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# EDITED TRANSCRIPT

IRDM - Q1 2016 Iridium Communications Inc Earnings Call

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## PRESENTATION

### Operator

Welcome to the Iridium first quarter 2016 earnings conference call. My name is Sylvia and I'll be your operator for today's call. (Operator Instructions). I will now turn the call over to Ken Levy. Ken, you may begin.

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### Ken Levy - Iridium Communications Inc. - IR

Thanks Sylvia. Good morning and welcome to Iridium's first quarter 2016 earnings call. Joining me on today's call are Matt Desch, our CEO and Tom Fitzpatrick, our CFO. Today's call will begin with a discussion of our first quarter results followed by Q&A. I trust you've had an opportunity to review this morning's earnings release, which is available on the Investor Relations section of Iridium's website.

Before I turn things over to Matt, I'd like to caution all participants that our call this morning 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 the forward-looking statements. Such risks are more fully discussed in our filings with the SEC. 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. 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 a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures. With that, let me turn things over to Matt.

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### Matt Desch - Iridium Communications Inc. - CEO

Thanks, Ken. Good morning, everyone. It's been about two months now since our last call and we continue to make good progress on our business objectives and on Iridium NEXT. I want to start by providing an update on our satellite and launch program and then we'll provide an overview of our quarterly business performance.



Our first launch with SpaceX remains our near-term focus and there's lots of excitement on our end as we're seeing all the pieces of the Iridium NEXT program come together. Our team continues to rehearse launch scenarios to prepare for satellite deployment and qualification testing on our first few satellites that's now been fully completed. Satellite qualification both validates the functionality of the Iridium NEXT design and confirms the reliability and consistency of the manufacturing process.

In all, we will produce 81 satellites for Iridium NEXT and to meet our production rates, the satellites need to move efficiently from parts and sub-assemblies to a high quality manufacturing process that quickly and carefully assembles each satellite, load software, and completes final testing. Iridium NEXT's assembly line approach to satellite construction is unique. I know some of you had the chance to visit Orbital ATK's satellite manufacturing facility in Arizona during last year's Investor Day and see the production line for our satellites.

Compared to then, it's really hopping now. The activity and organization of the assembly process is truly impressive particularly now that they're starting to hit their stride. Similar to an auto assembly line, Orbital and Thales Alenia staff are both integrating components and doing environmental testing at this state-of-the-art facility. There are 18 stations through which every Iridium NEXT satellite passes, each station contributing a number of important steps. Each satellite is expected to progress through these stations from start to finish in about 60 days. It's taken a lot of preparation by Thales and Orbital to design and achieve this flow and we're enthusiastic about the results we're starting to see as production ramps up.

To date, Thales Alenia has completed two satellites and is days away from certifying a third with a dozen more currently going through the manufacturing process. Of these, 10 will be shipped to SpaceX for our first launch. Orbital ATK continues to ramp its resources and production rate and expects to manufacture at least five satellites a month by July, which will allow us to achieve our launch cadence. That's really an amazing pace and means that a finished satellite will roll off the line on average every week.

On the launch side of the equation, our mission team continues to organize and collaborate with SpaceX on launch activities. Training for deployment is ongoing and our team is methodically running through simulations to ensure they're ready to successfully deploy and position each satellite as it comes off the rocket. SpaceX is on schedule with its launch preparations for Iridium NEXT. They have another six launches or so planned before our launch, including one at Vandenberg.

By the way, there may be some confusion about customer sequence on launches, so I wanted to address this. I think some assume that if a SpaceX launch get delayed, every launch down the line necessarily also gets delayed. That's not the case for us in part because Iridium NEXT launches out of Vandenberg, which does not have a crowded manifest and because of industry practice in which launches routinely swap spots based upon their payload readiness. So there could be six launches ahead of us today and even if some of them gets delayed, we would still be able to launch very close to our target with SpaceX independent of other launches in the queue as long as our satellites are ready to go.

Of course, we were encouraged to see another successful Falcon 9 launch earlier this month and we're impressed as I'm sure you were with the successful landing of the rocket's first stage on a drone ship. There is another SpaceX launch targeted for next week as well. Overall, we continue to feel very good about our choice of SpaceX as our primary launch provider. We continue to eye late July for our first satellite launch. We'll have a better sense for the exact launch date as we get a little closer and we'll let you know the date as soon as we can. By the way, if the date did have to move from late July given how well things are going, it would be a matter of weeks at most. Overall though, everything is looking green to go and we're getting excited about starting the deployment of our new network.

Moving on to business results. The first quarter is traditionally a slow one for Iridium, but that did not stop our service revenue from growing 6% on the back of the strength of our business with the US government. Macro headwinds and currency effects, both of which we've discussed previously, restrained growth in our commercial service business and are expected to persist throughout the calendar year.

All in all, we reported strong operational EBITDA growth of 16% in the first quarter. Tom will have more detail on this shortly. Our subscriber base grew 5% compared to the year ago period adding 40,000 net users to reach 788,000 total billable subscribers in the first quarter. That's slower than we like and are used to, but it's a reflection of the broader global economic challenges particularly in the energy sector. Despite these headwinds, we're not standing still. We still have the best M2M product in the industry and that's only going to get better with Iridium NEXT. We've taken a number of management actions to expand our partner base and assist our existing partners in their sales efforts and are working to reach new industries to continue to diversify beyond the existing subscriber base.

We continued our strong year-over-year double-digit subscriber growth with the US government, reaching a record 75,000 users in the quarter. We're working on a lot of projects with the government that could lead to incremental subscriber [growth]. This all bodes well for our ongoing relationship with this customer in future contract discussions around new agreement in 2018. Our new Push-to-Talk offering continues to get great reception including being recognized as a Top Emergency Response Innovation by the Mobile Satellite Users Association earlier this year.

Based upon feedback, we anticipate several thousand PTT handset sales this year, which is a strong start. Adding to demand is the increasing availability of interoperability boxes that allow our satellite PTT service to integrate with existing terrestrial emergency and safety radio networks. We will have three of those solutions available this year, helping to extend Iridium PTT's addressable market and simplify customers operations.

One of the most important development projects for the future continues to make good progress, Iridium Certus, our new broadband offering coming with Iridium NEXT. By this time next year, we expect to have the first commercial products in the field and we expect them to be very well received by the market. Just to remind you how important this is, Iridium Certus will be lower cost, provide better coverage, and offer higher throughputs than competing L-Band mobile satellite offerings. Our first Iridium Certus offer will deliver 350 kilobits per second with the ability to be software upgraded in the field to enable at least 700 kilobits per second.

Iridium Certus will ultimately support multiple tiers of products from low cost, small form factor devices that operate at 88 kilobits per second up to larger terminals that eventually will offer data speeds up to 1.4 megabits per second. That's a better deal than our competition. Beyond higher data speeds, Iridium Certus will also be integrated into products with Iridium's other unique services like PTT and Iridium Burst. We also expect Iridium Certus to be approved for both aviation and maritime safety communications.

In maritime, there are natural advantages to our L-Band technology, which allow our services to be sold as a complement to high throughput VSAT services. L-Band is used for safety services and is less susceptible to rain fade than shorter wavelengths. Further, Iridium delivers true global coverage, which can be used standalone on a ship or fill gaps in VSAT service. Once deployed, we believe Iridium Certus will enjoy a sustainable advantage as a complement to VSAT, which offers us great upside given our relatively small market share in maritime today.

In light of recent news coverage on the expanding cabin connectivity war going on in aircrafts. I'd like to also distinguish Iridium Certus from the many Ka and Ku-band offerings, which are anticipated to flood the market over the next few years. There is a lot of broadband capacity entering the satellite space and investors should know that we view Iridium Certus as complementary to the adoption of VSAT for passenger connectivity rather than competing with it. Iridium Certus is optimal for aircraft safety and airline operational communications. This market niche is heavily regulated and increasingly reliant on L-Band spectrum.

We believe Iridium Certus will be the best performing and best value L-Band product when it enters that market and will be differentiated from the Ka and Ku-band services targeting Wi-Fi for passengers in the aircraft cabin. With all this, Iridium's LEO network will provide advantages in power, weight, and size for vehicle mounted applications and of course will be the best service and maybe the only service for use in battery powered applications in remote environments. We're excited about this unique positioning and differentiation of Iridium Certus products.

You'll be hearing a lot more about Iridium Certus later this year as our new VAMs announced the Iridium Certus products they are developing and as we announced the service providers we've chosen to sell these into the market. Just as a reminder, our VAMs are Cobham, L-3, Rockwell Collins, and Thales and we're pleased with their investment and development plans.

Finally, Aireon continues to make strides. During our February earnings call, I discussed their new 12-year data services agreement with the Civil Aviation Authority of Singapore, its first Asia-Pacific customer. They are progressing nicely with other long-term contracts and should have more to announce soon. In general, Aireon is ahead of schedule on signed contracts and with eight full-term contracts it's already signed, I can report that the company will be cash flow positive in its first full-year of service delivery. This is an important factor as they plan a capital raise to finance their hosting fees.

I'm also pleased to report that the Senate recently passed the FAA reauthorization bill which contains very specific language requesting the FAA to ensure it has the capability to receive space-based ADS-B data in 2018. A separate Senate bill provides the FAA with the continued funding to be ready to do so. Though these bills have yet to be enacted into law, these developments emphasize the importance the Senate places on the

FAA providing state-of-the-art capabilities in US oceanic airspace to both US air traffic controllers and US airlines and continues to give us confidence that the FAA will move forward on Aireon in a timely manner.

Iridium's investment in Aireon is often overshadowed by our work on Iridium NEXT, but I cannot emphasize enough the meaningful value creation this investment will bring our shareholders. I look forward to our next call in July to report out on our launch activities. We are centrally focused, getting ready for that, and feel very good about the Iridium NEXT program, and the business opportunities that it will offer. I also am excited that the completion of Iridium NEXT is only about 20 months away, which will bring to fruition the financial and network transformation we have committed to deliver to our business partners and our investors. So with that, I'll turn it over to Tom for a more detailed financial review.

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

Thanks, Matt and good morning, everyone. I'll get started by summarizing our key financial metrics for the first quarter, then recap the 2016 and long-term guidance we affirmed this morning. I'll close with a review of our balance sheet and capital structure and finally provide an update on our launch insurance placement.

Iridium generated first quarter total revenue of \$104.2 million, which was up 7% from last year's comparable quarter. Revenue growth was fueled by strength in government service accompanied by increases in equipment sales and revenue from government sponsored support projects. Operational EBITDA was strong at \$60.7 million, an increase of about 16% from the prior year period. Our operational EBITDA margin also strengthened this quarter to 58% from 54% a year earlier.

From an operating viewpoint, we reported commercial service revenue of \$57.8 million in the first quarter, which is about 1% higher than the prior year's quarter. This reflects the headwinds we spoke to in our February call. We continue to expect that the strong US dollar and global economic weakness in key industrial sectors will restrain commercial growth this year.

During the quarter, we added 3,000 net commercial customers with the gain coming entirely from our M2M business. Commercial M2M data subscribers represent 51% of billable commercial subscribers, an increase from 49% during the year ago period. In our commercial voice and data business, net subscriber growth was in line with last year's comparable quarter while M2M net subscriber growth was weaker than in the year ago period. We note that in the first quarter, three oil and gas related service providers had materially higher net deactivations than in the year ago period.

Partially offsetting this was the increasing rate of subscriber growth from our personal locator and heavy equipment customers. While heavy equipment subscriber growth is accelerating, the rate of increase is less than we had previously expected. We believe these customers are a bit preoccupied with current challenges in their own businesses. We will continue to monitor these trends in coming quarters.

In general, we're having great traction in penetrating the heavy equipment space as well as signing up new partners in M2M to further expand and diversify our footprint. We remain quite confident of our long-term growth prospects in this area. Year-over-year commercial voice and data subscribers decreased about 1% while voice and data ARPU held steady at approximately \$40.

Our government service business reported revenue of \$22 million this quarter, representing a 22% increase from the prior year period. Government subscribers again grew at a rapid clip rising 19% year-over-year. Total US government customers reached a record 75,000 this quarter driven in part by M2M growth of 26% from the prior year quarter. We continue to believe these subscriber trends reflect well on the value that Iridium technology and services bring to the US government. They are our largest customer and we look forward to meeting their ongoing needs with enhanced capabilities through Iridium NEXT.

Moving to subscriber equipment, we reported revenue of \$17.6 million in first quarter. This was up 6% year-over-year and driven primarily by sales of our recently introduced Push-to-Talk handsets. Equipment margins expanded considerably from last year, coming in at 40% compared to 36% in the prior year's quarter. We continue to expect that low manufacturing costs in certain product lines will keep equipment margins in the low-to-mid 40% range.



Engineering and support revenue was \$6.8 million in the first quarter, up meaningfully from \$5 million in the first quarter of 2015. This increase was principally driven by the continuation of government sponsored projects that kicked-off late last year. This morning we also affirmed our full-year 2016 guidance as well as our long range financial outlook. Our first quarter results were largely in line with our forecast. The government business is expected to continue to serve as our growth engine this year with the EMSS airtime contract adding \$13 million to total service revenue. This step up along gets Iridium to the low-end of our full-year growth target of 4% to 6%. Commercial service may also provide incremental revenue as the year unfolds.

Moving to our balance sheet and liquidity position. As of the end of the first quarter, we had drawn approximately \$1.6 billion from the COFACE facility and had a cash and marketable securities balance of \$412.1 million. This quarter, we adopted FASB's ASU 2015-03, which requires the debt issuance cost be shown as a direct deduction from the carrying amount of the debt liability. Accordingly, the \$1.5 billion shown as credit facility net in this quarter's 10-Q from March 31, 2016 reflects our drawn amount under the credit facility of \$1.6 billion, net of \$0.1b of deferred financing costs. This re-classification under a newly issued FASB standard has no impact on other elements of our financial statements. Our financial guidance for peak and net leverage continues to be calculated without deducting deferred financing cost.

Finally, our placement of launch insurance continues to proceed on schedule. We have now bound nearly 100% of the insurance for our first two launches on SpaceX and expect to be fully bound in a matter of days. We continue to believe the total launch insurance costs will not be materially higher than the \$125 million we previously quoted.

In wrapping up my thoughts, I want to echo Matt's sentiments. We are very excited for the first launch of Iridium NEXT. Since we announced our plans for the new constellation in 2010, we have retired significant risk and brought to life the blueprint concept of Iridium NEXT. With just a few short months until our first launch, I'm very proud to be part of the Iridium team and very optimistic about the financial growth that we realize with the deployment of our new constellation of 66 operational satellites. With that, I'll turn things back to the operator for the Q&A portion of this morning's call.

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**Ken Levy** - Iridium Communications Inc. - IR

Sylvia, if you'll open up the lines for investor Q&A please.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now begin the question-and-answer session. (Operator instruction) Greg Burns, Sidoti & Company.

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**Greg Burns** - Sidoti & Company - Analyst

I was wondering if you could just comment on the DoD's MUOS network, how that might compete with Iridium's constellation and how it might affect your current negotiations with the DoD?

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**Matt Desch** - Iridium Communications Inc. - CEO

Obviously, I know why you're asking the question from something that was written a couple weeks ago, which was overall just a piece filled with inaccuracies and mischaracterizations et cetera, by which that was only one, but specifically MUOS was something envisioned back in 2002. I think back then was expected to be delivered long before today and do something a lot closer to what Iridium does today. The general view today is that when it's implemented -- I mean and that's really more like 2018 when they really start delivering devices for it, which doesn't even include a handset at this point, there's no plans for that at this point, that it's not really competitive any longer to us.



I think if you talk to the MUOS group at the DoD et cetera and others, they see us more complementary these days that what they're doing and what we're doing is really much more in line. We have better coverage, we do different things, we have different services, we have smaller devices, we do machine-to-machine, we do handheld voice services et cetera. The idea that somehow that that changes our trajectory in any way really would be -- is not just surprising to us, but would be surprising frankly to the DoD and is pretty reflective in how they're continuing to invest heavily in what we're doing with all the plans we have together with them. That's sort of reiterating sort of something that might have been said maybe 10 to 12 years ago, but would never be said today, so.

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**Greg Burns** - *Sidoti & Company - Analyst*

Okay, thanks. And in terms of Aireon, are they contractually obligated to deliver the hosted payment to you by a specific date?

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

Well, the receivable is due in tranches and it bears interest. Their duty if you will is to pay us when it's financially possible for them to raise the debt in order to do so and so that's their obligation under the contract.

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**Greg Burns** - *Sidoti & Company - Analyst*

Okay. So there's no specific date that they have to go to market [comes by].

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

Just that they need to go to market when it is practical.

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**Greg Burns** - *Sidoti & Company - Analyst*

Okay and in terms of getting Aireon operational. Aside from putting the hosted payload on the satellite and getting it in the sky, I mean, how do they move to commercialization or operational viability once the satellites start going up? Do they begin testing once the first few satellites go up and then they'll be ready once the full constellation is up or how do they begin delivering service?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Yes, it's a good question. They actually have been in conjunction with the payloads being developed, have been finishing their ground network, their back office billing systems, their operation systems, and those frankly today are being tested thoroughly. They're running their own test scenarios. They're actually literally tracking aircraft through their ground systems and practicing all the things they need to be ready. They've hired and developed an operation staff and frankly are doing all the things they need to do. They have operational plans underway with those initial customers and are starting to implement the servers necessary to deliver the data to them et cetera.

When we start launching satellites this summer, there is a period in which we position the satellites and check them out and do payload testing and then at a period of time, I forget how many days, it turns out to be after launch and these satellites are ready, then we allow them to start controlling their payloads and getting their data and managing their system et cetera and when that starts happening, they will be tracking aircraft and we'll be running it through their systems including testing billing systems and operational systems and all the things that they're doing. They're all ready to go there. It's a very integrated plan with our team. So that will start shortly, I would say, more than a few weeks I think after initial launch, maybe more like a month and a half, two months something like that, but then their data really starts flowing. Our first satellites actually are planned to all go into operation. All 10 will go into operation.

We had a number of scenarios. Currently right now, we expect to put all of those into operation and not have to drift any of those. So they'll have 10 payloads pretty quickly in a single plane providing relatively real-time continuous service over periods of time and they can demonstrate that to all their customers and they can practice with that and do everything, but it's really as the network then gets built, they'll get more and more data. Finally when the network is completed in late 2018, they will really have a complete network and can start providing operational paid for service in 2018. That's our current plan.

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**Operator**

Andrew, Macquarie.

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**Andrew Degasperi** - *Macquarie - Analyst*

Great, thanks and good morning. First, there seems to be kind of some confusion as to if there is a timeline on de-orbiting the satellites in your current constellation. Can you comment on that? And I have a follow-up.

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Yes, that obviously comes from that same piece and it surprised the heck out of us since there's no type de-orbit mandate from the FCC exists. I think what that was conflated as best as I can do is taking from the fact that our existing license was extended back in 2010 or 2012 to an arbitrary date of January 31, 2018 with the FCC and because we thought that was a reasonable date to just pick at that time and still is a good day, but really we want to extend that date out further.

We just put some paperwork and that's a normal routine operation for a satellite operator and given everywhere we're at, we're going to do that. So that FCC license that we have has absolutely nothing to do with any kind of de-orbit or actually any kind of operational aspects of our existing network, which we control independently and we have lots of fuel and frankly could go a number of years beyond even after 2018 if we wanted to with those satellites, but really have no desire or interest too.

So when the appropriate time comes that we choose to de-orbit those, we'll choose to de-orbit those on our time schedule and we'll try to, by the way, de-orbit those quite quickly because I think that's just good business practice and the right thing any satellite operator should do once they are finished with their assets in space. So absolutely no truth or relevance to that statement that was made in some forums.

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**Andrew Degasperi** - *Macquarie - Analyst*

Great and secondly, the FX and energy markets seems to be stabilizing. What are you hearing from your wholesalers right now?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

From the wholesale suppliers about the general -- you mean on oil and gas specifically or in general?

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**Andrew Degasperi** - *Macquarie - Analyst*

Yes, generally, and also maybe your customers as far as the, you know, in another countries as far as FX headwinds, I mean is pricing improving [relative to today]?



**Matt Desch** - *Iridium Communications Inc. - CEO*

I would say, we're still in sort of the same mode we were in last year. I don't think it's getting worse and I think most of them have accounted for the pricing changes that they have et cetera and we factor that all -- obviously all into our guidance and feel good about it. So it hasn't gotten significantly worse, but it's also not gotten significantly better in any case right now.

I think everybody is hopeful there'll be a turnaround but nobody right now is projecting exactly when that will be and what that will do to say oil and gas service vehicles that have all been put away. I don't think they're flooding back out anytime sooner or our partners are expecting at least this year to see those reactivated and put back online or for that matter the heavy equipment or transportation sectors that are also as you know experiencing the same kind of headwinds and are slowing down. I think that's all factored into our expectations right now and it doesn't seem to be getting worse and I'm hopeful it's getting a little bit better, but I don't think that that kind of plays back immediately into our business results.

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**Operator**

James Breen, William Blair.

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**James Breen** - *William Blair - Analyst*

Thanks. Just a couple questions. One, what gives you confidence in sort of the long-term financial targets that you laid out and how are you going to achieve those targets? Then I have a follow-up. Thanks.

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

Okay. So, certainly we're feeling very good about the EBITDA target of approximately 60% in 2018 and I'll just note that we first put that number out in 2010 and so having posted a quarter of 58% makes us feel like we're in striking distance there. As we said before Jim, the building blocks to the service revenue growth, to the low-end \$420 million comes in big slugs, right, and all the hosted payload revenues that are contemplated, some \$47 million of incremental revenue into 2018 is contractual. Summarily, approximately \$10 million is contractual with Satelles and so to get to the low-end of the range, you just take a look at limited contribution from Certus, Push-to-Talk, and an M2M turnaround, you're at the low-end of the range. You get to the high-end of the range with a more rapid adoption of Certus. We are out there with an expectation of \$100 million opportunity in 2020 for Certus and so you get to the higher-end of the range depending on rate of ramp of that Certus offering, which we continue to be very optimistic about based on input that we get from our partners who play in the various verticals that we're going to be attacking. So that's kind of what underpins the elements of our guidance.

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**James Breen** - *William Blair - Analyst*

Can you just talk about where you are in terms of funding, getting everything launched before you turn free cash flow positive and start to pay down the debt?

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

We've guided that and we've reiterated today that we'll -- leverage will peak, we expect this year at 6.5 times. We expect to exit 2018 at four times leverage and so that's the guidance that we've been out there with sometime and we just reiterated that today.

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**Operator**

Andrew Spinola, Wells Fargo.

**Andrew Spinola** - Wells Fargo - Analyst

Hey Matt, I found your commentary around the Ka-band (HTS) capacity coming online into maritime pretty interesting. I want to get your view on the opportunity there for Certus because it sounds like you're thinking that the real opportunity there is as a backup to VSAT, but there is a pretty decent size business that Inmarsat has providing L-Band only connectivity to the ships. So how do you see the opportunity going forward? How do you see the maritime market evolving?

**Matt Desch** - Iridium Communications Inc. - CEO

I did mention that I do see it to be used as a standalone. I didn't necessarily emphasize that, but I think a big percentage of our sales will be as standalone units providing all kinds of services, crew data, crew voice, other types of unique services whether it's integrated with Push-to-Talk or broadcast technologies. It certainly will be used as the GMDSS terminal on the ship as that comes online and its get certified.

So there's a lot of opportunity for it as a standalone product in the way that, that market exists today and for which we serve as a standalone product today with an OpenPort or Iridium Pilot product that unfortunately doesn't do the data rates, it's been well received and it works very well in the market, it just doesn't have the speed that the new Certus products will have. Having a product that has better coverage, that is going to be frankly probably more than cost competitive both in terms of sort of equipment and data rates based upon our expectations of talking to our partners, that will have more service capability and will be able to do higher speed.

It makes it a really attractive standalone offering for our partners to take to market in all kinds of applications, at all really level of shipping, but it does really given that there is an increasing desire for very, very high-speed fixed cost services, which all these Ka and Ku-band people want offer. There still is a belief in the market and for many, many years to come that those will all probably be coming with an L-Band product whether Inmarsat is delivering the service and putting their own L-Band product with their say GX services or other partners deliver Ku/Ka-band VSAT and most likely will be using us as their complementary product to that, but it's a big market. We're not really that big into it still yet after a number of years and I think the market is going to expand dramatically when we start putting products in the field.

**Andrew Spinola** - Wells Fargo - Analyst

And then so in March I guess the IMO sort of came back to you with a checklist of things you need to accomplish to achieve GMDSS certification. Can you give us a sense of what the things are that you need to do to receive approval and maybe what the timeframe is on that?

**Matt Desch** - Iridium Communications Inc. - CEO

Yes, the bottom-line is they're still very supportive overall. It's clear that we're in the process and feel like we're going to get to it, but the one thing that they wanted to see is they wanted a process by which the terminals would be certified and validated and there are no terminals yet to be certified and validated and those really start coming next year.

So the process would be, they're going to develop the process on how they prove that those terminals are GMDSS terminals and then demonstrating that those are there.

So we think that the roadmap is pretty clear to us as to how to get there.

Still got to be work to be done in terms of getting the products to market. We have to integrate in with the emergency service centers that are GMDSS compliant. We have to demonstrate that those linkages work well. That's an activity that will happen over the next 12 to 18 months. So overall, we think the roadmap is pretty clear for us and that we'll be able to be GMDSS in the market in 2018 when all that's done.

**Operator**

Chris Quilty, Raymond James.

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**Chris Quilty** - *Raymond James - Analyst*

Wanted to circle back to Aireon and I think Tom, you said that Aireon would raise money when practical and I guess the question is with eight long-term service agreements, is it practical that they can raise some capital?

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

I would say it's getting more practical. Their plan anticipates an FAA contract sort of in the fourth quarter of this year, which makes it very practical and so that's the calculus that they're employing.

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Clearly, they are talking about it now and they're starting to plan for that with their investors both in terms of what they're doing. I would also say, real pleased to see the number of other ANSPs in the world who want to participate in some way with Aireon and they haven't figured out how to do that yet, but there just continues to be people who want to be part of this I'd say transformation of global air surveillance and so, we'll see. I think that they're working on all their options right now and we'll see how that all plays out over the next coming months.

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**Chris Quilty** - *Raymond James - Analyst*

And Tom, a clarification. In terms of the \$20 million a year that Aireon pays to you. Am I correct that sort of feathers in proportionally to the number of satellites and service over time?

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

Yes and it has a relationship to whether the FAA is in or not as well in terms of how it steps up, but it gets to [\$20 million] quickly and then it stays there. It doesn't increase based on volumes.

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**Chris Quilty** - *Raymond James - Analyst*

And on the US government business, Matt, you had indicated that you thought this year you might see some incremental revenues relative to the fixed price contract. Is that still a possibility?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

I didn't say that in these comments. I said we're working lots of -- in fact it's a very busy time for us actually against all kinds of additional opportunities, which would drive both incremental subscriber growth that is both within and part of the current contract we have with DISA, which is great for the future, but doesn't necessarily drive additional revenues and then there's other opportunities that would drive either commercial customers or potential additional services in the future on top of what we do today.

Don't know that, that will be that incremental to this year. It's really more of a future type thing, a 2017, a 2018 kind of thing. Those projects always take time to ramp up and deliver revenues, but both are very, very active right now frankly built on both great relationship, the great performance of the network, the contract that they see as very advantageous to innovation and service revenue growth. So all those are coming together.

**Chris Quilty** - *Raymond James - Analyst*

As a clarification, is the Push-to-Talk, which the government was the first adopter of the technology. Is that technology continuing to deploy or are they still putzing around with further hardware network development steps?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Well, actually, they have -- are investing now again after a delay frankly of a year and a half or so where they didn't have the funding, but they're back to investing again in, what I would call, finalizing that product. The current product as you know provides regional nets and doesn't really go as far as our commercial PTT product, it's a truly global product. So to expand that, they are now investing in the R&D with us and others to expand that and that would expect to happen this year and into next year so that, that service would be finalized.

There seems to be drivers for that within the government. Specific services really want that global service and want to see it integrated with other technologies. So the R&D is moving again to get that done, but they're still deploying what they have, but I wouldn't say it's growing because they really want this global capability or what they call now global services.

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**Chris Quilty** - *Raymond James - Analyst*

And on the M2M side of the business, I think it should be a positive development with Garmin's acquisition of DeLorme, which looks like that closed. Have you seen any movement there with Garmin to either broaden the distribution or adoption of that technology into their broader product line?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Yes, in fact I just met with them this last weekend. They've been pretty involved. I'm really, really pleased to see how they're looking at the acquisition of DeLorme. I think they see it as a bigger strategy in terms of connectivity for their terrestrial business. We've already had a business with them in the aviation sector, which is different than there, but love to see those things come together and I think there's some thinking around that.

I think the most immediate advantages is really as they start planning and it hasn't really happened yet, but to bring the DeLorme inReach product out to their more expanded distribution than DeLorme had, outside North America and other places where DeLorme has been strong and where Garmin is much stronger.

So I don't think it's going to impact anything right away, but I think as the year goes on and as next year happens, I'm quite excited about the potential for that acquisition.

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**Chris Quilty** - *Raymond James - Analyst*

You don't think that they'll make a push to -- to push that distribution in time for the holiday selling season?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Well, I think you'd have to ask them, but because I might be getting ahead of those discussions and telling you what their plans are, but I really do think that they're actively working all kinds of market expansion and making that successful. So certainly wouldn't surprise me let's say.

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**Chris Quilty** - *Raymond James - Analyst*

Okay and final question for you here. The satellite testing and production, I couldn't calculate and type at the same time. In my understanding, in terms of the ramp of production that you don't expect the completion and testing of 10 satellites for the first launch to be a gating factor?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

That's correct. I mean we see between now and first launch, a very credible and strong plan by our PRIME and their AIT supplier to deliver enough satellites for launch in time for the time frame we're talking about.

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**Operator**

(Operator Instructions) Jim, Chardan Capital.

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**James McIlree** - *Chardan Capital - Analyst*

The government engineering business has been strong in the past two quarters. My question is, is that likely to persist for the rest of the year? And are these services for the fixed price contract or is this for some additional contracts that you might be working on or a little of both?

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Yes, I mean, I can talk to the latter question. I mean overall, it's a broad range of areas related to how we interact in terms of R&D programs and things that we do on their behalf. We've mentioned for example, it would include work like a new secure handset. They've now made the decision and are working actively and are funding us to adapt our Iridium Extreme handset to be able to be used for secure use and working with General Dynamics on that to do that and that's an exciting developments as far as we're concerned because it lowers their costs. It's gives them a much more modern, smaller military spec handsets and frankly expands our base there in terms of that platform and there's a couple other projects like that, that both are related to work that would -- you could call both inside and outside that, that current contract. Maybe really kind of unrelated to it that for example, improving and expanding the government gateway to be ready for Iridium NEXT and new services are things that they fund and hard to call that, whether that's inside or outside the contract. It's certainly supportive of it.

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**Tom Fitzpatrick** - *Iridium Communications Inc. - CFO and Chief Administrative Officer*

And the answer, yes we see a favorable comp year-over-year on engineering and support services, which is a good, in its own right, Jim, but it's more foretelling of all this is preparatory in terms of improvements to the gateway et cetera, it is all being done in anticipation of availing themselves of Iridium NEXT and we think that bodes very well for another long-term contract.

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**Matt Desch** - *Iridium Communications Inc. - CEO*

Following up on that, I mean as you know, I mean engineering support is the business we're in. We do it well. In fact, we think we have a great history of high quality timely delivery of commitments that we make, but really we do that on behalf of creating new products and driving service revenue and doing all the other things we do as a network operator.

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**Operator**

Andrew Spinola, Wells Fargo.

**Andrew Spinola** - Wells Fargo - Analyst

Hey Tom, the CapEx this quarter was about only 10% of your annual guide. If everything goes to plan, what would be the trend of CapEx through the rest of the year?

**Tom Fitzpatrick** - Iridium Communications Inc. - CFO and Chief Administrative Officer

I think we're out there with a CapEx of approximately \$700. We're keeping an eye on that. That's going to be timing related. If it pushes into next year -- it's all milestone driven. They have to hit a milestone before we pay them and we're keeping an eye on it, Andrew.

**Operator**

And we have no further questions at this time.

**Matt Desch** - Iridium Communications Inc. - CEO

Okay, great. Thanks everybody for joining us. See you next quarter. Have a good spring. Thanks.

**Operator**

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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