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GOGO - Q3 2015 Gogo Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gogo Inc. third-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like introduce your host for today's conference, Miss Varvara Alva, Vice President of Investor Relations and Treasurer. Miss Alva, you may begin

Varvara Alva - *Gogo Inc. - VP of IR and Treasurer*

Thank you, Andrea, and good morning, everyone. Welcome to Gogo's third-quarter 2015 earnings conference call. Joining me today to talk about our results are Michael Small, President and CEO, and Norman Smagley, Executive Vice President and 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 financial 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 conference call. These risk factors are described in our earnings press release and are more fully detailed under the caption Risk Factors in our 10-K, which was filed with the SEC on February 27, 2015.

In addition, please note that the date of this conference call is November 5, 2015, and forward-looking statements that we make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release.



This call is being broadcast on the Internet and is available on the Investor Relations section of Gogo's website at www.ir.gogoair.com. And the earnings press release is also available on our website. After Management's remarks, we will host our Q&A session. Now it is my pleasure to turn the call over to Michael.

Michael Small - Gogo Inc. - President and CEO

Thanks, Varvara. Good morning, thanks for joining the call. Q3 was another outstanding quarter for Gogo. Today, I will share with you how well 2Ku is performing and highlight the trends that will lead us to consolidated profitability.

Year-to-date adjusted EBITDA has tripled from the prior year, clearly demonstrating the operating leverage and profitability inherent in our business. Based on the trends we are seeing in the business, we are increasing our adjusted EBITDA guidance for 2015 to \$30 million to \$35 million.

From where we sit, it is clear to us that we have more than enough planes between CA, BA and our backlog to reach consolidated profitability. More wins mean greater scale and more bandwidth, particularly from 2Ku, means more revenue. I'm extremely pleased with our ongoing financial performance, but I'm even more thrilled with the launch of 2Ku, our next-generation satellite solution.

2Ku is the first truly global broadband highway in the sky. It is fast, affordable and will work virtually everywhere airplanes fly. It is already on our own 737 test plane and is installed on an Aeromexico 737 and a Virgin Atlantic A340.

Eight wins for more than 550 aircraft is evidence that the airline industry is being wowed by 2Ku. So too is Gogo's receiving the Best Achievement in Technology Award for 2Ku at the Airline Passenger Experience Expo.

So what have we learned about 2Ku? Over the past two months, we have been flight testing 2Ku extensively. The flight test has surpassed our expectations. We are pleased to report that we've consistently seeing speed tests above 12 megabits per second to the device even with simultaneous streaming on more than 40 devices. In addition to connectivity, the 2Ku antenna enables live television programming, which has worked impressively on our test flights.

Because of its proprietary electro mechanical phased-array antenna design, 2Ku has superior global coverage and dramatically lower bandwidth costs when compared to any other global solution whether Ku or Ka. And with access to more than 180 Ku-band satellites, our airline partners get ample and flexible capacity and high redundancy in addition to great coverage.

Regional Ka band solutions only cover about 20% of our current Ku coverage area and have no redundancy. There are simply not enough Ka satellites now or for the foreseeable future to meet the needs of global aviation. We're also making great progress to get 2Ku line fit across all major aircraft types at Boeing and Airbus.

Now let's turn to a brief update on the quarter. Commercial aviation is performing very well, and we like the continued growth in aircraft, ATG-4 upgrades and operating leverage in North America. We added 75 CA planes for the quarter to end at about 2,500 aircraft between North America and the rest of world.

We will continue to install more ATG-4 planes to add capacity on the network, and we now have over 860 ATG-4 planes in service. By the end of the year, we expect to have nearly 1,000 ATG-4 planes in service, representing about 40% of all the CA North America installed base.

We have very clear evidence that more bandwidth results in more revenue. Controlling for other factors, a large group of ATG tails that were upgraded to ATG-4 experienced ARPA growth of about 20%.

ATG-4 tails that upgraded to our first-generation Ku experienced ARPA growth of about 30% due to both increased bandwidth and greater coverage. And we have every reason to expect even greater ARPA growth from 2Ku installs and upgrades because of its superior coverage and capacity.

Turning to the international business, the ARPA for our ROW planes inclusive of monthly service fees from airlines recently surpassed CA-NA's ARPA. Getting to full fleet deployment in 2Ku installs should be very beneficial to future rest of world ARPA growth. The rest of the world now has sufficient critical mass to contribute in an increasingly meaningful way to consolidated revenue growth.

Business aviation had another robust quarter with service revenue growth of 38% and segment profit margin of 41%. We shipped another 224 ATG units for the quarter, including our first ATG 1000 and 8000 units and ended Q3 with over 3,300 ATG units online. Our segment's segmentation strategy is starting to get some traction as we focus on penetrating the 15,000 North American aircraft that don't have broadband connectivity today.

Beyond market segmentation, we continue to evaluate next-generation solutions to bring more bandwidth to the CA markets to drive more revenue. We announced Gogo Biz 4G for delivery by early 2017. We expect the server, router and 10 megabits per second connectivity solution in a box to be very compelling for larger private jets.

Now let's turn to our business model and profitability. Consolidated segment profit for CA North America and BA reached a record \$30 million in Q3 and grew 46% from the prior year while segment loss for rest of world was essentially flat compared to the prior year. We're now seeing year-over-year consolidated EBITDA earnings growth, ending a period where international expansion kept flat.

Scale is vital in our industry. We now have nearly 2,500 CA broadband aircraft and over 3,300 BA broadband aircraft online. We believe that based on our installs, CA and BA aircraft and our backlog of over 700 CA aircraft, that we have more than sufficient scale to achieve consolidated profitability.

I also want to highlight that our free cash flow for CA North America and BA combined has been positive both for the quarter and year-to-date periods. Overall, this is a great quarter for Gogo and a turning point for the in-flight connectivity industry with the launch of 2Ku.

Before I turn it over to Norm, I want to highlight the following three things for you. First, 2Ku is here, and it's everything we expected it to be and more. It is a true broadband highway in the sky, and it's the most efficient global connectivity solution today. We expect 2Ku to drive aircraft wins.

Second, more planes and more bandwidth are very clear drivers of revenue growth and profitability. Our CA backlog, hundreds of technology upgrades and continued ATG adoption of BA will drive healthy revenue growth.

And third, our goal of achieving company-wide profitability is in sight. We have enough aircraft in our installed base and backlog to achieve consolidated profitability. Additional aircraft wins and more aircraft will only make it better.

With that, I want to thank you for joining the call, and I will turn it over to Norm to go over our financial results.

Norman Smagley - Gogo Inc. - EVP and CFO

Thank you, Michael, and good morning, everyone. We had another great quarter with revenue up 22% to \$126 million. Service revenue continued to grow even faster, up 31% to a record \$107 million.

Our CA North America and BA business segments continue to demonstrate strong operating leverage, resulting in 46% growth in the combined segment profit to \$30 million for the quarter. This represents a 24% combined segment profit margin, up from 20% last year.

Adjusted EBITDA increased eightfold to nearly \$10 million, representing an 8% margin. On a year-to-date basis, adjusted EBITDA tripled and reached nearly \$29 million. As Michael mentioned, we are increasing our guidance for adjusted EBITDA to range between \$30 million and \$35 million for the year.

I also want to highlight another important financial measure. Free cash flow for CA North America and BA combined has been positive for both the quarter and year-to-date periods. We're very pleased with the underlying profitability trends of the business and with the strength of our balance sheet with nearly \$390 million of cash on hand.

Now let's turn to the business segments. CA North America service revenue was up 25% to \$78 million for the quarter, driven by a 13% increase in aircraft online and a 12% increase in ARPA. During the quarter, we installed 114 aircraft, and our airline partners retired 51 installed aircraft, resulting in just over 2,300 aircraft online at the end of the quarter.

Net of expected installeds, we have approximately 350 awarded but not yet installed aircraft at the end of the quarter, most of which are regional jets. We expect to install most of these aircraft over the next two years.

Our CA-NA ARPA grew 12% to an annualized \$136,000, which is driven primarily by a 14% increase in the average revenue per session of \$13. Excluding the impact of the increase in regional jets, we estimate that the underlying ARPA growth would have been approximately 20%.

Our third-quarter take rate was down to 5.6% from 6.2%, primarily due to the increase in regional jets as a percent of our connected fleet and price increases. Sequentially, take rates declined from 5.9% to 5.6%, which is typical for our business due to seasonality. We expect our connectivity take rate to bounce back in the fourth quarter.

CA North America segment profit more than doubled to \$11.8 million, and segment profit margin almost doubled to 15%, as we continue to see strong operating leverage, specifically in cost of service, which declined 800 basis points to less than 39% of service revenue in the third quarter.

Now turning to BA, service revenue of \$26 million was up 38%, driving total revenue to a record \$44 million for the quarter. ATG aircraft online increased 26% to over 3,300, and APG service ARPU increased 12% to more than \$2,300 per month.

BA equipment revenue of \$18 million was down \$3 million, primarily due to fewer satellite and ATG units shipped, consistent with industry trends. BA segment profit of \$18.2 million was up 21% from last year. Segment profit margin of 41% was up from 37% last year, which is impacted by a one-time inventory adjustment.

Finally, let's move to CA rest of world. We ended the quarter with 160 aircraft online, up 12 from the second, and recorded \$3.6 million in revenue for the quarter. Installation slowed down significantly in the summer months because of increased aircraft utilization during that period. We do expect installation activity to pick up in the fourth quarter.

While we don't report CA and rest of world ARPA in our operating statistics yet, I can tell you that we saw very nice ARPA growth in the third quarter, both sequentially and year over year. When you add monthly service fees that are reported as a credit to cost of service and revenue from North American flight segments flown by rest of world aircraft to rest of world revenue as reported, the rest of world ARPA actually exceeded North American ARPA in the third quarter.

We had approximately 400 awarded but not yet installed aircraft in our CA rest of world segment at the end of the third quarter. We expect to install the majority of our awarded aircraft by 2018 and to see material revenue growth in 2016.

Segment loss of \$19.9 million compared to \$19.4 million last year, primarily impacted by higher expenses related to STC and lines set activities. As Michael mentioned, we're thrilled to have 2Ku flying, and it's hitting the ball out of the park across all key measures of global connectivity technology: cost, coverage, capacity and reliability.

Before I wrap up, I want to briefly touch on capital expenditures. Third-quarter cash CapEx of \$12 million was nearly \$18 million lower than the prior year due to lower airborne equipment purchases and higher equipment proceeds from our airline partners in the third quarter. Also in last year's third quarter, we had the buildout of the BA office and the purchase of our plane.

In sum, we've demonstrated great financial results for the quarter, and because of our strong profitability trends have increased adjusted EBITDA guidance for the year. Going forward, we also expect strong growth in revenue and profitability supported by the aggressive rollout of 2Ku.

Operator, we're ready for our first question.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

John Hodulik, UBS.

John Hodulik - UBS - Analyst

Michael, you gave some interesting data on the ARPA growth moving from ATG to 2Ku. Could you talk a little bit about the components? Are you seeing -- I realize it's a pretty small sample set, but are you seeing higher take rates or is it driven by higher -- high revenue per session?

And then if you could talk a little bit about what you see as the bidding activity for rest of world. Is that picking up, and how is the initial reception to 2Ku as you're getting out there and talking with perspective clients? Thanks.

Michael Small - Gogo Inc. - President and CEO

Okay, so your two questions, first on the ARPA and its benefits of additional capacity, we try to control every which way for all the different factors. You do same plane, same route, same time.

You see an ARPA pick up of roughly 20% from going to ATG to ATG-4. And that can break out either by take rate for the types of sessions, things -- no doubt that some people know our service levels well enough that they were only buying a half hour in the past, and now they know it's better and they buy the full flight. And others it's just simply a take rate issue, so it's a combination of both.

Bandwidth is everything in our business -- more bandwidth, more revenue. And also the interesting thing was we know our domestic fleet often flies to the Caribbean or wherever, and it's a reasonable period of time.

So buying the extra coverage with the satellite solution is really free ARPA growth. You don't have to do anything -- you just cover a flight that previously wasn't covered, so that's all great news.

On the bidding activity, the interest keeps building the confusion level is high. The 2Ku answer is the answer, and I think we're making that message -- we have taken multiple airlines on our plane at this stage for demos, and we will be getting that out.

So seeing is believing. 2Ku is the best global solution by far, and as we have to prove that to the world, we think not only will there be activity, but we will start seeing decisions.

John Hodulik - UBS - Analyst

Great, thanks Michael.

Operator

Jonathan Schildkraut, Evercore ISI.



Jonathan Schildkraut - *Evercore ISI - Analyst*

Great. Thanks for taking the questions and good morning. I guess this quarter's results were yet another strong quarter through our view, and in some ways cost came in I think lower than we anticipated. You raised the outlook for the year, Norm, and I just want to make sure as I look into 2016 and beyond, that I'm being sensitive as to anything that might have been pushed out from a cost perspective or if this is the natural operating leverage materializing the business model that we should expect on a go forward basis.

Norman Smagley - *Gogo Inc. - EVP and CFO*

Yes, it really is the natural evolution of the model and continued demonstration of operating leverage in the business, Jonathan. And there's not a lot of -- nothing significant that's going to go from this year to next year and bring next year down. We do -- without giving specific guidance as I said in the early part of the call, we do expect continued growth in revenue and profitability moving forward.

Jonathan Schildkraut - *Evercore ISI - Analyst*

That's great, and I was wondering, Michael, if you could talk a little bit about what the challenges are with getting line fit for 2Ku. I understand that a big portion of the ROW addressable market will come from planes that are being built, and so I see the relevance of line fit.

We've heard that just based on the size and shape of the antenna being different from the other competitors out there that it requires a different radome, and that might be a sticking point. I'd just like to get a little bit more color from your seat.

Michael Small - *Gogo Inc. - President and CEO*

We agree that line fit is very important although the vast majority of the planes exist -- planes last about 30 years. So volume of plane is in the retrofit area but the high-profile new planes are all line fit. And we would like nothing more than to add line fit to our capabilities in CA. We certainly have line fit for many years in BA.

It is all long process to get line fit for the very clear reason that neither Airbus nor Boeing is going to delay the delivery of an aircraft because one of their vendors lets them down. We are deeply in that process with both Airbus and Boeing, with increasing enthusiasm by both OEMS, and we have every reason to believe that we're going through that process as quickly as you can go through. 2Ku is in line fit for all the major aircraft types, so that's going to happen.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Awesome. If I could sneak one more question in here, Michael, where are we in terms of thinking about some of the domestic fleet making 2Ku upgrade decisions? Is that something that we might start to see over the next 12 months, or is that something that's going to be further out considering some of the upgrades you've made more recently? Thanks.

Michael Small - *Gogo Inc. - President and CEO*

We are -- I have already received commitment from Delta to upgrade 250 of their aircraft. From my experience and the reaction I've seen from our airline partners as they fly 2Ku, everybody's going to want to upgrade to 2Ku on some significant percentage of their fleet. It is a better solution. It will be adopted.

Jonathan Schildkraut - *Evercore ISI - Analyst*

All right, thanks so much for taking the questions.

Operator

Philip Cusick, JPMorgan.

Philip Cusick - *JPMorgan - Analyst*

I guess if you could start with the CA-NA business, the take rate seems a little low. How much of that is capacity issues an existing planes versus dilution from new planes like regional jets?

Norman Smagley - *Gogo Inc. - EVP and CFO*

Half of the change is due to dilution from regional jets. The other thing you have to remember on take rates, Phil, is that when we make price changes, we expect it to be revenue accretive and they have been. So the intended effect of that is to have some impact on take rates.

The issue on take rate is a temporary trend that will reverse, and as we've shown with the increase in revenue from our Ku plans, more bandwidth leads to more revenue. So we're not concerned about that.

Again, focusing on take rate as many people do is only half the picture. You have to look at the offset which is ARPS, which went up 14% year over year. And that drove ARPA up -- ARPP up in revenue.

Philip Cusick - *JPMorgan - Analyst*

So last quarter, you said you had found the point of elasticity finally. Are you still raising prices at this point? Or is that more rolling through?

Michael Small - *Gogo Inc. - President and CEO*

I will jump in. It's largely the role through. We have definitely slowed the rate of price hikes, yes.

So it's not -- I'm not saying we put a moratorium on it, but they're becoming rare. So we're not using it too much anymore

Philip Cusick - *JPMorgan - Analyst*

Okay, and then just following up on an earlier question, you've got airlines who are coming on the plane, seeing 2Ku in action. Do you feel like there's any momentum toward those RFPs finally coming through? Some airlines we've been waiting on for a year or two. What do you hear there?

Michael Small - *Gogo Inc. - President and CEO*

Yes, well again, I think I've made the statement in the past, the reason the rest of world hasn't taken off like in the US, there was never a great technical solution to the problem of bringing broadband connectivity to aircraft. With 2Ku, there is now a great solution. It cuts the bandwidth costs substantially or increases the throughput, whichever way you want to look at it.

And we've improved the coverage materially too by eliminating the now-infamous skew angle problem, but there's no deterioration of coverage as you get into tropical zones. So there's really nothing for the airline to ask.



It's going to work wherever their planes flies, and the bandwidth economics are now looking pretty good, the speeds are looking great. As soon as airlines figure that out, they're going to start making decisions.

Philip Cusick - *JPMorgan - Analyst*

One more quick one, can you just remind me -- the 2Ku TV option, you've talked about this quite a bit, is that your antenna also catching a Dish or DirecTV satellite, or is that you streaming different video channels and then allowing people to use broadcast?

Michael Small - *Gogo Inc. - President and CEO*

Our antenna can do either. So it can capture IPTV or it could pick up a broadcast TV stream.

Philip Cusick - *JPMorgan - Analyst*

Can it do both broadcast and your regular broadband at the same time?

Michael Small - *Gogo Inc. - President and CEO*

Yes. It can only point to one satellite at a time, but it can pick up both types of traffic at the same time.

Philip Cusick - *JPMorgan - Analyst*

Got it, thanks guys.

Operator

Dick Ryan, Dougherty.

Dick Ryan - *Dougherty & Company - Analyst*

Thank you and congratulations on a good quarter. Say Michael, trying to focus a little bit on business jets, looks like shipments were strong, 224. Connections were a little bit less than we saw in Q1, Q2, yet service revenue drove -- was up significantly.

Can you give us a little sense of what you're seeing in business aviation? And you also introduced ATG 1000 and 8000 and what's the level of interest forming on those products?

Michael Small - *Gogo Inc. - President and CEO*

Yes. So first, the business is performing extraordinarily well. 38% service revenue growth for basically all three quarters this year is a phenomenal number, and it takes adding units to do that.

And we're also seeing the average revenue for aircraft increase. Some of that has been modest price hikes, but it's also been people upgrading their plans. We got out of the unlimited, started doing bucket plans. So as people use more, they start paying us more.



The private jet market despite the reputation of it being an ultra luxury billionaire type of thing, it's actually a highly segmented issue. There's all types of different planes flown for different purposes.

So if we're really going to get to most of the 20,000 planes in North America, we do need a segmentation plan. And the bulk of the planes are towards the lower end. So you need lower-cost equipment on the plane, we've pretty well taken care of that with our segmentation.

The next challenge will be to get applications that are more valuable to owner operators rather than a passenger in the back of the plane. And so we started introducing things like weather apps. And so it's between the lower priced equipment and the slightly deconfigured offerings for connectivity plus some apps for the cockpit pilot, we should be in great shape to keep this growing.

Dick Ryan - *Dougherty & Company - Analyst*

How should we look at installations in Q4?

Michael Small - *Gogo Inc. - President and CEO*

For BA?

Dick Ryan - *Dougherty & Company - Analyst*

Yes.

Michael Small - *Gogo Inc. - President and CEO*

No major variations in the trend line. As our base has grown to over 3300 aircraft, even though churn is very low, we do see it simply because planes are sold elsewhere in the world or even if they just transfer owners to North America, there can be an interruption of service till we get the customer back.

Those issues -- it's just off a bigger base. There's no problem there, but you just -- any time you grow a recurring revenue base, you just have that issue gets bigger over time.

Norman Smagley - *Gogo Inc. - EVP and CFO*

And Dick, I want to add two points. One, some of the things I've talked about in previous calls about why I love the BA business so much.

When you think about it, when we get a unit online, we effectively have a long-term annuity from that unit. Other than when a plane gets sold as Michael just mentioned, the units stay online for quite some time. So if we have a steady stream of units coming online, we continue to drive a growing larger service revenue annuity stream in our business.

The other thing is that this point, service revenue which is the highest margin component within BA, has surpassed equipment revenue. That trend will continue, so this business will only get better and better.

Michael Small - *Gogo Inc. - President and CEO*

Yes, I think we broke \$25 million this quarter. So it's now a \$100 million run rate service revenue business in BA alone.



Dick Ryan - *Dougherty & Company - Analyst*

Great, that's great. One more for me, Michael, you mentioned confusion out there in the pipeline. Is the Ka/Ku confusion over with and you're referencing 2Ku versus traditional Ku? Or how would you handicap the confusion that still exists in the RFP pipeline?

Michael Small - *Gogo Inc. - President and CEO*

Yes, I will take a second on that. There's really two choices to make if you're trying to get the best broadband highway in the sky.

It's tactical decisions you can make today. It's you choose Ku and Ka -- or Ka on the satellite side, and you choose rectangular antenna or you choose a round antenna, larger round antenna.

When we look at Ku versus Ka, it's 180 available satellites versus either two or three. And the only person who would recommend choosing two or three are the people who happen to own the satellites in the Ka band. There's no way two or three can match 180.

Our round antenna, large round antenna, we now have the rock solid data we fly it. It's approximately twice as efficient and has no ceiling or problem because of its increased size and better shape.

So that's a no-brainer choice, and so you really just have to figure out those two things: which ecosystem, Ka or Ku, you are going to choose and which antenna you are going to choose. And we picked the best of both.

It's been -- everybody's taken their best shot at proving why their solution is best. But I can see pretty clearly why I like what we've chosen, which is our mechanical electro mechanical phased-array antenna in the Ku ecosystem.

Dick Ryan - *Dougherty & Company - Analyst*

Okay, and do you still expect a few planes online with 2Ku by year end?

Michael Small - *Gogo Inc. - President and CEO*

Yes. As we said, we have installed two commercial aircraft already. We're awaiting final regulatory approval to fly on them. We still expect that to happen by year end.

Dick Ryan - *Dougherty & Company - Analyst*

Okay great. Thank you and again, congratulations on the strong quarter.

Operator

(Operator Instructions)

James Breen, William Blair.

James Breen - *William Blair & Company - Analyst*

Just two questions. One, Michael, can you talk a little bit more about 2Ku? You made reference to the speeds.



I think you said 12 megabits to 40 different devices. Can you talk about in terms of what you're seeing in terms of bandwidth to the plane as a whole because I think that's how people look at it when comparing it to other services.

And then secondly for Norm, cash CapEx was low this quarter, you talked about some of the puts and takes there. Can you give us any color on how that can go going forward now? Is this a new lower level that we're seeing? Thanks.

Michael Small - *Gogo Inc. - President and CEO*

So my statement on the bandwidth is we've been seeing for browsers on a particular device speed tests often above 12 megabits per second, even while 40 streaming sessions are going on, on the plane. So we load up the plane with about 40 streamers and then say -- get on, start browsing, and what do the speed tests look like.

I would say speed tests are notoriously unreliable. We've seen speed tests of 25 megabits per second on our 10 megabits per second ATG-4, so you get all kinds of numbers. But if you take a bunch of them, it's a good representative sample.

We are testing our plane on a production network. We have the Delta Ku planes flying on the same network that we're testing it. We have configured the performance for the airlines exactly according to the SLA we're offering them, we haven't jazzed it up, and that's what we've seen.

I'm getting a little tired I guess of the wars of who can do the biggest megabits per second, so we're trying to stay away from that. But the passenger experience heavily loaded is excellent on our 2Ku solution. And we're going to find the time to fly some of you around so you can try it on our test plane.

James Breen - *William Blair & Company - Analyst*

Just as a follow-up, I think the reason why I asked the question is because you traditionally talked about ATGs and ATG-4s being 3 megabits of the plane and 10 megabits of the plane. So I think just providing -- based what you just said, it sounds like you're getting north of 60 or 70 just to give people a relative basis.

Michael Small - *Gogo Inc. - President and CEO*

Yes, so 2Ku with current satellites will be north of 70, and with the high throughput satellites, we will do north of 100 megabits a second. When you just look at the link from the satellite to the antenna, we're able to achieve that.

James Breen - *William Blair & Company - Analyst*

Great, and on the CapEx, Norm, if you could.

Norman Smagley - *Gogo Inc. - EVP and CFO*

Sure. So this quarter, we benefited from some ups and downs in the right kinds of things. So we had lower airborne purchases for equipment for inventory for future installs, and we had higher proceeds from our airline partners.

So those two things came together in a nice way for us in the quarter. I would not look at that as a change in trend or setting a new low.



James Breen - *William Blair & Company - Analyst*

Great, thanks.

Operator

Andrew DeGasperi, Macquarie.

Andrew DeGasperi - *Macquarie Research - Analyst*

First, on the Lufthansa Inmarsat deal, I was hoping to get some comments from you on that. And do you think it could give a momentum to one of the deals in Europe?

And secondly, I was just trying to get a little more detail on the growth in ARPA at rest of world. Was this mostly driven by the number of sessions, or is it a combination of metrics like pricing and so forth? Thanks.

Michael Small - *Gogo Inc. - President and CEO*

So I think the only thing I will say about -- I will say two things about European. First, our 2Ku solution is here and now. I think that's going to matter to a lot of providers -- a lot of airlines. So there's actually a decision you can make today.

And secondly, ATG will continue to play a role in this industry, particularly for smaller aircraft that stay over a particular landmass. But if you believe you want connectivity everywhere all the time, increasingly it's going to be satellite is going to be a high percentage of the global answer because 75% of the global is water, other percent of it is really uninhabited. So satellite will be the dominant global solution.

Andrew DeGasperi - *Macquarie Research - Analyst*

Sure, go ahead.

Michael Small - *Gogo Inc. - President and CEO*

And then ARPA growth in the rest of the world, we're just getting to critical mass here on planes installed, and that's actually going to keep getting better here as we get closer and closer to full fleet. So it's just the natural adoption curve and awareness curve.

And quite frankly, no one's really pushed it hard among our airline partners yet because it really doesn't make sense until you get to full fleet. But we will be at full fleet with both Delta and JAL by the middle of next year, and we will be substantially there by the end of this year.

Andrew DeGasperi - *Macquarie Research - Analyst*

Great, and just one follow-up on the line fit offer ability. Can you remind us what aircraft fleets you're looking at to have this for?

Michael Small - *Gogo Inc. - President and CEO*

Yes it's all the major aircraft types. Boeing and Airbus. On the Boeing side, it's a 787, 777 and 737, and the most high-profile ones at the moment are both the 787 and the A350. And the high-volume planes end up being the 737, and the eight 320 series for Airbus.

Andrew DeGasperi - *Macquarie Research - Analyst*

Are these all at the same, or are you scheduling these at different intervals?

Michael Small - *Gogo Inc. - President and CEO*

They end up being independently decided, quite frankly, at the airlines, and they're almost separate business unit by aircraft type. So they're all in the works. They all won't happen at the same time, but they are all underway.

Andrew DeGasperi - *Macquarie Research - Analyst*

Great, thank you.

Operator

Armintas Sinkevicius, Morgan Stanley.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

I had a question regarding the ARPA. I noticed there was an uptick of about \$2000 annualized ARPA from other services. I was hoping you could provide some color there and if there's more opportunity to keep growing that ARPA and how.

Michael Small - *Gogo Inc. - President and CEO*

So other services do keep growing, and over time we will keep growing. Gogo Vision, text and talk, some early services to the airlines for their bandwidth needs, for the crew and to allow their passages even to get to the airline's dot-com are what's driving today. The connected aircraft for the future will drive hundreds and thousands of applications over time.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Okay and anything this quarter that drove that increase specifically?

Michael Small - *Gogo Inc. - President and CEO*

We aren't really breaking that out. I would say we continue to see really excellent progress with Gogo Vision in particular. It is a very desired product, and we've seen significant rollout during the course of the year, particularly at Delta and Alaska, and more recently American's also put more energy behind the product.

So it's just the efficient way to get video content to the passenger. They bring their own device, the screen's much higher resolution than what could possibly be in the seatback. And the airline avoids all the expense of installing and maintaining and flying around with embedded in-flight entertainment equipment.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Okay, and then for the 14 gigahertz auction, there were some interesting developments this quarter with SpaceX and Qualcomm filing in support of the auction. Do you have any increased visibility on the auction there and your updated thoughts?

Michael Small - *Gogo Inc. - President and CEO*

We still expect the auction to happen, it's certainly in our thinking, but we have absolutely no basis for predicting when or even if it will actually happen. But it's absolutely in our expectations that it will, and we are hopeful in the not-too-distant future.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Okay, my last question is as we think about 2016, if you have any color there that we could start looking at for our models.

Norman Smagley - *Gogo Inc. - EVP and CFO*

Yes, we're not giving guidance specific to fourth quarter of next year. As we said early, we do expect to see continued strong growth in revenue and profitability going forward.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Carter Mansbach, Jupiter Wealth Strategies.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Good morning, gentlemen. Congratulations on a great quarter. So I have two questions. First is regarding texting.

It seems like it's been over year or so since the T-Mobile deal was done, and I know it's very low bandwidth for texting. I'm wondering why there haven't been any new developments and if you guys are looking at doing texting across all of your network.

Michael Small - *Gogo Inc. - President and CEO*

Will, there actually has been a new development. Our new app is out, and you can download it. And it's great, it's really I think a slick solution now that's come a long way.

It actually is a decent revenue stream for us across both BA and CA. Particularly in BA it's been a really big business for us. And there's a decent amount of revenue in CA too. We just don't break it out, and the reason we don't break it out is I firmly believe texting will end up being only one of many, many apps as the future unfolds here.

And to be broken out, it would be like Nordstrom reporting sock sales. You just can't report on everything on your shelves. It's not the right answer for us in the long run. So it's doing well and it's going to do better, and it will get more -- I think it will get a little bit higher profile over the next year or so.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

That's great. Second question is, we've talked a lot over the last couple years about hockey sticks for the Company. Obviously it's been solid consistent 20% plus growth for quite a while. I guess what I'm trying to understand is, you didn't speak much about today about Internet on the entire plane, connecting everybody to the ground, to the pilots, et cetera.

So what I'm asking is when 2Ku is fully functioning, let's say the end of next year, early 2017, do you expect at that point you can start to see a real ramp in revenue, a combination of more people using the product on the plane as well as -- you have said many times that you believe the entire plane is a bigger business than the Internet for passengers. Do you expect end of 2016, early 2017 to start to see that major ramp where you have more people online and the entire plane is utilizing the technology?

Michael Small - *Gogo Inc. - President and CEO*

We've had this discussion a few times. This is an infrastructure play. You develop great technology, you get it certified to go on planes and then you install planes one at a time. That's inherently a process that unfolds.

So we have a great growth company, it will keep growing, but it's not a hockey stick situation. And there's lots of things we can do to accelerate long-run growth rates, but it's tilting the lien up a little bit. It's not creating the hockey stick from a revenue point of view.

And so I'm feeling better and better about sustaining revenue growth at a high level for a long period of time. We were over 20% again.

One of the reasons -- the reason it did stay over 20% is we got about 3% of that growth from the rest of world, up about \$3 million year over year on the rest of world. That kicks in, it's going to start helping as we keep adding planes there.

As we keep adding more bandwidth, we gave examples about how we saw 20% lift here and we saw 30% lift there. If we could do every plane all at once, there would be a hockey stick, but we have to add it plane by plane. And we do that better than anybody else in the world, how fast we can install planes, but nonetheless it still takes time.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Fantastic. So are you still in the camp that the Internet of the entire plane will be a bigger business than the Internet for passengers?

Michael Small - *Gogo Inc. - President and CEO*

Absolutely. Nothing's changed in that view, and I think we're very clear that when it's asked for time frames, it happens more than 10 or less than 20 years when that happens.

So it's one to two decades out. But yes, I'm 100% confident on that trend. I just don't want anybody to think that tomorrow that's going to happen.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Got you, fair enough. And again, congratulations on a great quarter and really strong guidance. Have a great day, thanks for taking the call.

Operator

This concludes today's Q&A session. I would now like to turn the call back over to Mr. Small for closing remarks.



Michael Small - Gogo Inc. - President and CEO

Thank you everyone. The 2Ku era has begun. Have a great day. Goodbye.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may now disconnect. Everyone have a great day.

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