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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Iridium Second Quarter 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time.

I would now like to turn the floor over to Ken Levy. Please go ahead, sir.

Ken Levy - Iridium Communications Inc. - IR

Thanks, Karen. Good morning and welcome to Iridium's second quarter 2016 earnings call. Joining me on call this morning are Matt Desch, our CEO 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 press release, which is available on the Investor Relations section of our 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 facts 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 our forward-looking statements. Such risks are more fully discussed in our filings with the Securities and Exchange Commission and 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 our 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. 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 reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures.

With that, let me turn things over to Matt.



Matt Desch - Iridium Communications Inc. - CEO

Thanks, Ken and good morning, everyone. As you read in our press release, Iridium produced strong subscriber growth in the latest quarter. In fact, it was a record quarter for net additions during my tenure here at Iridium and I think actually for the 16-year history of the Company. So I'm particularly pleased with this achievement and when I use my remarks today to reflect on our business performance and share an update on the status of the Iridium NEXT program.

As you all know, the Iridium NEXT program has been more than seven years in the making and is one of the most complex satellite programs underway today. These satellites consists of roughly 5,000 individual parts that must be assembled and tested and the design and testing supporting the development of the Iridium NEXT satellite to reflect something like 100,000 hours of workmanship by scores of engineers, which is a really sizable effort. I am grateful for the efforts of the thousands of people involved within and around Iridium and Thales Alenia to bring this satellite program to this stage. There is much to be proud of and many milestones reached in leading up to this moment and I'm excited we're finally getting to the deployment phase. Our first launch of Iridium NEXT satellites is quickly approaching. While the satellites and other preparations have been tracking towards a launch on September 12, we've just been informed this week by SpaceX that a slight delay in their production schedule for our Falcon 9 is causing them to move our launch one week to September 19. Our plan now is a launch at 9:49 PM Pacific Time that night from Vandenberg Air Force Base. SpaceX has secured a back-up date of October 1 as a contingency if there are any issues meeting the 19th. Last month, we hosted members of the press at the Orbital ATK manufacturing facility in Gilbert, Arizona to showcase some of our finished satellites and tour our assembly and test facility. The manufacturing process moved from low rate to high rate production in June and Orbital has now stepped up to completing Iridium NEXT satellites at the rate we need to meet both first and subsequent launches and I congratulate them on that. As of today, we have 8 completed satellites and the final two should be finished in a few days. These satellites will ship in pairs of 2 to SpaceX's processing facility at Vandenberg; each loaded in custom built shipping containers with special stabilizing technology, individual climate control, accelerometers and the like, all designed for safe transport. Once the satellites arrive at Vandenberg they will be integrated on to the rocket dispenser for fueling and final testing. SpaceX will complete a static fire test of the engines and after that the dispenser will be placed atop our Falcon 9 surrounded by the rocket fairing. Both the SpaceX dispenser and the Falcon 9 adapter are in the processing center awaiting the satellites, which will all be at Vandenberg later in August. All these steps are well scripted and have been carefully tested and rehearsed to ensure successful mating, launch and delivery to orbit. Today, everything is looking good. The first satellites will begin arriving for processing at Vandenberg starting next week and we eagerly await the coming first launch of Iridium NEXT. By the way, with the launch on September 19th, that puts our second launch in late December and our satellite production is on track to have more than enough satellites for that launch as well. Despite the short delay caused by SpaceX this time, they assure me that this is a short-term issue and there shouldn't be issues for the second or subsequent launches. We want of course to stay on track with our launch plan to maintain completion of all SpaceX launches by the end of 2017.

Moving on to our business results, as I said the second quarter was a record quarter for Iridium with 35,000 net new subscribers, 30,000 of these came from our commercial business. Service revenue grew 7% from the prior year. Fueled by double-digit revenue growth in our US government business and strength in our commercial M2M business as well as in maritime. While macro headwinds still persist, our business continues to grow by building new partnerships, targeting new sectors, methodically rolling out innovative products and broadening our customer base. As a result, we were able to grow operational EBITDA in the second quarter, which Tom will cover in more detail. Our subscriber base reached 823,000 total billable subscribers in the second quarter, up 7% from the year earlier. US government subs, continue to grow well, and now total 80,000 up more than 55% since the current EMSS contract started in 2013. We continue to collaborate on new projects to extend our relevance with this anchor customer, as we look towards discussions for the 2018 follow-on contract.

M2M remains a significant driver of growth, and beyond the current subscriber additions in the most recent quarter. I can also report, that we recently signed two noteworthy contracts, one, with another top five manufacturer of construction and mining equipment, and a second, with a large global mobile asset management solutions provider. While, I can't name these partners yet, both companies are planning to utilize Iridium's M2M technology to support the next generation of their global satellite IoT efforts, including global asset management and tracking and telematics services. These partnerships represent long-term new M2M revenue streams to Iridium, and solidify our strong and growing position in the vehicle telemetry space, especially with heavy equipment OEMs.

In the second quarter, satellite time and location service went commercial over the Iridium network. This newest service offering is now being trialed with commercial and government users, and is receiving a strong reception. Our key partner for this service, Satelles is having productive

conversations with a number of parties that are concerned about GPS spoofing and exploring this technology for resiliency in the important applications of synchronizing time, for their industrial and financial applications among other users.

We also remain excited for the commercial launch of Iridium Certus in the second quarter of 2017, which will allow us to solidly attack the growing satellite broadband space with a unique and differentiated product. This service is undergoing testing today. We've established pricing for it and are starting the process of signing up distributors to sell it. Iridium Certus is a response to industry demands for an alternative to current L-Band broadband solutions, and we think it's going to be a big deal. This new service will allow our partners to better serve users in enterprises across all industry verticals with a portfolio of very competitive global voice and data services.

We see Iridium Certus as a disruptive new capability in the maritime, land mobile, aeronautic, and government markets, in that it will provide unparalleled quality, truly global coverage, and better performance in a single multiservice terminal, all at a great price.

Finally, our joint venture Aireon continued to make strong progress on establishing its business operations and signing new contracts. In June, Harris Corporation finished production of all 81 of Aireon's ADS-B receiver payloads, which are being incorporated on to each Iridium NEXT satellite. This production was completed ahead of schedule. Aireon also continues to pursue new long-term service contracts and recently signed a memorandum of agreement with two leading Russian organizations for use in Russian Federation airspace. This agreement covers the evaluation of service over Russia's vast remote polar and oceanic areas. A long-term contract in Russian Federation airspace would extend Aireon's service to one of the largest airspaces occupying over 10% of the world and surveilling over 1.4 million flights per year. These are important milestones for Aireon as it prepares to raise capital to satisfy hosting fee obligations to Iridium.

I know the timing of these payments is of importance to our investors as they relate to our liquidity prior to completing Iridium NEXT. Payments from Aireon have been expected in late 2016 and 2017, but this timeline is subject to the pace at which Aireon signs contracts including with the FAA and the timing of their capital raising activities. Tom has been pro-actively working on alternatives to provide Iridium with additional flexibility to avert any issues. And in just a few minutes, he will update you on some important progress we've made on this front.

Overall, we continue to believe that Iridium's investment and relationship with Aireon will accrue meaningful value creation to our shareholders for years to come. So in closing, I want to reiterate our excitement for our approaching historic first launch and the fact that it marks the end of the development phase of the Iridium NEXT mission and the start of commercial operation of the program. It's a little hard for me to be patient with these ongoing short delays, but we're getting very, very close and I'm sure it'll all be worth it with a successful launch under our belt. That first launch will also mean our financial transformation is even closer. In 2018, when we flip from spending hundreds of millions annually on building our new network to reaping the benefits of significant positive cash flow and all the new flexibility that will provide to Iridium.

So with that, I'll turn it over to Tom for a more detailed financial review. Tom?

Tom Fitzpatrick - *Iridium Communications Inc. - CFO*

Thanks, Matt and good morning, everyone. Let me start by summarizing our key financial metrics for the second quarter and I'll review our balance sheet and liquidity position. Iridium generated second quarter total revenue of \$109.2 million, which was up 7% from last year's comparable quarter. Revenue growth was fueled by strength in government service accompanied by an increase in equipment sales. Operational EBITDA was \$62.5 million, an increase of about 3% in the prior year period. Our operational EBITDA margin remained strong this quarter at 57%. From an operating viewpoint, we reported commercial service revenue of \$61.5 million in the second quarter, which was about 2% higher than the prior year's quarter. As Matt said, we had record subscriber additions, including 30,000 net new commercial customers. The second quarter is typically one of the highest in the year for sub growth, but this quarter was particularly strong, especially in the M2M area. Subscriber growth was solid across the board, from commercial M2M to handsets and maritime OpenPort units.

In our commercial voice and data business, we added 11,000 net subscribers, which was 3,000 more net additions than in the prior-year period. Year-over-year commercial voice and data subscribers were unchanged, and ARPU held steady at approximately \$41. Additionally, we picked up 19,000 net subscribers in our commercial M2M business in the second quarter. Fueling the pickup at M2M sub was a high level of activations of DeLorme's inReach personal locator product. This two-way satellite texting, tracking and SoS messaging device seems to have significant appeal.

You'll recall that DeLorme was recently purchased by Garmin, which we believe bodes well for incremental sales of inReach, as Garmin begins to distribute this consumer-oriented product throughout its global sales network. Beyond inReach, we also saw steady activation of our transceivers with Caterpillar and other SPs focused on equipment IoT. These activations coincide with moderating deactivations in the oil and gas sector. In general, these trends make us feel very good about the application of our M2M technology, especially to end users that value real time global coverage, which increasingly differentiates our offering from competing products.

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 23% year-over-year. Total government customers reached a record 80,000 this quarter, driven by M2M growth of 32% from the prior year quarter. We continue to believe that these subscriber trends reflect well on the value that Iridium technology and services bring to the US government. In the second quarter, subscriber equipment revenue reached \$20.4 million. This was up 8% year-over-year, driven primarily by sales in maritime OpenPort units and M2M devices. We continue to expect at lower manufacturing costs, and certain product lines will keep our equipment margins in the low- to mid-40% range.

Moving to our balance sheet and liquidity position. At the end of the second quarter, we had drawn approximately \$1.7 billion from the COFACE facility, and had a cash and marketable securities balance of \$443.1 million. As Matt mentioned, we've been working to obtain additional flexibility around our capital plan, regarding the potential timing of the \$200 million in Aireon hosting payments we've been expecting in 2016 and 2017. I can report to you today that Iridium is in advanced negotiations with our credit facility lenders and our supplier Thales Alenia to delay certain scheduled payments in order to ensure sufficient liquidity for Iridium through 2017, should Aireon's hosting payments to Iridium be delayed. I should also state that Iridium does not expect these modifications to include a capital raise in the event that Aireon's hosting payment. You should expect more detail about this matter as we finalize the deal by year-end 2016. For their part, Aireon continues to work toward securing a contract with the FAA for their oceanic airspace and is actively exploring various financing sources based on its growing list of customers. Aireon plans to pursue with financing in order to make hosting payments to Iridium in 2017. The amount and timing of Aireon's financing will depend on the financing sources arranged as well as the level of commitment from its customers.

This morning, we also affirmed our full-year 2016 guidance and updated our guidance for timing of peak net leverage in our long-range financial outlook. Based upon the timing of our launches this year and milestone payment due to Thales and other vendors we have updated our forecast for capital of \$550 million in 2016. This latest estimate assumes that approximately \$150 million in milestone payments to Thales Alenia, which were previously assumed to occur in late 2016, will now occur in early 2017. Accordingly, leverage will not reach 6 times in 2016. But may instead peak at between 6 and 6.5 times in 2017 if all of Aireon's hosting payments are not received by Iridium. If the hosting payments are received then leverage will be closer to 5.5 times in 2017. Our estimate for leverage as we exit 2018 remains unchanged at approximately 4 times, which assumes that Aireon has paid both \$200 million hosting fees as well as \$120 million redemption for half of Iridium's ownership stake. So in closing, we're very excited for the first launch of Iridium NEXT in September. This launch will allow us to harness the one of a kind services offered by Iridium NEXT and usher in a new era of revenue growth for Iridium. With that, I'll turn things back to the operator for the Q&A portion of this morning's call.

QUESTIONS AND ANSWERS

Operator

Greg Burns - Sidoti & Company.

Greg Burns - Sidoti & Company - Analyst

Good morning. Just want to dig in on your view on what's going on at the FAA maybe what one is the delay or the hold up in them. Signing a contract because I know that they're putting money towards it to test the service, but I just wanted to catch your view on, what do you think is that the hold up for them actually signing a service contract.



Matt Desch - *Iridium Communications Inc. - CEO*

I don't think there is anything specific about that, other than it's a government agency that just has been waiting on funding for its operations, has recently got a short-term authorization through 2017 for its funding. And so therefore, it's very careful about what it does and what it spends money on. They're still working on the \$22.5 million dollars in FY16 and FY17 to implement Aireon capability, essentially the ability to absorb the data and update their systems to manage it. So it still feels like it's more a matter of when, not if, and exactly how much will they'll surveil and when. But we just don't know, I mean in terms of exactly when they will make that decision. Feels like it's more a 2017 event than a 2016 event right now. But that's a little bit why I think you heard about the flexibility that Tom has been able to achieve and we just had to prepare just in case that didn't happen and that somehow slowed down Aireon's financing activities, which frankly I'm very encouraged by all the other ANSPs around the world that they've been signing up in the meantime and that list continues to grow and they look like they have a solid list that they are continuing to work from.

So based on that, I think it's going to happen when not if, and it's probably more likely 2017 event at this time.

Greg Burns - *Sidoti & Company - Analyst*

Okay, and then touching this Certus broadband service. Can you just talk about the positioning of that service in the market relative to kind of the competing solutions or offerings that are out there, and maybe in terms of how you're going to price the service and position it competitively against the competitors?

Matt Desch - *Iridium Communications Inc. - CEO*

Yes, so Certus is an L-Band service, and it really more competes with the existing L-Band services primarily from Inmarsat. It is not intended to compete with Ku and Ka-band services in fact many of those people who offer those services are looking for it as the ideal complement to those services to extend their coverage to provide alternatives where they can use et cetera. It's going to offer, what we said is a very, very competitive offering. It's going to offer really a competitive kind of data rates for the current offerings right out of the box. And in fact higher data rates shortly after our constellation is implemented, provide up to 700 kilobit per second down, which is higher than anything out there in the market and in 2018. So very competitive data rates. The size of the terminals is going to be really smaller than what we offer today, it's going to be very competitive aesthetically, it's going to be less expensive frankly for terminals and competing offerings. The data service rates have been designed and are being discussed with the distribution, which are very competitive, probably maybe and a little better in some rates than perhaps they're getting today, and definitely better margins, I think than they probably would be, otherwise able to get, if they sell it. So, I think they're all excited about the capability of it. We're still on track and we didn't talk about it, because it takes a long time, its 2018 sort of cycle for GMDSS certification, and also it will be Aviation certified as well in the future. So it's going to again offer a very unique capability that people will want in ships and aircraft.

And so all that being said, it's also the higher speed it will offer, eventually up to 1.4 megabits per second, which won't try to compete with the really high-speed offerings, but really offers the best L-Band complement to those services. And just to round it out, the technology also -- we don't talk about this as much, but will also offer solutions that provide lower data rate services, say up to 100 kilobits per second, in packaging that can use batteries or in very, very small form factors that really enhance our M2M business as well. That offer, really competitive data rates in really that goes, not just against that higher speed L-Band competitor, but against their whole satellite IoT industry, and really enhance our presence there too -- and for voice and data products as well.

Operator

Ric Prentiss, Raymond James.



Ric Prentiss - *Raymond James - Analyst*

Couple questions. Thanks for the details on the NEXT schedule. Can you update us a little bit about, where you think the pacing will be after the late December launch, just kind of how you're thinking about beyond the second launch?

Matt Desch - *Iridium Communications Inc. - CEO*

Yes. So, we have designed, our plan has 60 days centers as they're called. So, really literally after the second launch, you should almost be able to pace off 60 days, and that will be when the third launch is, and 60 days for the fourth launch, and 60 days for the fifth launch. All our plans are really oriented around having our satellites for all those launches, and now that we've stepped up to a high rate plan, we are on track to do that. SpaceX, again, as I said, has assured me that they'll have rockets on time and availability. So, there's always going to be a little movement around the final date, and whether it'd be from a short term issue, could even be weather on the date of launch et cetera, but we really would expect to keep on that pace all the way through the final launch -- and the satellites that come into operations shortly thereafter.

Ric Prentiss - *Raymond James - Analyst*

Great. Obviously very good subscriber adds records as you were pointing out. It seems like also SG&A was up, the MD&A talks about higher employee fees and professional fees. Update us a little bit just about how much of it was really driven by adds or what's going on with those professional fees.

Tom Fitzpatrick - *Iridium Communications Inc. - CFO*

I would just characterize it as timing, Ric. SG&A was up year-over-year in the second quarter, was down year-over-year in the first. Think about SG&A on the full year is sort of 5%-ish growth. So there is not a lot to make of just a quarter, it's just up really largely timing.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then service revenues were up nicely, also 7%. Guidance is 4% to 6%. Any thoughts of what would cause a slowdown or is it something that might be guidance on?

Tom Fitzpatrick - *Iridium Communications Inc. - CFO*

So if you study the government contract, the growth is driven by the government. And in the fourth quarter, there is not going to be an increase because that's contractual. So the fourth quarter comp is not going to show the growth that the second quarter showed.

Operator

James Breen, William Blair.

James Breen - *William Blair - Analyst*

Thanks for taking the question. Can you just talk about the maritime in M2M market and if you're seeing the growth in M2M more from new connections or from existing connections that are using more revenue now? Thanks.

Matt Desch - *Iridium Communications Inc. - CEO*

Yes. So maritime, we are having a solid year in maritime OpenPort is clearly, we don't talk as much about it, but it's been a solid product for us this year. I think the reputation of that product, which was sullied a bit couple of years ago has been restored in the marketplace. And I only hear really good things about our partners about how well it works and its performance and I think we've been seeing that in the equipment sales and in activations this year which are different than last year. And that's great, because that's a really solid base as we look to move into a bigger part of the maritime markets than we've ever been able to address starting next year with Iridium Certus. As it relates to M2M, we did have broad-based growth. Tom talked a little bit about the specific couple partners that predominated but it really feels good that there is a lot of growth across our whole base, which is pretty diverse and sizable in terms of the number of partners who take it to market. A lot of that is, we saw some of that growth last year too, it was sort of overwhelmed by the deactivations in the oil and gas space as people started to putting assets away. Fortunately, that seems to be largely completed this time and so that isn't dominating the activation, but there is both new and there is existing in that, I would say it's -- I mentioned two that are new, those aren't affecting the results this year. Some of those two big new contracts, those are 2017 -- they've been doing the development along the way. So I think that -- I'm hoping that they'll see those getting our results in 2017. But for the most part, a lot of this is the existing partners kind of continuing to deploy the services, previous wins with partners that we made in the last couple of years.

Tom Fitzpatrick - *Iridium Communications Inc. - CFO*

Jim. So, the second quarter is always our strongest quarter just seasonally, but if you look at the comp, so we, we were like 8,000 net adds in the second quarter this year. We're twice that in this quarter, 19,000. If you look at the contributors of the increase, it's kind of equal parts less oil and gas. There are really four drivers, less oil and gas headwind, the DeLorme acceleration, Caterpillar acceleration, and if you put the rest of our subs in a bucket, that's the fourth driver -- we're just all strength across the board, but the three main ones are the ones I called out.

James Breen - *William Blair - Analyst*

And can you just remind us, Matt talked little bit about the GMDSS certification, actually coming in 2017. How does that impact maritime, what does that allow you to do that, you can do now?

Matt Desch - *Iridium Communications Inc. - CEO*

Yes, as we said before, GMDSS is a requirement for large ships, anything over from like 60,000 tons or some requires a GMDSS receiver. For the last 20 years, they have had only one supplier that they could select and competitively it's not so much of a big revenue producer, it's just that they had one producer of that terminal. By the way if you could use it for other things, you would, so it offers a competitive advantage to Inmarsat. That goes away, when our products for GMDSS certified as well and our partners are excited about the fact that they now can sell two different suppliers and our terminals should also work for other things besides GMDSS and so while it itself is not a revenue generator, it just takes away one detractors or a feature that really our terminals didn't have that other terminals did, so, they also, remember our GMDSS certification will cover the whole world too and there is a lot of polar traffic, lot of far north traffic. So I think some ships that want to provide that service will enjoy even better service as they had in the far north or the far south, but really it isn't a revenue generator by itself.

Operator

Andrew Degasperi, Macquarie.

Andrew Degasperi - *Macquarie - Analyst*

Matt, could you remind us after the last two of the first batch of satellites are finished, will you hold production until you completed your normal testing on the first ten?



Matt Desch - *Iridium Communications Inc. - CEO*

I'm sorry, say that again, I'm not sure I followed that.

Andrew Degasperi - *Macquarie - Analyst*

So, after you said there's two left for the first 10 satellites to be completed, will you hold production after those first 10 are built until you're sure that in-orbit testing has sort of qualified those 10, before you resume again production of the next ten?

Matt Desch - *Iridium Communications Inc. - CEO*

Yes, I get your question now. No, no, that's not how. We have done really, really thorough testing on those satellites. They've been through the ringer, in fact some of those, the first bunches of them in the low rate production have gone through absolutely every test there is. We're not expecting significant on orbit issues, and if there was, that wouldn't really be likely that they would affect really hardware manufacturing, perhaps it could be software issues, and things were we tweak coverage and that sort of thing. But that's -- there would be no plan to hold up production. In fact, we're really at that point right now, where we're roughly at one a week and we want to continue that rate, so that we have more than enough satellites for launch two, and we start getting ahead of the pace and keep up for those subsequent launches, which literally are coming every two months thereafter, or every eight weeks to nine weeks thereafter. And we really need 10 weeks worth of satellites. So we'll get ahead of that, and keep ahead of that to keep up the pace.

Andrew Degasperi - *Macquarie - Analyst*

Right. So, just on the follow-up. So, if theoretically SpaceX wants to provide you with rockets sooner than the current 60-day gap, with launch two and three and so forth. Could you theoretically accelerate that schedule, if you wanted to, since you're going to have more satellites available?

Matt Desch - *Iridium Communications Inc. - CEO*

Well, theoretically we could go faster than 60 days, because we may have enough satellites, in fact, in some ways our schedule currently shows that there could be enough satellites. There an awful lot of moving parts, during those 60 days as we put satellites into operations, so our team is going to be very, very different swapping satellites out in space, controlling them, managing them, doing everything necessary. Our view right now is really, we think the schedule we have is aggressive but very doable. And we're going to more focus on maintaining that schedule. But, as we get later in the program, perhaps, we'll be able to pick out a few days here and there and maybe even move things along a little quicker that, but that's only my dream, but I don't have a plan for that.

Andrew Degasperi - *Macquarie - Analyst*

Got it. So just as a separate question, as you've mentioned, the DeLorme effect to continue for a while, should we assume sort of less of an impact in the next few quarters?

Matt Desch - *Iridium Communications Inc. - CEO*

Well, actually -- what I would call the DeLorme effect which is, well, I mean if you consider the DeLorme effect and that it's a larger and larger partner and continues to provide growth. No, I think that's going to continue. I really like what I'm seeing from the products that they're developing, sneak peeks of future products they are developing, the relationship with Garmin I think will bear fruit in the coming quarters and year, as Garmin also continues to look at satellite connectivity for their products. It's a perfect fit since they are an outdoor consumer company that serves all kinds of customers all around the world and the connections -- satellite connections -- makes a lot of sense, they have great distribution. We really haven't

seen the effect of the Garmin distribution expansion, if you will or the ability of using that Garmin distribution on the DeLorme product yet. So I'm hopeful that that will be something we start seeing really in 2017.

Andrew Degasperi - *Macquarie - Analyst*

Got it. Last question, the government usage -- I mean, government net adds were highest ever. Just kind of want to understand what do you think drove that this quarter?

Matt Desch - *Iridium Communications Inc. - CEO*

Well, I think it's really, the EMSS contract when we kicked it off a couple of years ago provided sort of a unique way for the government to procure Iridium services. It said that M2M and voice and push-to-talk type services were fixed cost, so that they should consider using them across the board in more and more programs because incrementally it wouldn't affect their service costs. And so, immediately a whole bunch of programs started to do that and they're coming to bear, which is -- the incremental subscribers sells hardware equipment, which is great, it doesn't generate an extra incremental revenue beyond EMSS contract, but it really lowers the cost per subscriber for the government and they see more and more value in that EMSS contract they signed and all that strategically sets us up very well for 2018, as we work to what the next generation of that contract is. So it's really just a number of programs kind of starting to bear fruit and put more -- particularly more M2M subscribers, more M2M applications out into the field.

Operator

Chris Quilty, Quilty Analytics.

Chris Quilty - *Quilty Analytics - Analyst*

Hey, Matt. You guys had your best quarter in the voice and data in two years and much better than I was looking for. Can you break that down between we've had kind of handset movement or is it OpenPort or was there an impact from the Push-to-Talk?

Matt Desch - *Iridium Communications Inc. - CEO*

It was pretty broad-based, really M2M obviously was a big piece of it. OpenPort contributed, certainly in that over last year, this is a positive year for OpenPort versus flat to down last year. So that's really been a switch. PTT is starting to contribute, pretty still early days. Great funnel and pipeline takes time for those sales to mature and to deliver, but we'll start seeing that impact more, but I think that had a smaller effect. Handsets, it's always a good quarter for our voice business and handsets, but again with the headwinds with which we have on FX and everything, that's still is not a big grower for us at this point and not necessarily expecting the future to be.

Go! was doing nicely in everything, but it's still a small part of those sales overall. But really it's a solid quarter across the board.

Chris Quilty - *Quilty Analytics - Analyst*

And were there any changes either by yourself or competitors in the market with pricing, either on hardware or services - or pretty stable?

Matt Desch - *Iridium Communications Inc. - CEO*

No, that's been pretty stable, certainly the result of the quarter isn't due to some sort of pricing actions or anything that we made. So it was really a solid quarter on the basis of I think both continued good performance of our system and lesser headwinds.

Chris Quilty - *Quilty Analytics - Analyst*

Got it. And a follow-up on DeLorme, just to clarify, this did not feel like to you just a channel fill quarter with them? And when you talk about new product development, is that using existing 9602, 9603 hardware or is that entirely service based. So we don't see an impact from new products until next year?

Matt Desch - *Iridium Communications Inc. - CEO*

No, I think the DeLorme impact is just, year four or five or whatever it is now of their continuing growing distribution channel and frankly success in the marketplace of that product over competitors, I think there wasn't -- to my knowledge, like a new generation product yet. So I think it's just they're really, really performing well in the marketplace with the product that they have right now and I know they have new products planned that I think they are out in the future. In terms of new products, I mean Certus is the biggest thing coming and I'm really excited as I am starting to see the terminals from some of our existing VAMs, that are developing terminals for the marketplace. We're starting to see prototypes, and I think we're going to start seeing those hit, early next year. That really does create a lot of excitement in the base, because of what those will bring. We do have some other things in the mix. In our M2M areas, we bring more things to market, but I'd say at least this year, it's more on the basis of what we have today in terms of the product we currently have in the market, with next year more of those products making an impact.

Chris Quilty - *Quilty Analytics - Analyst*

Okay. Let me clarify the new products. Right now, you've got one product with DeLorme, and they have a roadmap, but DeLorme was acquired by Garmin, and they have 20 products, and that was the roadmap, future roadmap, I was asking about.

Matt Desch - *Iridium Communications Inc. - CEO*

Yes, I really can't. I don't think, if you want to me speak to the specifics of their road map, I mean, they've given me some indications of where they see synergies between DeLorme and the rest of Garmin, and I'm very excited about the potential of that. But, I really think that's going to be things that they start delivering to the market. I don't think those are certainly going to impact this year, I mean, those -- I think you're going to see those kind of new products until 2017 or 2018. But I think it speaks very well, the satellite connectivity and more consumer type IoT products. I mean, I'd say the bigger impact that I've looking forward towards Garmin, DeLorme for is -- and really expanded distribution there, which helps the current generation of products, which is a couple of products that they have in the market today.

Chris Quilty - *Quilty Analytics - Analyst*

Okay. And one last M2M question on the telematics side, can you give us an idea of both signs that the OEM that you're working with, and the nature of the application and potential volumes?

Matt Desch - *Iridium Communications Inc. - CEO*

Yes. So, I've talked about it the other day, they didn't wanted to name who they were, wish, think that will change over time and we'll give the name out, but we were able to say with the top five. I'll let you speculate, who are the others since the top one is Caterpillar, and we have had some other OEMs that are starting to really kick in. That's a big market for us. We still think we're moving in that direction. It's obvious that whole industry has been a little bit under pressure this last year, but despite that, I think many of them are moving in what I would call their next generation directions, and are just seeing the benefits of the performance, and the quality of an Iridium connection and our -- obviously, it's nice to be continuing to check them off, if you will. So that's a big one. And then, I mentioned another one that's not technically heavy equipment OEM space, but it's in that overall telematics transportation sector, and it's a large one. So, those are sizable. I think we'll be able to say their name the coming months or quarter but they obviously want to inform their distribution and roll out sort of on their own before we start talking about them and really I think



more importantly, they can still speak to the strength of our product portfolio, our network and I think the excitement that they all see in terms of Iridium NEXT when it is launched and we have a brand new network with new services, with Iridium Certus speeds with a roadmap that they see even going beyond the existing product set in the M2M area that really not just puts us ahead but keeps us ahead in the M2M model.

Operator

Andrew Spinola from Wells Fargo.

Andrew Spinola - Wells Fargo - Analyst

Hi, Matt. Can you clarify that the comments earlier on GMDSS, just so I understand is the L-band terminal for connectivity in the GMDSS terminals essentially the same. And so, that you were saying about Inmarsat's competitive position if one of those ships requires GMDSS has to have it. It also has the capability of getting Inmarsat service and that's what their competitive position has been through founded on?

Matt Desch - Iridium Communications Inc. - CEO

Yes, GMDSS is a requirement on those ships. In some cases you need other terminals and as we've talked about in the past, it's not necessarily the only one terminal, sometimes we're on the same ships with Inmarsat and there are Ka-band or Ku-band services on the ship as well. But that GMDSS terminal needs to be on there. So, in some cases, if you don't need other communications, if you want some voice for the crew, and a little bit of Internet connectivity, if you have the right terminal, you might only need one terminal. In our case in the past -- for the past 15 years, we've been selling into that market as the secondary terminal. We already have an -- that terminal consider putting it on there because we have a better value proposition for crew voice or VSAT back up for Internet connectivity for smaller ships, etc. GMDSS helps expand that value proposition for us, in addition to higher speed services growth great value proposition for a Certus terminal in general and the fact that by the way-- number of those sort of terminals were multiservice terminals with all of Iridium's services including, think though we take advantage of push-to-talk and machine-to-machine and other capabilities in those terminals as well, which is another advantage down the road. So, hopefully that explains it.

Andrew Spinola - Wells Fargo - Analyst

Yes, it does. You made a comment earlier that with Certus there will be a larger addressable market and I think it's not just GMDSS it's also the higher speeds and multi-services that explains that increase in size?

Matt Desch - Iridium Communications Inc. - CEO

Absolutely. I mean, today we're really only addressing what I would call the lower end, because our terminal OpenPort only goes up to 128 kilobits per second, which is enough for a nice part of the market, but you're always competing against the terminal that can do up to -- technically up to 432 kilobits per second, and your disadvantaged -- right out of the chute our new Certus products will be very comparable to that and will quickly go above those feeds at a lower cost -- lower service costs, and frankly a little lower equipment cost. And they will work across the whole globe instead of only North and South, having limitations or anything. And so, it's going to be a very, very competitive product suite. We think it really helps us for the first time truly compete end-to-end in the maritime market.

Andrew Spinola - Wells Fargo - Analyst

Understood. Just noticed in the 10-Q that you lost two satellites in the quarter. Can you just give us an update on the relevance of this and the current state of the constellation?



Matt Desch - *Iridium Communications Inc. - CEO*

Yes, I mean we did lose two. As you can see by our sub growth, that wasn't very much noticed by our partners. And frankly that's the nice thing of having the kind of constellation that we have because of sort of the overlaps and everything, the issue that it creates, is still very, very high availability and service performance. I'm not too worried anymore because we're sending reinforcements very soon. It's only a very short time when we really start replacing the whole network and over the 18 months that just becomes a non-issue altogether. So our network is aging and that's expected to happen, but I really don't think most of our partners even knew about it and till they read through the 10-Q, they probably would know about it either.

Andrew Spinola - *Wells Fargo - Analyst*

Fair enough. Tom, on the deal or the potential extension with Thales, what is this going to potentially cost you or what's the give and take from your side on that extension?

Tom Fitzpatrick - *Iridium Communications Inc. - CFO*

Yes, so there is discussion in the 10-Q in the liquidity section of the elements of the deal, Andrew but I would just say it's really -- there is really three elements that are payment deferrals to Thales, it extends as an interest rate, it's be very reasonable. There are delays in the payments into the debt service reserve account that will be granted, if you will, by the senior lenders and there's likely would to be the suspension of the preferred dividend for a couple of quarters.

Andrew Spinola - *Wells Fargo - Analyst*

Understood. And then one last one for me, just sort of conceptually, when we're talking about the payments from Aireon and the ownership stake redemption, it's obviously a large amount of money for a start-up company, I'm wondering, when you get past, maybe the first couple launches of the NEXT constellation, the runway is pretty obvious to completion, and lower CapEx, and the beginning of deleveraging et cetera, et cetera. Is there a possibility that you would consider sort of restructuring that deal that would give them kind of longer term flexibility that would maybe make more sense for a start-up without any revenue essentially?

Matt Desch - *Iridium Communications Inc. - CEO*

Well, we're a shareholder with a number of other large investors, and ANSPs -- Canada, Italy, Ireland, and Denmark, as you know. There's been discussions underway right now, especially that they consider their capital options are getting a lot of -- we are getting a lot of advice from the markets, and the potential for it, and an interest frankly in other ANSPs are potentially participating as well. So, I think there's a number of options that the company is considering, in terms of it, sort of capital environment, and how it pays us, it's hosting fees, and what's the best way, and obviously an expeditious way of doing that. So I'm encouraged by the opportunities that all built, of course, on the top of a growing customer base. I think that is also -- I think you're right, that in the next couple of quarters especially as satellites go up, and the data starts flowing and they are able to start demonstrating to their growing customer base. The performance of that system, I think that will also really move things along as well so.

Andrew Spinola - *Wells Fargo - Analyst*

Makes sense. Thanks for taking my questions.



Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to Iridium management for any closing comments.

Matt Desch - *Iridium Communications Inc. - CEO*

Great, thanks for being on the quarterly call. Look forward to our first launch, and see you all soon. Take care.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone have a good day. ***part 18***

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