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GOGO - Q4 2014 Gogo Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Gogo Inc's fourth quarter 2014 earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to turn the conference over to Vavara Alva, Vice President of Investor Relations. Ma'am, you may begin.

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

Thank you, Candace, and good morning, everyone. Welcome to Gogo's fourth quarter 2014 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 the conference call. These risk factors are described in our earnings press release and are more fully detailed under the caption Risk Factors in our annual report on Form 10-K and other Exchange Act reports filed with the SEC.

In addition, please note that the date of this conference call is February 26, 2015. Any forward-looking statements that we may 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 also included in today's press release. This call is being broadcast on the internet and is available on the Investor Relations section of the Gogo website, at ir.gogoair.com. The earnings press release is also available on our website. After management's remarks, we will host a Q&A session. And now it's my pleasure to turn the call over to Michael.



Michael Small - Gogo Inc - President & CEO

Thanks, Varvara. And thank you all for joining the call. Once again Gogo had an outstanding quarter. We continue to hit our three goals, bring more capacity to the sky, win more aircraft, and hit our numbers. In fact, every quarter in the last year has demonstrated strong progress towards these goals.

Before we get into specifics for the quarter and year, I want to make sure I highlight what happened this week and how it impacts our business. In case you missed it, Delta recommitted to Gogo and specifically selected Gogo's 2Ku technology for more than 250 domestic and international aircraft. We are very pleased to extend the relationship with our largest partner. We now have been awarded over 300 aircraft across six airlines that will receive 2Ku, an incredible achievement within a year of announcing this new technology.

I've long touted the benefits of 2Ku, but I'll summarize them again. Our analysis shows that 2Ku is the first commercially viable satellite solution for a number of reasons. It cuts the bandwidth cost in half when compared to traditional Ku solutions. And it has the most extensive and resilient global coverage, because it eliminates the skewing of problems and utilizes a large number of existing and future Ku satellites.

To reiterate, I believe 2Ku will be the first commercially viable solution outside North America and will be as transformative to global aviation as ATG was when we first introduced it. With more than 300 aircraft awards in less than a year, the aviation industry clearly gets it. That's point one.

Point two, we know we have a capacity crunch in North America. This is obvious to you, our airline partners and their passengers. Each aircraft commitment to Gogo's next-generation technology will help take the pressure off the network. ATG-4 is helping; 2Ku will help significantly more. This year we are targeting to reach 1,000 aircraft with ATG-4, about 40% of our installed base in North America. We expect 2Ku on Delta and United, and we would anticipate other airlines to make a big difference in 2016 and beyond.

More capacity with better economics on a global scale leads to a better customer experience and also paves the way for the Internet of Things in the sky. We're already seeing airlines moving beyond passenger connectivity. For example, with Delta we've connected more than 18,000 flight attendant tablets and will work with them on other products and services to connect the cockpit and components on the aircraft. This vision for connected aircraft drives my belief that this will be a \$30 billion revenue industry.

Gogo is well positioned to capitalize on these trends because one, we have more broadband airplanes today; two, we are adding the most new planes; three, we have what we believe is the best suite of technologies in the most extensive operating experience and capabilities. Simply put, we deliver higher quality solutions at lower cost.

In addition to offering a significant competitive advantage in the international market, 2Ku is critical for our long-term profitability. Based on the specifications of 2Ku in terms of bandwidth cost and coverage, we expect Gogo's financial trajectory in the Rest of World segment to mirror our experience in CA-North America which, as Norm will describe, is demonstrating a strong profitability trend.

We expect this because we have very similar estimates for the average cost per megabyte of our ATG network and our 2Ku network. Plus, 2Ku is expected to benefit from higher peak stays and more capacity. Rest of World's current financial performance simply reflects that we started the business nearly six years after we launched service in North America. Compared to North America segment, Rest of World segment with 2Ku has similar economics and the opportunity is three times the size of the North American market.

Okay, now that I've given you a taste of what's to come, I want to highlight our achievements for the quarter and the year. First, capacity. We continue to bring more ATG-4 aircraft online and ended the year with more than 675 ATG-4 aircraft, or 30% of our North American installed base. As mentioned in 2015, we expect to get ATG-4 on about 40% of our aircraft in North America. We know this is helping with our capacity crunch, but bringing 2Ku online, which is expected to begin later this year, will help even more.

Second, aircraft wins. We've made remarkable progress on that front, too. Gogo has by far the most broadband planes online, and we continue to win the majority of new aircraft awards in -- we continued to win the majority of new aircraft awards in 2014. In the quarter, we had two major awards. Both American and United selected Gogo to provide internet conductivity on their regional jet fleets. This means roughly 500 new planes



will be added to our backlog, which now sits at approximately 1,000 aircraft. As you'll recall in 2014, we announced deals with Air Canada, AeroMexico, Virgin Atlantic and Vietnam Airlines.

On the BA side, we shipped over 200 broadband connectivity systems for the quarter and nearly 1,000 broadband connectivity systems for the year, another record for the Company. Between CA and BA, we had nearly 5,000 broadband aircraft online, about 10 times as many broadband planes flying as our nearest competitor. And if you add the 5,400 BA satellite aircraft online to that number, you can see that Gogo's service was available on roughly 20% of the global aircraft market.

Our third and final goal is to hit our numbers, which we did once again. Norm will get into details in a minute. I would like to highlight a couple points for you. Combined segment profit for CA-North America and BA increased 72%, to just over \$24 million in Q4. For the year, combined segment profit grew 80% and reached \$89 million. This represents a combined segment profit margin of 22%.

CA-North America and BA segment performance over the past year extends a longer term trend. Over the past five years, combined segment profit in CA-North America and BA business has grown from negative \$89 million in 2009 to positive \$89 million this past year. This swing happened even as we invested in next-generation technology, developed new products and services, and further expanded our operating capabilities. We are very pleased with these profitability trends.

I want to wrap up by leaving you with this. First, we expect 2Ku to be a world leader and I'm so very pleased with its adoption rate so far. Second, 2Ku's bandwidth economics are expected to be very similar to ATG's, so we expect Rest of World's financial trajectory to mirror CA-North America's. And lastly, we will continue to pursue new technologies with an eye towards more capacity at lower cost, which is the recipe for better passenger experiences and for the future of the Internet of Things in the sky. Again, thanks for joining the call and I'd now like to turn it over to Norm to get into the financials.

Norman Smagley - Gogo Inc - EVP & CFO

Thank you, Michael, and good morning, everyone. I'd like to point out that we have now been public for seven quarters. I'm happy to say that for the seventh time in a row, I'm starting my section off by announcing we had another record quarter, this time reporting total revenue of \$109 million, up 18% from last year. Our service revenue grew even faster, up 29% to over \$89 million.

The combined segment profit of CA-NA and BA increased 72%, to \$24 million for the quarter. Adjusted EBITDA was \$1.2 million, including a \$23 million [lift] from Rest of World that was up from a \$0.3 million loss last year. Cash CapEX came in at approximately \$12 million, slightly higher airborne equipment proceeds received from our airline partners. This is truly a great financial performance.

Now let's turn to the business segments. CA-North America service revenue grew 25%, to \$68 million for the quarter. This was driven by a 22% increase in ARPA and an increase in aircraft online to 2,098 at year-end. Mostly average revenue per aircraft online reached nearly \$11,000 Q4, more than \$130,000 on an annualized basis, driven primarily by growth in the average revenue per session and the impact of the first full quarter of our T-Mobile and Delta Studio partnerships.

CA-NA segment profit increased to over \$8 million from a loss of \$2 million last year. The segment profit margin of 12% was driven by strong revenue growth and improved operating leverage. In fact, cost of service as a percent of revenue declined by 8 percentage points, driven by the scalability of our ATG network infrastructure. Other operating expenses, excluding D&A, declined by 5 percentage points.

Turning now to BA, total revenue grew 7%, to over \$39 million, and service revenue grew 35%, to just over \$20 million for the quarter. I want to highlight a significant milestone for you in these numbers. This was the first time BA service revenue exceeded equipment revenue. Why is this an important milestone, you might ask. Because the service revenue stream has a higher margin than the equipment revenue stream. As we continue to add ATG units online, which drives service revenue growth, a growing proportion of service revenue will have a positive impact on overall margins for BA.

Equipment revenue for the quarter of \$19 million was down approximately \$3 million year-over-year, reflecting quarter to quarter fluctuations in equipment sales and the launch and associated spike in sales of Text & Talk at the end of last year. For the year, equipment revenue grew 11% to nearly \$84 million, a solid performance.

BA's segment profit of \$16 million for the quarter was unchanged from last year. Segment profit margin of 41% was down 2 percentage points, impacted by more engineering design and development spending being expensed versus capitalized and higher G&A expenses.

Finally, let's move on to CA-Rest of World. Revenue for the quarter was \$1.3 million, up \$1.2 million from a year ago. We finished the quarter with 85 aircraft online, more than doubling our installed base at the end of Q3. The segment loss of \$23 million was up from \$14 million a year ago, reflecting the cost to obtain more STCs to install our Ku solution on additional aircraft and higher transponder costs. We continue to invest in the development of 2Ku. Our industry-leading global satellite technology has stepped up our global presence in international sales and aircraft operation.

Let's now turn to the full year review, starting with consolidated results. Total revenue was a record \$408 million for 2014, up 24%. Service revenue grew 29%, to over \$322 million. Adjusted EBITDA of nearly \$11 million was up from \$8 million last year and included a \$78 million CA-Rest of World segment loss, as we continue to expand internationally. Cash CapEx was approximately \$98 million for the year, down a bit from \$104 million last year. We ended the year with \$211 million cash on hand.

Turning to the business segments for the full year, CA-NA revenue grew 26%, to nearly \$251 million, driven by ARPA growth of 20% and increases in aircraft online. CA-NA's segment profit was just shy of \$26 million, up from a \$1.3 million loss a year ago, representing a 10% margin. In fact, our incremental segment profit margin for the year reached 53%, really, really strong performance. CA revenue grew 22% to over \$155 million. Service revenue of \$72 million grew 38%, driven by strong growth in ATG aircraft online and service ARPU. Equipment revenue of over \$84 million grew 11%, driven by record ATG shipments of nearly 1,000 units and increases in equipment ARPU. Segment profit increased 24%, to \$63 million, a 40% margin.

Let's now take a look at the combined performance of BA and CA-North America. I know Michael already mentioned this, but I want to reiterate it. The combined segment profit for the year reached \$89 million, up 80% from a year ago, representing a 22% segment profit margin. In just five years, we went from a combined segment loss of \$89 million to segment profit of \$89 million, dropping 48% of incremental revenue to the bottom line. Now that's leverage.

Turning now to the Rest of World. Revenue for the year increased to \$2.1 million, up from \$1.6 million last year, most of which was derived from a one-time software purchase. The segment loss increased to just over \$78 million, as we continue to invest in our global sales and operations support infrastructure, our global Ku coverage, obtaining additional certifications for our Ku solution, and development of 2Ku. Needless to say, we are very pleased with the revenue growth and profitability of the performance of CA-NA and BA for the quarter and the year, and the great progress we've made with Rest of World.

With that, let me now turn to guidance for 2015. For the full year, we expect total revenue to range from \$490 million to \$510 million, reflecting year-over-year growth of 20% to 25%. This includes CA-North America revenue of \$300 million to \$320 million, reflecting growth of 20% to 28%; BA revenue of \$170 million to \$180 million, reflecting growth of 9% to 16%; and CA Rest of World revenue of \$15 million to \$20 million. We expect our adjusted EBITDA to come in between \$15 million and \$25 million and cash CapEx to range from \$100 million to \$120 million.

What does this guidance translate into? Another really great year for Gogo. CA-North America will continue to demonstrate strong revenue growth and profitability, and we expect it to be cash flow positive, a major milestone for us. BA will also continue to demonstrate strong revenue growth, profitability and cash flow. We will continue to develop and execute our market segmentation strategy to further penetrate the BA market with an expanded ATG product line driving units online and service revenue growth, which will positively impact segment profit.

Finally, CA-Rest of World is now operationalized with more aircraft being installed, which will drive revenue growth in 2015 and beyond. Our CA-Rest of World segment is also expected to increase at a slower rate in 2015, as we generate increased revenue while focusing on signing new airlines, launching existing partners, getting 2Ku deployed commercially, and further developing our international presence and capability.

As Michael mentioned, the CA-Rest of World and CA-North America businesses are very similar; and with 2Ku having economics similar to ATG, we expect the Rest of World business to follow a financial trajectory similar to what CA-NA did. And with the world market being three times the size of the NA market, we believe Rest of World will generate even greater value for Gogo shareholders in the long term. Operator, we're now ready to take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Phil Cusick, JPMorgan.

Phil Cusick - JPMorgan - Analyst

I guess a few. First, if you can talk about your Delta announcement yesterday, you mentioned the next-generation ATG beyond ATG-4. It might be a little early, but can you give us some color on what you hope to do with that technology?

Michael Small - Gogo Inc - President & CEO

Good morning, Phil. Sure, we can comment on next-gen ATG. There is a real benefit to ATG technology for aircraft that stay over the land mass, continental United States. You got lower cost installs and overnight installs. But more importantly, if there's a lot of spectrum available, you get the most speed at the lowest possible cost, the most bandwidth at the lowest possible cost. The FCC is considering the 14G option. That would be the most possible spectrum we could imagine coming to market. There are other alternatives to consider if that doesn't happen. It's our business to get the most bandwidth to the most planes and next-gen ATG is definitely an attractive option in North America.

Phil Cusick - JPMorgan - Analyst

Okay. So it really is that next-generation of spectrum coming out. And then, it seems like the RJ deal momentum really accelerated in the last few months. Is that as one guy kicks it off, the others feel like they have to follow? And should we look for something similar in international in 2015, some acceleration of a deal momentum?

Michael Small - Gogo Inc - President & CEO

You describe the airline business perfectly. If one does it, the others have to do it. So we saw that happen in the US with RJs. Inevitably, that happens with connectivity globally. And so there's two factors that are going to trigger the rapid adoption around the globe of in-flight connectivity. One is the snowball just gets going. One does it, the others have to do it. Secondly is our 2Ku solution. It is, in my opinion and with very clear analysis on our part, the first commercially viable solution. The reason it hasn't taken off in the rest of the world, there was no good connectivity solution prior to this. We now are bringing one to market. We've seen six airlines adopt this within one year of announcement. That's remarkable. And now we have a really big one with Delta.

Phil Cusick - JPMorgan - Analyst

And then a last question. I just think a lot of people are confused how the economics can be the same on 2Ku and ATG. And is that on a per-bit basis or is that on a more from what you expect people to actually use in terms of volumes?



Michael Small - *Gogo Inc - President & CEO*

That's on a per-bit basis. It's different in that one's a fixed cost solution, ATG. You build the network and you fill it up and you get to an average cost per megabyte when the bucket's full. And as you know, our bucket's pretty full there. But we know what that number is. There's no guesswork. We can just do the math. And then we do the engineering on 2Ku and we buy transponder by transponder, but we get the same costs. So our marginal cost and our average cost is reasonably similar in 2Ku. Our marginal cost is lower in ATG. But it turns out our average cost comes out about the same. So that makes us very confident that we have essentially the same average cost structure in the rest of the world now as we do in the US. It's going to be the same business. They fly the same planes everywhere. The demographics of the people on the planes are the same everywhere around the globe. We now have a real solution that works everywhere around the world in 2Ku.

Phil Cusick - *JPMorgan - Analyst*

Thanks, Michael.

Norman Smagley - *Gogo Inc - EVP & CFO*

First thing you've asked, Phil, hits on the power of why 2Ku technology is the world leader that we believe it is. One is the economics. It gives us half the cost of operating versus any of our competitors, in addition to far better coverage and lower drag for the airline and less fuel burn. So you hit on one of the key elements for us

Phil Cusick - *JPMorgan - Analyst*

Got it. Thanks, Norm.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

You've had a little bit of experience now with the international fleet. Can you give us a little bit of an insight into the Arbitrends, take rates, et cetera? I know it's sort of apples and oranges between the Delta and JAL. But any color there as we start to think about modeling that out?

And then with the Delta transaction, has anything changed in terms of either the rev share or how that is priced? Because I know some of the airlines are keen to take back branding, take back maybe some more control over the customer interface. Thanks.

Michael Small - *Gogo Inc - President & CEO*

Okay. So the second question --

Norman Smagley - *Gogo Inc - EVP & CFO*

So Simon, we're really just getting into those off the ground now. Until the service is more available on the Delta and JAL fleets and the airlines really get behind it, the metrics really at this point are not yet meaningful.



Michael Small - *Gogo Inc - President & CEO*

Let me add a couple things. One is we've given you a reasonable guidance on the number of planes and reasonable guidance on the revenue. So you can do some math, if you'd like. But we are now approaching critical mass on those two fleets, both Delta International and JAL. And for the airlines to get behind it, they need a decent number of planes installed. They like it predictable for the passengers that will see the service. So we're very pleased with the way it's going. We think our Ku performance, the traditional Ku is performing very well, better than we've seen any other Ku network perform out there in the marketplace. And somewhere during the middle of this year, both those airlines will get really behind the service.

And then on the Delta announcement that they've selected us, we don't comment on individual deals. In general, I would say there's confidentiality provisions in them. I'll make a couple comments, though. The deal was very consistent with our long-term financial expectations for this business. We're very pleased with it. It's a huge win. It brings more bandwidth to the sky, to the benefit of the airline and to us. That's how we grow our business, by creating bandwidth there. So it's an excellent deal. The one term in the contract that will be disclosed in our 10-K, when it is filed shortly, is that there will be contract extensions. Now the first Delta contract will expire in 2022 and then a couple other contracts considerably after that.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Okay. Thanks very much.

Operator

Jonathan Schildkraut, Evercore ISI.

Robert Johnson - *Evercore ISI - Analyst*

Hello. It's Robert Johnson. I was wondering -- I realize you can't comment much, but I was wondering if you could say who pays, in the Delta announcement, who pays for the upgrade to 2Ku, and what happens to the ATG systems that are in place and what are the potential implications of the change?

Norman Smagley - *Gogo Inc - EVP & CFO*

So, first of all, this is not an upgrade, from our perspective, it's an entirely new technology. Secondly, we're not going to get into the terms of the specifics on the agreement regarding Cap Ex or anything else, as Michael had mentioned earlier. And three, the existing equipment on the plane will likely stay on the plane.

Michael Small - *Gogo Inc - President & CEO*

We'll generally be removing the ATG-4 from the 2Ku planes. I will reiterate, this is a very positive financial transaction for Gogo. If you don't like this deal, you do not like 4G on the ground and should be recommending we go back to 3G. This is the next generation. It allows us to continue to grow our business. It will help us accelerate take rate. It'll help us introduce all the new operational apps. It will help us connect the crew. It will help keep continuity of coverage, as these planes fly to the Caribbean and Mexico and Hawaii. This is a very good thing, both for Gogo and for Delta.

Robert Johnson - *Evercore ISI - Analyst*

Okay. Thanks for taking my question.

Operator

Dick Ryan, Dougherty.

Dick Ryan - *Dougherty & Company - Analyst*

Great. Thank you. Congratulations on a good quarter, guys. A couple things that were a little better than expected. Gogo Vision, Norm, I'm not sure if I caught what you said was the driver behind the strong performance in that in the quarter, and how should we view that going forward?

Norman Smagley - *Gogo Inc - EVP & CFO*

The key driver behind Gogo Vision was really at Delta Studio, which we've announced and talked about before. It's a great partnership with Delta where they're providing entertainment to all their passengers, some on a free basis, some content available to everybody, and then for the folks in the back of the plane, premium content available for paid.

Michael Small - *Gogo Inc - President & CEO*

I would also add that very late in the quarter, so it didn't have much impact on fourth-quarter results, Alaska Airlines also launched what they call Alaska Beyond and had Gogo Vision deployed there with free content for the passengers, at least for the initial launch stage. A very successful program. They're very pleased with it. And furthermore, that Alaska Beyond uses our new server for the plane. We named it our clever ACTU-2. But that also has what we call autonomous mode, so the Gogo Vision can work even when there is no connectivity. So when Alaska flies off to Hawaii, the service works there, too. So now Gogo Vision is a truly global product. It will work anywhere on the globe.

Dick Ryan - *Dougherty & Company - Analyst*

Great. And maybe one more. When you look at the next-generation technology and/or Delta's choosing 2Ku, do any of those initiatives impact GTO? I haven't heard much of that lately.

Michael Small - *Gogo Inc - President & CEO*

So GTO and 2Ku are essentially the same technology. GTO will only work, though, over the continental United States. It has to be married with the air-to-ground network to work. And it turns out that most of the planes that have launched the increased capacity first are the larger plans, which tend to fly over water, at times. Maybe not all the time, but even 10% or 20% or 30% of the time. So we would expect that most of the airlines choose 2Ku. As we speak, we are installing GTO on our own aircraft and that will be flying any day now.

Dick Ryan - *Dougherty & Company - Analyst*

And when will your aircraft fly 2Ku, Michael?

Michael Small - *Gogo Inc - President & CEO*

About mid-year, late in the second quarter.



Dick Ryan - *Dougherty & Company - Analyst*

Great. I did have one last one. Can you talk about Line-fit, what you think of your timeline for Line-fit?

Michael Small - *Gogo Inc - President & CEO*

Sure. We're making tremendous progress with Line-fit. Boeing, we have numerous programs going across multiple technology provisions, which means the cabling for equipment is already in the Boeing catalog and available for airlines, and that's proceeding steadily. That's another good point to bring up about how attractive the new Delta announcement is. On the international side, with 2Ku, they're talking about their Airbus fleet, the new A-330 Neos, as well as the A-350s, we now have a very important customer of airbuses to approach Airbus and say, this equipments needs to be Line-fit. We think that greatly enhances our prospects for Line-fit with Airbus.

Dick Ryan - *Dougherty & Company - Analyst*

Great. Thank you.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Okay. Thanks. The take rate in North America was flattish on a year-over-year basis. Are we seeing that topping out, or are you guys using prices to manage through your capacity issues in North America?

Michael Small - *Gogo Inc - President & CEO*

We are very heavily using price to manage the capacity issue right now and will continue to do that. You can see that average revenue per session went up over a buck, well over a buck year over year. It also reflects there was a sponsorship activity in fourth quarter of 2013. So but for that sponsorship, it would've been up a little bit. But the underlying impact is we are managing take rates by raising price.

John Hodulik - *UBS - Analyst*

So first of all, are you guys going to be able to, any of the initiatives you described earlier, is that going to help alleviate some of the capacity issues you have in 2015, or do we really have to wait until 2016 for that? And then if you are able to do that, does the greater flexibility between that price/volume relationship, would that eventually lead to improving trends in the revenue per aircraft number?

Michael Small - *Gogo Inc - President & CEO*

Okay. So first in 2015, the primary levers to manage capacity is additional ATG-4 deployment, and we're going to get to about 1,000 aircraft this year, up from the 675 at year end last year. And the ATG-4 planes no doubt perform better than the ATG. We see that quite clearly. But price will be a big lever. You're also correct, though, and as we tried to say in the script, it takes 2Ku to make a big difference in the capacity situation.

Those deployments will begin in 2016 and really continues 2017 and 2018. But ultimately, like all wireless and really all telecommunications industry, it's all about getting more bandwidth. And Gogo keeps coming up with the better bandwidth solutions, and we think we lead the industry in that; and that's why we keep winning the planes and keep taking the share.

John Hodulik - UBS - Analyst

Do you think the 2Ku solution will come -- I mean, obviously, you're going to have a -- versus what you see today on a plane-by-plane basis -- dramatically higher amount of throughput that you can deliver to the seat. Do you think that will change the pricing dynamic on those planes?

Michael Small - Gogo Inc - President & CEO

More bandwidth always, always, always dramatically increases the pie, whatever telecommunications industry, I think. So yes, pricing per bit will clearly come down significantly when you bring more capacity, whether what happens per session or per passenger, we'll have to see. But it will fuel total revenue growth in a significant way as you bring more bandwidth to bear. It always does and it will do it here again.

John Hodulik - UBS - Analyst

Got you. Thanks, guys.

Operator

James Breen, William Blair.

Louie DiPalma - William Blair & Company - Analyst

Good morning. This is Louie DiPalma on behalf of Jim Breen. Earlier this month, ATG-4 debuted for business aviation. I was wondering what is the average price premium of ATG-4 compared with ATG-1? And has there been significant pent-up demand for thus service that should benefit first quarter results?

Michael Small - Gogo Inc - President & CEO

We did introduce ATG-4 in Business Aviation just recently. It won't materially impact results, I think the first installs will start happening in probably the second quarter this year. But it will help in the long run and it'll be priced, in order of magnitude, at twice what ATG is priced at.

That does bring up the bigger point about Business Aviation. We did have a record your last year in number of ATG units shipped. And last year, it turned out it was pretty evenly across all four quarters. And we're excited about that. But what we want to do in Business Aviation is segment the market. It turns out it really is a highly differentiated market from planes valued over \$50 million to planes valued down around \$1 million or less. So we are not only introducing what we're calling ATG 8000 at the high end, which is our ATG-4 technology, we'll be introducing lower end solutions, too. And we think that segmentation process is going to be very helpful to our long-term sales rates.

Louie DiPalma - William Blair & Company - Analyst

Great. And another one. At the Analyst Day in June of last year, Niels targeted having contract awards for 500 to 1,000 rest of the world aircraft at the end of 2015. Is there any update to that goal, given the recent deal momentum internationally? And can you comment on the international competitive dynamic with Panasonic On-Air, Global, Eagle et cetera?



Michael Small - *Gogo Inc - President & CEO*

Sure. First, that isn't exactly what we said at the Analyst Day. We said somewhere between 500 and 1,000 planes, we could reach profitability with that number of aircraft is what we said.

International sales have been slower than we would've said at that time, roughly a year ago, that no one signed up anything. In fact, we signed up, I think, the preeminent deal last year, in Virgin Atlantic. I think the catalyst now is going to be the deployment of the Delta international fleet will force others to match.

But the bigger catalyst, quite frankly, is 2Ku. Prior to 2Ku, there was no good global solution. Ku, plain old Ku, which we do have in some planes. It does work operationally, but it's very expensive, it's hard to make money. And it has that skew angle problem which affects about a quarter of the surface of the planet. It's not a trivial issue. It's a lot of square miles and does affect certain routes. So with 2Ku solving those problems, there is now any airline can pretty much dictate 2Ku and know it's going to work at good economics for their [route] structure. Just like ATG jump-started the business in the US, it was the first solution that worked, 2Ku is that same solution globally.

Louie DiPalma - *William Blair & Company - Analyst*

Great. And lastly, Inmarsat's one of your key partners and you obviously operate the Paradigm air-to-ground network. Do you have any plans to play any role in Inmarsat's European air-to ground-network?

Michael Small - *Gogo Inc - President & CEO*

We have no comment on that. I would say that, in general, in the rest of the world, satellite will be the predominant technology. There's too many countries, too much different jurisdictions to get spectrum in, not obvious serving area that works. The continental United States is kind of unique in that. Europe is hard to define the beginning and the end, and you got the Mediterranean, the North Sea to deal with, and the Baltic. And it just doesn't work as well as it does in the US. So having said that, I'm sure some ATG networks will pop up around the world, but it will be an off loader, a supplement to what will fundamentally be a satellite solution globally.

Louie DiPalma - *William Blair & Company - Analyst*

Great. Thanks, Mike.

Operator

Andrew De Gasperi, Macquarie.

Andrew DeGasperi - *Macquarie Research - Analyst*

Good morning. I wanted to ask a question on the spectrum the 14 gigahertz that you could potentially bid on in the long term. Do you see any other players potentially coming to that auction or are you -- would you be the only bidder? And secondly, it sounds like if you were to bid for this asset, the economics must be superior even to 2Ku, at least in North America, if you could just maybe comment on those two things?

Michael Small - *Gogo Inc - President & CEO*

Sure. So I have no idea who the other bidders will be. I will say that Gogo not only has the most planes to deploy this technology on, but we also have the most experience designing, building and operating ATG networks. Using this 14-gigahertz spectrum on a shared basis with the Ku satellite

providers is a relatively complex engineering challenge, so we think we have huge advantage in dealing with that. And we have been evaluating this for several years. And I'm sorry, the second half of your question was --

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

The economics.

Michael Small - *Gogo Inc - President & CEO*

Oh, the economics. So air-to-grounds, for a given amount of spectrum, air-to-ground's far more efficient than satellite. Satellites usually win by having more spectrum than you can find on the ground. But in this 14G case, there's up to 500 megahertz being auctioned, so there's a massive amount of spectrum for the air-to-ground network. You will bring down the cost per megabyte by orders of -- many orders of magnitude with this potential solution.

Andrew DeGasperi - *Macquarie Research - Analyst*

Thanks. And I just had two more. Internationally, would you say airlines at this point are more receptive through vendor financing, similar to what you do with Delta and American, at least on the legacy contracts, or are they more willing to pay for the equipment? And secondly, Norm, can you give us maybe a little more color on the moving parts for Cap Ex in 2015?

Michael Small - *Gogo Inc - President & CEO*

Okay. So in the grand scheme of things, our connectivity solutions are very inexpensive for the equipment. If you crack a windshield on an aircraft, you basically -- and have to replace it -- you basically bought a connectivity system. If you want to install a row of wide-class, business-class seats, you basically bought a connectivity system. This is relatively inexpensive solution that is very transformative to the airlines. So the CapEx will not be in the way.

Remember, when we first did this, it was unproven technology on our part. No one had ever done broadband connectivity in a plane. And secondly, it was coming out as 2008, great recession time. So between those two factors, it was the right decision at the time. I think the airlines will pay for this, whether from us or anybody else, because they need it, just like you buy communication services for your offices. You can't operate without it. You're going to spend the money.

Norman Smagley - *Gogo Inc - EVP & CFO*

In terms of Cap Ex, total for 2015 would be about the same range as 2014. As you know, we don't get into delineation of the major components. But it will be similar drivers in 2015 as 2014. We'll have another 300, plus or minus, ATG-4 upgrades. We'll have continued development of technology, capitalizing software, plus some additional build-out related to our new corporate headquarters. And it'll be pretty much the same components as last year.

Andrew DeGasperi - *Macquarie Research - Analyst*

Great. Thank you.

Operator

Dick Ryan, Dougherty.



Dick Ryan - *Dougherty & Company - Analyst*

I just had a follow-up. Looking at bandwidth costs, trying to look at the \$10.8 million in Q4 versus the current expectation for satellite-based planes flying. Which geographies have you lit up and are you committing now to HTS capacity for 2016 and how should we look at bandwidth costs for 2015, Norm?

Norman Smagley - *Gogo Inc - EVP & CFO*

We've lit up the world. We added some additional -- we filled in a couple holes during 2014. But we've been providing a global network since the end of 2012.

Michael Small - *Gogo Inc - President & CEO*

And as far as the trends in transponder costs and the amount of capacity you get for the buck is very good right now. The high-throughput satellites will really start getting launched next year, and it will only accelerate the Ku community. The Intelsats and SESs of the world will start putting up several satellites a year. And they are consulting with us on design, so they meet our needs. It's not only the inherent cost per megabit that you consider, but is the capacity in the right spot and is it architected right. And so advertising a super high throughput satellite, but if it happens to be designed for backyard dishes, it's not very useful for aviation. We will get this satellite. We'll get the new technology satellites architected to our needs, which will help our cost effectiveness.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. Thank you.

Operator

Carter Mansbach, Jupiter Wealth Strategies.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Good morning, gentlemen. Congratulations on another really consistent and solid quarter. I have two questions. One is regarding texting. So by my math, you had a six-month deal with T-Mobile. That deal should be over in the next couple of weeks. I want to know, is it now open to the rest of the industry? Should we be looking for deals with Verizon and AT&T?

And the second question I have is about the model of future Wi-Fi. So Michael, you've been pretty accurate since I met you a year-and-a-half ago regarding the way the trends are going. So I want to know what you see six months, a year out. Do you see the Delta model for Gogo Vision eventually becoming the model for some carriers, if not all, where you guys no longer wait for Mr. Jones to slide a credit card, you actually get paid by Delta themselves, they'll give it to the -- they pay you and they could either give it for free, [dial] first-class, whatever. But I guess what I'm asking you is, are you looking for the model to change a bit where it's not just Mr. Jones sliding a credit card, it's the airlines subsidizing it or paying for it?

Michael Small - *Gogo Inc - President & CEO*

Well, I think the model will evolve. Ultimately, Gogo is providing connectivity to aircraft, and then a platform for which the airline, the passengers, the crew and the rest of the aviation ecosystem, whether you make engines or avionics or anything, can use this platform to connect whenever they do. So it's going to get a lot more sophisticated, a lot more open than simply what you described, whether it's a passenger pulling out the credit card or the airline simply paying for it.



The Internet in the sky is going to be like the Internet on the ground. And it needs to be open and it needs to be available to everybody who wants to use it. And it shouldn't just be constrained to Gogo's ideas. It should be constrained to all the great ideas that come out of the broader ecosystem. And Gogo's going to provide the connectivity and the software platforms to access that connectivity, so we can fuel all that.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Okay. Great. Now as for the texting question?

Michael Small - *Gogo Inc - President & CEO*

The texting question, you are correct that, at some point, will be ending. But we can't comment about future deals. And I would think about texting as in the construct of the bigger picture, it's one application. It's a cool application. I think it's going to have a lot of applicability, particularly why our prices are high for basic connectivity, there will be a lot of people who want to use it. But it's just going to be one of hundreds of applications that are going to appear in flight.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Got you. Okay. Let me ask you one last thing. As for -- you guys do an amazing job on social media. I follow as people put in complaints, people are positive. What I wanted to know is can you give me any type of feel on the feedback of ATG-4 versus ATG? And I know you keep really good stats on that, in the way of people being happy with the newer product?

Michael Small - *Gogo Inc - President & CEO*

Yes, we track social media. We track chat rates. We track customer surveys. We track what our airlines tell us. We track what our internal systems tell us, our internal monitoring. And ATG-4 outperforms ATG, clearly. There is absolutely no doubt about it. So getting it on more planes matters. We also like that directional antenna on ATG-4 versus the omni antenna on ATG. And our engineers will tell you they're a lot happier when the directional antenna's on the network rather than the other antenna.

So everything about ATG-4 is goodness. It's just quite simply we need even more capacity than that, which is why 2Ku, we're so excited about that announcement today.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Gentlemen, thank you so much and congrats again on a solid quarter. Take care.

Operator

Thank you. And I'm showing no further questions at this time. I'd like to turn the conference back over to Mr. Michael Small for any further remarks.

Michael Small - *Gogo Inc - President & CEO*

Okay. Thank you everyone for joining us. We're absolutely thrilled with the new Delta deal and the strength of the quarter. We look forward to talking with you over the course of the next couple days to answer any additional questions you may have. Great day. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect. Have a great day, everyone.

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