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GOGO.OQ - Q1 2025 Gogo Inc Earnings Call

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Q1 2025 Gogo Inc earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Will Davis, Head of Investor Relations. Please go ahead.

Will Davis - Gogo Inc - Head of Investor Relations

Thank you, Gigi, and good morning, everyone. Welcome to Gogo's first quarter of 2025 earnings conference call. Joining me today to talk about our results are Chris Moore, CEO; and Zach Cotner, CFO.

Before we get started, I would like to take this opportunity to remind you that during the course of this call, we may make forward-looking statements regarding future events and the future performance of the company.

We caution you to consider the risk factors that could cause actual results to differ materially from those in the forward-looking statements on this call. Those risk factors are described in our earnings release filed this morning and a more fully detailed note under Risk Factors filed in our annual report on 10-K and 10-Q and other documents that we have filed with the SEC.

In addition, please note that the date of this conference call is May 9, 2025. Any forward-looking statements that we make today are based on assumptions as of this date and we undertake no obligation to update these statements as a result of more information or future events.

During this call, we'll present both GAAP and non-GAAP financial measures. We have included a reconciliation and explanation of adjustments and other considerations of our non-GAAP measures to the most comparable GAAP measures in our first quarter earnings release. This call is being broadcast on the internet and available on the investor website at ir.gogoair.com. The earnings release is also available on the website. After management comments, we'll host a Q&A session with the financial community only.

It is now my great pleasure to turn the call over to Chris.

Christopher Moore - Gogo Inc - Chief Executive Officer, Director

Thanks, Will, and good morning, everyone. Thank you for joining us today. As we continue to merge Gogo and Satcom Direct, I'd like to say how proud we are of the progress our global team is making. The merger is already indicating that it was a positive strategic move for our employees, our customers and investors.

We built strategic and commercial momentum in the last quarter, resulting in significant milestones achieved with PMA approval for our HDX and FDX Galileo antenna execution of new OEM agreements for our Gogo Galileo service, the confirmation of the fabrication of our 5G chip and growth in the number of aircraft online optimizing our GEO satellite services.

The PMA approvals are particularly significant as they will enable us to begin shipping products and developing STCs for both terminals. We've already made great progress with our Galileo HDX antenna as we continue securing new STCs, OEM wins and generating revenue with activated customers.

The FDX PMA approval came just this week, almost two months ahead of schedule and we expect FDX to follow a similar successful rollout with 10 STCs already queued. I'm looking forward to talking you through a strong Q1 performance, which will cover our quarterly operating results, provide updates on our GEO and ATG product lines and highlight our success in realizing acquisition-related cost synergies.

We will review the demand potential in our markets and outline our strategic approach to capitalize on these opportunities to enhance shareholder value. Following this, I will share progress on key strategic initiatives and conclude with a brief assessment of the potential impact of tariffs on our business. Finally, I'll turn it over to Zach for the financial updates and then open up for Q&A.

Driven by a stronger-than-anticipated service revenues, earlier-than-expected synergy realization and deferral of some expenses related to new product investments, we delivered a quarter that exceeded our plans and consensus on revenue, adjusted EBITDA and free cash flow.

On the revenue front, our strong results were driven by both AOL and maintaining ARPA. GEO aircraft online grew to 1,280 aircraft, up 2.5% from 2024 year-end and up 16% from Q1 2024. And even more encouraging, we shipped 31 new GEO terminals in the quarter, up from 18 units in Q1 2024.

Many new units were line-fit installations. Buyers often want to avoid the cost, delay and downtime retrofit installations incur, which is why securing a line-fit option with OEMs is advantageous. Customers expect connectivity from the day of aircraft delivery to optimize bandwidth, redundancy and coverage.

This quarter, we strengthened our line-fit offering by confirming our Plane Simple Ka-band terminal as a line-fit option for Gulfstream's G5 and 500 airframes. We experienced a modest decline in air-to-ground AOL, primarily due to maintenance suspensions on older air-to-ground classic installed aircraft. We expect a reversal of this trend once the launch of our new broadband networks offering later this year.

A key ATG metric for us is the increased penetration of our software-centric AVANCE platform, which delivers a cost-effective, simplified path to advanced technology like air-to-ground broadband and Galileo and presents a significant advantage over competitive solutions.

Our AVANCE platform gained substantial momentum this quarter with a record 119 upgrades from our classic products, a 19% increase over the previous quarter as 241 units were shipped to dealers preparing for Galileo connectivity installations. We also saw a rise in AVANCE penetration within the air-to-ground fleet, up to 68%, up from 65% the prior quarter and 58% on 2024.

We are pleased to report significant progress towards our synergy goals with over 85% of targeted synergy savings already realized. Additionally, we completed key actions to reach the high end of our \$25 million to \$30 million synergy cost savings guidance, positioning us for higher-than-projected cost savings this year and full realization in 2026. We currently have 40 integration initiatives that we expect to complete over the next 12 months.

In addition, the combined company's headcount will be reduced by 21% by the end of the second quarter. Through leverage common systems and process, we are streamlining the organization and expect to find additional synergy opportunities as we prepare the organization for the future.

Key synergy projects include consolidating manufacturing by relocating SD Avionics production from (inaudible) to Broomfield, Colorado, transitioning data center operations from our leased Chicago location to our wholly-owned Satcom Direct facility in Melbourne, Florida, and the planned sale of our Melbourne headquarters building, which is expected to offset the \$15 million to \$20 million investment required to achieve the projected recurring synergy savings.

We continue to expect strong free cash flows in 2026. This will be driven by higher-margin service revenue from our Galileo and air-to-ground broadband investments and the benefits from the full year impact of realized cost synergies. Further contributing to the profitability is an anticipated \$60 million reduction in net program spend as air-to-ground and Galileo program rollouts conclude and integration synergy investments are finalized.

Moving on to the market demand. The business aviation sector presents a significant opportunity for increased broadband connectivity usage.

Currently, only about a third of the world's business jets and a fifth of all business aircraft, including turboprops, have any connectivity. The numbers are lower outside of the United States with just 12% of business jets optimizing connectivity.

Notably, there are 5,000 mid and small jets and 7,000 turboprops outside the US that had no prior access to broadband solutions, highlighting a substantial unmet demand within a healthy and growing business aviation industry, characterized by strong OEM book-to-bill ratios and expanding fractional fleet and robust flight counts.

Turning to the Mil/Gov mobility market, where demand is also strong. We see the opportunity for Gogo solutions. Our current revenue mix in this segment includes a significant portion of legacy narrowband services, which are expected to decline gradually over the next several years but will be replaced with growth from the transition of Mil/Gov to Satcom broadband solutions.

Under the proliferated LEO orbit program, PLEO, to which Gogo is now a key supplier, the Department of Defense recently increased its projected spending on LEO satellite services from \$900 million over the next 10 years to \$13 billion in the same period. The US Air Force 25 by 25 program is lagging behind its goals to equip 25% of its 1,100 aircraft with satellite communications by the end of 2025.

For us, this means more than 75% of this fleet is still without satellite connectivity, which the Air Force believes must be addressed, presenting a major opportunity for Gogo's growth. Our multi-band LEO and GEO offerings also support the DoD PACE protocol, which requires the military to implement primary alternate contingent and emergency systems.

We also see a increased demand overseas as non-US governments disengage from their reliance on the DoD for military support and ramp up their investments in defense spending, including commercial communication systems.

Moving on to strategy. We continue to advance key initiatives that are critical for our continued penetration of the business aviation and military government mobility markets. Our strategy is to grow shareholder value by driving rapid growth in the long-term high-margin recurring revenue customers relationships in these dynamic sectors.

We've invested three years in low earth orbit satellite and broadband air-to-ground technology to improve service quality and coverage by developing a purpose-built product portfolio that is easy to install, maintain and upgrade.

Crucially, our network-agnostic hardware and software architecture allows for faster, cheaper upgrades, ensuring long-term competitiveness. Expanding our target addressable market with the business aviation and military government verticals, it is crucial to achieving our penetration goals.

Satcom Direct's global sales and service network extends our reach and has increased our access to LEO TAM by 60% while also providing GEO satellite solutions. This positions Gogo as the only IFC company offering multi-orbit GEO-LEO air-to-ground broadband solutions in the business aviation and government and military markets.

Our comprehensive suites of hardware and software products complemented by value-added services delivers a unique competitive advantage, enabling us to support more aircraft types than any other provider. We continue to strengthen our global network of 140 dealers across 229 locations. These dealers act as a committed business partners and are invested in STC generation with us, which significantly amplified our sales effort.

Now I'd like to review our key strategic initiatives supporting our growth strategy. The Eutelsat OneWeb LEO network is operational and represents the latest addition to our broadening portfolio, powering our Gogo Galileo compact flat panel antennas, which can be equipped on a broad range of aircraft types.

This new product opens an untapped market for us and gives us more capacity to offer to existing customers. This is a key differentiator as Gogo is now the only provider that can deliver purpose-built hardware and multi-network capabilities, world-class customer support, a global sales force, an extensive dealer channel and OEM line-fit positions to our target markets from a single source.

The Galileo HDX terminal is our first-to-market LEO product designed to fit on any business aircraft. It is expected to deliver 60 megabits downlink, which is 12 to 60 times the speed of our current Gogo air-to-ground product offerings.

We are targeting the 12,000 mid-sized and smaller aircraft flying outside of North America and have no broadband solution today and the 11,000 mid-size and smaller aircraft either flying regionally outside conus or our owners who are willing to pay for faster mean speed than our air-to-ground broadband products alone can provide.

We're ahead of schedule on STCs, having conferred five of them year-to-date, one in Canada, three in Europe, one of which is for the world's most popular business jet, the Embraer Phenom 300 and our first US FAA STC, which was confirmed this week for the Gulfstream G200. We currently have aircraft type with the product installed in aircraft registered in Europe and Brazil.

Perhaps most importantly, passenger reaction to HDX product has been outstanding and passenger feedback is incredibly positive. Eutelsat OneWeb has confirmed a software update that will improve performance up to 30% when it comes online.

In Q1, we shipped 36 HDX units, 20 of which were for STC and one for revenue. We recognized \$1 million of equipment revenue in the quarter. Year-to-date, we have shipped 59 units, including 42 for STCs. We've already announced that HDX is a line-fit option with Textron for the longitude, latitude and ascend operators. We are pleased to announce that we are close to signing with a second OEM and hope to confirm this at our next call.

In North America, we have over 300 opportunities for HDX and 25 for FDX, which is almost 60% of the pipeline. As I mentioned earlier, we've received PMA ahead of schedule for the FDX terminal and can begin shipping products to dealers to develop STCs immediately.

The FDX terminal is designed for larger business aircraft operators that fly intercontinental missions and are expected to deliver up to 195 megabits per second. The 10 STC agreements cover 10 super mid- to heavy business jet types and are expected to be completed in the latter half of 2025 and early 2026.

We have previously mentioned another signed agreement as a line-fit option with a major OEM for all its aircraft models. I'll finish by noting that 4,700 AVANCE customers can take advantage of an easy Galileo upgrade when we release a software update for the Satcom Direct routers, another 2,200 could also benefit from the upgrade.

As most of you know, our 5G tower network is built and ready to go live as are the LRU and airborne antennas required to access the network. I'm pleased to confirm that our chipset supplier has successfully completed fabrication and is now in the process of packaging the chip, which will be followed by the bring-up process for deployment readiness.

The market continues to respond enthusiastically to the 5G value proposition with 301 aircraft now pre-provisioned for launch, up 29% from the 233 pre-provisioned at the end of 2024. We expect the launch to be relatively straightforward once we receive the 5G chip because the 5G MB13 antennas and the 5G LRU have already received PMA and have 25 STCs in place.

We look forward to bringing this product to market later this year, which will extend the life of our air-to-ground product line, which supports a core set of Gogo customers. I'd also like to share a brief update on the FCC secured networks program, which we call Gogo Evolution.

Under this program, the FCC award Gogo, a \$334 million grant to accelerate the removal of foreign telecom technology from our terrestrial network. As we announced last quarter, Congress passed the National Defense Authorization Act funding bill in December 2024, fully funding the rip and replace program.

This additional funding eliminates any potential shortfall anticipated to complete the project and enable us to provide alternative incentives for Gogo classic customers choosing to optimize our new LTE network when we transition in 2026.

The interest in the C1 LTE product continues. Upon launch of the C1 LTE box, 76 units were immediately shipped to customers. The C1 LTE product is a drop-in solution for classic customers, which have dual EVDO and LTE air cards, ensuring seamless support for our network cutover.

For customers lacking the time or budget for an advanced upgrade before our 2026 cutover, this solution enables a cost-effective option that keeps our customers connected and preserves Gogo service revenue from this market segment.

Before handing over to Zach to talk financials, I would like to touch on the potential impact of current and proposed tariffs on our business. For context, under the agreement on trade in civil aircraft treaty agreed to at the Paris Accords and approved by US Congress in 1979, aircraft or aircraft parts were exempt from tariffs before the recent announcements.

In that environment, the US aviation industry flourished with aviation exports historically running 6 times higher than the amount of aviation imports. Ironically, imposed tariffs on imported aviation parts can push up the cost of US manufactured aircraft, potentially making the aviation industry less competitive.

As you know, the situation with respect to tariffs remains fluid and we are adapting as needed. The tariff risk relates directly to the manufacturing part of the business, not our service provision.

Most of our manufacturing is conducted in the United States at our Broomfield facility in Colorado and what manufacturing we had at Satcom Direct facility in Ottawa was relocated to Broomfield even before we knew of the tariffs to be imposed.

Based on the current tariff environment and recent analysis, we believe we have modest exposure to tariffs. Under the current tariff proposal, we can absorb tariff impacts within our current guidance.

In conclusion, Mil/Gov fleet worldwide are in various stages of upgrade strategies. Demand for broadband from new aircraft categories is high and we believe the opportunities presented by the new LEO networks and the upgraded GEO networks will all continue to stimulate revenues.

We are looking forward to producing compelling financial results due to growth in service revenue, a significant reduction in product development program spending, the full year impacts of synergies we expect to achieve this year and full funding of our FCC rip and replace program.

I will now hand over to Zach to present the numbers.

Zachary Cotner - Gogo Inc - Chief Financial Officer, Treasurer

Thanks, Chris, and good morning, everyone. I'm pleased to report first quarter results were ahead of expectations on both the top and bottom lines. In addition, five months after the close of the Satcom Direct transaction, we see improved product execution, strong financial discipline and integration progressing well.

We are still in the early days of the integration, but we believe these positive developments are setting the table for future free cash flow growth and material deleveraging as we look to 2026 and beyond. Even in this period of global macro uncertainty, we are reiterating our 2025 financial guidance, including the impact of current and proposed tariffs.

Our 2025 guidance reflects small amounts of Galileo HDX equipment revenue in Q2, an FDX launch in the late summer and assumes minimal 5G revenue beginning in Q4. We expect the Galileo HDX service revenue to ramp in the first quarter of 2026.

I'll now provide an overview of Gogo's first quarter financial performance, then I'll turn to our balance sheet and capital allocation priorities. And finally, I'll conclude with additional context on our 2025 guidance.

For the first quarter, Gogo's total revenue was \$230.3 million, up 121% year-over-year and 67% sequentially. On a standalone basis, Satcom Direct's Q1 revenue grew 10% from the prior year. Total service revenue of \$198.6 million was up 143% over the prior year and 67% compared to the prior quarter.

At the end of Q1, we had 6,902 total ATG aircraft online, which was a decline of approximately 3% compared to Q1 2024 and 2% compared to Q4 2024. We achieved record advanced upgrade in the first quarter and can bring our classic customers to AVANCE continues to remain a top priority.

Advanced AOL reached 4,716, up 15% from the prior year and now comprises 68% of the total ATG fleet, up from 58% in the prior year quarter. Our 2025 guidance assumes continued advance growth, but the overall ATG AOL will be lower at year-end 2025 versus 2024. Total ATG ARPU of \$3,451 dipped slightly sequentially and was flat from the prior year as we initiated a price increase in February of 2024.

Total broadband GEO AOL, excluding networks that are end of life, reached 1,280, up 179 aircraft and 16% year-over-year and up 31 units sequentially. The majority of GEO broadband aircraft are under fixed-term contracts, helping to create revenue stability. In addition, our GEO ARPU is holding up better than expected.

Now turning to equipment revenue. Total equipment revenue in the first quarter was \$31.7 million, up 40% year-over-year and 67% sequentially. The number of AVANCE equipment units shipped increased 19% sequentially to 241.

Regarding our profitability, Gogo delivered service margins of approximately 53%, inclusive of Satcom Direct. Stand-alone Gogo service margin was about 77% and in line with our previously stated targets. 98% of our gross profit in the first quarter was tied to service revenue and we run the business to drive this recurring high-margin service revenue. Equipment margins were 7% in the first quarter. And as a reminder, we expect Galileo equipment pricing to be close to cost.

Now turning to operating expenses. In the first quarter, total operating expenses, excluding depreciation and amortization, were \$57.6 million and more than 5% below our budget, which helped drive better-than-expected adjusted EBITDA.

I will now provide some additional commentary on our major strategic initiatives around 5G, Galileo and the FCC reimbursement program. In the first quarter, \$3.5 million of 5G spending was comprised of \$1.3 million in OpEx and \$2.2 million in CapEx. We expect 5G spend to decline significantly in 2026 as we roll out 5G in Q4.

Turning to Galileo, we recorded \$1.2 million in OpEx and \$1.5 million in CapEx in the first quarter. We continue to expect total external development costs for both the HDX and FDX solutions to be less than \$50 million, of which \$27 million was incurred from 2022 to 2024 and approximately \$13 million is expected in 2025. We anticipate approximately 80% of Galileo's external development costs will be in OpEx.

And finally, our FCC reimbursement program. Following the passage of the National Defense Authorization Act late in 2024, we continue to anticipate increased reimbursement of about \$50 million for our FCC program to support the upgrade of our ATG network to LTE and provide incentives to upgrade our classic fleet to AVANCE.

This would reduce our total cash outlays under the program to \$10 million and should be a primary driver of our 2026 free cash flow improvement. In the first quarter, we received \$5.9 million in FCC grant funding, bringing our program to-date total to \$47.1 million.

As of March 31, we recorded a \$10.7 million receivable from the FCC and incurred \$6.9 million in reimbursable spend. This receivable is included in prepaid expenses and other current assets on our balance sheet with corresponding reduction to property and equipment, inventory and contract assets with a pickup in the income statement.

Moving to our bottom line. Gogo generated \$62.1 million in adjusted EBITDA in the first quarter, which includes approximately \$1.2 million of operating expenses related to Galileo and \$1.3 million of costs related to 5G.

Our adjusted EBITDA margin was 27% as compared to our long-term view in the [mid-20s] when the Satcom acquisition was announced in September. In addition, Gogo reported first quarter net income of \$12 million, equating to \$0.09 of diluted EPS.

I will now provide some color on our synergy progress. We have made good headway driving synergies and we believe that we have more to go. We achieved \$18 million of run rate synergies at the close of the acquisition and add another \$9 million during the first quarter call, all in line with what we said on the fourth quarter call.

Within two years, we continue to expect run rate synergies in the \$25 million to \$30 million range. As we said on the Q4 call, we still believe the cost to achieve these synergies will be at the low end of our previously expected range of \$15 million to \$20 million and we anticipate funding these costs with proceeds from the sale of the SD headquarters building in Melbourne, Florida.

Moving to free cash flow. First quarter free cash flow was solid at \$30 million and we view the current and proposed tariff situation as manageable. We expect to have plenty of cushion to absorb any minor tariff impacts on our 2025 free cash flow guidance.

We continue to expect that 2025 will be our trough year of free cash flow as new products ramp and the corresponding product investments roll off. We believe that sustained free cash flow growth minus expected future earn-out payments is the key to driving shareholder value and will help support the return of cash to shareholders over time.

Now I'll turn to the discussion of our balance sheet. Gogo ended the first quarter with \$70.3 million in cash and short-term investments and \$850 million in outstanding principal on our two term loans with our \$122 million revolver remaining undrawn. This equates to a net leverage of 3.4 times at the end of the first quarter and we expect this ratio to remain relatively flat as we move through the year.

Our leverage trends are better than when the Satcom deal was announced, largely due to higher adjusted EBITDA and strong free cash flow. Our cash interest paid for the quarter, net of hedge cash flow was \$17.8 million.

As we mentioned in prior quarters, we have a hedge agreement in place and at the end of July, the hedge steps down to \$250 million with the strike rate increasing from 125 bps to 225 bps, resulting in 29% of the loans being hedged. As a reminder, the cash interest paid for 2024 net of hedged cash flow was \$33 million. We expect that to be approximately \$70 million this year.

Our capital allocation priorities remain consistent with prior quarters and focused on executing across the following four priorities in order. First, maintaining adequate liquidity. Second, continuing to invest in our strategic opportunities, primarily through Galileo and 5G. Third, maintain an appropriate level of leverage for the economic environment with a target net leverage ratio of 2.5 to 3.5 times. And finally, returning capital to shareholders.

As a reminder, Gogo has \$12.1 million remaining on its \$50 million repurchase authorization that our Board approved in September 2023. At 3.4 times, we are just a tick under the high end of the targeted leverage range, and we continue to monitor the market to determine a reasonable strategy to refinance our Term Loan B.

We believe our expected free cash flow growth over the next few years will provide ample excess cash to pay down debt, reduce our interest expense and ultimately return capital to shareholders.

In our earnings release this morning, the company reiterated our 2025 financial guidance, adding that it includes the current and proposed impact of global tariffs. For 2025, we expect total revenue in the range of \$870 million to \$910 million, reflecting the HDX launch in Q1 and 5G generating modest revenue in Q4.

Adjusted EBITDA in the range of \$200 million to \$220 million, reflecting operating expenses of approximately \$25 million for strategic and operational initiatives including 5G and Galileo. Free cash flow in the range of \$60 million to \$90 million and we expect 2025 to be the trough of our free cash flow as we have approximately \$70 million slated for strategic investments, net of FCC reimbursement.

And finally, we expect capital expenditures of approximately \$60 million, containing \$45 million for strategic initiatives, including 5G, Galileo and LTE network build. The CapEx guidance excludes \$20 million of reimbursement from the FCC.

We remind you that preliminary targets for the combined company assume 10% long-term revenue growth and adjusted EBITDA margins in the [mid-20s]. We anticipate providing updated targets once our long-term plan is finalized.

In summary, Gogo's first performance highlights our focus on new product execution and financial discipline. The positive impacts of the acquisition are visible in our results, and we believe that a fully integrated Gogo Satcom Direct global business will have the scale, market positioning and the broad product portfolio needed to delever the balance sheet, drive free cash flow and create long-term shareholder value.

Before we open the floor for questions, I want to express my gratitude to the entire Gogo team for their hard work, commitment to our business and dedication to providing exceptional service to our customers.

Operator, this concludes our prepared remarks, and we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

Ric Prentiss, Raymond James & Associates.

Brent Penter - Raymond James & Associates - Analyst

Hey. Thanks, everyone. This is Brent Penter on for Rick. Appreciate the color on the modest tariff impact and it's absorbing the guidance. Can you size that for us in terms of the dollar amount that's now baked into your guidance on tariffs?

Zachary Cotner - Gogo Inc - Chief Financial Officer, Treasurer

Yeah. It's about around \$5 million-ish. It's half EBITDA, half working capital. A lot of it is from our purchases of inventory. And like we said, most of our revenue is service-based, so that's exempt.

Brent Penter - *Raymond James & Associates - Analyst*

Okay. Got it. And then just on the broader economy, can you update us on the proportions of your customer base that are corporate versus charter, high net worth, et cetera, at the combined company now that we have Satcom?

And what portion of your customer base would you view as economically sensitive given some of the macro fears out there and if you're seeing any impact so far?

Christopher Moore - *Gogo Inc - Chief Executive Officer, Director*

Yeah. We're not really seeing any impact at all. I mean the good thing with the business is we're really diverse internationally. And we're not really seeing any impacts at this point in time. The other bit with the government business, when we look at any potential impact, usually, if there are, we've seen that in the past with trends in the past that business aviation, like when we looked at COVID in 2020.

If it goes down slightly, then the government business goes up. So we're feeling pretty confident at the moment. The OEM deliveries look good. As we mentioned in the call, with the GEO activations, they're still up and the demand on the pipeline for Galileo is exceptionally strong.

Brent Penter - *Raymond James & Associates - Analyst*

Okay. And then last one for me. On the 10% growth at Satcom, since we don't have all the historicals there, could you break down roughly the growth rate that you saw in 1Q between GEO broadband versus narrowband versus Mil/Gov? And since Gogo investors are newer to that business, how should we think about a long-term sustainable growth rate? And what's baked into that 10% combined guidance that you gave in terms of Satcom growth?

Zachary Cotner - *Gogo Inc - Chief Financial Officer, Treasurer*

Yeah. There's a lot to unpack. I'll try to distill it as best I can. So I would say the vast majority of the growth was related to GEO broadband. And like you can see that, like we said, with the GEO units online. And then within that, there's a pretty sizable piece in Mil/Gov that was also GEO broadband.

And the 10% was the previously guided long-term growth rate. So we're not prepared to discuss the long-term rate on this call. But I mean, if you want to think about the trend, it's really the GEO broadband units online.

Operator

Sebastiano Petti, JPMorgan.

Sebastiano Petti - *JPMorgan - Analyst*

Hi. Thank you for taking the question. I guess, just relatedly to that, maybe you could perhaps, Zach, give a little bit of color. With the tariff impact not quite that extensive, we would have thought that you would probably grow revenue sequentially from here over the balance of the year as shipments from Galileo start coming on.

But the guidance, if you run rate the first quarter implies you're above the high end of guidance for the year. So just any considerations as we think about that glide path from here? And then I have a follow-up. Thank you.

Zachary Cotner - Gogo Inc - Chief Financial Officer, Treasurer

Yeah. So we noodle this a lot to try to make sure we're being thoughtful about the trends of the business. And I think two of the big factors that we monitor very closely that are really outside of our control is the continued path of ATG units online, right, because Q1 was a little rough on that side.

And then as well as the GEO units online as well as the corresponding ARPU. And we don't release ARPU for the GEO business, but it's holding up much, much better, but we do anticipate continued pressure on that piece going forward.

So if that holds up better than we think there could be upside and closer to the high end. But again, it's early days, right? We're only a quarter in. So we just want to make sure we're being thoughtful about those trends as the new combined business and how the LEO story unfolds.

Sebastiano Petti - JPMorgan - Analyst

Okay. That's very helpful. And then just as you touched on, Zach, I mean, the ATG units online, a little bit softer. I think, Chris, in your prepared remarks, you talked about just maintenance suspensions. But obviously, the debate and on the Gogo story overall is obviously the competitive environment.

And so, how should we think about just getting comfort about maybe this is maintenance related as opposed to share or competitive losses within the ATG segment specifically?

Christopher Moore - Gogo Inc - Chief Executive Officer, Director

Yeah. When a customer suspends, we actually have really good market intelligence data on why customers are suspending or leaving the network. So yes, when we look at that information, actually it's pretty well-educated. So it's not guesswork there.

So on the air-to-ground side, we're still very confident. We can see also with customers still pre-provisioning for 5G, which I think is a good indicator as well in the market that people still want the service. And then unlike the GEO business, which is more contractual over 12 months plus, the air-to-ground business is actually, there's a lot of customers within more flexible-based contracts.

So it's really hard to put some trends around that. But when we're looking at the reasons why people are suspending, we haven't got really major concerns at this point.

Sebastiano Petti - JPMorgan - Analyst

Got it. And then lastly, on the GEO broadband. I mean, obviously, Zach, you did touch upon there's some Mil/Gov in there that you don't necessarily disclose. But units up 16% year-on-year or aircraft online up 16% year on year. Obviously, lots of concerns as well from a competitive standpoint about that.

But help us think about how you see that business today from a relative competitive standpoint and how you're thinking about it over time? Are the GEO broadband aircraft online a source of potential upgrades to LEO and your Galileo solution over time? Just how you're thinking about the trends in that over just a multiyear basis? Thanks.

Christopher Moore - Gogo Inc - Chief Executive Officer, Director

Yeah. So I mean, obviously, there's growth there in GEO, which is really encouraging. I think that just demonstrates the power of line fit as well with the OEMs and the customers are obviously still taking the service. You hit a good point. I think we see it in two things with Galileo.

One is customers may upgrade and replace GEO. That's a definite potential. But as I mentioned on the last call, we also see the mid- to large jet market taking it as a supplement. So having both LEO and GEO.

And then going into the government sector, that's actually a requirement with the PACE planning, the primary alternate contingent and emergency. So we do see modest growth and it's difficult to predict, but that's really where we see the market. But GEO is holding up exceptionally well. I also think that also is a demonstration to like with competitive products, there may be a potential there. There's a little bit of cooling off.

And also the GEO products have also got a lot more competitive with speeds. But obviously, with the LEO, it's slightly a big different offering from a latency point of view. So with our mid- to large jet customers, we see that more like as a supplement. And then hopefully, that's positive for the business.

Operator

Scott Searle, ROTH Capital.

Scott Searle - ROTH Capital Partners - Analyst

Hey. Good morning. Thanks for taking my questions. Congratulations on a great first quarter out of the gate. Chris, maybe to start, I want to confirm on the 5G chip front, you've used the word fabrication a couple of times in your opening remarks. I want to confirm that you guys have actually gotten some testing back on it and this chip is to go outside of some basic firmware upgrades and testing and otherwise.

And I was wondering if you could also take us through the milestones to getting that launch up and running. It sounds like you're tracking towards the fourth quarter of this year. And finally, on the 5G front, help me reconcile AOL, ATG down exiting 2025, given the impact that we're expecting to see from 5G at some point late this year and certainly into 2026? And then I had a follow-up.

Christopher Moore - Gogo Inc - Chief Executive Officer, Director

I'll try and cover that. I think with the fabrication, at this point, we've been at this stage before. So we're being pretty cautious at this point. I mean, obviously, when you bring up the chip, you have to layer it and actually come up with the fabrication of the product. It will then go from our supplier, go into packaging and then ultimately, then we have to bring up as well.

So we've got these stages that will unfold over the next several months. And that's why we've got, hopefully, the network being launched in the fourth quarter. Everything is looking good so far. We have been to this stage before. So we're very optimistic, but we don't want to really say much more than that at this point.

Regarding the actual business, I think I covered it in the last comment, but we see that suspensions, people coming back online. Q1 is usually a big heavy maintenance window for a lot of customers. So as the story unfolds across the year, we still think there's strong upgrades for customers going into more advanced air-to-ground products and obviously, opportunity for those customers with Galileo as well.

Scott Searle - ROTH Capital Partners - Analyst

Great. Thank you. Very helpful. And if I could on the Galileo front, it sounds like that with the PMA approvals, you're really progressing well on both the HDX and the FDX front. I'm wondering just from a competitive landscape standpoint, if your expectations for the size of the market and share are increasing given the success and early success that you're having with FDX and HDX? And if the flip in Twitter comments from Elon Musk are actually driving some competition and opportunities and share your direction? Thanks.

Christopher Moore - Gogo Inc - Chief Executive Officer, Director

Yeah. I think the big thing is we're really encouraged we've got over 300 customers in the pipeline already for HDX, which I think speaks massive volume. So we're really excited about that. Also the FTCs, we're seeing no slow up. And that's why the MROs are so important to us.

And yes, competition is healthy. I think it's a really, really good thing. I think customers have been waiting with having a competitor in the market. And then also the FDX PMA, we're ahead of schedule.

Our engineering team has done an amazing job. We had a lot of lessons learned from HDX and we were able to accelerate the product into market, which is fantastic news. And those STCs are now starting to become a real thing as we can ship products. So we're really excited. And from a competition point of view, I think it's really important as well is competition is good, but we're really focused to providing that enterprise product global.

And then to the earlier point, whether it's LEO and GEO together or LEO on its own, we actually see a really good positive opportunity for the product overseas. When we look at the mix in our pipeline just for HDX at the moment, it's about 60:40 split between North America and the international markets.

And I think that's a real strength of Gogo moving forward with the Satcom Direct acquisition. We've now got access to a complete global sales team, which also we can provide support anywhere in the world. So we can get on a plane in typically under 24 hours if there's any problems with systems.

And then also, we've made massive investments in regulatory compliance as well. So we're really excited. We're getting really great reactions from customers. And I think that split as well is really interesting on like that pipeline split with 40% from coming overseas, I think is really encouraging.

Operator

Justin Lang, Morgan Stanley.

Justin Lang - Morgan Stanley - Analyst

Yeah. Hi, Chris. Good morning. Thanks for taking the question. A lot has been covered. I just wanted to ask one on the Mil/Gov business. Chris, you mentioned at the top with PLEO and PACE, but I was hoping you could provide maybe a little more color on some of the trends you're seeing in that business, just given some of the maybe fast-changing dynamics we're seeing in defense and government markets in the US and Europe, right?

European defense spend clearly on the rise. US budgets could top \$1 trillion here in '26. So just curious if you're seeing new opportunities emerge really in the near term in this space. Thanks.

Christopher Moore - Gogo Inc - Chief Executive Officer, Director

Yeah. We're seeing pretty much what you just covered. I mean it's really encouraging at the moment, the overseas markets, which in argument has been a little bit sleepy before in the past. Very dependent on the DoD.

And really, we're seeing a lot more demand coming from more sovereign-based networks, also the ability to have a little bit more control on their future capability. So we see a great opportunity within the European environment, also Southeast Asia and some other territories as well. Great news is we've got specialized staff in those areas.

And then the DoD is really, as mentioned in the call, really looking at that tech refresh and that narrowband technology they've been very dependent on for a long time and the difficulty of really moving into new services and installations of those services.

So we feel with the HDX and the FDX, we've really created a very easy to install platform, taking a commercial proposition into the government, trying to drive out costs for them as well. So we really don't want that \$1,000 hammer moment for the government.

What we really want to do is driving the scale of commercial solutions. So we're very, very encouraged about that business unit. We feel very optimistic about it. Yeah. So all of the things you mentioned, we're starting to really see those. And also the support for our partner, Eutelsat OneWeb is really increasing. And you can see that with a lot of press and the traction they're getting as well. So we're very excited about the whole opportunity.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair & Company L.L.C. - Analyst*

Chris, Zach and Will, good morning. When taking into account the onetime program costs and further expected synergies, how much of the 2025 costs should go away for 2026?

Zachary Cotner - *Gogo Inc - Chief Financial Officer, Treasurer*

Yeah. So the estimate that we're saying is anywhere from \$60 million to \$70 million. I think you said you're really seeing all of this stuff hit. Obviously, there will be some investment as we roll out our five-year R&D road map. But I think it's going to be a lot tighter and that's what we said is \$60 million to \$70 million of cost that should be pulled out.

Louie DiPalma - *William Blair & Company L.L.C. - Analyst*

Great. And what's the breakdown? How much of that should be OpEx versus CapEx?

Zachary Cotner - *Gogo Inc - Chief Financial Officer, Treasurer*

I'm looking right here. I don't have that in front of me, but when we chat later, I'll be able to pull it up for you.

Louie DiPalma - *William Blair & Company L.L.C. - Analyst*

Great. And another question, Chris, from a high level, can you discuss the performance for HDX for the initial adopters? I know that you said that it's performing according to spec. But can you remind us what those specs are and how the performance of HDX and FDX should compare to the Starlink performance?

Christopher Moore - *Gogo Inc - Chief Executive Officer, Director*

Yeah. I think I'll take that in a couple of things. So we've got customers flying around in Europe and US right now, actually paying customer in Europe, a large fleet operator, service is working flawless. And they're able to do everything they want to do from teams meetings, streaming movies on the bulkheads. And then the nice thing with our solution is, obviously, it's completely integrated into the cabin management system.

Regarding comparisons to competitive products, ours is full LEO speed. Obviously, HDX is designed to go up to 60 megabits per second. We're seeing the product perform within that parameter. The uplink speeds are solid.

And really, when you look at the passenger counts on those jets, it's more than enough capacity, flexibility. I think everybody has gone speed mad. Everybody talks about the speeds, but nobody talks about the consistency and the capacity capability within flight.

So really, what we're focused on is that and also having service level agreements that we can back that up with. But everything we've seen with customers is extremely encouraging. We're really excited.

We've also got some customers down in South America. And that's the other nice thing we're seeing about the service is just consistent wherever these customers are flying and they're completely global and we've got the same expectations from FDX as well. And yeah, we're pretty excited about it.

Operator

Thank you. At this time, I would not like to turn the conference back over to Will Davis for closing remarks.

Will Davis - Gogo Inc - Head of Investor Relations

Thank you everyone for joining our first quarter conference call this morning. This concludes our call. You may now disconnect. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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