really changed. Nothing, in terms of the growth track we've been on, or anything we've seen in terms of all those variables over the last, I don't know, two years, or whatever it was since we said that, really has changed the trajectory of what we think this network is capable of.

So, definitely think we have a lot, a lot of growth left, a lot of cash flow, a lot of earnings growth to come from the network, and a lot of new subscribers, including, I'd say, we're even more bullish about the personal communication space than we might have been even back then because of some of the things we've seen. And again, those are incredibly efficient applications. Sending, say, text messages across our network uses very little of our network based upon sort of the cost per transaction. So, if those expand as well as we might think, that makes me even more bullish about our long-term potential.

Mathieu Robilliard

That's very helpful. Thank you, guys.

Matt Desch

Okay, thanks, Mathieu.

CONCLUSION

Operator

And, ladies and gentlemen, this concludes our question and answer session. I'd like to turn the call back over to the management team for any final remarks.

Matt Desch

Well, I get to go and find out how the Blue Origin launch did. I hope you've all been watching that in the corner of your eyes. Nobody told me anything happened, so I'll look forward to seeing another progress in the space industry around us. But thanks for joining this call, and look forward to seeing you all in the third quarter. Take care.

Operator

Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.