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GOGO.OQ - Q4 2022 Gogo Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 28, 2023 / 1:30PM GMT

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PRESENTATION

Operator

Thank you for standing by, and welcome to the Gogo's Fourth Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, today's call is being recorded.

I would now like turn the conference to your host, Mr. Will Davis, Vice President of Investor Relations. Please go ahead.

William G. Davis - *Gogo Inc. - VP of IR*

Thank you, Valerie, and good morning, everyone. Welcome to Gogo's Fourth Quarter 2022 Earnings Conference Call. Joining me today to talk about our results are Oakleigh Thorne, Chairman and CEO; Barry Rowan, Executive Vice President and CFO; and Jessi Betjemann, who will assume the role of Gogo's CFO on March 11, 2023.

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 the conference 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 Form 10-K and 10-Q and other documents we have filed with the SEC.

In addition, please note that the date of this conference call is February 28, 2023. Any forward-looking statements that we make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of more information or future events.

During the call, we will present both GAAP and non-GAAP financial measures. We've included a reconciliation and explanation of adjustments and other considerations of our non-GAAP measures to the most comparable GAAP measures in our fourth 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 & CEO*

Thanks, Will, and good morning, everyone. Thanks for joining us. Our 2022 fourth quarter capped off a great year for Gogo. We exceeded our growth expectations and positioned ourselves for continued long-term growth and value creation. Our industry has seen seismic shifts in demand coming out of COVID. And thanks to our talented Gogo team and strong operating infrastructure, Gogo stood at the top of the avionics and electronic industry and its ability to scale and meet that demand.

We expect those demand drivers to continue, and we'll continue investing in improving our products and services to meet that demand and maintain our leading position in the business aviation inflight connectivity industry.

As I mentioned, 2022 was a very busy year. Together, the Gogo team achieved a lot. We reached the 1.5 million flight milestone on our advanced platform since last launch in 2017, cementing its position as the most successful broadband product launch ever in business aviation.

We completed the multiyear simplification of our capital structure and reduced our net leverage ratio to below our target of 4x in connection with the conversion of our final outstanding notes. With net leverage of roughly 3.1x at the year-end and with ample cash on the balance sheet, we're well positioned to execute on strategic initiatives that will ensure our long-term competitiveness.

We have definitely managed supply chain and a year of strong demand and weak supply. And many dealers tell us we were the only avionics company able to meet their demand last year.

We shipped more than 1,300 total AT&T units, an all-time record, up more than 50% from 2021 and more than 20% above our initial guidance, all of which we believe will drive a record increase in aircraft online in 2023.

We completed the 150 tower build for our 5G network, and we're on track for our fourth quarter launch. As I'll discuss later, our customers are excited at how we've upgrade to this next level of service, and we're actively selling, shipping and installing 5G equipment.

We in partnerships with OneWeb and Hughes to deliver the world's first low earth orbit global broadband product size to fit on all BA aircraft. This initiative will take us from serving single-digit megabits per second today to deliver hundreds of megabits per second for the high-performance segment of the BA market over the next few years. We did that by aiming to build a much smaller antenna than competitive LEO and GEO satellite providers as we aim to be the disruptor not the disruptee in the rapidly evolving satellite IFC space.

And finally, not to be overlooked, we continued our strong track record of financial performance. We raised our fiscal 2022 financial guidance every quarter and ultimately delivered record performance at the high end or above those raised expectations.

While we're happy with our progress, it's far more important to focus on our future. And the 2023 financial guidance and long-term targets that Jessi will cover demonstrated confidence in our business and in our value creation opportunity.

So I'll focus the rest of my remarks on 2 areas. First, is some key highlights and market drivers of Gogo's strong fourth quarter results; and second, update on our strategic thinking and progress against our strategic initiatives.

So let's start with our Q4 performance. We ended the year on a high note. We delivered record fourth quarter revenue of $108.2 million, up nearly 17% over prior year, fueled by record service revenue and record equipment revenue. We added 158 new service revenue producing advanced units and ended the year with 47% of our fleet on AVANCE. Adding additional AVANCE units online is central to our growth strategy. First, it drives incurring high-margin service revenue; and second, it extends customer lifetimes by offering upgrades to new technologies like 5G and GBB that are easier and cheaper to execute than moving to competitors' solutions.

As I mentioned, we shipped a record 390 AVANCE units in the quarter, and we anticipate those will help drive record activations in 2023. On the bottom line, Gogo delivered record fourth quarter adjusted EBITDA of $46.2 million, up 17% year-over-year, driven predominantly by growth in service and equipment revenue. We're really pleased that we could deliver this kind of bottom line performance even as we invest in strategic initiatives like 5G and GBB.

We believe the strong demand we're seeing is a result of a structural change in BA passenger demand, evidenced by Gogo flight counts being up 31% for the quarter when compared to pre-COVID Q4 2019. That change is driven by a number of facts, including a large cohort of flyers that tried private aviation during COVID and plan to keep flying private aviation, a shift in passenger demographics to Gen X, Y and Z through demand connectivity with traveling and a digital transformation and all passengers live their lives, whether that their social lives or work lives in ways that drive demand for more high band width applications. The impact of that digital transformation is evident in Gogo data consumption. Consumption per passenger hour grew 17% year-over-year in the fourth quarter and was up 50% from 2019 for full year.

One recent trend of note is the return of corporate flight department activity with Part 91 owners, which represent 59% of Gogo aircraft online, flying 23% more flights in 2022 than in pre-COVID 2019 and using 46% more data per hour than they did in 2019. As a result of all this activity, we saw a significant demand pull across our distribution channels. And both our dealer and OEM partners have told us they could have installed more aircraft at Gogo if it were not for shortages in labor and/or parts from their other suppliers.

We saw a big surge in shipments in Q3 and Q4 and especially in December, as partners placed large orders to beat a January 1 price increase. As we look at our inventory in the field, we see shipments to channel inventory levels that are consistent with prior years. And when we look specifically at where the largest stockpiles are, they are at our largest OEMs and dealers who choose through those inventories fairly quickly.

As we look ahead, we expect to return to more normal pre-COVID order patterns. Our lead times are down to 3 months, and we've built enough buffer stock that we can easily handle drop-in orders. And from a supply perspective, we've got clear line of sight to meet almost all component demand for 2023, and our current backlog is sitting at more than 50% of our equipment budget. That said, we had a very strong December, which has led to January and February being a little lighter than planned. However, March orders are back on track, and we expect to return to more normal high volumes for the rest of the year.

Now let me turn to our current strategic thinking and an update on our major strategic initiatives. As the supply chain environment has stabilized in recent months, we've now turned our attention to better understanding why 70% of North American and 95% of Rest of World aircraft have no broadband connectivity. As examples, for some, it's the cost of install. For others, it's quality of current solutions. For others, there's no broadband solution that fits on their aircraft. There are many other inhibitors as well.

We're taking a systematic approach to tackling those inhibitors to accelerate our growth with the following 3-pronged strategy: first, expanding our service addressable market by bundling our products in different configurations to appeal to all segments of the BA market based on variables like size of aircraft, whether they fly in North America or the rest of the world, whether they want to pay more for high performance or less for a more value-oriented product and whether they fly corporate missions, private missions or some others.

Given our choice of networks, LEO or ATG and our various advanced equipment form factors from the performance oriented L5 to the value-oriented SES, we believe we can bundle different combinations of equipment services and networks to fit the needs of every segment of the global market.

Second, we want to continue to extend the service revenue life of Gogo equipment installed on an aircraft. By continuing to drive AVANCE penetration by enhancing the performance of our ATG network to serve the North American midsize and light jets value-oriented segments of the market and by providing easy upgrade path to new technologies for AVANCE customers that are cheaper than replacing our equipment with competitive products. And third, we want to provide equivalent or better network performance and superior customer service to each segment of the BA market at a lower total cost of ownership than our competition.

Beyond our major 5G and GBB initiatives, we've launched a series of smaller operating initiatives to address many of the inhibitors I described a moment ago, such as accelerating install times, further improving our award-winning customer service and developing product pricing and packaging to appeal to each segment of the BA market. These operating initiatives led modestly to expense in 2023 and '24, but will help accelerate top line growth and a step function change in free cash flow in 2025 and beyond.

We believe our focus on these areas will build an even more competitive Gogo, better positioned to capture a large portion of the Gogo business aircraft market and creating more value for customers and for our shareholders.

Now let me turn to updates on our 2 major strategic initiatives, 5G and GBB, initiatives that will take us from delivering single-digit megabits per second today to 10s and then hundreds of megabits per second over the next few years. I'll start with 5G. As I mentioned earlier, we're now on track to commercially launch Gogo 5G in the fourth quarter of this year. In December, the chip passed critical design review, a collaborative effort in which intense scrutiny was applied and transparently exhibited across all parties working on this chip, including Samsung, GCT, Airspan and ourselves. The chip is now deep into fabrication and has allowed them to be delivered to us on time to hit our Q4 target. Once live, our 5G network is expected to deliver speeds roughly 5 to 10x faster than Gogo's current ATG networks. The peak speeds up to 30x faster, enabling multiple streaming sessions and video conference applications to be opened at the same time on the same aircraft and all at a lower cost than companion LEO or GEO satellite solutions.

In the meantime, customers who want Gogo 5G service can install the AVANCE L5 system today with full 5G provisions and operate on Gogo's 4G network until X3, the box where the chip will [link] is available. For those who pre-provision, once the X3 is ready, it can be installed quickly and 5G service can begin immediately saving downtime and expense. To date, we've delivered 24 pre-provision chipsets to customers. We have 105 end customers that have signed up for pre-provisioning promotions, and we have 92 orders from dealers. Some of the dealer orders may be duplicative of customer orders, but regardless that is a big jump from the 60 orders we had on our Q3 call.

We also have commits for 4 OEMs and are in discussions with several other OEMs about orders, and we have certifications in process for 19 aircraft models, representing more than 7,000 aircraft in the U.S. fleet. And we expect further certification announcements and incremental momentum with our partners in the coming months.

Now I'll turn to GBB. First, a reminder of why LEO. LEO satellites are particularly well suited to business aviation because of their low altitude, which enables an equivalent [lean] budget with less power than with GEO satellites, thereby enabling smaller antennas, which can fit better into the small spaces available for antenna installations on most BA aircraft. Over the next few years, we expect LEO satellite technology will allow us to launch service plans that deliver hundreds of megabits per second to meet demand from the high-performance and heavy Intercontinental jet segments of the BA market.

Our goals for the global broadband offering are to: one, expand our total addressable market to include the 14,000 business aircraft registered outside of North America; two, as a satellite feature for the hundreds of U.S. super-mid and heavy jets to fly global missions, but have Gogo AVANCE ATG installs for use over North America; and third, drive enhanced stickiness in our core North America medium-sized and smaller aircraft segments by offering an easy upgrade path to a LEO product if their needs surpass what ATG alone can deliver.

GBB will enable streaming directly to the favorite video services, multiple simultaneous media conferencing sessions, VPN access and all the other connectivity-enabled solutions you use today at the same service levels you expect in your office or living room today. We continue to make great progress alongside our partners.

OneWeb, who will supply the LEO network will complete launch of its 588 satellite global constellation in April and should have the network deployed and AEROready in 2024. And assuming their pending merger with Eutelsat closes, should have access to funding for their Gen 2 network, which will further improve our GBB performance.

On the antenna side, we just completed preliminary design review with our partner, Hughes and have been able to move our schedule to the left by 2 months and now aim to launch commercially in the second half of 2024.

Our GBB product has received a very enthusiastic response from our OEMs, dealer partners and fleet managers. As we've gotten more clarity on competitive plans, it's clear that we're building is -- what we're building is disruptive and highly differentiated on 2 key factors. First, our small form factor antenna is designed to work on all sized aircraft. While our only current LEO competitor has delivered a large antenna that will work best in the already very competitive heavy business jet segment of the market. And second, Gogo is focused on value. We believe our pricing will be more competitive than others in the space. Importantly, we're well positioned to leverage our existing international customer support footprint to support GBB outside the U.S. The 20-plus dealers already in place and 900 narrowband customers in 90 countries today.

Let me wrap up my strategic initiative update by saying that we see ATG 5G and GBB as complementary elements of our product portfolio with 5G targeted to serve value-oriented segments of the North American market, where 86% of all flights take place and GBB targeted to serve all segments outside North America and the high-performance super-mid and heavy jet segments inside North America.

I should add that our AVANCE multi-barrier capability will allow us to serve the super-high premium segment of North American aircraft with LEO and ATG connectivity at the same time, significantly enhancing capacity and providing redundancy for those owners who want it.

Despite investments in these 2 very large strategic initiatives and the smaller operational investments I described earlier, we are guiding to substantial growth in free cash flow this year. And as these investments roll off, we expect step function growth in free cash flow beginning in 2025.

To wrap up, our accomplishments throughout 2022 have reshaped Gogo. We're not just an ATG company. We're driving the next era of IFC technology with the launch of 5G and development of broadband LEO satellite and the continued penetration of our AVANCE platform positions us well to extend customer lifetimes and drive free cash flow to invest in further strengthening our business and to return capital to shareholders.

In short, we're more resilient, more in demand, more innovative and more poised for value creation than ever, and our team is energized and excited to deliver on the opportunity ahead in 2023.

Finally, in a moment, I'll turn the call over to Barry for his last earnings call as Gogo CFO. But first, I want to thank him for his immense contributions to our company. Barry has been an invaluable leader during a period of unprecedented change, challenge and growth. He led through numerous refinancing without which we would not have survived. He was central to the sale of our Commercial Aviation business, and he has been a trusted adviser on operational and strategic matters to me since the day I arrived in 2018. So I want to give him my personal thanks as well as the thanks from the entire Gogo community. We wish Barry all the best in his well-earned retirement.

So while we'll miss Barry, we're very fortunate to have a highly qualified successor in Jessi Betjemann, who has run FP&A at Gogo for the last 6.5 years (inaudible) credit with making sure we always hit our numbers. Jessi is also on the line today, and will walk through our 2023 guidance and long-term targets as well as be available for questions at the end of our prepared remarks. There is no doubt our finance organization is set up for continued success in Jessi's capable hands.

And now I'll turn it over to Barry for the numbers.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Thanks, Oakleigh, including for your very kind words, really appreciate that. Good morning, everyone. We are very pleased with Gogo's performance in 2022 as we set new records, both operationally and financially. Our performance demonstrates 2 foundational elements to Gogo's investment thesis. First, we have proven our ability to deliver strong financial performance even as we've undertaken significant strategic investments, including Gogo 5G and our global broadband product.

Looking ahead, we will continue these investments in 2023 and 2024 as we advance our technology and execute other operational initiatives to maintain our leadership position in the growing and underpenetrated business aviation inflight connectivity market. We expect our free cash flow to accelerate substantially beginning in 2025 as we get these major projects behind us.

Secondly, our ability to achieve these results is a testament to the strength of our underlying business model and financial position. In 2022, we met unprecedented demand for our equipment in the face of significant worldwide supply chain challenges. As these units are activated, these aircraft online produce recurring high-margin service revenue that is sticky and is the engine of our strong cash flow. And further, our strong balance sheet provides the flexibility to invest in our business for the long term while delivering for customers and shareholders today.

The 2023 financial guidance and long-term targets we announced this morning underscore our confidence in the business and our strategy. Before we discuss these in more detail, I'll walk you through our fourth quarter results.

For the fourth quarter, our record total revenue of $108.2 million grew 17% year-over-year. Our top line was driven by record service revenue of $77.3 million, up 12% year-over-year and 3% sequentially. As we have said, increasing AOL and particularly the penetration of our AVANCE products, is the centerpiece of our strategy in both the North American market and globally as we also further our GBB initiatives.

In the fourth quarter, total ATG AOL increased to 6,935 units, up 8% versus the prior year and 2% versus the prior quarter. AVANCE units online grew at 3,279, up 31% year-over-year, and AVANCE now comprises 47% of our total fleet.

Our dealers are as busy as ever and the proportion of shipments to channel inventory levels in 2022 was in line with trends for 2019 through 2021. As Oak mentioned, we expect our exceptional equipment shipment performance in 2022 to drive strong activations and service revenue growth throughout 2023. Total ATG ARPU grew 2% year-over-year to $3,370, driven by growth in revenue -- recurring revenue from subscription plans.

We expect higher priced data plans and the launch of Gogo 5G followed by GBB to further expand our ARPU growth over time. We expect the primary growth driver of service revenue to be from additional aircraft online.

Turning to the equipment side. Gogo delivered $3.8 million in equipment revenue in the fourth quarter, a 34% increase year-over-year as we saw continuing very strong demand for our AVANCE L3 and L5 products. We shipped a record 390 AVANCE units in the quarter and 1,334 for the year, a remarkable 50% year-over-year growth in AVANCE units shipped.

Gogo delivered service margins of 78% in the fourth quarter. This was a 2 percentage point decrease year-over-year due to the planned higher network costs associated with the deployment of the Gogo 5G network and 1 percentage point of increase sequentially due to lower maintenance and logistics costs.

Our service margins were within our target range of 75% to 80% for 2022, and we continue to expect service margins in the 75-plus percent range over our 5-year planning horizon.

As expected, equipment margins were down in the fourth quarter to 32%, 5% lower than the prior year period and 4% lower sequentially driven by our strategic initiative to drive AVANCE penetration.

This quarter also included higher excess and obsolete inventory reserves, which we regularly repeated as a matter of course and is related to our planned product upgrades and technology roadmap.

Now moving on to operating expenses. Fourth quarter combined engineering, design and development, sales and marketing and general and administrative expenses increased 4% year-over-year to $29.1 million, reflecting development expenses for GBB. On a sequential basis, these operating expenses were 2% lower in the fourth quarter, primarily due to lower legal fees. We anticipated that 2022 would be an investment year for Gogo. It was, but not to the extent we originally planned due to pushing out of Gogo 5G expenses related to the chip delay.

Looking ahead, we expect that 2023 and 2024 will continue to be investing years as we complete our 5G program and ramp spending for GBB. We expect to see the benefit of these investments through sustained strong top line growth and an inflection point in free cash flow growth in 2025 and beyond as we have consistently stated.

I'll now describe the spending profiles of our Gogo 5G and GBB initiatives, starting with Gogo 5G. As Oak mentioned, Gogo's 5G chip is now in fabrication, and we're on track and on budget for commercial launch in the fourth quarter of 2023. It's worth noting that we have remained on track with the cost expectations we set back in 2019. The Gogo 5G external development and deployment costs would be approximately $100 million. As we detailed in our third quarter call, we pushed some of the global 5G spending previously expected in 2022 into 2023 due to delay in the 5G chipset availability.

In the fourth quarter of 2022, we spent $6 million for Gogo 5G, primarily in CapEx. The complete impact of the accounting shift for 5G spending from 2022 to 2023 is reflected in our 2023 financial guidance. It's particularly evident in our adjusted EBITDA expectations, which reflects both delayed 5G sales and higher 5G spending in this fiscal year.

Now on to our GBB initiative. In the fourth quarter, we recorded approximately $1 million of operating expenses related to GBB. We continue to expect external development costs per GBB to be less than $50 million over 3 years. However, we have updated our expectations on the timing of those costs. GBB spend was approximately $4 million in 2022, and we now expect to ramp to $14 million in 2023, with most of the remaining spending to occur in 2024. This is a slight pull forward from our prior view of the timing of our GBB investment.

Additionally, we now anticipate that approximately 95% of GBB external development costs will be in OpEx. This spending profile was reflected in our 2023 adjusted EBITDA and free cash flow guidance.

I'll now touch on our record profit growth. Gogo's record adjusted EBITDA increased 17% year-over-year to $46.2 million, primarily driven by a record service and equipment revenue. We delivered net income of $27.7 million in the fourth quarter, translating to $0.22 in basic earnings per share and $0.21 in diluted earnings per share. As a reminder, our financial statements reflect noncash income tax expense as we continue to generate positive pretax [income] .

Based on our substantial NOL position, we do not expect to pay meaningful cash taxes for an extended period, but we may pay a modest amount by the end of our planning horizon. We continue to expect to see additional reversal of portions of our remaining valuation allowance against deferred tax assets within the next 12 months.

In the fourth quarter, we generated $25 million in free cash flow, down slightly from $25.7 million from the prior year period due to increased CapEx associated with Gogo 5G and increased net working capital.

Now I'll turn to a discussion of our balance sheet. Gogo maintained its strong liquidity position as we ended the quarter with $175.3 million in cash and short-term investments, and our $100 million revolver remains undrawn. As of the end of the fourth quarter, we had $714 million in outstanding debt on our term loan B.

Our strong balance sheet provides a foundation to Gogo's significant financial and strategic flexibility.

In a moment, I'm going to turn the call over to Jessi to provide Gogo's forward-looking perspective, including our capital allocation strategy as well as our 2023 outlook and long-term targets. But first, I'll provide a quick recap of our 2022 full year results.

The increasing demand from customers with connectivity and Gogo's robust business model, both contributed to another year of great performance. We generated total revenue of $404.1 million, up 20% in 2021 and at the high end of our guidance range, which we increased during the year. We delivered service revenue of $296.3 million, up 14% from 2021, with service gross profit also growing 14%, which is a significant contributor to the free cash flow. Equipment revenue was $107.7 million, up a remarkable 42% in 2021.

We reached adjusted EBITDA of $173.8 million for the full year, up 15% from 2021 and significantly above our guidance range, which we also increased throughout the year.

Net income from continued operations was $92.1 million for the year. The decrease versus prior net income from continued operations of $156.6 million was primarily driven by the $187.2 million income tax benefit recorded last year as a result of the partial release of our deferred tax valuation allowance.

We also delivered record free cash flow of $57.8 million for 2022, even as we invested approximately $40 million in Gogo 5G CapEx.

Overall, 2022 was an outstanding year for Gogo. We're proud of the results we achieved, thanks to the very hard work from our entire team. Thank you all for your relentless commitment to customer focus and innovation.

Now I'd like to pass the mic to Jessi.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Thank you, Barry. It is a pleasure and a privilege to join you all this morning. While I've been behind the numbers for several years and have engaged with many of you on the line previously, I'm looking forward to getting to know you better as I move into my new role. I'm going to provide a brief update on our capital allocation strategy and then provide some context to the 2023 guidance and long-term targets we announced this morning.

We are pursuing a balanced capital allocation strategy intended to further our strategic goals and enhance shareholder value. We are focused on 4 priorities: first, maintaining adequate liquidity; second, investing in strategic opportunities to drive competitive positioning and financial value, including 5G and GBB; third, maintaining an appropriate level of leverage; and finally, returning capital to shareholders as appropriate in the future.

Given the rise in interest rates and the current volatility of the financial markets, you can see that we are taking a more conservative approach to our balance sheet. Our higher cash reserves provide us with the optionality to evaluate potential new strategic investments and preserve strategic and financial flexibility.

In addition, we have previously stated our goal of maintaining our target net leverage ratio below 4x. We ended 2022 with a net leverage ratio of 3.1x. Looking forward, we are planning to maintain net leverage in the range of 2.5 to 3.5x. Our strategic considerations also include the potential to pay down debt in the future.

We will continue to evaluate capital -- returning capital to shareholders in conjunction with our ongoing assessment of financially attractive strategic investments in the context of the fluid macroeconomic environment.

Now I'll turn to the guidance and long-term targets we announced this morning, starting with some additional color on our 2023 projections. As a reminder, our guidance and long-term targets do not reflect the impact of the Federal Communications Commission's secure and trusted communications network reimbursement program. As we await further information regarding [what the Congress of] appropriate additional funds for eligible expenditures under this program.

We expect 2023 revenue to be in the range of $440 million to $455 million. We anticipate that 2023 will be a strong year for aircraft online growth as the record equipment units we shipped in 2022 are activated, translating into solid service revenue growth. However, this growth is partially offset by lower 5G equipment sales relative to our previous expectations due to the Gogo 5G chipset delay.

We anticipate 2023 adjusted EBITDA in the range of $150 million to $160 million. As Barry mentioned earlier, 2023 will be another important investment year for Gogo, particularly as we increase our investment in GBB and complete the launch of Gogo 5G.

Our adjusted EBITDA expectations reflect approximately $30 million of explicit targeted OpEx investments to drive future growth, broken down into 3 areas: first, $9 million in expected 5G spending, which reflects the shift of $6 million from 2022 to 2023 related to the chip delay; second, an increase in GDP spending to $14 million from our prior expectations of $10 million. And finally, as Oak outlined in his remarks, increased investments in additional operational initiatives focused on penetrating the 70% of the business aviation inflight connectivity market that remains untapped and maintaining our long-term competitiveness.

We expect 2023 free cash flow of $80 million to $90 million, which at the midpoint is nearly 50% growth over 2022 even after reflecting the increased investments I just walked through.

We forecast 2023 cash interest to be approximately $38 million, net of the benefit of our interest rate caps and CapEx in the range of $30 million to $40 million, which includes approximately $20 million of spend for Gogo 5G.

Looking further into the future, our 2024 free cash flow will reflect the ramped external spending for our GBB project, which, as we mentioned, we expect to be below $50 million in aggregate.

Now turning to our long-term targets. We recently updated our baseline long-term model, which now reflects the launch of Gogo 5G in late 2023, launching our GBB product to penetrate new global markets and investment in initiatives to continue to improve our competitive positioning.

Our long-term targets are as follows. We expect revenue growth at a compound annual growth rate of approximately 17% from 2022 through 2027, with global broadband contributing to revenue beginning in 2025. This updated view maintains our 17% CAGR target for an additional year in spite of dropping 2022 during which revenue grew 20% as the first year.

We expect annual adjusted EBITDA margin to be in the mid-40% range by 2027. This is slightly lower than prior expectations driven by lower equipment margins to fund our strategic initiative of driving AVANCE penetration. It also includes investments in engineering, design and development to fund continued innovation and market competitiveness in the out years. Importantly, we still expect to achieve significant operating leverage as we see the potential for operating expenses as a percentage of revenue to be reduced by as much as 15 points from 2023 to the end of our planning horizon.

We continue to expect free cash flow of more than $200 million in 2025 and growing in 2026 and beyond. This expectation is based on similar capital structure assumptions and underpinning our previous long-term targets. Importantly, we originally set this target in September of 2021 and have maintained it in spite of since committing to the GBB project and operating in a higher interest rate environment.

In conclusion, Gogo's business continues to perform extremely well. Our outlook underscores the immense value creation potential for our customers and shareholders that we expect to unlock as we execute our strategies.

Now I'll turn the call back to Barry for some closing remarks. But before I do that, I just want to give Barry my heartfelt thanks for his guidance and partnership over the years and especially in the last year to ensure a smooth transition.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Thanks so much, Jessi. Before we open up the call for questions, I would like to take this opportunity to express my appreciation to Oak for your truly exemplary leadership, to Jessi, for stepping up that you have to Will, for your partnership with the Street and the entire Gogo team for your incredible support. As you know, I'll be closing a chapter of my professional life in the coming weeks, which has spanned 40 years, helping build or turnaround technology-driven companies, including nearly 6 years at Gogo. I may be retiring from Gogo, but I'm not retiring from life. I look forward to this next season, which I expect to include serving on boards, contributing to the poor and investing in the next generation of leaders.

Gogo is in an outstanding position to achieve a significant potential for value creation through enriching our customers' lives and continue to contribute to society along the way. It's been an absolute privilege to be a part of Gogo's transformation in partnership with our highly innovative and energized team who are truly the best.

I'm also proud to pass the baton to Jessi, who has more than demonstrated her competence, leadership and outstanding business acumen during her years at Gogo. Plus, she's a wonderful human beam. I look forward to cheering as she, Oak, and the rest of the leadership team, guide Gogo into the bright future that lies ahead.

Operator, this concludes our prepared remarks, and we're now ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Rick Prentiss of Raymond James.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst*

Yes, first, Barry, I think our time together spans almost 20 years from all the different places I've covered and you've been at. So it's been a true pleasure working with you as well. So congrats on the next phase of life. And Jessi, glad to be working with you in your new role as well.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Thank you, Ric.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Thanks a lot, Ric.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst*

First question is, Oak, you talked a little bit about competition and how you think you guys shape up versus others that might be out there now and in the future. How should we think about what the '23 guidance and the long-term guidance assumes as far as competition from whether it's LEOs or air-to-ground or other GEO-type people. What's kind of baked into that? And it sounds like you want to be available to be very competitive in pricing. But how do we think about how competition is factored into this guidance?

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Yes. So I think you all know Starlink has entered the market at the high end, I would say that given with the large antenna aimed at competing with GEO satellite providers, in the heavy jet sort of segment of the market at a pretty, I think, a price that's competitive with GEO, but it's a lot higher than our pricing. The -- I think that there's going to be huge changes in the competitive landscape over the next couple of years by virtue of the LEO entry. And of course, we hope to be a driver of that, a disruptor not a disruptee. And I think that's going to have a pretty significant impact on GEO providers. So from our perspective, we see ourselves accelerating revenue growth with the launch of the GBB product and now in '24, accelerating revenue growth of 5G starting in -- well, the revenue growth from GBB would be '25 on, revenue growth from 5G would be from '24 on. And so we think we compete very effectively.

In terms of competing with Starlink, their product is installed on some aircraft. We've talked to people who own that, and we kind of understand what their speeds are. Frankly, our speeds of GBB will be very competitive with those speeds and they'll be increasing their speeds over time, and we'll be increasing our speeds over time as OneWeb launches Gen 2 and we progressed that partnership.

So we think on a product quality sort of pure basis, we're competitive. And then when you look at all the other things that come into bear in terms of what it takes to win in the business aviation market, we think we have a real advantage. First of all, customer service is hugely important in our business. It ranges from engineering support to billing support to everything. And people expect very high levels of what we call white glove service in our industry. We're very good at that.

We can afford to spend a lot of money serving our market because of our scale in the vertical market. We have by far the largest share in the market, and we generate a lot of cash flow out of the market, which enables us to invest in all the different elements of sales, marketing support, engineering, et cetera, that it takes to really understand and deeply sort of integrate ourselves into the BA market. So we feel has a big advantage there. We have 30 years of building very deep relationships with all the OEMs. We have contracts with all the OEMs, which are hard to do. We have 120 dealers and very deep relationships there. We have deep relationships with the big fleet operators and with thousands of owner operators. So I think we feel that we can be very, very competitive and we feel good. And we've factored all those factors that I've mentioned a moment ago into our plan.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst*

Great. And specific to the initiatives, should we assume that most of the GBB spending goes into EDD and that the operational initiatives also go into kind of the EDD line?

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Yes. So most of that spending, as we mentioned, with GBB, now 95% is going to be OpEx, and that will be all in GBB -- I'm sorry, all in EDD. And yes, but the operational initiatives as well is predominantly in EDD.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst*

Okay. And final question. Any update on the lawsuit, what's going on, on the patents and the court case. I know you said, I think, came in lower cost than you thought in the quarter maybe.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Yes, sure. There's a lot of -- lot to update there. So first of all, I just want to repeat, we do not infringe on these patents, and I want to be very clear about that. And I'm also not going to comment on our litigation strategy or the case itself as I don't want to [obtain] our litigation. But let me go through where things stand.

So SmartSky originally filed a patent suit against us around 4 patents. They've just added -- they just filed with the court requesting to add 2 new patents. Those 2 new patents are essentially additive to existing families of patents that were already part of the suit. So 3 of those patents, there are 6 patents in all right now, I believe. And 3 of those patents expire in August of 2025 and the other 3 expire in 2034 and 2035.

There are 2 prongs of the litigation right now. One is the original infringement complaint. And the other is the request for a temporary injunction and I'll just cover each of them.

The infringement -- I mean, I'm sorry, the injunction application, the judge at the -- the presiding judge over the main trial decided against SmartSky on that and did not grant a temporary injunction. They've appealed that. That's in the Federal District Court, and that court can either essentially remand the case back to the original judge saying that there was an abuse of discretion, which would be the standard that they have to apply in the district and then the original judge would have to deal with that and either change his mind or confirm his original denial.

If the district court did not find that there was an abusive discretion then the rolling against SmartSky on the temporary injunction would stand.

In the original case, the presiding judge has now scheduled trial for April 25. And like I said before, I do not believe -- we do not believe we infringe. But I want to be clear that if the judge ultimately found in favor of SmartSky, the overwhelming remedy is that there would be some sort of licensing agreement. The SmartSky sort of tried to [infer] in their recent release that there could be a permanent injunction against us to prevent us from selling our 5G product that would be highly unusual. And I would also note that the patents that are expiring, of course, any decision by the court there would, a, be fairly limited in terms of what the fees might be because those patents will not be around very long after the case since the trials April 25 and then patents on August of '25. And let me just see -- I think that's about it. Any follow-up on that, Ric?

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst*

No. I think that's clear. We'll just keep our eyes on it. Have a good time. I look forward to seeing Jessi and Barry down for one final swan song in Orlando next week. Everyone stay well.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Looking forward to it.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Sounds great.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Yes. We managed to keep Barry, we hung on to him for 2 weeks, so you can attend your conference, I want you to know that.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst*

Sorry about that, Barry.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

It will be a pleasure.

Operator

Our next question comes from the line of Scott Searle of ROTH.

Scott Wallace Searle - *ROTH MKM Partners, LLC, Research Division - MD & Senior Research Analyst*

Barry, I'd like to add my congratulations. Best of luck going forward in your new endeavors. And Jessi, congrats. I look forward to working with you going forward.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Thank you so much, Steve.

Scott Wallace Searle - *ROTH MKM Partners, LLC, Research Division - MD & Senior Research Analyst*

Maybe to dive in on the guidance for this year, right? We've got some elevated OpEx as a result of 5G pushing out from '22 into '23 on top of that, the investment cycle for GBB going up this year. I was wondering if you could extrapolate that into '24, right? 5G should start to come down, but I think the GBB cycle continues to increase a little bit, how we should be thinking about that? And also in terms of the guidance this year, I wonder if you could clarify how you're thinking about equipment gross margins. I think you've talked about possibly being a little bit more aggressive if need be, where gross margins could be under 30%. What are you guys kind of factoring in at the current time in that guidance?

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Yes, that's right. So for 2024, as we mentioned, '23 and 2024 are investment years for us. So we will have the remaining spend, it's going to be around the $30 million to $35 million for the remaining spend in GBB in 2024, and that's predominantly OpEx. We will -- that's going to get offset as we see some of the 2022 shipments are coming online in '23, and we'll continue to be providing service revenue in 2024, but it still will be an investment year.

With regards to the equipment margins, that's right. So as you noticed with our long-term target for the adjusted EBITDA did come down slightly, and part of that is reflecting the lower equipment margins to be able to grow our units online and support the AVANCE penetration strategy that we have. Also included as part of that is continued spending in ED&D so that we can remain competitive in the outer years. We're being cautious in that and being able to keep that level of innovation going forward.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Right. I might just add that on the average sales price, to remind people, we've often talked about going down market as well as upmarket. And part of this, what I'll call our segmentation strategy here is also going down market and penetrating downmarket. And as you go down market, the markets are more price sensitive. And so we sort of factored in some increased promotions or some price reductions on what I'll call more value-oriented advanced form factors down market.

Scott Wallace Searle - *ROTH MKM Partners, LLC, Research Division - MD & Senior Research Analyst*

Got you. And I apologize if I missed this on the call, but did you give a unit number that you're targeting in 2023? And then lastly, if I could, on the ARPA front, you've done pretty well on that front. I think, over the course of '22, it's gone up. A lot of moving parts, right, moving down market plus you've got more unlimited plans and you have 5G kind of coming into the back of this year. Given the current backdrop, if I look at some of the BA data in North America, utilization is flat to maybe down a little bit, still underpenetrated, right? So you're growing overall units in connected aircraft, but utilization is going down a little bit. I'm wondering, is that having any near-term impact on ARPAs in terms of how you're seeing for utilization? Or are customers moving towards higher-end plans? And how do you expect 5G to impact that as we start to get into the back of this year and into 2024?

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

By utilization, I'm assuming you mean aircraft utilization, network utilization. Our network utilization play up. Aircraft utilization and frankly, I think on Gogo-equipped aircraft is up slightly. But yes, the trend is sort of leveling off. And to us that looks like kind of a plateau, the demand for lift, but that demand is still way over where it was in 2019, and that's the structural change in the industry that's driving IFC demand. Because 70% of the planes don't have anything. And the people following those aircraft there's more demand now for IFC given all the changes I talked about in my script in terms of the demographics and the applications people are using, et cetera.

In terms of the impact on us of a slight decrease in flight counts industry-wide, really not much impact, and that's for that same reason. There's so much of this market that's unpenetrated and there's demand in that large unpenetrated portion of the market. So we don't see any impact there.

I would say it's -- ARPA is not a major driver of our growth, unit counts are the main driver. And like you said, Scott, 5G will push things up a bit, going down market, deals like we have with Cirrus and others will pull it down a little bit. Then ultimately, GBB will push it up a bit. So all these things are going to play out, and that's why we don't project very large ARPA growth through the planning segment.

Operator

Our next question comes from the line of Lance Vitanza of Cowen.

Lance William Vitanza - *Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst*

It's Lance Vitanza calling here. Thanks very much for the information thus far. Barry, congratulations. It's been a pleasure working with you. And Jessi, I look forward to working with you as well. I wanted to sort of focus on the long-term targets. The revenue and free cash flow targets, since you've introduced these longer-term targets have been consistent -- fairly consistent thankfully, but EBITDA margin target seems to be bouncing around a bit. And I think first, it was 45% in 2025. And then I think it was approaching 50% by 2026, and now it's down to 45% by 2027, I think. So just wondering if you can comment just at a high level on what's going on there? And should we expect this target, in particular, could remain volatile? And then I have a follow-up as well.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

I don't really view balancing between 45% and 50% is being extremely volatile...

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Approaching.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Approaching maybe, I should point out, as Jessi says. So yes, we did guide that -- so 48%, that was approaching 50%. Now maybe we're just below 47%. 25% range. So look, we think those are all very healthy EBITDA margins to begin with.

Second of all, I think there are 2 things over the course of the LTM that are impacting that. First is what I just mentioned around the average sales plays on equipment. We have been introducing smaller form factors that go down market, and those will be priced at lower prices, and they'll be competitive because we want really drive penetration down there with the AVANCE platform. So that's a bit of a drag on equipment margin in the out years. So that brought things down. And then frankly, we -- it's very hard to predict exactly what's going to happen in the competitive environment. We talked about it. Obviously, Starlink's entered at the high end of the market. We don't see a lot of progress there, but they have entered. And the way we thought about that is we may need to invest more in engineering in the out years. So we've beefed up our ED&D spend, even though we don't have main projects for some of that spend right now, but this is kind of a placeholder to manage expectations. So that's the other driver.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

And just to add to that, though, we want to make sure that you understand that we are planning to have significant operating leverage because our operating expense as a percentage of revenue, we're expecting that to decline approximately 15 points from 2023. And also, we really want to focus on the absolute EBITDA generation and not just on the margin. As you noted, and we've been pointing out, we've been very consistent on anchoring around more than $200 million in free cash flow, a target that we set over 2 years ago. And so when you look at that and then also over the latter years of our planning period, the free cash flow conversion is approaching almost 90%. So...

Lance William Vitanza - *Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst*

And that actually ties into my follow-up, which is just trying to get a better sense for what might be happening below the EBITDA line, given that there has been a little bit of a reset on the EBITDA margin and yet the free cash flow has been holding in firm. So is that -- I mean, I can't imagine that it's interest expense, but perhaps you're seeing some advantage -- some better performance in terms of cash taxes, CapEx or working capital?

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Yes. As we have noted with our net operating loss balance that we have, we don't expect to pay meaningful cash taxes until the end of our planning period. But also with regards to our CapEx, so after this year, we're really going to see a decline in that CapEx and that's why you're going to have that high turnover to free cash flow in 2025 really have that step function and then going forward.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Right. We also have more projects hitting OpEx right now than CapEx. So...

Operator

Our next question comes from the line of Landon Park of MS.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

Congratulations to Jessi and best wishes on the retirement, Barry. I just wanted to follow up on the long-term revenue guidance. I was just wondering if you could disaggregate that between service and equipment for us and just to better understand what -- how those 2 elements are playing into it. And I just had a couple of follow-ups on the back of that.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

In terms of revenue mix, our goal is to grow service revenue. Equipment is a means to service revenue. That percentage is in the out years, I don't have a figure and maybe Jessi, I don't know if you...

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Yes, we haven't provided that.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

We haven't provided that, yes.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

It's mainly being driven -- you're going to have that stronger growth in service revenue.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

So service revenue will be above 17%?

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Yes, it's going to probably be more.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

Okay. And then when -- I was just wondering if you could just on the penetration rate that you guys see. Can you maybe unpack that in terms of what is the penetration rate at the sort of the large cabin aircraft? And how does that change as you get down into the small jets? And what do you think the realistic targets are for those different aircraft sizes over time? And then, Jessi, just one last one for you. On the $30 million in strategic and operational spend this year, can you just clarify if we look at that bucket as a whole, what was it in '22? And as we look at '24, what did it look like in '24? I know you talked about the GBB spend for '24, but just the other elements as well, if we could just get an apples-to-apples on that $30 million bucket.

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

So I'll start with the segments and then Jessi can answer the financial question. About half the heavy jets in the U.S. market have inflight connectivity today, about half the medium-sized jets. It's down in the mid-20s on the light jet and it's very small in the turboprops. So we see, frankly, plenty of them to grow in all of those jet-sized segments, if you will. And globally, it's even more dramatic. I think it's 95% roughly of the market, doesn't have connectivity today. There are a couple of thousand heavy jets of which, I don't know, 800, 900, I think have connectivity roughly. The rest of the market, frankly, doesn't even have an IFC product that's available to them in terms of broadband IFC. So medium-size jets on down overseas are -- have nothing and it's basically open territory. So...

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

And large jets are what in the U.S.?

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

I'm sorry. What?

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

Large jets, did you say penetration rate for this?

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Yes, I did. I said heavy jet is about 50%.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

And then as far as the $30 million spending, Landon, we -- for 5G, we spent about $2 million in OpEx this year and GBB $4 million. So the 5G, as mentioned, is going to increase. It will be $9 million and GBB is around $14 million this year. And then for next year, the GBB is going to be the brunt of the spend around $30 million, $35 million to be the -- to reach kind of that aggregate of $50 million in total. And then in terms of the other operational initiatives, it's probably going to be somewhere in the range of $5 million to $10 million next year.

Operator

Our next question comes from the line of Louie DiPalma of William Blair.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Great. Can you hear me?

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Yes. How are you doing, Louie?

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Excellent. Barry and Jessi, I am sure both of you will do great on the next phases of your respective careers.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Thanks, Louie.

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

Thanks.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Starting off, global broadband is obviously critical for Gogo's future. Oak, what caused you to expedite your planned launch timing for the GBB service? Typically, projects in the satellite industry are delayed often by several years, but for GBB, you pushed it forward. So what's behind that?

Oakleigh Thorne - *Gogo Inc. - Chairman & CEO*

Well, we have a good partner in Hughes, who's got really mature development processes and manufacturing processes. And I think we've been very organized as well. And frankly, OneWeb has really pitched in and it's been a great working relationship. So we started with a late '24 early '25 kind of target. We do have some incentives built into our contracts to accelerate that. And Hughes has responded to that and come up with ways to get the antenna done sooner. So -- and we'll continue to work on other ways that might speed it up further. We -- time is of the essence for us in this, we really want to get to market as fast as possible.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Great. And one on the financial side, either for the new CFO or the old CFO. But in terms of the 2025 free cash flow target, what does that assume for maintenance CapEx and interest expense?

Jessica Betjemann - *Gogo Inc. - Senior VP of Finance & Accounting and CAO*

In 2025, I think by that point in time, our CapEx is going to be sort of in that maintenance range. So it's around $20 million for maintenance CapEx. And then interest expense, obviously, it depends upon the forward rates and what happens with regards to that. But it should be depending upon where we are with the interest spend, somewhere in the range of $30 million to $45 million in interest expense, depending upon what happens to the rates. Probably $40 million to $45 million...

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Sounds good. awesome.

Operator

And that is our time for questions today. I'd like to turn the call back over to Will Davis for any closing remarks.

William G. Davis - *Gogo Inc. - VP of IR*

Thank you, Valerie, and thank you, everyone, for joining the call. This concludes our fourth quarter earnings conference call. Thanks very much. You may disconnect.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.
