

Iridium Communications, Inc. (Nasdaq: IRDM)

Rating: Buy

Price Target: \$45.00 (Previously \$40.00)

Share Price: \$31.99

Greg Mesniaeff

gmesniaeff@kingswoodus.com
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Company Data

Average Daily Volume (M)	1.180
52-Week Range	24.14-36.32
Shares Outstanding (M)	113.85
Market Cap (M)	3,160
Enterprise Value (M)	4,790
Total Cash (M), mrq	93.53
Total Debt (M)	1,791
Total Debt to Cap	0.73

Estimates

	FYE: Dec	2024A	2025E	2026E
EPS	Q1	\$0.16	\$0.26	N/A
	Q2	\$0.27	\$0.28	N/A
	Q3	0.21	\$0.29	N/A
	Q4	\$0.32	\$0.29	N/A
	FY	\$0.96	\$1.12	\$1.41
P/E		33.3x	28.6x	22.7x
Rev	Q1	\$203.9	\$210.0	N/A
	Q2	\$201.1	\$211.1	N/A
	Q3	\$212.8	\$223.4	N/A
	Q4	\$213.0	\$221.5	N/A
	FY	\$830.7	\$866.0	\$886.3
EV/Sales		5.8x	5.5x	5.4x

One-Year Performance Chart



As of February 13, 2025. Source: E-Trade.

Iridium Reports Solid 4Q Results and Issues Upbeat 2025 Guidance. Reiterate BUY.

Raising Price Target to \$45 from \$40.

Key Points:

- Strong 4Q 2024 results.** Iridium's 4Q print exceeded our expectations both on total revenue and on EPS (revenues of \$213M versus our \$203.5M estimate, and EPS of \$0.32 versus our \$0.17 estimate), and issued 2025 guidance that exceeded our model's assumptions of 3.1% y/y revenue growth.
- Total revenue** increased 9% y/y, including a 4% increase in total service revenue. Service revenue (mostly recurring revenue from Iridium's subscriber base), was 72% of total revenue in 4Q.
- Commercial IoT data** revenue was \$41.4M, +15% y/y. Subscriber growth was 10% from the year-ago period to 1,887,000 subscribers, driven by continued growth in consumer communications devices. Average revenue per user (ARPU) was \$7.29 in 4Q, compared to \$7.12 last year. Government service revenue grew 1% to \$26.8M in 4Q reflecting a contractual rate increase in the EMSS Contract.
- Iridium's U.S. government business** ended the quarter with 141,000 subscribers, which compares to 145,000 for the prior-year quarter and 141,000 for 3Q'24. We believe that the government business remains safe from the ongoing cost-cutting activities at various Federal agencies.

- **Guidance for 2025:** Total service revenue growth of 5%-7% for full-year 2025. Full-year 2025 O-EBITDA (Operational, or Adjusted EBITDA) of \$490M-\$500M million. O-EBITDA for 2024 was \$470.6 million. Net leverage below 4.0x O-EBITDA through 2026 and falling below 2.0x O-EBITDA by the end of the decade, assuming ongoing execution of Iridium's share repurchase authorization and the payment of expected quarterly dividends. Net leverage was 3.6x O-EBITDA at December 31, 2024.
- **Changes to our model:** We are raising our 1Q'25 revenue estimate from \$207.9M to \$210.0M and our YE'25 revenue estimate from \$846.7M to \$866.0M, implying 4.3% y/y growth; our O-EBITDA estimate for 2025 from \$494M to \$498M, and our 2025 EPS estimate from \$0.98 to \$1.12.
- **Raising Price Target from \$40 to \$45.** Shares are currently trading at ~6.3x our FY25 O-EBITDA estimate of \$498M. In our opinion, IRDM shares can appreciate from current price levels, as Iridium shows acceleration of its previous ~4% revenue growth in FY24 to over 5% as its connectivity potential for mission-critical IoT networks begins to be realized. Our revised \$45 price target values IRDM shares at an EV/O-EBITDA multiple of ~13.3x our 2025 O-EBITDA estimate of \$498M.
- **IRDM shares have room for further price appreciation, we believe.**

Key Investment Considerations

Iridium is NOT Starlink – and its competitive positioning, we believe, will remain fairly narrow and unique. Until January of last 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. In January of 2024, 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.

Additional strategic partnerships are likely to fuel incremental O-EBITDA growth, in our view. In 2024, Iridium delivered strong Operational EBITDA (O-EBITDA, akin to Adjusted EBITDA) of \$470M. We expect O-EBITDA to be \$498M in 2025, followed by accelerating O-EBITDA growth in 2026, 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 >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.

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 \$26.8M in service revenue, in 4Q'24. 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 (ANSPs) 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.

Valuation

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 12-14x EV/Forward target EBITDA multiple is appropriate, using our 2025 O-EBITDA estimate, yielding a \$45 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.

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.

Iridium Communications Inc.
(IRDM-NASDAQ)

	DEC F	DEC '21 FY	DEC '22 FY	DEC '23 FY	MAR '24 Q1	JUN '24 Q2	SEP '24 Q3	DEC '24 Q4	DEC '24 FY	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	\$212.99	\$830.68	\$209.97	\$211.12	\$223.41	\$221.51	\$866.01	\$886.34
Revenue Growth (%):															
Year/Year		5.3%	17.3%	9.7%	-0.7%	4.1%	7.7%	9.4%	5.1%	3.0%	5.0%	5.0%	4.0%	4.3%	6.7%
Quarter/Quarter		NA	NA	NA	4.7%	-1.4%	5.8%	0.1%	NA	-1.4%	0.6%	5.8%	-0.8%	NA	NA
Cost of Goods Sold (COGS) incl. D&A	455.83	504.63	507.62	110.07	104.19	107.78	111.66	433.70	109.18	108.73	115.06	112.97	445.94	438.74	
COGS excluding D&A	150.40	201.15	225.12	60.33	53.41	56.62	60.21	230.57	57.18	56.73	63.06	60.97	237.94	218.74	
Depreciation & Amortization Expense	305.43	303.48	282.50	49.74	50.78	51.16	51.45	203.13	52.00	52.00	52.00	52.00	208.00	220.00	
Gross Income	158.67	216.40	283.11	93.78	96.88	104.99	101.33	396.98	100.78	102.39	108.35	108.54	420.07	447.60	
Gross Margin:	25.8%	30.0%	35.8%	46.0%	48.2%	49.3%	47.6%	47.8%	48.0%	48.5%	48.5%	49.0%	48.5%	50.5%	
SG&A	100.47	123.50	143.71	36.81	46.72	43.55	40.70	167.78	41.99	42.22	43.56	44.30	172.08	172.84	
Pct. of Sales:	16.4%	17.1%	18.2%	18.1%	23.2%	20.5%	19.1%	20.2%	20.0%	20.0%	19.5%	20.0%	19.9%	19.5%	
Research & Development	11.89	16.22	20.28	7.20	6.51	6.19	8.52	28.42	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	52.12	200.79	52.59	53.97	58.59	58.04	223.19	249.76	
Nonoperating Income - Net	(0.42)	5.61	16.73	2.57	1.68	3.86	0.83	8.94	4.00	4.00	4.50	4.50	17.00	16.00	
Nonoperating Interest Income	0.00	7.00	12.72	2.52	2.32	3.55	0.33	8.72	3.50	3.50	4.00	4.00	15.00	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	22.43	99.54	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	23.43	104.05	25.00	25.00	25.00	25.00	100.00	90.00	
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	1.19	
Excl Chrgs - Others	0.88	1.19	37.50	0.00	0.00	0.00	1.00	1.00	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	30.51	109.78	31.59	32.97	38.09	37.54	140.19	175.76	
Income Taxes	(19.57)	0.29	(14.23)	7.93	4.57	6.01	(6.24)	12.27	1.00	1.00	4.00	4.00	10.00	16.00	
Equity in Earnings of Affiliates	0.00		(4.61)	(1.57)	17.70	(0.47)	(0.41)	15.25	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	36.34	112.78	30.59	31.97	34.09	33.54	130.19	159.76	
Per Share															
EPS (diluted)	(\$0.07)	\$0.07	\$0.14	\$0.16	\$0.27	\$0.21	\$0.32	\$0.96	\$0.26	\$0.28	\$0.29	\$0.29	\$1.12	\$1.41	
Diluted Shares Outstanding	133.53	128.26	126.19	123.99	121.24	118.11	117.21	120.14	117.00	116.00	116.00	115.00	116.00	113.00	

Source: FactSet Fundamentals; Kingswood Capital Partners estimates.

EBITDA															
O-EBITDA	378.2	423.9	463.0	115.0	114.0	124.4	117.1	470.5	120.3	124.0	127.2	126.5	498.0	526.1	
O-EBITDA Margin:	61.5%	58.8%	58.6%	56.4%	56.7%	58.5%	55.0%	56.6%	57.3%	58.7%	56.9%	57.1%	57.5%	59.4%	
O-EBITDA Growth (%):															
Year/Year	6.4%	12.1%	9.2%	2.8%	-1.6%	2.6%	2.7%	1.6%	4.6%	8.8%	2.2%	8.1%	5.8%	11.8%	
Quarter/Quarter	NA	NA	NA	0.8%	-0.9%	9.1%	-5.9%	NA	-74.4%	3.1%	2.6%	-0.5%	NA	NA	
EBITDA	351.7	380.2	400.6	99.5	94.4	106.4	103.6	403.9	104.6	106.0	110.6	110.0	431.2	469.8	
EBIT	46.3	76.7	119.1	49.8	43.7	55.3	52.1	200.8	52.6	54.0	58.6	58.0	223.2	249.8	
Depreciation & Amortization Expense	305.4	303.5	282.5	49.7	50.8	51.2	51.4	203.1	52.0	52.0	52.0	52.0	208.0	220.0	

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

Source: Company reports; Kingswood Capital Partners estimates.



DISCLOSURES

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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 January 2025.

Iridium Communications Rating History as of February 13, 2025



Source: E-Trade.

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