

Iridium Communications, Inc. (Nasdaq: IRDM)

Rating: Buy

Price Target: \$40.00

Share Price: \$29.99

Greg Mesniaeff
gmesniaeff@kingswoodus.com
November 26, 2024

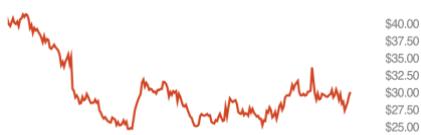
Company Data

Average Daily Volume (M)	1.140
52-Week Range	24.14-41.66
Shares Outstanding (M)	113.85
Market Cap (M)	3,414
Enterprise Value (M)	5,065
Total Cash (M), mrq	159.59
Total Debt (M)	1,810
Total Debt to Cap	0.73

Estimates

	FYE: Dec	2024E	2025E	2026E
EPS	Q1	\$0.16A	\$0.21	N/A
	Q2	\$0.27A	\$0.22	N/A
	Q3	\$0.21A	\$0.28	N/A
	Q4	\$0.17	\$0.26	N/A
	FY	\$0.82	\$1.02	\$1.40
P/E		36.6x	29.4x	21.4x
	Q1	\$203.9A	\$207.9	N/A
	Q2	\$201.1A	\$211.1	N/A
	Q3	\$212.8A	\$217.0	N/A
	Q4	\$203.5	\$210.6	N/A
Rev	FY	\$821.2	\$846.7	\$876.2
		6.1x	5.9x	5.7x
EV/Sales				

One-Year Performance Chart



As of November 25, 2024. Source: E-Trade.

The Old Reliability of AT&T in Space

Initiating coverage with a Buy rating and \$40 price target.

Summary

We are initiating coverage of Iridium Communications with a Buy rating and a \$40 12-month price target. Ever since the company – a pioneer in affordable, easily available, and highly reliable satellite voice and data wireless coverage – emerged from bankruptcy in the early 2000s and launched its next-generation NEXT constellation of low earth orbiting (LEO) satellites, the demand for Iridium's service has steadily grown. We have now reached a point on the company's growth arc when having a "sat phone" is almost a given among those who travel in remote parts of the world and need seamless connectivity. At the same time, Iridium's fundamentals have steadily improved, and we expect the company to earn \$494mn of Operational (Adjusted) EBITDA in 2025. Competitively, Iridium has established itself as the undisputed Number One provider of reliable satellite mobile communications, a position that we believe will allow the company to sustain a premium multiple based on its growth and highly defensible market position.

- Iridium has cemented its leadership position as the #1 provider of ubiquitous, reliable satellite mobile communications.** Like AT&T of old, no other satellite mobile communications network service provider can deliver the ubiquitous geographic coverage, reliability, and overall value proposition for governments, commercial users, and individuals that require ubiquitous and highly reliable satellite communications. As the company continues to forge connectivity partnerships with mainstream terrestrial mobile

network operators, by way of its technology licensing agreements with Qualcomm and others, Iridium will continue to establish itself as a mainstream satellite adjunct to mobile communications, in our view.

- **Competitive pressures are on the horizon, but in our view may have only limited impact on Iridium's target markets for the foreseeable future.** Elon Musk's Starlink service, until this year limited to fixed or limited portable data connectivity relying on a dish-like antenna, is currently launching a direct-to-mobile phone satellite service promising texting, voice, and Internet of Things (IoT) connectivity over existing LTE phones. Other startup providers (AST SpaceMobile, Lynk Global) are trying to do the same. We believe that over time, these initiatives may start posing some competitive threat to certain Iridium service offerings, such as its Go! data hotspot service, in cases where mission-critical reliability is *not* required. However, Iridium is already increasingly focusing on high entry-barrier adjacent markets like high-reliability geolocation services to mission-critical markets, and we believe that the company also is capable of quickly altering the economics of its Customer Premises Equipment (CPE) device business to make its legacy products far more price-competitive and mainstream, should the need arise.
- **The company's multi-layer marketing model is driving TAM expansion, as satellite communications further enter the mainstream.** As a wholesaler, Iridium sells its satellite communications services and associated equipment (phones, modems) through a large network of over 450 distribution partners and value-added resellers (VARs). Partners are incentivized to develop vertical market-specific specialty products and applications that further embed Iridium connectivity into the industry-specific infrastructure used by key verticals. This ensures strong entry barriers into specific end-user markets, while simultaneously lowering the costs associated with Iridium connectivity.
- **With the acquisition of Satelles (STL), Iridium will increasingly provide solutions for the growing GPS integrity issues.** In April of 2024, Iridium acquired Satelles, a secure satellite time and location authentication service provider that effectively allows Iridium to provide a robust, spoof-free alternative GPS service for those who need a higher level of geolocation reliability and integrity than the current aging fleet of U.S. government satellites can provide. The existing U.S. GPS satellite cluster, now in the hands of the recently created U.S. Space Force, is currently undergoing a modernization that will not see the next-generation satellite fleet being fully operational until at least 2027 and still be vulnerable to jamming and spoofing. Meanwhile Beidou, a rival geolocation satellite service operated by China, is starting to eclipse the U.S. system in terms of accuracy and feature-richness, potentially enticing end-user products to use its services at a possible risk to U.S. national security. We believe that these developments, together with the growing security threat of geolocation spoofing in mission-critical verticals, create a compelling case to incorporate Iridium's Positioning, Navigation and Timing (PNT) service into positioning systems in aviation, maritime, transportation and other industries.

- **Iridium's commercial IoT data service growth continues to outpace total revenue growth.** In 3Q'24, IoT data revenue rose 14% from the prior-year quarter to \$43.7 million, in part reflecting a new two-year contract the company signed earlier in 2024. Subscribers grew 14% from the year-ago period to 1,902,000 customers, driven by continued growth in consumer personal communications devices and commercial users. Average revenue per user (ARPU) was \$7.79 in the third quarter, compared to \$7.90 in the prior year period. Revenue in commercial broadband held up in 3Q, at \$15.5 million but was down 1% from \$15.8 million in the year-ago period due to the transition of the maritime user base to a companion service for Very Small Aperture Terminal (VSAT) solutions. ARPU was \$309 during 3Q, compared to \$322 in the prior year period. Iridium added 70,000 net new commercial subscriptions in the quarter. Commercial IoT data subscribers at the end of 3Q represented 80% of billable commercial subscribers, flat compared to the year-ago period.
- **Iridium's government business will remain a stable core revenue component, we believe.** In 3Q'24, government service revenue remained flat from the prior-year quarter at \$26.5 million. In September, the Enhanced Mobile Satellite Services (EMSS) government contract's annual rate increased from \$106 to \$107 million, reflecting a previously negotiated contractual step up. The U.S. government business ended the quarter with 141,000 subscribers, compared to 142,000 at each of the prior-year quarter and 2Q'24. The Company expects subscriber count to vary some due to the nature of the fixed-price contract. Government voice and data subscribers increased 3% from the year-ago period to 63,000 as of September 30, 2024. Government IoT data subscribers decreased 4% year-over-year and represented 55% of government subscribers at quarter-end. We don't anticipate any significant disruptive events impacting Iridium's government business in the near and medium terms, given the company's proven track record for mission-critical reliability and the diverse nature of its end-user base.
- **Additional strategic partnerships are likely to fuel incremental O-EBITDA Growth, in our view.** In 2023, Iridium delivered strong Operational EBITDA (OEBITDA, akin to Adjusted EBITDA) of \$458.8mn with O-EBITDA growing 8.2% year-over-year. We expect O-EBITDA to be \$465.6 million in 2024 (basically flat y/y), followed by accelerating O-EBITDA growth in 2025, with O-EBITDA margins remaining in the 58-59% range, pointing to strong OpEx discipline, a stable gross margin of ~49-50%, and predictable base case revenue growth of 3-5%. We believe that there is a high likelihood of gross margin expansion tied to strategic acquisitions that leverage Iridium's geolocation capabilities for intelligence and analytics applications.
- **Iridium's balance sheet remains solid, even after a \$3bn network upgrade.** Iridium had a cash and cash equivalents balance of \$159.6 million at the end of 3Q. The company ended 3Q'24 with a net leverage of ~3.5x OEBITDA and expects it to remain <4x OEBITDA through 2026. As of September 30, Iridium's term loan balance was \$1.8 billion. Capital expenditures in the third quarter were \$18.6 million. Management

expects capital expenditures to be ~\$70 million in 2024 tied to new product development initiatives including Iridium Non-Terrestrial Network (NTN) DirectSM. The company is projecting pro forma free cash flow of ~\$300 million for 2024, assuming the midpoint of the 2024 EBITDA guidance and backing out \$88 million in net interest (pro forma for the current debt structure), approximately \$69 million in CapEx, \$5 million in cash taxes, and \$6 million in working capital. The company is currently enjoying a “CapEx holiday,” after completing the build-out of its new NEXT satellite constellation in 2019. This holiday should extend to the end of this decade.

- **Another share repurchase authorization.** With the latest \$500-million authorization in September, Iridium’s board has now authorized a total of \$1.5 billion in buybacks since the program started in early 2021. Iridium paid a dividend of \$0.14 per common share for 3Q’24 and expects to return approximately \$65 million of cash to shareholders in 2024 through dividends. In 3Q’24, Iridium retired approximately 4.7 million shares of common stock at an average price of \$27.48 -- the most shares ever purchased during a quarter, representing a reduction of ~4% of the company’s outstanding shares. This activity, together with the new authorization, left Iridium with an outstanding balance of \$552 million under the board-approved repurchase program at the end of 3Q’24. In total, Iridium has already returned more than \$1 billion to shareholders.
- **IRDM shares have room for further price appreciation, we believe.** Shares are currently trading at ~6.4x our FY25 O-EBITDA estimate of \$494mn. In our opinion, IRDM shares can appreciate from current price levels, as Iridium shows acceleration of its ~4% revenue growth in FY24 as its connectivity potential for mission-critical IoT networks begins to be realized. Our \$40 price target values IRDM shares at an EV/O-EBITDA multiple of ~9.2x our 2025 O-EBITDA estimate of \$494mn.

Key Investment Considerations

Iridium is NOT Starlink – and its competitive positioning, we believe, will remain fairly narrow and unique. Until January of this year, Elon Musk’s Starlink satellite service, based on its LEO cluster of satellites, was limited to largely stationary data services using a dedicated rectangular directional antenna in ways not unlike the ubiquitous television satellite dish antenna. Those services continue to be offered today. On January 8th, Starlink launched its first six Starlink satellites with “Direct to Cell” capabilities, promising full text capabilities in 2024 followed by voice and IoT services in 2025. According to Starlink, Direct to Cell works with existing LTE phones with a direct view of the sky. No changes to hardware, firmware, or special apps are required, providing direct access to text, voice, and data. Starlink satellites with Direct to Cell capability have a dedicated eNodeB modem onboard allowing it to act like a cellphone tower in space, thus allowing network handoff similar to a standard roaming partner. Thus far, Starlink has signed up T-Mobile as a partner in the U.S., as well as Rogers in Canada, Optus in Australia, One New Zealand, and KDDI in Japan. Additional partnerships with mobile carriers

are expected in 2025 and beyond. However, the reliability and robustness of Starlink's Direct to Cell connectivity scheme remains untested and could take some time to perfect, we believe.

A sat phone in every pocket? We don't foresee such a scenario playing out, and we believe that dedicated (purpose-built) Iridium phones offering voice and data services powered by its 66-satellite LEO constellation as a primary mode of communication will likely remain a viable niche market for a select group of users requiring robust and reliable satellite mobile connectivity. The strategic partnership that Iridium struck with Qualcomm in January 2023 to have its technology and connectivity embedded in Qualcomm's Snapdragon mobile chipset never evolved to mass market acceptance (perhaps given the advances Starlink was making with Direct to Cell). However, it remains an effective means for next-generation Android smartphones to offer at least some connectivity features to the Iridium network, perhaps limited to connectivity for emergency signaling, SMS texting and possibly low-bandwidth connectivity for e-mail. It remains to be seen whether such partnerships will continue to develop going forward.

A robust TAM covering sticky, mission-critical verticals. Iridium's original core vertical was the US government, which continues to be the company's largest and most important customer. The US government has been and continues to be Iridium's largest single customer, generating \$190.1mn in service and engineering and support service revenue, or ~20% of Iridium's total revenue, in 2023, excluding revenue from equipment or services purchased by US or non-US government agencies through third-party distributors). Iridium operates under a multi-year, fixed-price contract with the US government, known as the Enhanced Mobile Satellite Services, or EMSS, contract to provide specified satellite airtime services for an unlimited number of US Department of Defense, or DoD, and other federal government subscribers. The EMSS contract, entered into in September 2019, has a total value of \$738.5mn over its seven-year term, through September 2026, with annual revenues between \$100mn and \$110.5mn over the term. The company provides other services to the US government under separate arrangements for an additional fee.

Other verticals with a high emphasis on mission-critical communications in remote locations, including emergency services, maritime, aviation, government, utilities, oil and gas, mining, recreation, forestry, heavy equipment, construction, and transportation have dedicated Iridium accounts for their employees. At the same time, the data-only IoT market, often through Iridium's third-party ecosystem partners, has exhibited extremely robust growth in recent years, growing at a 10-year CAGR of 20% for Iridium. Asset tracking and status monitoring in remote locations (e.g. containers on a ship in the ocean) has become one of the main drivers of Iridium's commercial business.

The NEXT satellite constellation, fully replacing Iridium's old LEO infrastructure as of 2019, offers more for less. Iridium's original satellite constellation had limited transmission speeds of 128 Kbps for large maritime installations and 2.4 Kbps for individual phones. It was replaced in 2019 with the much higher-bandwidth and more reliable NEXT satellite constellation, which offers 88 Kbps for midband IoT users and 704 Kbps for broadband maritime and aviation installations. This extra capacity allowed Iridium to partner with L3Harris to develop Aireon, the leading-edge global air traffic surveillance service, through a series of automatic dependent surveillance-broadcast, or ADS-B, receivers on

Iridium's satellites. Aireon LLC was formed in 2011, with subsequent investments from the air navigation service providers, (ANSP), of Canada, Italy, Denmark, Ireland and the United Kingdom, to develop and market the service. Besides Aireon, the NEXT constellation has allowed the Certus data service to offer much higher data speeds. Meanwhile, pricing for Iridium's service has remained affordable for end-users, with overall commercial voice and data ARPU now running at \$46, easily paralleling terrestrial mobile ARPUs.

Industry Positioning

Iridium operates what we believe is the most comprehensive and most robust L-band satellite communications network powered by a low-earth orbiting (LEO) constellation of 66 primary satellites and 14 in-orbit spares. These satellites comprise Iridium's latest generation NEXT network, fully operational since 2019, and offer weather-resilient L-band voice and data service to first responders, businesses, and governments that need remote and mobile connectivity anywhere on the planet, using crosslinks that connect the satellites in space and create a unique handoff connectivity without need for a global ground infrastructure network. This is a key competitive advantage that the Iridium constellation continues to enjoy. The only other LEO-based satellite network provider using L-band in the United States is GlobalStar, Inc. (GSAT (NYSE); NR).

Entering the mainstream wireless markets. Iridium's mobile voice and data services have steadily become established as a mainstream adjunct to terrestrial mobile services, when the latter are not available at sea, in air, or in remote areas of the world. What started as a niche market for reliable voice and data connectivity from anywhere in the world has gradually, in stages, entered the mainstream mobile market and found more mainstream consumer adoption. Another interesting (though economically inconsequential) event occurred in January 2023, when Iridium announced that it had entered into an agreement with Qualcomm Technologies to enable satellite messaging and emergency services in smartphones powered by Qualcomm's Snapdragon Mobile Platforms (essentially Android devices). This agreement had minimal impact on Iridium's revenues, and it illustrates the industry's strong preference for standards-based shipsets rather than proprietary solutions.

Second generation constellation completed in 2019. The current Iridium NEXT constellation was completed in 2019, replacing the first-generation system dating back to the late 1990s. While supporting new products with higher data speeds and better voice quality and reliability, the NEXT constellation also hosts Aireon, a global air traffic tracking system formed by Iridium in 2011 with the support of several national air navigation authorities, including Canada, Italy, Denmark, Ireland, and the UK. Since then, other national aviation authorities have signed contracts to use Aireon's satellite connectivity to track aircraft moving within their air space in real time.

As part of its long-term relationship with Iridium, Aireon has signed a long-term contract to pay Iridium a fee to host ADS-B receivers on its satellites, and to pay data service fees for the delivery of the air traffic surveillance data riding over the Iridium network. Iridium has also entered into a similar agreement with L3Harris, the manufacturer of the Aireon-hosted payload. Pursuant to this agreement,

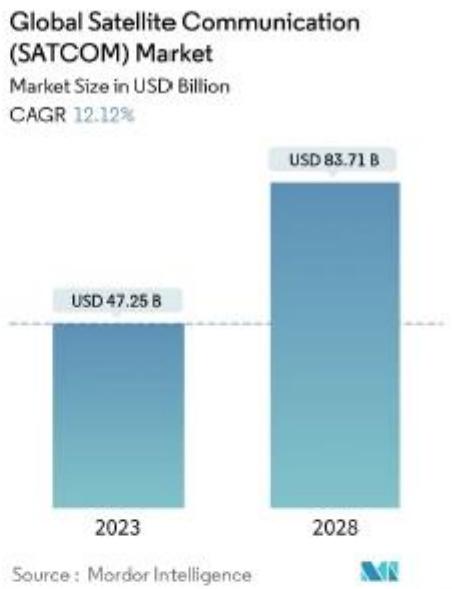
L3Harris pays Iridium fees to allocate the remaining hosted payload capacity to its customers, along with data service fees on behalf of these customers.

A multi-industry ecosystem enabled by third-party resellers. Iridium's commercial business serves a wide range of vertical markets that include emergency services, maritime, aviation, government, utilities, oil and gas, mining, recreation, forestry, heavy equipment, construction, railways and other transportation. Many end users view the voice and data products and services as critical to their daily operations. Besides telephone service, email and data transfer, many verticals rely on telematics and asset location tracking supported by the Iridium network to provide mobile communications services in areas inadequately served by other telecommunications networks. Aviation end users use the services for air-to-ground telephony and data communications for position reporting, flight following, emergency tracking, weather information, electronic flight bag updates, and airline operational communications – many of these services are regulated and only available to satellite operators using L-band spectrum.

There has also been a growing adoption of these services to support autonomous drone systems, where Iridium is used for command and control, image transmission and environmental data gathering via unmanned aerial, underwater and surface vehicles. Iridium Certus provides a platform for its partners to develop specialized broadband and “midband” services (with transmission speeds running between 88 Kbps and 704 Kbps, much higher than the legacy 2.4 Kbps speeds on which its narrowband applications were based). Iridium Certus offers flexibility to scale device speeds, sizes and power requirements based on the needs of the end-user. These and future Iridium Certus service offerings will likely continue to drive growth opportunities in the commercial business.

The satellite communications TAM: still an early-innings story. Iridium is a leading L-band provider of mobile satellite services in the global communications industry. Mobile satellite services operators provide voice and data services to use a network of satellites and ground facilities. Mobile satellite services provide connectivity in all locations where terrestrial wireless and wireline communications networks do not exist, or do not provide sufficient coverage, or are damaged, including rural and developing areas that lack adequate wireless or wireline networks, airways, ocean and polar regions where few alternatives exist, and regions where the telecommunications infrastructure has been affected by wars or natural disasters. Its closest direct competitor in the market in the U.S. is GlobalStar, Inc. (GSAT; NR), whose satellite constellation and network connectivity remain limited – due to its bent pipe architecture – when compared to Iridium. Other satellite communications providers, like Orbcomm, are more focused on specific data-centric applications like IoT, derive a majority of their revenue from cellular solutions, and also lack the size and scale of Iridium's NEXT constellation.

According to the industry research group Mordor Intelligence, the global total addressable market (TAM) for mobile satellite services exceeds \$47bn and is expected to grow to almost \$84bn by the end of 2028, at a CAGR of just over 12%, with Asia-Pacific being the fastest growing region and North America being the largest market:



Study Period	2018 - 2028
Market Size (2023)	USD 47.25 Billion
Market Size (2028)	USD 83.71 Billion
CAGR (2023 - 2028)	12.12 %
Fastest Growing Market	Asia-Pacific
Largest Market	North America

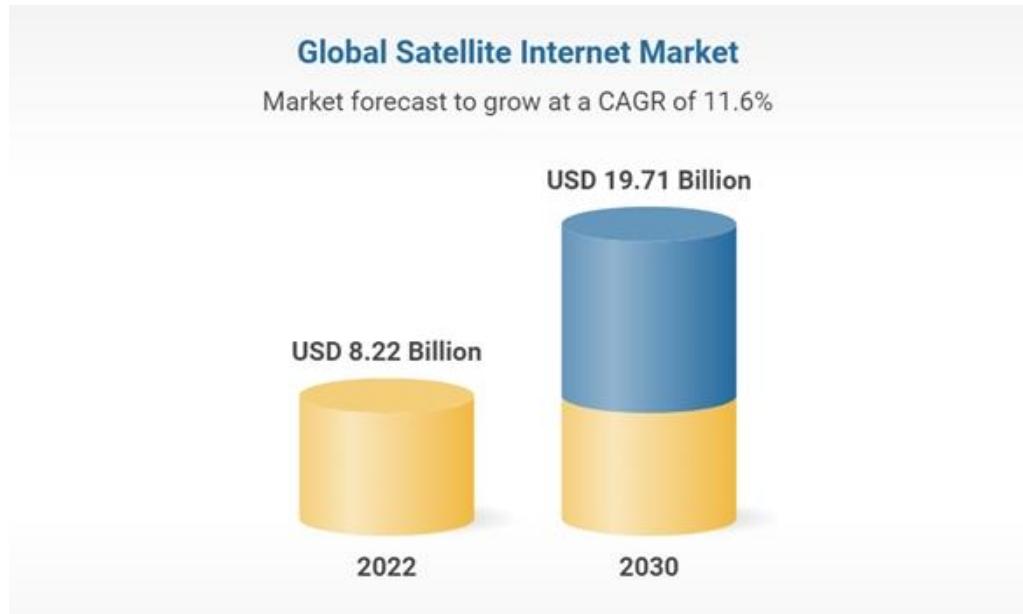
Major Players



*Disclaimer: Major Players sorted in no particular order

Source: Mordor Intelligence

According to another industry research group, Research and Markets, the Global Satellite Internet Market, a Satellite Communications TAM subsegment, is expected to grow at a CAGR of 11.6%, from \$8.22bn in 2022 to \$19.71bn in 2030:



Source: Research and Markets

Increasing mobile penetration creates additional demand for mobile satellite services. According to a 2023 study by the GSM Association, unique mobile subscribers, excluding cellular Internet of Things, or IoT, reached 5.3bn throughout the world as of the end of 2021 and are projected to reach 6.3bn by 2030.

Growth in the terrestrial wireless industry has increased the need for reliable mobile voice and data communications services. With that awareness has also come the realization that terrestrial wireless systems only cover a limited part of the earth's surface and are available mostly in those areas where people live, excluding oceans and other remote regions where ships, airplanes and other remote assets may travel or be located.

A growing number of mobile carriers are now starting to offer satellite-based network connectivity as an adjunct for low-bandwidth emergency or essential communication, such as texting services. The mobile satellite services sector of the global telecommunications industry also benefits from the continued development of innovative, lower-cost technology and applications integrating mobile satellite products and services, including the continued advancement of IoT. Growth in demand for mobile satellite services is driven in large part by the declining cost of these services, the diminishing size and lower costs of voice, data and IoT devices, the rollout of new applications tailored to the specific needs of customers across a variety of markets, and expansion into new international markets.

Iridium's government business. The US government has been and remains Iridium's single largest customer, contributing \$190.1mn in revenue in 2023, for services, equipment and support. Iridium operates under a multi-year, fixed-price contract with the US government, known as the Enhanced Mobile Satellite Services, or EMSS, contract to provide specified satellite airtime services for an unlimited number of U.S. Department of Defense, or DoD, and other federal government subscribers. The EMSS contract, entered into in September 2019, has a total value of \$738.5mn over its seven-year term, through September 2026, with annual revenues between \$100mn and \$110.5mn over the term. The company provides other services, such as Iridium Certus, to the US government under separate arrangements for an additional fee.

The U.S. government owns and operates a dedicated gateway that is only compatible with Iridium's satellite network. Iridium's voice and data products are used for numerous primary and backup communications solutions, including logistical, administrative, tactical, and emergency communications. In addition, the company's products are installed in ground vehicles, ships, and rotary- and fixed-wing aircraft and are used for command-and-control and situational awareness purposes. The satellite network provides increased network security to the US government because traffic is routed across its satellite constellation before being brought down to earth through the dedicated, secure US government gateway. The US government has made, and continues to make investments to upgrade its dedicated gateway and to purchase Iridium's voice and data devices. In fact, the US government just awarded Iridium a new \$94mn 5-year contract this year to support its dedicated Iridium gateway.

Sales and Marketing

Iridium sells its products and services through a wholesale distribution network of about 100 service providers, approximately 300 value-added resellers (VARs), and approximately 85 value-added manufacturers (VAMs), which use the Iridium network either directly or indirectly through other service providers, VARs, or dealers. These distributors often integrate the company's products and services with other complementary hardware and software. In many cases, they have developed a broad suite of applications based on Iridium products and services for specific vertical markets, often marketing the systems themselves. At the end of 2023, Iridium had more than 2.1mn billable subscribers worldwide, a 15% increase over 2022. Total revenue increased from \$721.0mn in 2022 to \$790.7mn in 2023.

Iridium's Competitive Landscape

	Iridium's Position	Key Competitors	Iridium's Advantages	Iridium's Growth Strategy
 Land/Mobile	Market leader with premium product offering	Inmarsat Globalstar (Regional) Thuraya (Regional)	<ul style="list-style-type: none"> True mobility Global coverage Reliability 	<ul style="list-style-type: none"> Robust product portfolio Attractive handset margins
 IoT Services	Premium provider with rapid subscriber growth	Orbcomm (Hybrid) Globalstar (Regional) Inmarsat	<ul style="list-style-type: none"> Global coverage Low latency Throughput Small form factor 	<ul style="list-style-type: none"> Hardware cost reductions Complement to terrestrial solutions
 Maritime	Large addressable market with high value customers	Inmarsat	<ul style="list-style-type: none"> Global coverage Low cost Small antenna 	<ul style="list-style-type: none"> Safety services, including GMDSS Value-oriented offerings Higher throughput
 Aviation	Market leader in general aviation with broadband growth opportunity	Inmarsat	<ul style="list-style-type: none"> Global coverage Low cost Small device 	<ul style="list-style-type: none"> Safety services for pilots in cockpit Leverage global coverage advantage

Source: Iridium Communications, Inc.

The above exhibit summarizes Iridium's competitive positioning in its key business segments. We believe that the first two, Land/Mobile and IoT Services, represent the two highest areas of TAM growth for the company, particularly as Iridium's two main competitors, Inmarsat and Globalstar, have recently been losing competitive strength (and market share, we believe) to Iridium. Inmarsat, an older and much more capital-intensive satellite provider whose constellation consists of 15 satellites in geostationary orbit 35,786km (22,236 miles) above the Earth, was acquired in May of 2023 by competitor satellite provider Viasat.

We believe that Iridium's strong competitive positioning and market advantage comes in part from the unique architecture of its constellation: A large mesh (66 operational satellites) of relatively low-cost/low maintenance satellites in low earth orbit (LEO) blanketing the globe and communicating data between satellites and to and from the terrestrial gateway.

Within the two major satellite sectors, fixed satellite services and mobile satellite services, the products that operators offer differ significantly from each other with respect to size of antenna and types of services that the products can offer. Fixed satellite services providers, such as Intelsat S.A., Eutelsat Communications S.A. and SES S.A., are characterized by large, often stationary or fixed ground terminals that send and receive high-bandwidth signals to and from the satellite network for video and high-speed data customers and international telephone markets. By contrast, mobile satellite services providers focus more on voice and data services, where mobility and small-sized terminals are essential. Other mobile satellite service providers include Globalstar, Inc., ORBCOMM Inc., and in some portions of their businesses, Inmarsat (acquired by Viasat in 2023), as well as new entrants such as Space Exploration Technology Corp.'s (SpaceX) Starlink and OneWeb Holdings Limited.

LEO systems, such as the one Iridium operates, generally have lower transmission delays, or latency, than Geostationary Earth Orbit (GEO) systems, due to the shorter distance signals have to travel, which also enables the use of smaller antennas on mobile devices. The L-band spectrum which Iridium uses is also more resistant to weather interference than the K-band spectrum used by new entrants such as Starlink and OneWeb. We believe the unique interlinked mesh architecture of Iridium's constellation, combined with its size (66 operational satellites), differentiates the company from smaller LEO satellite operators like Globalstar and ORBCOMM, without creating the need for local ground infrastructure to fill in gaps in satellite coverage. Iridium is therefore the only mobile satellite services operator offering real-time, weather-resilient, low-latency services with extensive global coverage, including full coverage of the polar regions.

Iridium's Products

Commercial Voice and Data and Commercial Broadband

Iridium is the leading provider of mobile satellite communications services to the land mobile sector, providing handset services to areas not served or inconsistently served by existing land-based communications networks. Verticals such as mining, forestry, construction, oil and gas, utilities, heavy industry and transport companies as well as the military, public safety and disaster relief agencies are the main customer groups that use Iridium's services. The growing reliance on wireless as the primary means of communications has steadily increased demand for Iridium's services.

This increase in demand has also benefited Iridium's Certus broadband service, whose land mobile units have become an attractive alternative in this market, as its combination of price, speeds, equipment, reliability in various weather conditions, and durability of equipment addresses a distinct market need. We also expect Iridium Certus midband products and services, such as the new Iridium GO! exec device, to be a source of revenue going forward. Products and services include:

Voice and data: Enterprise customers in multiple sectors use the company's services for business telephony, email and data transfer services, location-based services, broadband and to provide telephony services for employees in areas inadequately served by terrestrial networks. The Iridium Push-To-Talk (PTT) service offers non-governmental organizations (NGOs), military, first responder, oil and gas, civil government and other users the ability to hold group calls using the Iridium Extreme PTT handset or other devices developed by the company's VAMs and VARs using the Iridium 9523 PTT core transceiver.

Public safety and disaster relief: Relief agencies, such as FEMA, and other government agencies, such as the Department of Homeland Security, use the company's products and services in their emergency response plans, particularly in the aftermath of natural disasters. These agencies generate significant demand for both voice and data products, especially in advance of the hurricane season in North America. Also, many enterprises and governments include mobile satellite services as part of their PACE plan (Primary/Alternate/Contingency/Emergency), to maintain communications continuity in case of terrestrial communication network outages.

Public telephone infrastructure: Telecommunications service providers use Iridium services to satisfy regulatory mandates and government expectations regarding the availability of communications services for rural populations currently not served by terrestrial infrastructure.

Maritime: Iridium provides the maritime industries with a variety of products, including broadband terminals, embedded devices and handsets. This market includes merchant shipping, fishing, leisure and research vessels, as well as specialized watercraft. Iridium Certus services have accounted for an increasing portion of the company's revenue from this market. Products and services targeting the maritime market typically have high average revenue per subscriber. After maritime systems are installed on a vessel, they typically generate a multi-year recurring revenue stream from the customer.

Aviation: Iridium is one of the leading providers of mobile satellite communications services to the aviation sector. Services are increasingly used in commercial and government aviation applications, principally by corporate jets, corporate and government helicopter fleets, specialized general aviation fleets, such as medevac companies and fire suppression fleets, and high-end personal aircraft. The company's services are also employed by commercial airline operators for flight deck voice and data link services for aircraft operational and safety communications. As a result of authorizations by the Federal Aviation Administration (FAA) and the Federal Communications Commission (FCC), commercial operators are installing avionics that use the Iridium network on the flight deck to comply with international air navigation communications requirements to operate in oceanic and remote airspace, including polar regions. Voice and data avionics platforms from Iridium's partners have been adopted as standard equipment and as factory options for a range of airframes in business aviation and air transport, such as Gulfstream Aerospace Corporation, Bombardier Inc., Cessna Aircraft Company, Boeing, and Airbus.

Valuation

Satellite/Space Technology Enablers

(\$ in Millions, except per share)	Price at Close 11/25/24	Mkt. Cap.(M)	EV (M)	Revenue (M)		EPS (non-GAAP)		Forward P/E		EV / Revenue		EV/EBITDA (TTM)	ROE (TTM)	
				2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E			
AST Space Mobile, Inc.	ASTS	\$ 24.21	\$4,850	\$4,777	\$5	\$72	(\$1.69)	(\$0.50)	NM	NM	NM	66.5x	-2.3x	-103.52%
BlackSky Technology	BKSY	\$ 11.37	\$350	\$393	\$106	\$133	(\$2.13)	(\$1.14)	NM	NM	3.7x	2.9x	24.4x	-41.09%
Gilat Satellite Networks Ltd.	GILT	\$ 5.55	\$316	\$230	\$312	\$393	\$0.38	\$0.39	14.6x	14.2x	0.7x	0.6x	6.1x	7.39%
Globalstar, Inc.	GSAT	\$ 1.87	\$3,534	\$3,905	\$247	\$256	(\$0.01)	\$0.00	NM	NM	15.8x	15.3x	46.3x	-7.21%
Iridium Communications, Inc.	IRDM	\$ 29.99	\$3,414	\$5,065	\$820	\$844	\$0.82	\$1.02	36.6x	29.4x	6.2x	6.0x	12.4x	14.41%
Planet Labs, PBC	PL	\$ 3.78	\$1,029	\$804	\$254	\$291	(\$0.22)	(\$0.13)	NM	NM	3.2x	2.8x	-6.7x	-26.87%
Redwire Corp.	RDW	\$ 13.77	\$916	\$1,011	\$308	\$364	(\$0.80)	(\$0.36)	NM	NM	3.3x	2.8x	-3.1x	-160.53%
Rocket Lab USA Inc.	RKLB	\$ 24.06	\$12,028	\$12,056	\$434	\$609	(\$0.32)	(\$0.25)	NM	NM	27.8x	19.8x	-16.4x	-37.45%
Spire Global, Inc.	SPIR	\$ 16.62	\$404	\$471	\$138	\$145	(\$2.00)	(\$0.85)	NM	NM	3.4x	3.2x	3.8x	-79.87%
Virgin Galactic Holdings, Inc.	SPCE	\$ 7.50	\$217	\$58	\$9	\$18	(\$14.81)	(\$10.56)	NM	NM	6.8x	3.2x	-0.1x	-77.55%
Viasat, Inc.	VSAT	\$ 9.71	\$1,247	\$6,977	\$4,532	\$4,635	(\$2.26)	(\$1.66)	NM	NM	1.5x	1.5x	4.9x	-6.80%
MEDIAN									25.6x	21.8x	3.6x	3.2x	3.8x	-37.45%

Source: Factset, S&P Global Market Intelligence; Estimates are Street Consensus.

From the above comparable valuation table of both direct and indirect peers, we can see that Iridium's fundamentals in relative terms are solid, and that the company's valuation, while relatively rich on a forward EV/Sales basis, remains within peer group boundaries. Only Iridium and Gilat Satellite are estimated to be earnings-positive in 2025, making peer group comparisons difficult on a forward P/E basis. On an EV/Revenue basis, Iridium's closest competitor Globalstar, Inc. (GSAT) currently carries a richer valuation, although the company, in our view, clearly remains at a competitive disadvantage relative to Iridium. Finally, we believe it is important to note that relative to its peers, Iridium's return on equity (ROE) profile (+14.4% TTM) is superior to all of its peers and points to a settled, operationally efficient business model.

The satellite industry is arguably ripe for consolidation, although high-profile mergers have recently been infrequent. In 2023, IRDM's direct competitor Inmarsat was acquired by Viasat for cash and stock valued at \$551mn in cash and approximately 46.36mn shares of common stock. The cash portion of the purchase price was reduced from \$850mn to \$551mn after Inmarsat paid a \$299mn special dividend to its shareholders in April 2022. We cannot rule out additional M&A in the space, and note that such deals will likely command significant market premiums, given the extremely high market entry barriers that some companies enjoy.

In valuing Iridium, we believe that using valuation metrics from a mix of comparative technology companies can be helpful in assessing appropriate relative valuation multiples. Following our analysis, we conclude that an in line with peer risk-adjusted 10-11x EV/Forward target EBITDA multiple is appropriate using our 2024 EBITDA estimate, yielding a \$40 price target. We view this multiple as being reasonable and consistent with Iridium's growth outlook and its peer group, as we believe that Iridium's growth and margin profile is in a secular uptrend and will see improvement over the next several quarters. We also believe that absent a negative guidance event (which we don't envision at this time), the estimate revision momentum for Iridium will likely remain positive after the company reports Q4 results later this year.

Risks to Price Target

Company-specific risks to the target price include:

Iridium's customized hardware and software may be difficult and expensive to service, upgrade or replace. Some of the hardware and software Iridium uses in operating its terrestrial gateways is significantly customized and tailored to meet its network's requirements and specifications and could be difficult and expensive to service, upgrade or replace.

Rapid and significant technological changes in the satellite communications industry could negatively impact Iridium's competitive position and may require significant additional capital expenditures to address. The satellite communications industry is subject to rapid advances and innovations in technology. The company could face competition in the future from companies using new technologies and new satellite systems, including new entrants who are developing or have announced alternative

technologies, some of which would compete directly with one or more of Iridium's existing or planned products and services.

Iridium's satellite networks and those of third-party service providers may be vulnerable to cybersecurity risks. The secure transmission of confidential information over public networks continues to be a critical element of the company's ability to compete for business, manage risks, and protect its customers and reputation. Iridium's network, including third-party service providers and their customers, may be vulnerable to unauthorized access, computer attacks, viruses and other security problems. The company may be required to expend significant resources to respond to, contain, remediate, and protect against these attacks and threats, including compliance with applicable data breach and security laws and regulations, and to alleviate problems, including reputational harm and litigation, caused by such security incidents.

Iridium's business plan depends on increased demand for mobile satellite services. The company's business plan is predicated on growth in demand for mobile satellite services. Demand for mobile satellite services may not grow, or may even contract, either generally or in particular geographic markets, for particular types of services or during particular time periods. A lack of demand could impair Iridium's ability to sell products and services, develop and successfully market new products and services, and could exert downward pressure on prices. Any decline in prices would decrease the company's revenue and profitability and negatively affect its ability to generate cash for debt reduction, capital expenditures, investments, and other working capital needs.

Iridium's agreements with U.S. government customers, particularly the DoD, which represent a significant portion of its revenue, are subject to termination and renewal. The U.S. government, through a dedicated gateway owned and operated by the DoD, has been and continues to be, directly and indirectly, Iridium's largest customer, representing over 20% of total revenue. The incoming Republican administration has articulated its stated desire to dramatically reduce government agency spending, which could have a sudden and significant impact on Iridium's revenue outlook.

Aireon, the company's primary hosted payload customer, may not successfully grow its business, which could reduce or eliminate the value of its agreements with, and ownership interest in Aireon. Aireon is Iridium's primary hosted payload customer, and management expects annual revenue from Aireon hosting, data services and power fees to exceed \$30 million annually. Aireon's business model requires expansion of its customer base to achieve its projected financial results, which may not occur as projected, or at all. If Aireon does not achieve its projected results, it may not be able to pay Iridium the contractually required hosting, data services and power fees in a timely manner or at all.

Iridium's failure to effectively manage the expansion of its portfolio of products and services could impede the company's ability to execute its business plan. In order to achieve its anticipated future revenue growth, Iridium must develop and market new products and services. These efforts currently face a variety of challenges, including maintaining the infrastructure and systems necessary to manage the growth of its business. As Iridium's product and service portfolio continues to expand, the responsibilities of the management team and demands on company resources also increase. This may

further strain management and other company resources with the increased complexities and administrative burdens associated with a larger, more complex portfolio of products and services.

Iridium is heavily dependent on third parties to market and sell its products and services. Their inability to do so effectively could impair the company's revenue and reputation. Iridium selects third-party distributors, in some cases on an exclusive basis, and relies on them to market and sell its products and services to end users and to determine the prices end users pay. The company also depends on these distributors to develop innovative and improved solutions and applications integrating the company's product and service offerings. As a result of these arrangements, Iridium is dependent on the performance of its distributors to generate most of its revenue. These distributors operate independently of Iridium, and the company has limited control over their operations. Distributors may not commit the same level of resources to market and sell Iridium's products and services that the company itself would and may also market and sell competitive products and services. If Iridium's distributors develop faulty or poorly performing products using Iridium's technology or services, the company may be subject to claims, and its reputation could be harmed.

Greg Mesniaeff

gmesniaeff@kingswoodus.com

All figures in millions of U.S. Dollars except % and per share items.

Iridium Communications Inc.

(IRDM-NASDAQ)

	DEC FY	DEC '21 FY	DEC '22 FY	DEC '23 FY	MAR '24 Q1	JUN '24 Q2	SEP '24 Q3	DEC '24 Q4E	DEC '24 FYE	MAR '25 Q1E	JUN '25 Q2E	SEP '25 Q3E	DEC '25 Q4E	DEC '25 FYE	DEC '26 FYE	
Sales		\$614.50		\$721.03		\$790.72		\$203.85		\$201.07		\$212.77		\$203.50		\$821.19
Revenue Growth (%):																
Year/Year		5.3%		17.3%		9.7%		-0.7%		4.1%		7.7%		4.5%		3.9%
Quarter/Quarter		NA		NA		NA		4.7%		-1.4%		5.8%		-4.4%		NA
Cost of Goods Sold (COGS) incl. D&A	455.83	504.63	507.62	110.07	104.19	107.78	104.80	426.84	106.04	107.67	107.43	103.21	424.35	420.58		
COGS excluding D&A	150.40	201.15	225.12	60.33	53.41	56.62	52.80	223.16	54.04	55.67	55.43	51.21	216.35	211.58		
Depreciation & Amortization Expense	305.43	303.48	282.50	49.74	50.78	51.16	52.00	203.68	52.00	52.00	52.00	52.00	208.00	209.00		
Gross Income	158.67	216.40	283.11	93.78	96.88	104.99	98.70	394.35	101.88	103.45	109.60	107.42	422.35	455.63		
Gross Margin:	25.8%	30.0%	35.8%	46.0%	48.2%	49.3%	48.5%	48.0%	49.0%	49.0%	50.5%	51.0%	49.9%	52.0%		
SG&A	100.47	123.50	143.71	36.81	46.72	43.55	42.74	169.82	41.59	42.22	42.32	43.18	169.31	170.86		
Pct. of Sales:	16.4%	17.1%	18.2%	18.1%	23.2%	20.5%	21.0%	20.7%	20.0%	20.0%	19.5%	20.5%	20.0%	19.5%		
Research & Development	11.89	16.22	20.28	7.20	6.51	6.19	6.10	26.00	6.20	6.20	6.20	6.20	24.80	25.00		
EBIT (Operating Income)	46.31	76.68	119.12	49.77	43.65	55.25	49.86	198.53	54.10	55.03	61.08	58.04	228.24	259.77		
Nonoperating Income - Net	(0.42)	5.61	16.73	2.57	1.68	3.86	4.00	12.11	4.00	4.00	4.00	4.00	16.00	16.00		
Nonoperating Interest Income	0.00	7.00	12.72	2.52	2.32	3.55	3.50	11.89	3.50	3.50	3.50	3.50	14.00	14.00		
Equity in Earnings of Affiliates	0.00	(1.50)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Other Income (Expense)	(0.42)	0.11	4.01	0.04	(0.65)	0.31	0.50	0.20	0.50	0.50	0.50	0.50	2.00	2.00		
Interest Expense	73.91	72.09	99.71	23.19	26.12	27.80	27.00	104.11	26.00	26.00	26.00	25.00	103.00	100.00		
Gross Interest Expense	76.05	74.68	103.33	24.24	27.31	29.07	29.00	109.62	28.00	28.00	28.00	27.00	111.00	100.00		
Interest Capitalized	2.15	2.59	4.97	1.06	1.19	1.27	1.00	4.52	1.00	1.00	1.00	1.00	4.00	4.00		
Extraordinary Expense - Net	0.88	1.19	37.50	0.00	0.00	0.40	0.00	0.40	0.00	0.00	0.00	0.00	0.00	0.00	1.19	
Excl Chrgs - Others	0.88	1.19	37.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Restructuring of Debt	0.88	1.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Pretax Income	(28.89)	9.01	(4.76)	29.15	19.20	30.92	24.86	104.13	30.10	31.03	37.08	35.04	133.24	175.77		
Income Taxes	(19.57)	0.29	(14.23)	7.93	4.57	6.01	5.00	23.51	5.00	5.00	5.00	5.00	20.00	18.00		
Equity in Earnings of Affiliates	0.00		(4.61)	(1.57)	17.70	(0.47)	0.00	15.66	0.00	0.00	0.00	0.00	0.00	0.00		
Net Income	(9.32)	8.72	15.41	19.65	32.34	24.45	19.86	96.30	25.10	26.03	32.08	30.04	113.24	157.77		
Per Share																
EPS (diluted)	(\$0.07)	\$0.07	\$0.14	\$0.16	\$0.27	\$0.21	\$0.17	\$0.81	\$0.21	\$0.22	\$0.28	\$0.26	\$0.98	\$1.40		
Diluted Shares Outstanding	133.53	128.26	126.19	123.99	121.24	118.11	118.21	120.39	117.00	116.00	116.00	115.00	116.00	113.00		

All figures in millions of U.S. Dollars except % and per share items.

Source: FactSet Fundamentals; Kingswood Capital Partners estimates.



DISCLOSURES

Analyst Certification

The Research Analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple Research Analysts are primarily responsible for this report, the Research Analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the Research Analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect the Research Analyst's personal views about any and all of the subject securities or issuers; and (2) no part of any of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this report.

I, Greg Mesniaeff, certify that (1) the views expressed in this report accurately reflect my own views about any and all of the subject companies and securities; and (2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by me in this report.

Explanation of Research Ratings (As of January 1, 2024), Designations and Analyst(s) Coverage Universe:

Kingswood Capital Partners, LLC uses the following rating system:

Buy - Buy-rated stocks are expected to have a total return of at least 15% over the following 12 months and are the most attractive stocks in the sector coverage area.

Hold - We believe this stock will perform in line with the average return of others in its industry over the following 12 months.

Sell - Sell-rated stocks are expected to have a negative total return of at least 15% over the following 12 months and are the least attractive stocks in the sector coverage area.

Not Covered (NC) - Kingswood Capital Partners, LLC DOES NOT cover this stock and therefore DOES NOT have forecasts, projections, target price and recommendation on the shares of this company.

Company-Specific Disclosures

Distribution of Ratings Kingswood Capital Partners, LLC				
	Investment Banking Services/Past 12 Months			
Rating	Count	Percent	Count	Percent
BUY	4	80.00	1	25.00
HOLD	0	0.00	0	0.00
SELL	0	0.00	0	0.00
NOT RATED	1	20.00	1	100.00

As of November 2024.

Iridium Communications Rating History as of November 25, 2024



Source: E-Trade.

Other Disclosures

This report has been prepared by Kingswood Capital Partners, LLC. It does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained in this report may not be suitable for all investors. Although the information contained herein has been obtained from recognized services, issuer reports or communications, or other services and sources believed to be reliable, its accuracy or completeness cannot be guaranteed. This report may contain links to third-party websites, and Kingswood Capital Partners, LLC is not responsible for their content or any linked content contained therein. Such content is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or affiliation with Kingswood Capital Partners, LLC; access to these links is at your own risk. Any opinions, estimates or projections expressed herein may assume some economic, industry and political considerations and constitute current opinions, at the time of issuance, that are subject to change. Any quoted price is as of the last trading session unless otherwise noted. Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument.

mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk. This information is being furnished to you for informational purposes only, and on the condition that it will not form a primary basis for any investment decision. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the applicable legal, tax and accounting considerations and their own investment strategies. By virtue of this publication, neither the Firm nor any of its employees shall be responsible for any investment decision.