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PRESENTATION

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Good day. And thank you for standing by. Welcome to the third quarter, 2024 Gogo Inc earnings conference call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question and answer session to ask a question during the session. You need to press star 11 on your telephone. You will then hear an automated message advising your hand is raised to withdraw your question. Please press star 11 again. Please be advised that this conference is being recorded. I would now like to hand the conference over to your speaker today. Will Davis? Please go ahead.

Will Davis - *Gogo Inc - Investor relation*

Thank you, Kevin and good morning, everyone. Welcome to Gogo's third quarter of 2024 earnings conference call. Joining me today to talk about our results are Oakleigh Thorne Chairman and CEO Jessics Betjemann, an 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 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 are more fully detailed under risk factors 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 November 5th, 2024.

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 nongaap 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 third quarter. Earnings release.

This call is being broadcast on the internet and available on the investor relations website at Ir.Gogoair.com.

The earnings press 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 Oakleigh.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Thanks will and welcome to our Q3 2024 call, Gogo delivered improved performance in the third quarter. But far from the robust growth we've had in the past and far from the growth we think will drive in the near future in what remains a highly unpenetrated global business aviation connectivity market.

This is largely because many of our current products are late in their product life cycle.

Fortunately, several years ago, we began investing in a new generation of products. Our Gogo Galileo low earth orbit satellite product and our Gogo 5G product that will soon hit the market. And based on the overwhelmingly overwhelmingly positive customer response we received now we're receiving now we believe we will reaccelerate our growth and we anticipate this acceleration will be significantly augmented by our planned acquisition of Satcom Direct leveraging their attractive install base, their strong sales and service organization outside North America and their strong position in the mill gov market with such a full and innovative pipeline and robust business combination.

It's an exciting time at Gogo and Satcom Direct. I remain inspired by and grateful for both the outstanding Gogo and Satcom teams who are moving quickly to build a world class competitor in an increasingly competitive industry.

Combined with Satcom Direct Gogo will be able to serve every segment of the BA market with the very best solutions for that segment. From our proprietary air to ground networks including Gogo 5G that deliver excellent reliable and cost effective connectivity for the thousands of aircraft that fly regionally in North America to integrated multi orbit Leo GEO solutions to meet the high bandwidth, high reliability and white glove service needs of the most demanding global heavy jet customer.

This morning, I'm going to start by highlighting some demand trends we're seeing in the B A market that underpin our Q3 results and our future outlook and then dive into progress on our strategic initiatives including the Satcom direct acquisition.

Jessics will then walk through the numbers and discuss our 2024 guidance.

Overall demand for business aviation flights remained strong up 2% for the quarter from prior year and up 30% from PRE COVID Q3 2020 2019. Demand for connectivity on those flights also remains strong with Q3 data usage per hour, up 17% from prior year and up 106% from PRE COVID Q3 2019.

We're seeing the biggest surge in demand at the high end of the market where cloud data storage and video conferencing are driving demand for much higher bandwidth than our traditional products were designed to provide and where Galileo and 5G are well positioned to meet that demand.

We believe this trend also demonstrates clear market opportunity for an integrated Leo Geo Gogo Satcom direct solution to support both enhanced capacity and redundancy for the most premium B A market segments.

Finally on demand, we see OEM order books and fractional sales of aircraft looking very strong which should continue to drive demand in the future.

According to H1ywell's annual global business aviation outlook, aircraft owners and operators will invest an estimated $280 billion in an estimated 8,500 new business jets between now and 2033 with the fastest growth in heavy jets. A part of the market which we believe our Satcom direct acquisition positions us well to serve.

Now, let me turn to our Q3 performance revenue is up a modest 3% year over year driven by ARPA growth and an increase in advanced units online.

On the equipment side for the quarter, we saw an increase in revenue of 1% year over year and a decrease of 7%. Sequentially as many customers delayed purchases in anticipation of the launch of Gogo 5G and Gogo Galileo.

Advance growth continues to be strong and we had record upgrades in the third quarter. We consider every advance installation a strategic win because advance allows customers to upgrade to new networks or technologies with a simple software upgrade and or addition of a new antenna on the outside of the aircraft because these upgrades require no change in equipment inside the aircraft. They're cheaper and faster than installing a competitor's entire new system.

We expect 2024 to be our second highest year of advanced shipments ever. We grew total advanced units online in the quarter, 16% over the prior year to 4,379 aircraft representing 62% of our ATG install base.

We anticipate our advance base will only grow faster as we incent our roughly 2,600 remaining GOGO classic customers to migrate to LTE over the next 14 months. As part of our FCC Secure Networks program, which I'll discuss in more detail in a few minutes, our service revenue remained strong, driven by new advanced installations and upgrades. Even though total ATG units online declined modestly. On the earnings side, Q3 EBITDA increased 14% sequentially mostly due to lower legal fees. Importantly, even as we invest deeply in the 5G and Galileo programs free cash flow remains solid.

Now, for our progress on strategic initiatives which are each in support of our three pronged now and next strategy.

First problem, we want to expand our addressable market globally by addressing the needs of the 14,000 business aircraft outside the US. Second, we want to drive advanced penetration. So over an aircraft's lifetime owners have upgrade paths to new networks and technologies that are cheaper and faster than moving to competitive products. And third, we're focused on expanding into every segment of the B A and now mill gov markets by offering the products, customer support and economic suited the unique to the unique needs of that segment.

We're making great strides in our strategic initiative to achieve those goals, which I'll touch on in a minute. But first, let me describe the many ways Satcom Direct is expected to accelerate all three prongs of that strategy.

First, the Satcom 30 person International sales force and 15 person support organization located in eight offices around the world is expected to dramatically accelerate Galileo penetration outside North America.

Second, with a minor development effort, the Satcom direct router will join the advanced family of form factors in enabling faster and cheaper upgrades to Galileo than moving to a competitive product to access leo networks. And third, Satcom will add two very attractive market segments. The GOGO has not historically had the right product mix to address the lucrative heavy jet intercontinental segment and the fast growing mill gov mobility segment in the business aviation segment, Satcom 1,300 broadband GEO customers are prime targets to add our Galileo offering to their existing GEO connectivity systems. And we look forward to launching that effort as soon as we close in the mill gov vertical. We see many opportunities for Gogo Galileo integrated with Satcom GEO offerings. Today, most mill gov fleets find themselves with either no connectivity or very dated technology on their mobility aircraft and they're now rushing to catch up creating a tailwind for mill gov connectivity suppliers. One example is the P LEO program under which the Department of Defense recently increased its projected spending on LEO satellite service more than tenfold from $900 million over the next 10 years to $13 billion over that same 10 years.

Another example is the US Air Force's 25 by 25 program under which they are targeting to have 25% of their 100 mobility aircraft equipped with satellite communications by the end of 2025 that still leaves 75% that will not have satellite connectivity. And that the Air Force believes still must be connected.

Another key driver for our GOGO Satcom Mill gov solutions is that we expect to be able to offer combined Leo gol band solutions that meet the military's dictate of having primary alternate contingency and emergency connectivity systems on every aircraft.

Besides these three strategic benefits, we believe Satcom also brings financial benefits. It more than doubles the size of our business which should drive scale advantages. It's expected to be immediately accretive to earnings and it should deliver 25 to $30 million in annual recurring synergies over the next two years, many investors asked whether this combination will bring down our operating and EBITDA margins. And my answer is yes, but we believe it will significantly grow free cash flow per share and that is what ultimately should drive shareholder value to sum it up. We believe our acquisition, our acquisition of Satcom Direct is a key step in accelerating our Leo strategy and achieving the global scale to compete in an increasingly competitive segment of the aviation IFC market. We look forward to closing the transaction by the end of 2024 and welcoming the talented Satcom Direct team to Gogo.

Now let me turn to Gogo Galileo.

We believe this product line will be a game changer for the business aviation industry and given the strong demand, we are seeing the market seems to agree with us.

In fact, the demand for Gogo Galileo HDX is greater than it was for Gogo Advance LFI which launched in 2017 and quickly became the fastest selling inflight connection connectivity system in business aviation history.

As a reminder, Galileo comes in two versions, a smaller HDX terminal and a larger FDX terminal.

The Galileo HDX terminal is our first to market all aircraft product size to fit on any size of aircraft and will deliver peak speeds approaching 60 megabits per second. That's 12 times to 60 times. Our current product offerings.

HDX is targeted at two segments, the 12,000 midsize and smaller aircraft that fly outside North America and have no broadband solution today.

And those aircraft among the 11,000 midsize and smaller aircraft registered inside North America that often fly regionally outside Kas or want faster mean speeds than 5G alone can provide.

The Galileo FDX terminal is our best in class product size for larger jets and will deliver very consistent speeds approaching 200 megabits per second. 40 to 200 times faster than our current product offerings. It's targeted at the 19,700 super mid and larger jets that fly long range intercontinental missions or long range missions inside North America.

Our HDX achieved a major milestone last week when it passed FAA do 160 testing, certifying that is safe for use and will operate reliably in the harsh environmental conditions encountered in flight including temperature volatility, intense vibration, radio wave penetration, lightning strike moisture penetration and flight aerodynamics. Among others, this approval keeps us on track to receive parts manufacturing authority in December, which would authorize us to begin shipping HDX commercially to customers.

Since launching our Galileo catalyst marketing program in August. We've seen unprecedented demand from end customers. We've had more than 1,000 customers sign up for HDX webcast. We've had unprecedented traffic on our HDX web pages and we had large crowds at our booth and the HDX demos we did at the Business Aviation Airfield during the National Business Aviation Association and BAA convention in Las Vegas. Two weeks ago during the demos, we conducted live zoom and teams meetings between customers on the ground and our engineers in the air flying in our challenger 300 equipped with HDX and running over the oneweb network. We also ran demos of FDX inside our, mobile demo room semi truck trailer. We're up to a dozen simultaneous users. We're running zoom meetings, teams, meetings, gaming applications, cloud based applications and much more with great success.

I might add that the mobile demo room, semi truck departed Las Vegas and is headed for a 33 stop tour of business airports across the country where large numbers of aircraft owners, operators, flight departments, management companies and others have already signed up for demonstration sessions.

We've also had great success with dealers so far, we've signed 27 STC agreements for HDX covering 34 popular models of aircraft and have another 12 verbally committed covering another 10 unique models of aircraft, which brings us to a total global service addressable market of 18,500 aircraft on the O AM front at MBA A. We finally announced that it is Textron Aviation that awarded us Line fit position on three models of aircraft last year. And with, and that those models are the latitude longitude and Ascent that they will cut those in in the line later this year.

We've also signed another large OEM contract that will be announced shortly this time for line fit on all of their models.

And this one is for the FDX antenna and we're having a lot of successful fleet customers as wheels up announced at the NBA, a convention that they'll add HDX to their entire fleet in the near future. And we're seeing pull through at the dealers as Netjet starts planning their rollout of HDX for this coming year.

As a result of this demand, we recently announced that we're doubling our projections for HDX demand in 2025 and have tripled our purchase order from our partner Hughes Networks.

We believe the advantages of Galileo over new market entrances is resonating in the market.

Customers appreciate that our equipment is aviation grade and designed from the aircraft up and satellite down for the specific needs of the business aviation market.

Our business model is business aviation focused with the type of personal customer support. Someone who just spent 20 to $80 million on an aircraft would expect from a service provider.

Our partner one web network is an enterprise grade network designed to serve B two B customers with service level guarantees.

And finally, customers believe that we are reliable and trustworthy. We don't change pricing at the drop of a hat. We don't change business terms nor change our focus on which parts of the market we serve.

Now let me turn to our 5G ATG network which is targeted at large segments of the roughly 21,000 midsize and smaller business aircraft that fly predominantly in North America and want an exceptional connectivity experience at a more affordable price than satellite solutions.

We're pleased to share that the 5G chip is in fabrication and we still expect to ship 5G late in the second quarter of 2025. We're continuing to work very closely with our vendor partners to smooth the path through fabrication and into launch.

We're confident that between our F PGA flights and the virtual simulator, our term is built that replicates our entire 5G network. We will be able to test and validate 90% of our 5G functionality and network before we receive the final 5G chip.

Importantly, the market continues to respond enthusiastically to the 5G value proposition with ongoing preprovisioning programs and a flood of STC programs that position us for a highly successful launch.

At the end of Q3, we had already shipped 342 5 G provision kits with MB 13 5 G antennas which is up from 292 last quarter and 153 of those kits have already been installed and are flying using our 4G network in an L 54 Glru to be clear, our LX 55 G Lru which is what awaits. The 5G chip is the exact same form factor as the L 54 Glru. So once the 5G chip is certified, those customers with 5G MB 13 antennas and 4G L five, Lru can simply swap the LX five in for the L five and they will be on the 5G network.

We also have linefit commitments with five OEMs with one already installing the MB thirteen's line fit with the advanced L5 4G LR on the assembly line today.

On the certification front, we have 21 D CS for MB 13 completed with one version of advance or another covering 18 unique models of aircraft and eight more in the works covering 15 unique models of aircraft. And in total, representing roughly 88,500 North American registered aircraft.

We look forward to bringing this product to market next year, which will serve a core part of the Go Go customer base.

Now turning briefly to the SEC secure Networks program, what we call gogo Evolution as a reminder, Gogo was awarded $334 million grant from the FCC under this program to incent us to accelerate the removal of Chinese telecom technology from our 4G ground network.

Because Congress has only funded 39% of this program. We currently stand to receive $132 million of reimbursements. But believe that the federal government should fully fund at some point as a reminder to fulfill our obligations under this grant, gogo must replace all of our EVDO ground equipment with new American LTE equipment and our classic customers will need to replace their airborne equipment with new LTE equipment to be compatible with that new ground network.

As of quarter end, we had roughly 2600 customers still in our old classic product down from roughly 3,000 at the beginning of the year, roughly 8,000 of those are fleet aircraft already on track for advanced upgrades.

We've had conversations with almost all of the remaining customers on how they plan to convert with the vast majority indicating that they will upgrade to one advanced product or another.

We also have customer promotions in place to incent conversion and our dealers are doing a great job configuring their operations to transition customers at scale.

Finally, for those customers who delay, we also introduced what I call, we call a special transitional product called C one, which will have both an EVD and LTE Airc card in a form factor that is an exact replica of our classic product. C one will not improve service levels like upgrading to advance but it will allow customers more time to convert to advance after the cutover to wrap up, Gogo is continuing to deliver outstanding service and solid cash flow performance as we invest in and prepare to launch Gogo 5G in Galileo.

We believe that in the month ahead, Gogo combined with Satcom Direct will have the most complete product portfolio in the Business Aviation IFC industry with products that offer the right performance with the right coverage at the right total cost with great customer support for every segment of the highly unpenetrated 40,000 plus aircraft, global business aviation market and now I'll turn it over to Jessics to do the numbers.

Jessics Betjemann - *Gogo Inc - CFO*

Thanks Oakleigh and good morning everyone. Google generated better than expected third quarter results across the board due to higher service revenue and a shift in timing of strate strategic spending that led to an increase in our 2024 financial guidance.

In my remarks today, I'll start by walking through Gogo's third quarter financial performance. Then I will turn to our balance sheet and capital allocation priorities. And finally, I'll conclude with additional context on our improved 2024 guidance as mentioned in our press release in light of the pending acquisition of Satcom Direct. We are withdrawing our multiyear long term financial targets previously provided on our second quarter earnings call for the third quarter. Gogo total revenue was $100.5 million up 3% year over year and a slight decrease. Sequentially, Gogo delivered service revenue of $81.9 million up 3% over the prior year and a slight decrease over the prior quarter.

Our ATG aircraft online was 7016, a 2% decrease year over year and a slight decline. Sequentially, this exceeded our internal expectations as a result of more new activations and fewer classic deactivations than we had anticipated at this stage in our product life cycle, total advanced aircraft online grew to 4,379 an increase of 16% year over year and 4% sequentially and now comprises 62% of our total fleet.

We saw record advanced upgrades in the third quarter, reflecting our progress and driving penetration from classic to advanced within our existing fleet.

Converting our classic base to advance remains a priority and we expect these conversions to accelerate in 2025.

This helped drive the sequential net increase in third quarter, advanced aircraft online to 264 up 50% versus the 105 sequential increase in the second quarter.

As previously mentioned, we anticipate the upgrade process and product life cycle dynamic will continue to put pressure on a G aircraft online over the coming quarters ahead of the launch of Gogo Galileo this quarter and 5G late in the second quarter of 2025 total. ATG Arpu grew to a record $3497. A 4% year over year increase and 1% growth. Sequentially reflecting the price increase we initiated in the first quarter.

The launches of Gogo Galileo and 5G are anticipated to further expand our arpu growth opportunity over time.

Moving now to equipment revenue. Gogo delivered third quarter, equipment revenue of $18.7 million with 214 advanced shipments which increased 11% year over year and down 7%. Sequentially, we continue to expect that equipment revenue in the second half of the year will decline versus the first half driven by lower advanced shipments due to the pull forward effect of OEM shipments in the first quarter. The continued impact of our product life cycle dynamic and also a timing shift of Textron orders as a result of the short lived Textron strike that we don't expect to be pulled back in this year.

Turning to profitability, Gogo delivered service margins of 77% in the third quarter. Consistent with the prior quarter. We expect service margins to be slightly above 75% this year as year-to-date margins are higher than expected. However, we continue to expect a slight decrease in future years for Gogo standalone service margin as the contribution of Goga leo service revenue to our overall revenue mix, increases service revenue and service profit margin are the primary levers for free cash flow generation and long term value creation.

Equipment margins were 19% in the third quarter, largely in line with the prior quarter and 14% lower than the prior year period.

The year over year decline was primarily due to a catch up accrual benefit in Q3 2023 for FCC, reimbursement of costs incurred to replace a large number of EVD air cards in advanced equipped aircraft with dual motor air cards and also in and also an increase in production costs as a percent of revenue. This quarter, we expect equipment margins to decline in the fourth quarter, largely due to product mix and an increase in production costs as a percentage of revenues as revenue declines now on to operating expenses in the third quarter Combined engineering design and development, sales and marketing and general and administrative expenses increased 47% year over year and increased 5% Sequentially reaching $43.2 million.

This year. Over year increase was mainly driven by G and a expense including $6.7 million in transaction costs related to the Scom Direct pending acquisition which are excluded from adjusted EBITA, and also $3.2 million in higher legal expenses in terms of Gogo 5G. In the third quarter, our $3.1 million of 5G spending was comprised of $0.6 million in APEX and $2.5 million in CAPEX.

We now expect 2024 will include approximately $3 million of 5G APEX and approximately $8 million in CAPEX with total 5G spend for 2024 at approximately $11 million.

This reflects a decrease from our previously stated $5 million of 5G APEX due to timing.

As Oakleigh mentioned, our 5G chip is now in fabrication and we continue to expect Gogo 5G to launch late in the second quarter of 2025.

We maintain our estimate of $100 million in total external development and deployment costs for our total 5 G program.

Now on to Gogo Galileo in the third quarter, Gogo recorded $2.6 million in APEX and $1.1 million in CAPEX related to Gogo Galileo.

We now expect 2024 to include approximately $13 million of Galileo APEX and approximately $3 million in CAPEX shifting $2 million of APEX and $1 million of CAPEX to 2025.

We continue to expect external development costs for both the HDX and FDX solutions to be less than $50 million in total of which $30 million was incurred in 2022 and 2023. Approximately $16 million is projected in 2024 and the remainder is expected in 2025.

Additionally, we continue to anticipate approximately 90% of Gogo Galileo's external development costs will be in APEX moving on to our bottom line. Gogo delivered $34.8 million in adjusted EBITA in the third quarter. A 19% decrease year over year and 14% increase. Sequentially, the sequential increase was primarily driven by lower legal fees. However, the year over year decrease is attributed to legal expenses related to Smartsky and the FCC reimbursement accrual benefit recorded in the third quarter of 2023 that I previously stated, as mentioned, the $6.7 million in Satcom direct acquisition related costs being incurred in the third quarter are excluded from adjusted EBITA. Net income of $10.6 million in the third quarter decreased $10.3 million year over year and increased $9.8 million Sequentially. As mentioned in the prior quarter, our second quarter net income included an $11 million after tax unrealized loss related to a fair market value adjustment to the convertible note investment we made in the first quarter in our key shift supplier to support continued progress on our 5G chip.

This quarter, we recorded $1.3 million gain in fair value which nets to a $1.2 million year-to-date fair value loss.

Potential future share price volatility will continue to affect our net income as we account for mark to market adjustments to the fair value of this investment based on our substantial net operating loss balances at the end of 2023 including $446 million in federal net operating losses. $377 million in state net operating losses and interest carry forward of $292 million. We had a net deferred income tax asset of $209 million. At the end of the quarter, we do not expect to pay meaningful cash taxes through 2028 for the gogo standalone business.

I will now provide a status update of our FCC reimbursement program.

In the third quarter, we received $11.1 million in FCC grant funding, bringing our program to date total to $30.3 million.

As of September 30th 2024 we recorded $12.9 million receivable from the FCC and incurred $6.6 million in reimbursable spend during the quarter.

This receivable is included in prepaid expenses and other current assets in our balance sheet with corresponding reductions to property and equipment inventory and contract assets and with the pickup in the income statement as previously disclosed, we submitted and were granted our first six month extension to the FCC, pushing the program completion deadline to January 21st 2025. In our application, we stated that we will need to have multiple extensions to complete the program and are planning to request the next extension this month.

As a reminder with partial funding of the program, we are forecasting that our spending will exceed our level of reimbursement funds in late 2025. And we'll need to continue to spend money in support of the program through 2026 which is expected to negatively impact 2025 and 2026 free cash flow.

Moving on to free cash flow in the third quarter, we generated $24.6 million in free cash flow up $3.6 million versus prior year. Primarily due to higher ec reimbursements, free cash flow slightly decreased from $24.9 million in the previous quarter.

Looking ahead and reflecting reflected in our 2024 guidance, we anticipate free cash flow in the fourth quarter to swing negative as a result of higher networking capital and continued investments in our strategic initiatives.

The higher networking capital is due to the planned ramp in inventory at the end of the year for the anticipated Gogo Galileo and 5G product launches and advance upgrades in 2025 and also a decrease in accounts payable.

Now I'll turn to a discussion of our balance sheet.

Gogo ended the quarter with $176.7 million in cash and short term investments and $601 million in outstanding principal on our term loan with our $100 million revolver remaining undrawn globals net leverage of 3.0 times remains in line with our target range of 2.5 to 3.5 times.

Our cash interest paid for the third quarter, net of hedge cash flow was $8 million.

As we previously mentioned in prior quarters, we have a hedge agreement in place. And at the end of July, the hedge stepped down to $350 million with the strike rate increasing from 0.75% to 1.25%. Resulting in 58% of the loan currently hedged.

Starting in the fourth quarter of this year. The hedge cash flow is expected to decline approximately $3 million per quarter until the next step down in July 2026 the cash interest paid for 2024 net of hedge cash flow is expected to be approximately $34 million.

Now let me provide a recap of Gogo's capital allocation priorities that have not changed first, maintaining adequate liquidity.

Second, continuing to invest in strategic opportunities to drive competitive positioning and financial value including Gogo 5G and Galileo third, maintaining 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.

We have executed across all priorities in the third quarter. We repurchased approximately 1 million shares at a total cost of $7.6 million in October. We completed the last 10 B 51 share repurchase plan with a total cost of $38 million and 4.5 million shares repurchased since November 2023 Gogo has approximately $12 million remaining of the $50 million. Repurchase authorization Our board approved in September 2023 with the pending Satcom direct acquisition that we expect to close. By the end of this year, we have obtained a fully committed financing as previously disclosed. Having further progressed the financing process, we now expect to borrow approximately $250 million of term loans and use an additional $25 million of cash on our balance sheet compared to the $275 million of term loans contemplated at signing.

While the recent news of United Airlines deal with Starlink, we have put pressure on the financing process. This is the right financing mix for Gogo at this time. We are confident that our financing structure will serve Gogo's needs for this transaction and enable us to deliver on the value of this combination with Scom Direct.

We expect this transaction will increase our net leverage ratio temporarily to approximately four times at closing. We have committed that we will not pursue more share share repurchases until our net leverage ratio gets back into our target range of 2.5 to 3.5 times which we expect will occur in 1 to 2 years, post closing of the acquisition.

Now I'll turn to our financial outlook.

We have updated our 2024 financial guidance and now anticipate 2024 adjusted EBITA in the range of 120 to $130 million versus at the top end of the previous range of 110 to $125 million. The increase is primarily attributed to a timing shift in spending of certain strategic and operational initiatives including Gogo 5G and Galileo from $26 million previously to approximately $20 million.

We now expect 2024 CapEx to be approximately $30 million versus our prior guidance of $35 million.

Our revised target includes approximately $20 million for strategic initiatives including Gogo 5G Galileo and the LTE network build out.

We anticipate 2024 free cash flow to be in the range of 55 to $65 million which is an increase from our prior guidance of 35 to $55 million.

This includes approximately $40 million of expected FCC spend including nonreimbursable development spend and approximately $35 million of FCC C grant reimbursements received the decrease in FCC reimbursements and spend compared to prior expectations as a result of timing shifts within the program.

The increase in our free cash flow guidance is reflective of the higher adjusted EBITA and lower expected CapEx.

As I mentioned earlier, we expect negative free cash flow in the fourth quarter due to a large swing in networking capital and lower adjusted.

In addition, we continue to maintain a target of 2024 revenue in the range of 400 to $410 million.

As mentioned at the top of my prepared remarks, we are withdrawing our multiyear long term financial targets previously provided in our second quarter earnings call due to the pending acquisition of dotcom direct, which we expect to close by the end of this year.

We announced last month that we expect the transition will meaningfully change the financial profile of our business by immediately doubling our scale and unlocking between 25 million to $30 million in annual run rate, synergies over two years, the pro forma combined company is anticipated to generate 2024 revenue of approximately $890 million with approximately 24% adjusted debt margins and more than $100 million in free cash flow. We expect our combined business will be able to swiftly delever the debt we are taking on to fund this acquisition, continue to invest for the future and return cash to shareholders over the long term with the anticipated launch and generation of service revenue from Gogo Galileo and Gogo 5G. We expect the combined company's long term annual revenue growth to be in the 10% range with adjusted ebita margins in the mid 20% range. Keep in mind that these long term figures are often anticipated revenue base more than two times what we have today to drive significantly greater absolute dollars in both adjusted EBITDA and free cash flow.

In conclusion, Gogo's third quarter performance reflects our commitment to strategic investments and our disciplined financial management. Through this anticipatory period of our product life cycle, we are focused on investing to support long term growth and value through our key initiatives including the upcoming launches of Gogo Galileo and 5G.

Additionally, we expect the pending acquisition of Satcom Direct will be a creative on day one, strengthen our market position and enhance our long term value creation.

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. We are now ready to take our first question.

QUESTIONS AND ANSWERS

kevin Herndon - *Gogo Inc - Assistant Program Manager*

(Operator Instruction)

Sebastiano Petti with JP Morgan.

Sebastiano Petti - *J P Morgan - Analyst*

Hey, everybody. Well, you have withdrawn the longer term kind of guidance that you just kind of touched on. Just maybe a housekeeping question. I mean, is there any reason to think that so maybe said differently. So if the, if the transaction will be a creative kind of day one, your previous guidance on a stand alone basis was call it 150 million of free cash flow for next year. I mean, is there anything any reason or any, you know, maybe timing related items that might deviate, you know, shift that, you know, form a free cash flow number one way or another and just trying to, I'm trying to unpack as to maybe why that might not necessarily still be a, you know, a good target as we think about next year. And then another question. Yeah, I think the just taking a step back just thinking about Gogo's strategic fit in avionics longer term, particularly in the set, you know, in the light of the Satcom Direct acquisition. I mean, help us think through maybe again the rationale there, I mean Satcom Direct Deal, particularly as you think about the competitive positioning from GEO you know, GEO offerings and with that specifically, yeah, Gogo is moving into new segments, you know, Leo based, but it seems, but you're also kind of now confronting competitors that you may be not necessarily had to deal with in the past. You know, some of the more established GEO guys, I mean, does that impact how you're thinking about the pricing and margin levers of the business on a longer term basis? Thank you.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

So we'll Jessics answer the first part of your question and I'll take the second.

Jessics Betjemann - *Gogo Inc - CFO*

Okay. So a couple of things, Sebastiano that is going to be changing for 2025 free cash flow from the Q2 that the targeting 150 million next year. So for Gogo standalone, well, and actually for the combination, a few things are going on. So one, you know, through this acquisition or due to this acquisition, we are taking on more debt. So that will be increasing the the interest expense, you know, impacting our free cash flow. So, so that's due to the combination, but with regards to Gogo, stand alone, a few things are going on. So we will have more equipment revenue next year. And with the demand of HDX that we're seeing that's probably going to increase even more and that's going to have just, you know, equipment revenue in general is going to have lower margin. We also are going to be very competitive in terms of our equipment pricing and have, you know, introduced some incentive programs as well. That's going to be impacting the free cash flow next year. And then, you know, as we go through in some of the timing shifts with regards to FCC that also impacts next year. And then, as mentioned, some of the benefit we're seeing this year with APEX and CAPEX pushing out for our programs into 2025 that also will have a negative impact into 2025 next year. But as the companies come together, obviously, we will have to work through, you know, integrated business plan and you know, work through what our impacts are expected with regards to 2025.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Thanks, Jessics.

I guess you know, Sebastiano in answering your question, this ironically, I would say this deal for us is all about Leo not GEO and you'd say well, yeah, but they're a GEO company but but you have to look at is their distribution channel and the verticals they serve and how that plays into to LEO connectivity. So the first of all, the 1,300 customers they have today and their ability to provide the right kind of service to the you know, large jet 7,000 Intercontinental kind of jets that are very lucrative customers. We think gives us ability to actually upgrade those 1,300 by adding Leo. We think many will keep GEO because of the kind of expense they have and their demand for connectivity, they want to add both capacity that that Leo and GEO together can provide as well as to have the redundancy that GEO can provide. But for us, it's all about adding that Leo sale on top of those 1,300 expanding that within that segment, which which SCOM knows how to serve really very well. Second in the in the mill gov market where they're really growing quickly right now, we think that our LEO product again is a great add on to the GEO and in the military, there's really going to be, they're really going to desire to have both because of the whole pace concept, which is that you need a primary alternative contingency and emergency connectivity.

So, again, you know, we as we look at this and build our business case, it wasn't really around keeping the 1,300 as GEO customers, it was about moving those to Leo. And if we didn't keep any on GEO the business case closed, you know, but we think we'll actually have the opportunity to keep a lot of them on there. Beyond that, you know, geo connectivity is is improving rapidly and over the next year or two, you know, geoc speeds will achieve 100 megabits per second. You know, you'll still have the latency issues, but that's going to be a pretty good backup system and a really nice way to augment Leo connectivity. So we do think that a lot of people will, will, will elect to keep it. So I don't know if that answers your question in terms of the competition, but it's how we looked at the deal. And again, I'd say it's primarily about driving growth of our leo products and keeping them, keeping the GEO is a nice to have, it's sort of an incremental benefit.

Sebastiano Petti - *J P Morgan - Analyst*

That's helpful, Jessics. A quick follow up just on the equipment pricing, just going back to the free cash flow pieces. And so in regards to the demand of HDX, are you just thinking, does that mean maybe the working capital tailwind that from the build up of inventory this year? Maybe because demand is so great that that's less of a tailwind next year or is it more of a, you know, maybe there's a little bit of just given your competitive pricing, maybe that's kind of what you're inferring in terms of the.

Jessics Betjemann - *Gogo Inc - CFO*

Yeah, that's right. I was talking about the competitive pricing. So while we, while our demand, you know, will increase revenue and you'll have that benefit and it won't necessarily flow through to the bottom line for EBITA down free cash flow through the pricing. Super helpful.

Will Davis - *Gogo Inc - Investor relation*

Thank.

Jessics Betjemann - *Gogo Inc - CFO*

Thank You.

Will Davis - *Gogo Inc - Investor relation*

Guys.

Thank you.

kevin Herndon - *Gogo Inc - Assistant Program Manager*

Joe Rice with Raymond James.

Joe Rice - *Raymond James - Analyst*

Thanks morning, everybody.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Hey, Rick, how you doing?

Joe Rice - *Raymond James - Analyst*

Good, thanks. Hey, I want to follow up on some special questions. You know, first time frame to closing. You're saying year end, obviously, it's a fast one. It's a private company but walk us through long holes in the tent to get it done. Is, is this a year end closing? Is it earlier than that? Just kind of thinking, when should we think of this deal getting closed?

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Yeah, we're hoping for having it closed at the beginning of December. You know, it could obviously anything it could drag longer. A couple of different tracks. Obviously there's a commercial consent track. All the required, significant commercial consents have been obtained in terms of filings. We don't have a lot in this deal. Obviously, we have got DOJ, we, we filed, we just refiled a few days ago. So there's a new 30 day ticker that started, I don't know, last week sometime. You know, if we get through in another 30 days, we should be able to close at the beginning of December, C MA and UK. They've asked a few questions, but so far that looks like it's moving along reasonably well and that would actually, on the current timeline would be cleared before the DOJ would, we've got a foreign direct investment filing in Canada so far we haven't heard from Canada that expires mid November if we don't hear from them. And then we've got a filing in Saudi Arabia, which we think probably also done by the end of November at this stage. So those are the regulatory hurdles, financing is done. That's complete. So we are, you know, we have committed financing so that's closed. And then, you know, we're working very hard on integration so that we can hit the ground running day one, got 11 integration teams working on different functional areas of the company. And we think, you know, it's a lot of work to be done, but we're going to be ready to go when we close.

Joe Rice - *Raymond James - Analyst*

Okay, thanks. Obviously, you know, the margins are left, it's a reseller, so they don't have their own network. So no surprise that margins are less but driving for better revenues, excuse me and cash flows. But it does seem like I get the law of large numbers impact, but the previous guys for standalone Gogo was 15 to 17% revenue growth. And now the combined company is, is 10%. How should we think about? Was that just the large numbers? Was that bringing Satcom Direct end that pulls it down, help us kind of unpack kind of what causes that stand alone 15 to 17 to go down to 10% longer term.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Actually. Yeah, I mean, the stand on Gogo still at 15 to 17%. And so it's what's bringing it, bring it down is us just I think being cautious about what's going to happen with GEOC connectivity. And you know, we haven't you know, we're not yet combined, you know, combined company. So we can't go through all the detailed planning that we'd like to before we step out with revised guidance. You know, we'll do that after we close and, and we'll update people, you know, at that time.

Joe Rice - *Raymond James - Analyst*

All right. So are we thinking that if we do get a December closing, there could be revised guidance in the month of December before we get into the learning cycle?

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

No, I wouldn't think it's going to be that quick and I'll tell you, Rick, you know, we are, we're going through a very deliberate and organized integration planning process.

And so we're actually going to get the planning done before we do the numbers so that we actually are planning something that's real. So we'll we'll probably provide that guidance more likely on our Q4 earnings call and then that will be 25 guidance and then shortly thereafter we'll come out with revised long term guidance.

Joe Rice - *Raymond James - Analyst*

Okay. Makes sense. And then Jesse, I think you mentioned obviously, the financing of the deal is a little different 250 million term 25 million cash on hand.

Now you mentioned the spacex Starlink United one was that pressuring the debt markets or maybe elaborate a little bit more on, on the change in the financing of the transaction?

Jessics Betjemann - *Gogo Inc - CFO*

Yeah, so we previously stated that and let me just be clear because it's not just, it's not 25 million of cash, obviously, it's 25 million more in cash, you know, to, to be able to.

But we were targeting, you know, 275 initially. And as mentioned, you know, the right at the time that we were kind of going into the market is when the United Airlines and Starlink announcement came out and that did put pressure, you see where our second, you know, our current loan is trading down. So it really was the right mix for us to be able to put more cash because we have the ability to do that in our balance sheet to put more cash upfront and have, you know, less on the debt markets. It allows us to have better financial terms for the deal than what we thought we would have gotten. So that was the best way to proceed.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

I I just want to add, sorry, let me just add, you know, we were trading at par and then United Startling gets announced which has if anything benefits our revenue and you know, in our bond trades off to $94 which is crazy. First of all, we do supply Intel set with a TG connectivity for the regional jets that united. However, in our models, we have taken all that regional jet revenue that we received down to zero and all the guidance we've given over the last several years, it goes to zero in 2026 and we've never counted on that revenue. So frankly, the announcement of that deal will probably not get United Jets Regional Jets moved in 2025 and we may have United revenue actually in 2026. So would actually improve our numbers. So, you know, I just think the market is confused. We don't serve commercial airlines anymore. We don't have anything to do with it and to trade our bonds off from 100 to 94 just seems insane. But, but it happened and it's too bad. So that's going to be a little more expensive than we wanted it to be.

Joe Rice - *Raymond James - Analyst*

Got you. The last one for me is purely selfish. Obviously, from a modeling standpoint that comes direct as a private company, how should we think about getting historical quarterly information to help make the modeling better as we look for 25 to be a year with them in the numbers as well as standalone Gogo.

Jessics Betjemann - *Gogo Inc - CFO*

Well, when the, when the deal closes, you know, just part of the sec requirements, there will be financials, you know, provided in terms of their stand alone financials. So that will be disclosed as part of, you know, normal CC requirements.

And we did, we did provide some historical, very, very high level historical. I believe it's on our investor relations website as we were going through the the the financing process as well, so we disclose that information as well.

Joe Rice - *Raymond James - Analyst*

Okay, very good. Thanks.

Will Davis - *Gogo Inc - Investor relation*

Everybody.

kevin Herndon - *Gogo Inc - Assistant Program Manager*

Scott with Roth Capital Partners.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Hey, good morning.

Scott - *Roth Capital Partners - Analyst*

Thanks for taking the questions. Hey, good morning, how you doing? Thank you. Hey, just, just quickly on the AOL number. I thought you had some comments, doesn't sound like AOL was down as much as expected and you're starting to see some reactivations as customers have gone into suspensions. I wonder if you could comment on that. I'll read through kind of the worst of it. I'll call it the organic suspension cycle. And also on the Galileo Front, you had some comments about your expectations doubling in 2025. Look with Satcom Direct with the dealer channel that you've been building with the ST CS. Now, I think addressing 18,000 aircraft, could you calibrate us in terms of what that doubling is kind of your expectations in 25 and what kind of constitutes success for Hex and FDX in 25 and 26 and I had one follow up.

Jessics Betjemann - *Gogo Inc - CFO*

Sure. Let me take the first one, Scott. So on AOL, yes, it, it became the decline was better than what we anticipated. We did have higher new activations for the quarter than we had expected, which was good. Obviously, not back to the levels that we had, you know, last year, but still, you know, better than last quarter. And, and then the classic deactivations came in lower than we expected as well. So it was a good quarter for us, the reactivations have been fairly steady. We haven't seen too much of the too much change in that, that's been fairly steady all year long for next quarter. I mean, in terms of just our own forecasting, we're more conservative. We kind of look at the last six months average. So we're expecting that, you know, it won't be necessarily as good. It's hard for us to predict. Obviously, we would hope that it continues on the same path as Q3 and that would be, you know, a good upside for us.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Yeah, but current projections would have half good quarter, half bad quarter. It's coming.

Jessics Betjemann - *Gogo Inc - CFO*

Down more in terms of our current projections only from, you know, how we do that modeling.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

Yeah. So, and then on the Galileo piece. Yeah, I think we shared at some point that we expected about 200 shipments in 2025. And, you know, I think we're looking at probably more than, well, we're doubling that in terms of our projection right now for 25. Remember that shipments, not units online. You know, that what happens is we'll start shipping to dealers right at the end of December, the STC dealers, you know, they'll develop ST CS, they will, they will start taking more orders as they're developing their ST CS for the models they're developing ST CS for, and, you know, that will ramp over the year.

But the demand is unbelievable. I think the market is so happy to have, you know, all the talk with Starlink for, you know, quite a while in the Leo world and all of a sudden there's a home team player, go, go, you know, with a, with a Leo product that's real and it's coming out and they've been able to taste it and, and experience it and, and the response has just been overwhelming. So we're, we're very, very positive about you know, where that's going to go. And frankly, we see some vectors that could drive that 400 up. So mcom.

Scott - *Roth Capital Partners - Analyst*

And, and lastly, lastly, if I could just on, on sack from direct demand, you know, talking about the overlap with Leo and go, I'm wondering, does, does that extend beyond the existing Satcom direct installed base today of, of GEO customers? Are you guys are unique in that you're going to be the only provide out there with, with the go Leo solution. So, is that just within the existing base or does it extend to a number larger than that? Thanks.

Oakleigh Thorne - *Gogo Inc - Chairman and CEO*

I think it extends a number larger than that, you know, Satcom developed two GEO satellite terminals, A K A version and A KU version K A is one is just coming out and the KU has been out about a year and a half, you know, they are you know, superior to any other GEO antenna and, and I can tell you they've been last week, were awarded contract for linefit at a very large OEM. And we think that, that, you know, will provide a steady stream of units online. You know, you're buying an $80 million jet.

What, you know, which, which IFC system do you want? I think half the time the answer is going to be yes, you know, they'll take them all. And so, you know, we think that will drive continued geo growth. Actually, we see, you know, obviously the deterioration of the Leo base driven by, you know, moving to Leo, but there will also be the steady drumbeat of units online coming off of linefit at OEMS that will drive the number up. So, you know, we think it will be around for quite a long time and yes, it'll, it'll grow beyond the 1,300. The other thing that, you know, that, that their presence in that large jet segment does is just give us an incredible number of relationships tools, you know, their software platform, everything else that's sort of tailored to that market segment. And, you know, we can package that with our Leo product and they can sell the hell out of that in the heavy jet market. So again, I think it's, you know, it's getting us a whole segment beyond the 1,300.

Scott - *Roth Capital Partners - Analyst*

Thank you.

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kevin Herndon - *Gogo Inc - Assistant Program Manager*

And I'm not showing any further questions at this time. I would like to turn the call back over to will for any closing remarks.

Will Davis - *Gogo Inc - Investor relation*

This concludes the Gogo third quarter of 2024 conference call. Thank you for your participation and look forward to speaking with you soon. You may disconnect.

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kevin Herndon - *Gogo Inc - Assistant Program Manager*

Ladies and gentlemen, just through today's presentation, you may now disconnect and have a wonderful day.
