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GOGO.OQ - Q1 2024 Gogo Inc Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to Gogo Inc's first quarter 2024 earnings conference call. (Operator Instructions) I would now like to hand the call over to William Davis, Vice President, Investor Relations. Please go ahead.

William Davis - Gogo Inc - Vice President - Investor Relations

Thank you, Atif, and good morning, everyone. Welcome to Gogo's first quarter of 2024 earnings conference call. Joining me today to talk about our results are Oakleigh Thorne, Chairman and CEO, Jessi Betjemann, 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 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 10-K and 10-Q and other documents that we have filed with the SEC.

In addition, please note that the date of this conference call is May 7, 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 non-GAAP financial measures. We have included a reconciliation and explanation of adjustments and other considerations of our non-GAAP measures to the most comparable GAAP measures in our first quarter earnings release 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's now my great pleasure to turn the call over to Oakleigh.

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

Thanks, Will, and good morning, everyone. And thanks for joining us on this call. So Gogo achieved strong results in the first quarter, setting a record for free cash flow in open market share repurchases, even as we continue to invest in bringing our next-generation products to market, Gogo Galileo, our lower orbit satellite product, and Gogo 5G, our next-generation North American air to ground products. We believe these products will accelerate our revenue growth beginning next year as they deliver first order of magnitude improvements in the speed of Gogo service. Second,

deliver a 60% increase in our total addressable market and third, extended and extend customer lifetimes by providing easy and compelling upgrade path for our advanced install base.

Our first quarter performance was fueled by advanced equipment revenue, which experienced a rebound from Q4 2023 and record service revenue, driven by a modest price increase and record advanced upgrades. We consider every advanced installation, a strategic win because it provides that customer with easy upgrade paths to new technologies like 5G and LEO with Gogo rather than going to the expense of installing equipment from competitors.

The jump in orders we had in Q1 is great proof of that point. Our surge in orders was driven by two factors. First, OEMs that want to line-fit install of anti IL fives, often with 5G antennas so that those plans are ready for easy upgrades to 5G or Galileo. And second, pull through in the OEM and aftermarket channels from net jets who also wants to sell all five and NB. 13 to be ready for either 5G or Galileo.

This morning, I'm going to start by highlighting some demand trends we're seeing in the BA market to continue to underpin our bullish outlook, then provide an overview of our Q1 results and finally, dive into our progress on strategic initiatives. Jessi will then walk through the numbers and discuss our 2024 and long-term guidance. Overall, demand for business aviation flights in demand for connectivity on those slides remains strong. Gogo equipped BA flight counts were up slightly year over year our reversal of last year's slightly downward trend. And more importantly, flights remained significantly elevated from pre-COVID levels with Q1 up 29% from Q1 2019.

As for data demand consumption per flight hour was up 13% from the year ago quarter and up 101% from pre-COVID Q1 2019, demonstrating strong demand growth. Further evidence of this is as twice as many customers requested service plan upgrades in the quarter as requested downgrades. This demand is further demonstrated by strong OEM order books and very strong fractional sales all of which we expect will drive Gogo shipment growth over the next few years.

Now let me turn to our Q1 performance. Current revenue was up 6% year over year with service revenue up 4% and equipment revenue up 13% quarter over quarter. Total revenue was up 7% with service revenue up 1% and equipment revenue up 34%. Our record service revenue was driven by a 19% increase in advanced service revenue over prior year and a 5% sequential increase over Q4 2023, offset by a decline in Gogo classic service revenue as customers migrate to LTE, we grew total advanced units online 19% over prior year to 4,110 aircraft or 58% of our ATG installed base. Our advanced base beachhead will only grow faster as we incent our 3,200 Gogo Classic customers to migrate to LTE. as part of our participation in the FCC, secure and trusted network program, better known as rip and replace. We had a slight decline in overall units online for the quarter as we implemented an inflation driven 4% price increase, which included adding minimums to our hourly plans. And as expected, some hourlies dropped their service accounting for a loss of less than \$400,000 of annual service revenue. Equipment revenue was driven by advanced equipment sales being up 24% year over year and 39% sequentially from Q4 2023 and was partially offset by declines in our old narrowband satellite equipment revenue. As I mentioned, the increase in equipment orders was driven by NetJets pull through demand and a shift of a few OEM annual bulk shipments into Q1 from later in the year. And no inventory in the channel grew the number of units that are not committed to a particular customer went down to 84 units from 108 units at the end of Q4 2023.

On the earnings side, in the quarter, we achieved our highest Q1 EBITDA ever driven by first strong equipment sales, second, some permanent OpEx savings, and third, some changes in the timing of project related OpEx. I'm also proud that Gogo set a new free cash flow record, which demonstrates the strength of our business even as we invest deeply in the Gogo 5G and Galileo programs.

Now for our progress and strategic initiatives, Gogo's focus on accelerating growth with a three-pronged strategy. First, we wanted to expand our addressable market by taking our broadband offerings global for the first time and by leveraging the advanced platform to deliver products at pricing that serves each segment of the 39,000 aircraft level be a market.

Second, we want to drive customer loyalty by continually improving our ATG networks to drive conversion of Classic customers to the advanced platform so that they have easy upgrade paths to new technologies as they emerge. And third, we're focused on offering the best product and customer support to each segment of the market at the lowest total cost of ownership. We're making great strides on the strategic initiatives along all three of these brands.

Let me start with Gogo Galileo, and I'll start with a little bit of background after we sold our Commercial Aviation division in 2020, we went through deep dive strategic planning around the BA business and came to two conclusions first, that ESA antennas and LEO satellite constellations are going to change everything in business aviation connectivity. It would support lightning fast connectivity. They would enable small antennas that would fit well on all the aircraft, they could be cheaper and easier to install than geo antennas that would provide truly global broadband coverage for the first time ever and their service pricing can be very competitive with GEO satellite prices and most important that the dramatic increase in value created by their offerings would accelerate IOC penetration dramatically in the global VA market.

Second thing we realized was startling could become a significant competitor that has now happened as they entered the market with STCs on two aircraft lines. Earlier this year. Gogo has a history of disrupting our own industry. In fact, Galileo is our first product launch. In 2000 we migrated 1,500 customers for more than analog ATG system to Liam's Iridium. We designed and manufactured the airborne systems, some of which are still line-fit at OEMs today, and we still service more than 4,000 aircraft globally on the Iridium network flying 24 years ago, our focus with Galileo has been on developing an aviation grade product suite tailored to the unique needs of the AV customers. Starlink on the other hand is focused on mass producing consumer off-the-shelf products for much bigger markets and then trying to repurpose those for aviation. They may have some initial success if for no other reason than the allure of Mr. Musk, but ultimately, the simplicity of our Galileo terminal installation, the superior reliability of our equipment and the white glove customer support, offer position Gogo to compete well and capture a significant share of this market.

So with that background, let me give you an update. Galileo comes in two versions, smaller HDX terminal and a larger FDX terminal. The HDX terminal is a small antenna that will deliver a very consistent 60 megabits per second, which is 12 to 60 times the speed of our current product offerings and will fit on all Business Aircraft targeting two major market segments. The first roughly 12,000 mid-sized jets, small jets and turboprops registered outside North America that have absolutely no broadband solution available today. And second, those aircraft inside the roughly 11,000 midsize and smaller jets to domicile inside North America that often fly international missions or want faster connectivity than ATG. alone can provide the Galileo FDX terminal is a larger antenna that will deliver very consistent speeds, approaching 200 megabits per second, roughly 40 to 200 times the speed of our current product offerings and it targets the roughly 7,000 global super mid-size and larger heavy jets that generally fly intercontinental or long-range missions

A huge advantage for us is at Galileo is a simple upgrade from any advanced installed plane. One only needs to add our HDX or FDX and 10 on the fuselage and then run data and power cabling into the aircraft. And given that advances already aligned fit option at every OEM and has STCs on every currently produce model of aircraft, it will be relatively easy from an engineering and certification perspective for OEMs and dealers to offer Galileo. We've already signed for STCs agreements for Galileo. We have 10 were verbally committed and three in negotiations, which all in will cover 10,500 jets and 6,200 turboprops globally. We remain on track to start shipping HDX terminals in Q4 and FDX terminals in the first half of 2025.

We achieved a number of exciting malice milestones since our last conference call. In March, we completed end to end connectivity using the HDX antenna on the fully deployed Eutelsat OneWeb LEO satellite network. The next three big milestones will be aircraft installation in July, engineering flight testing in August and parts manufacturing authority or TMA in Q4. In April, we announced our first SDC partnership, which significantly is with a European MRO for a very small size aircraft the C J series, demonstrating that we indeed can fit on any aircraft and that we have global distribution reach. Also in April, Gogo was granted earth station in motion approval from the Federal Communication Commission to commercialize and operate the Galileo HDX and FDX antennas. This is important not only for commercializing Galileo in the United States, but acts as a precedent for authorization in many other countries.

To conclude, we are very excited about Galileo. It will be a game changer for the business aviation industry and will be a major accelerant for the growth of gold.

Now let me turn to Gogo 5G. As you all know, more than a year ago, we completed our initial 150 tower network rollout. We completed our 5G data center upgrade. We received PMA for our NB13 5G airborne antennas and for our LX55G jet box, but with a 4G chip, as you also know, we're still waiting for our 5G chip. That ship has failed, bring up twice, but has now been redesigned and it was meant to go into account fabrication again this month. On the good news front, we've been able to start flight testing on the actual network using the chip software on an FPGA simulation of the chip. Unfortunately, in testing and issue was identified that has chip hardware design implications. That issue has led to a minor

chip hardware redesign, which is now an integration testing and must be complete before fabrication can begin, we currently expect the launch of Gogo 5G to occur a few months later than previously stated fourth quarter of 2024 and are working with our vendors to finalize that schedule, which we will discuss on our Q2 earnings call.

The good news is that this was discovered now before the chip was refund saving. What could have been a much longer delay. Despite this, the market continues to respond enthusiastically to the 5G value proposition. With ongoing pre-provisioning programs and a flood of STC programs that position us for a highly successful launch. We've already shipped 245-G pre-provision kits with MD13 5G antennas, approximately 80 of which have already been installed and are flying today using our 4G network. We have commitments from five OEMs with most of those under agreements and minority installing the NB13s with our 5 Lines today. Because L5 is the same form factor as the LX5. Once the 5 chip is certified, those customers can simply swap the LX5 for the L5, and they'll be on the 5G network.

On the certification front, we have 11 STCs for MB13's, completed 16 more in the works, representing 8,371 North American registered aircraft. We're confident that between our FPGA flights in a virtual simulator, our team has built that replicates our entire 5G network that we will be able to test and validate 90% of our 5G functionality and network. Before we received the final 5G chip. Gogo, 5G should achieve mean speeds of around 25 megabits per second, 5 to 25 times. Our current product lines and peak speeds of 75 megabits to 80 megabits per second. And we believe it is the perfect product for midsize and smaller business aircraft that fly North American missions i-mode great speed at a better value than competitive satellite products.

Now let me turn to the FCC rip and replace program. The program was enacted under the Trump administration to incent wireless carrier carriers to accelerate the removal of Chinese telecom technology from their networks. Gogo was awarded a \$334 million grant under that program because there are more qualified grants than originally planned. Funding for all brands were cut back to 39% of the original award, which in Gogo's case, was cut back to \$132 million White House included full funding for the program and its supplemental funding request to Congress last year. And there are two bills in Congress with bipartisan support that would fully fund the program right now based on changes we've made to our FCC program, we no longer believe we will need nor would we receive \$334 million. However, if full funding is approved, we would be able to accelerate our program and cover all reimbursable costs. But the current partial funding, about 70% of the reimbursable costs of replacing all EVDO ground equipment and moving Gogo Classic customers to LTE. would be covered by the grant. And that is what is reflected in our long-term guidance there. There's also another \$25 million of spend associated with the program that is non-reimbursable, and that is also reflected in our long-term guidance. This program has considerable benefits for Gogo and its customers. It will improve the speed of our 4G network. 40% for customers using our advanced LTE product It will double the number of aircraft that the ATG 4G network can simultaneously manage and it will accelerate the number of Gogo Classic customers upgrading to advance, which has the strategic benefit of extending Gogo customer lifetimes due to the ease of upgrade to 5G and Galileo from advanced platform equipped. We have 3,200 aircraft still on our old classic product line that will need to convert from EVDO to LTE versions of the hardware inside their plane, around 900 of which are in fleets and a little more than 2,200 of which are smaller customers. All of the fleet customers are in active discussions and how they plan to convert and most are leaning towards upgrading to L5 so that in the future, they can easily upgrade either 5G or Galileo.

On the smaller customer side, we've had conversations with all, but 150 of them of those we've spoken with 60% have already voiced a preference for what they would like to convert to. And almost all of them indicate that we'll move to one advanced product or another. We currently have customer promotions in place to incent conversion, and our dealers are doing a great job configuring their operations to transition customers at scale. We also have a special product we will introduce later this year called C1, which will house both an EVDO and an LTE Aircraft in a form factor is an exact replication of our classic product. These will not provide any enhanced performance. However, they will be relatively inexpensive and will only require a few hours to swap with the old classic boxes. We call this a time machine because it allows customers who delay swapping to advanced before our cutover date time to convert to events after the cutover.

To zoom out, Gogo is approaching an exciting inflection point in our product cycle as we anticipate the launches of Gogo 5G and Gogo Galileo, Gogo will soon have the most complete product portfolio in the DAIFC industry with products that offer the right performance, the right coverage at the right total cost and great customer support for every segment of the highly unpenetrated 39,000 aircraft global BA market. We're excited about our future and believe Gogo is well positioned to capitalize on the significant opportunity in our market and deliver long-term value creation to shareholders.

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

Jessi Betjemann - Gogo Inc - Executive VP & CFO

Thanks, Oak, and good morning, everyone.

Gogo generated record service revenue and free cash flow in the first quarter with adjusted EBITDA coming in well above expectations.

While our results benefited from some timing related to equipment revenue and expenses.

They highlight the strength of our core business as we invest in our new products, Gogo 5G and Galileo.

We continue to believe that 2024 is the trough year for our growth and profitability within our long-term plan through 2028. With most of our strategic investments concluding at the end of 2024, we expect our free cash flow to accelerate substantially in 2025.

In my remarks today, I'll start by walking through Gogo's first quarter financial performance. Then I will turn to our balance sheet and capital allocation priorities. And finally, I'll conclude with a positive update to our 2024 guidance and additional context on the reiteration of our long-term targets. For the first quarter total revenue was \$104.3 million, up 6% year over year and 7% sequentially. Top line was driven by record service revenue of \$81.7 million, up 4% year over year and 1% sequentially. Our ATG aircraft online reached [7,136], up 1% year over year and down 1% sequentially. The quarterly decline was driven by higher deactivations, of which approximately 80% was attributed to the attrition of ROV contract aircraft as a result of the price changes we implemented this quarter.

However, the loss of these aircraft has a very low impact on service revenue of less than 0.1% for the quarter due to the low RPU they generate. Another driver for high deactivations. This quarter was due to an increase in the number of aircraft sold that we believe a majority of which will reactivate in the coming months under new owners based on historical trends. Importantly, total advance aircraft online through [4,110], an increase of 19% year over year and 3% sequentially and now comprise 58% of our total fleet. Our number of advanced aircraft online has doubled in less than three years. We continue to expect a strong year of advanced activations in 2024 as we upgrade our classic ATG customers while maintaining a reasonably conservative view on improvements in the maintenance cycle times that have slowed installations over the past year. Upgrading our customers to advance is a critical part of our strategy, and it extends customer lifetimes due to the easy upgrade path to Gogo 5G and Galileo once launched. However, consistent with our prior comments, this process will mute the ATG aircraft online growth rate over the coming quarters.

As Oak mentioned, we had record advanced upgrades in the first quarter. Total ATG RPU grew 2% year over year and 2% sequentially to \$3,458, driven by pricing changes. The launch of Gogo 5G and Galileo is anticipated to further expand our RPU growth opportunity over time.

Moving to equipment revenue, Gogo demonstrated a strong rebound from the prior quarter and delivered a record first quarter equipment revenue of \$22.6 million and 13% year-over-year increase due to a pull-in of shipments for two significant OEM partners earlier than planned, demonstrating strong demand for global connectivity. Gogo's equivalent revenue typically ramps toward the back half of the year. But given the shipments we had in Q1, we expect that dynamic to shift for 2024. On a sequential basis, equipment revenue rose 34%, reflecting the strong order flow this quarter as well as the \$4 million reserve we recorded in Q4 2023 due to a specific customer circumstance that reduced revenue last quarter. We continue to expect a strong rate of growth from equipment revenue in 2024 driving the overall revenue growth for the rate for the year. We shipped 258 advanced units this quarter, which is a record for our first quarter up 16% year over year and up 28% sequentially.

Turning to profitability, Gogo delivered service margins of 78% in the first quarter, better than expectations due to lower network and data center costs and relatively flat sequentially. We continue to expect service margins to be in the 75% range this year with a slight decrease in future years. As Google Galileo service revenue increases as a percentage of the mix, service revenue and service margin continued to be the primary levers for free cash flow generation and long-term value creation. Equipment margins were 30% in the first quarter, 20 percentage points higher than the prior year period and well above expectations. The increase was primarily due to higher equipment revenue that came in earlier than planned and non-reimbursable costs related to the FCC reimbursement product program in the prior year. Equipment margins were 21 percentage points higher sequentially, also driven by the higher equipment revenue in the quarter, coupled with lower inventory reserves due to extended warranty and

reserves recorded in the prior quarter, driven by a customer contract renewal. We expect equipment margins to be in the low 20% range this year with a slight decrease in future years as the mix of Gogo Galileo units sold increases overtime.

Now onto operating expenses. First quarter, combined engineering, design and development, sales and marketing and general and administrative expenses increased 11% year over year and decreased 8% sequentially to \$32.2 million. The year-over-year increase was mainly driven by legal expenses related to the Smart Sky patent litigation as well as higher spend on Galileo. We continue to expect higher legal expenses in the coming quarters relating to the launch of Galileo and the ongoing smartcard patent litigation. 2024 will be a significant investment year as we continued to invest in our global 5G and Galileo programs. We expect that these product investments will support revenue growth acceleration and significant free cash flow growth in 2025 and beyond.

In terms of global 5G in the first quarter, our \$1.6 million of 5G spending was comprised of \$0.6 million in OpEx and \$1 million in CapEx. We now expect 2024 will include approximately \$6 million of 5G OpEx and approximately \$14 million in CapEx with total 5G spending for 2024 remaining unchanged at approximately \$20 million. We continue to maintain our estimate of \$100 million in total external development and deployment costs for our 5G program and anticipate no negative impact on the overall program costs from the most recent delay of described.

Moving onto our global Galileo initiative, in the first quarter, global recorded \$2.6 million in operating expenses related to Galileo. We now expect 2024 will include approximately \$17 million of Galileo OpEx and approximately \$6 million in CapEx. 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, \$23 million is projected in 2024, and the remainder is expected in 2025, we anticipate approximately 90% of Gogo. There's external development costs will be in OpEx.

Moving on to our bottom line, Gogo delivered \$43.3 million in adjusted EBITDA in the first quarter, a 9% increase year over year and 23% increase sequentially. The growth was primarily driven by strong equipment sales, an increase in service gross profit driven by record service revenue. Adjusted EBITDA exceeded expectations driven by the timing of OEM orders and certain 5G and Galileo related project spend.

Shifting to later in the year. The timing shift and equipment orders and spend contributed to our record contributed to our record result in the first quarter. And while we have narrowed our 2024 adjusted EBITDA guidance to the high end of the range.

We expect that the first quarter will be the high EBITDA quarter for the year.

Net income was \$30.5 million in the first quarter, up 49% year over year. The increase was primarily due to a \$13.1 million unrealized pretax gain, which was \$9.9 million net of tax from the \$5 million investment in a convertible note offering of our key chipset supplier to support continued progress on our 5G chip. Net income in the second quarter may be negatively impacted from this investment. If there is an unrealized loss based on the share price on June 30. For any future share price volatility will affect our net income in future quarters from mark-to-market adjustments to the fair value based on our substantial NOL position at the end of 2023 include the including \$446 million in federal net operating losses and \$377 million in state net operating losses. We had a net deferred income tax asset of \$206 million at the end of the quarter. We do not expect to pay meaningful cash taxes through our five-year planning horizon.

I will now provide a status update on our SEC reimbursement program. In the first quarter, we received \$11.9 million and SEC grant funding and our program to date total received is \$13.5 million. As of March 31, 2024. We recorded a \$15.2 million receivable from the FCC, and we incurred \$8.8 million in reimbursable spend during the quarter. This receivable is included in prepaid expenses and other current assets on our balance sheet with corresponding reductions to property and equipment inventory and contract assets and with a pickup in the income statement, Gogo's original one-year term to complete the FCC reimbursement program was set for July 21, 2024. However, we filed our for our first six month extension, which was granted by the FCC on March 29, extending the program completion deadline to January 21, 2025.

In our application, we stated that we would need to have multiple extensions to complete the program and are planning to record request the next extension in the fourth quarter.

As a reminder, partial funding, we are forecasting that we will run out of reimbursement funds in late 2025 and will need to continue to spend money in support of the program through 2026, which is expected to negatively impact 2026 free cash flow. In the first quarter, we generated record free cash flow at \$32.1 million, an increase from \$20 million in the year-ago period.

And \$28 million last quarter. Both the year over year and quarterly increases were primarily driven by FCC reimbursements from our rip and replace program this quarter. Higher EBITDA and our cash interest.

Now I'll turn to a discussion of our balance sheet. Gogo ended the quarter with \$152.8 million in cash and short-term investments and \$605 million in outstanding principal on our term loan.

With our \$100 million revolver remaining undrawn Gogo's net leverage of 2.7 times remained in line with our target range of 2.5 to 3.5 times.

As you previously mentioned, we have a hedge agreement in place and we currently have 87% of our loans hedged next step down, the hedge to \$350 million occurs in July 2024, with an increase in strike rate from 0.75% to 1.25%. Our cash interest paid for the first quarter net of hedge cash flow was \$7.7 million, assuming no further debt paydown to cash interest paid for 2024, net of hedge cash flow is expected to be approximately \$34 million.

Now let me turn Let me provide a recap of good capital allocation priorities. 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 with an authorization of up to \$50 million for our share repurchase program, our Board of Directors approved in September 2023. We continue to maintain a strong balance sheet and cash position while executing on our share repurchase program. As a reminder, Gogo repurchased approximately 480,000 shares for a total cost of approximately \$4.8 million in the fourth quarter of 2023. In the first quarter this year go to repurchase approximately 1.1 million shares for a total cost of approximately \$10.1 million. In April 2024, the Company repurchased approximately 1.1 million shares for \$9.3 million. We believe we are well-positioned to execute our product investment schedule evaluate further debt paydown and opportunistically repurchase shares. Our flexibility to pay down further debt and return capital to shareholders should increase as our free cash flow ramps up in 2025.

And now I'll turn to our financial outlook. We positively updated our 2024 financial guidance while reiterating our long-term targets. Importantly, note that our 2024 financial guidance and long-term financial targets do not reflect a potential delay in Gogo 5G beyond 2024. To the extent that we become aware of additional information about the timing of the Gogo 5G launch as the year progresses. We will determine whether to update this guidance during our regularly quarterly earnings announcements as appropriate. For our 2024 financial guidance. We continue to target 2024 revenue in the range of \$410 million to \$425 million, implying 5% overall growth with equipment revenue growing faster than service revenue. While we had better than expected equipment revenue for the quarter, it was mostly due to timing within the year. We continue to believe service revenue growth will be slower than the growth rate in 2023 as you project a significant number of upgrades from classic to events driven by the STC program. And while strategically important and will dampen aircraft online growth.

We now expect adjusted EBITDA at the high end of the previously guided range of \$110 million to \$125 million, reflecting operating expenses of approximately \$33 million for strategic and operational initiatives, including Gogo, 5G and Galileo. Our guidance also includes approximately \$5 million in legal expenses tied to the Smart Sky litigation The increase in adjusted EBITDA guidance is mainly due to a shift in spend from OpEx to CapEx in our strategic programs and some OpEx savings realized in the first quarter. We expect 2024 CapEx to be approximately \$45 million, which includes approximately \$30 million for the strategic initiatives, including Gogo, 5G, Galileo and the LTE. network buildout. We anticipate free cash flow of \$20 million to \$40 million, which includes approximately \$56 million of expected SEC spend, including non-reimbursable development spend and approximately \$45 million in SEC reimbursements free cash flow guidance remains the same despite an increase to adjusted EBITDA guidance as there was a shift in spend from OpEx to CapEx and fluctuations in networking capital. Our long-term targets remain unchanged. We reiterate that we expect revenue growth at a compound annual growth rate of approximately 15% to 17% from 2023 through 2028, with Galileo materially contributing revenue beginning in 2025. We continue to expect annual adjusted EBITDA margin to be reaching 40% by 2028.

Finally, we expect free cash flow in the range of \$150 million to \$200 million in 2025, which reflects increased EBITDA driven by revenue growth with the launch of 5G and Galileo and reduced engineering design and development. Opex and lower CapEx as investment in these strategic programs are completed and positive net working capital driven by inventory purchases and prepayments planned in 2024 for 2025 equipment shipments. This does not take into account the effect of the FCC program.

In conclusion, though, continues to perform well as we invest in the launches of Gogo 5G and Galileo. Our outlook illustrates the value creation potential for our customers and shareholders that we expect to unlock as we execute our strategy and invest in the strategic initiatives that we believe will extend and enhance our long-term growth.

Before we open the call up for questions, I would like to join us in thanking the entire Gogo team for their hard work and dedication to our business and for providing unparalleled service to our customers. Operator, this concludes our prepared remarks. We're now ready for your first question.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Sir?

Our first question comes from the line of Scott Searle of ROTH MKM. Your question, Kay.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Good morning, Scott.

Scott Searle - *Roth Capital Partners, LLC - Analyst*

Thanks, guys. Nice job on the quarter. Nice to see the continued progress on the Galileo front. Maybe just Jesse, quickly on clarification on some of the financials. I think you referenced and I'll get referenced permanent OpEx savings. I'm wondering if you could give us some idea about what that looks like on. Also wanted to clarify, it sounds like there was a \$400,000 step down in service revenue related to I'll call it churning off smaller low end customers.

And what are you expecting in the guidance that for [\$410,000 to \$425,000] in the back half of this year for FCC rip and replace? And then I had a follow-up.

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

So on your first question, with regards to some of the OpEx savings. So in the quarter, we did have some and some of it was due to network and data center costs that came in lower than planned that that will know that's real and realize it's not a timing issue. We also do have some personnel savings, so in the quarter was around \$3 million and on and on throughout the year, there will be some continued savings as well because there is some pressure on expenses into 2025.

What was your next question? (multiple speakers)

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

There was a late year real and replace commission.

Yes, Scott, I know you asked about the late nearly or the translation impact.

Scott Searle - *Roth Capital Partners, LLC - Analyst*

Is the expectations for rip and replace this year, right? Because clearly it seems you had a great quarter as it related to equipment revenue. It seems like NetJets pulling forward, but what are you expecting in that for [\$410,000 to \$425,000] this year? And in terms of rip-and-replace contribution on the equipment front?

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

With regards to the upgrades, I mean, yes, yes. And so I mean, this year is going to be a heavy year of upgrades. And so that will contribute to our equipment shipments this year. And we're seeing it obviously in Q1, but we will continue to see that through the year.

Scott Searle - *Roth Capital Partners, LLC - Analyst*

Okay.

Fair enough. And okay. I'll dive in quickly on the 5G front, a little bit of a delay there. It seems like it was caught earlier. So that's the good news on just general confidence level on that front? And then maybe coupling with that, it seems like the dialogue and the tenor around Galileo has continued to get more and more positive. It has always been on or ahead of schedule, but now it seems like the market opportunity specifically for HDX and SDX are bigger than we would have expected 12 or 18 months ago. So I wonder if you could talk a little bit about how important that is relative to 5G and how that seems to be advancing and getting pulled forward?

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Thanks.

Yes. I mean, we've already spent more time talking about 5G because we've always asked about 5G more because it's always the next product launch and obviously a significant upgrade to our ATG networks in the North America. So I think we've always felt that Galileo was probably the bigger opportunity in the end. And I think that the positive response we're getting from the market about it is very encouraging for us. And obviously, strategically, it is a very important product in competing with StarLink because they enter the market. So it serves we're really excited about it. It's going to be a great product line and OEMs are very excited about it. And the fleets are very excited about it. We're getting a lot of positive traction overseas. So we're very excited about it. We still think 5G has a very important role in our product lineup because there's just a lot of medium-size jets on down that only fly in North America that, you know, frankly, a little more cost-conscious than other flyers. And they're not all that excited about putting on a more expensive satellite system so for them, 5G is going to be important. And so we have commitments to OEMs and fleets and others who have already have basically said they're going to buy the product so we don't want to tell you we're not going to back off from 5G is so important to us, and it is in a somewhat less competitive segment.

I would say at the moment as well.

So the time urgency maybe is not as great as it is for Galileo.

Scott Searle - *Roth Capital Partners, LLC - Analyst*

Okay. Thanks.

I'll get back in the queue.

Fair enough.

Okay.

Operator

Our next question comes from the line of Simon Flannery of Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Okay, and good morning.

How are you?

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Thank you.

Simon Flannery - *Morgan Stanley - Analyst*

Just continuing on the the Galileo opportunity, I think you had said that you would ship the HDX terminals in Q4. So when do we start seeing service revenues out of Galileo? Is that really kind of Q1 where we start to see that and then I think, Jeff, you mentioned the margin impact. Is it fair to think you're going to be looking at a service margin on reselling OneWeb in that kind of 50% range. And any color you could provide around that and how that is that mostly usage-based? Or are there the monthly commitments per plane and then something on the D acts there. Have we seen all the the impact of that price increase or do you think we could see more in Q2? And is it all principally this ad asset and the sale of aircraft? Or are you seeing any competitive losses to StarLink or smart Sky or anything like that?

That's ticking, Pierre.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

So am in terms of DAX, I'll take that first, I don't think we're going to see a lot more of that.

We'll reserve judgment a little bit. It really all hit in February is that yes, the price increase and the minimums were implemented at the beginning of February. So I think that's going to be the bulk of that in terms of comparatives, we've done a deep dive on that. We went and actually interviewed all of the customers who suspended in February, it was 50 some odd of them and only one had gone to competitions and up that ironically was a jet that belonged to da Vinci jet, which is no the pattern up there, the owners anymore, the founders of smart guy and they have it actually didn't go to smart school they went to IKA. solutions. So that was funny. And so that's that we don't think we're losing any aircraft from our install base to sterling at this point, I think we do feel that there is some pressure on new sales from them right now as customers look at the sterling system and obviously they are already out with theirs and we don't have our global system yet.

So we feel a little pressure there.

And we may have we may have lost a few new sales there and heavy jet market does it only be globals, of course, them global expresses. We don't really see any pressure yet on the Gulfstream side because Gulfstream has been pretty negative about the strong, I guess TC for Gulfstream aircraft. So and that's all in heavy jets, still that point. And again, we haven't seen any losses there. So I mean now you have to go back and remind me at the beginning of your question is on the Galileo revenue.

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

I can answer that, Sylvia. I mean the expectation is we're going to be having the equipment revenue equipment shipments in Q1 and service revenue will be better in the second half, but I'd probably start to feel the month full in the second quarter.

Simon Flannery - *Morgan Stanley - Analyst*

Okay.

On margins, margins,

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

we haven't commented on publicly, and we I would put it this way. We have we're taking an approach where we can sort of maintain flexibility because you never know where StarLink is going to go with pricing and we need to be prepared to meet with them. So to get sort of what our cost per pricing flexibility, we probably have given up a bit of margin, and we expect to still have service margins in the that begin with the seven through this planning horizon.

Yes, in total. And so we feel very good about the business, but we're not going to come out with sort of sharing margin projections until we come to market.

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

So right now it is going to be definitive noted. It's going to be lower than ATG, but still very strong.

Healthy margin.

Simon Flannery - *Morgan Stanley - Analyst*

Yes, understood. And what you're are you or come does your system just you work with one wherever Could you incorporate other So providers of capacity like hyper down the road?

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Yes, we can.

And now we designed our terminal to be portable from provider to provider.

We expect that and the technology is going to develop a lot over the next 5 to 10 years. There are going to be other providers that come into the market soon. And our hope is that that one way of continues to deliver a strong product and that their Gen 2 is a strong product, but we also need to be prepared to go elsewhere if it's better for our customers. So we designed the antenna terminal, which the we own the intellectual property for to be easily much installed.

It is very easily removed.

You don't have to go back inside the airplane and remove the headliner and all that can literally unsecured from the outside and slap another version of it on quite simply. But the new version would have the right aperture for the new supplier and the right modem for the new supplier in it. And so we're very portable in terms of future direction.

Simon Flannery - Morgan Stanley - Analyst

Great. Thank you for your time and thank you.

Operator

Our next question comes from the line of Ric Prentiss of Raymond James.

Ric Prentiss - Raymond James Financial, Inc. - Analyst

Yes, thanks, and good morning, everybody.

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

Owning a vacation.

Ric Prentiss - Raymond James Financial, Inc. - Analyst

Great, thanks.

A couple of questions. First, I want to go to the on the SmartSide litigation. I think the judge had made some rulings on some definitions and some other items. There were some reports out there that thought it was less favorable to you all, but it does explain to us kind of where we're at on the lawsuit, how do you view the judge's rulings or definitions? And I'll come back to my questions one at a time.

So you can handle of the banks have revisited that.

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

Yes, that was what's called a Markman hearing and that's where the judge rules on the and how the patents should be interpreted. And we were pleased with how the judge ruled and it hasn't changed our view of what we think the outcome of the cases. However, I will say this in my short British business career, I've learned not to comment on litigation, and my lawyers are encouraging me to stick with that. So I'll kind of leave our comments that there was there were some articles or an article that went around both provider who doesn't know much about patent law who kind of made it sounds like we lost the whole case with this ruling, and that's just not the case.

Ric Prentiss - *Raymond James Financial, Inc. - Analyst*

Okay. And the update on the timing

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

and the trial was supposed to be in April of 2025.

But now it looks like the judge is going to move that back and she has not set a new date.

Ric Prentiss - *Raymond James Financial, Inc. - Analyst*

And second question is on the guidance on just you mentioned that you have some reduction in some of the projects, I think now of \$33 million previous guidance at \$40 million of OpEx, I think in there. So some reduction and shift out of timing. I'm just wondering if some of that then moving into 2025, but then also a little note in the press release that said guidance and targets do not reflect the potential delay in Gogo 5G beyond 2024. But then you kind of thought maybe the launches pushed out a few months. So just wanted to reconcile both those, if I could.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

So on the timing part around 5G, and we don't know right now, if it will still launch in Q4 of this year, early next year, we're working with our chipset supplier to get definitive dates. There's a process that gets going the chips going through now sort of a validation integration process. And at the end of that they should have a better idea of when.

And I'll go into fabrication, then there's the opportunity to perhaps accelerate some of the fabrication steps.

So we're looking at that. And when we know more, we'll tell the world more, but that's why we are not yet projecting or including in our guidance.

Any delay.

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

Yes.

And on the point about the strategic spend and decreasing. At last quarter, we had \$40 million. And this quarter it's some \$33 million in total for the strategic initiatives. And on a large driver of that is a shift around \$5 million from spending from OpEx to CapEx. And then there was about \$2 million overall savings as well. So that's what's driving that reduction. And that's also why because of that shift from OpEx to CapEx, you don't necessarily see any of that uplift power flowing through to free cash flow.

Ric Prentiss - *Raymond James Financial, Inc. - Analyst*

Okay.

And then just one more on that 2024 guidance and the timing, if it does slip out from Q4 2024 into the early few months push into 2025, what items would be really affected on the on the guidance as it is at the equipment revenue, could it lead to service revenues as a margin on EBITDA? What line item would be Washington case?

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

Yes.

So actually on I think we noted this on the previous call, and I want to be conservative. We did not factor in any 5G revenue and in our guidance that we had provided some revenue won't be impacted. It really will be on the OpEx side will be a benefit because there could be some pushout of spending potentially and both for OpEx and CapEx,

Ric Prentiss - *Raymond James Financial, Inc. - Analyst*

which is not really a downside risk or distribution to valorize, even though, yes, even though the project moves out, the revenues weren't expected anyway.

Okay.

That helps clarify that.

And then also I want to go back to Simon's question then also for my final one on the folks were the RPU, the price increase 4% price increase. February, you think most of the style, I think you said 80% of the DX were the our hourly folks. So should we expect some normal course kind of deactivations as you're upgrading people to the advanced product. Is that white? I think Jessi mentioned some maybe some dampening of U.S. installs for a couple of quarters here.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

And while you're going to see a lot of conversions. They don't drive units online. They they will drive some equivalent revenue, but you're getting a lot of people upgrading from classics this year to add to advanced platform as part of the LTE rip and replace program tell say, you'll see that in terms of what's gone on in the dealers right now, we've had good signs and bad signs. I mean, there's everybody sort of gotten used to managing in a somewhat screwed up supply chain world. And so I think the dealers are handling and better customers are handling it better. We had a lot of the action in February. A lot of them have already come back though. So that implies a little bit of shortening of the suspension periods.

And though on the other side, there's still a lot of engine problems and engine parts problems that are extending some suspension.

So we're not getting out of our skis on and projecting any change in the activation and reactivation at this point.

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

But we'll watch what happens here over the next couple of months and then decide whether there's a permanent improvement or not I can make just to clarify the 80%, it was the 80% of the increase and deactivation had from quarter to quarter, not of the total deactivations.

Ric Prentiss - *Raymond James Financial, Inc. - Analyst*

Gotcha. That's helpful.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Okay.

Closure of our sandbox, Farhan.

Thanks, Ric.

Operator

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

Lance Vitanza - *TD Cowen Inc. - Analyst*

I think, Pete, hi, thanks for taking the questions and congratulations on the quarter. I guess my question is with respect to a while having ticked lower a little bit, is this just sort of what we'd expect from we're in this prelaunch phase, whether it's 5G or Galileo, I assume that that new customers or new potential customers are waiting.

Right?

And so similar to the run-up to the to the launch of advance a few years back. It's tough to get new people over the goal line. And so do is that dynamic in play right now? Are we still seeing that happen? And do we expect that? Is that possibly an issue as we think about a further delay in 5G, do we think that that could actually pressure equipment sales not related to 5G, but could that could that pressure from your existing sales going forward?

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Yes.

I mean, I think for a couple of quarters, we've been in a bit of a lull in the product cycle and you see it in Apple Watches, et cetera. The same thing versus sales sort of slowdown of the old products as you move into new much better products. But what we've tried to do is make advance L5. I'm a natural stepping stone to 5G and Galileo, and that's working to some extent. I mean we've obviously had great sales of equipment sales of five this quarter and all of that has been, but not all, but almost all of that has been people say.

Okay, great.

I'll be ready to go to Galileo or 5G if I install that box because the if you go into Galileo, you don't need to change the box if you're going to have 5G just replace the L5 with the exact replica form factor called the LX5, which has the 5G functionality in it.

So they're both very easy upgrades and that is working for us to some extent.

And that was why we got the fleet pull through for NetJets, and that's where we got these this acceleration of OEM orders. So we'll see if that persists, it would be nice if it did, but we're not counting on it right now, and we're not factoring that into our normal guidance at all.

Lance Vitanza - *TD Cowen Inc. - Analyst*

Thanks.

And then the last one for me is just on the share repurchases and looking ahead, you've got I guess most of the cash flow for the year has already come in. Does that suggest that we're sort of done with your free cash with your share repurchases for the time being or or given that you have cash on the balance sheet, is that still something that we, at least in theory, could potentially see going forward as well?

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

I think it's I mean, you could potentially see going forward, we've got a \$50,000 million repurchase program approved by the Board. We have an investment committee that takes a \$10 million at a time since we've spent about \$25 million at this point.

Jessi Betjemann - Gogo Inc - Executive VP & CFO

And you know, I mean, as we've ever been a continuing to look at that, we'll assess how the share price and that we'll look at that opportunistically. And but we also want to balance that with now with their hedge step down to an understanding whether or not we would pay down debt.

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

So you and the Board will look at whatever they think is best for shareholders, and that's know the way we'll go.

Lance Vitanza - TD Cowen Inc. - Analyst

Thank you, Charles.

Operator

Thank you. Our final question comes from the line of Louie DiPalma of William Blair.

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

A wave of a movie to Lori to Louis who worked at Williams.

Louie DiPalma - William Blair & Company - Analyst

Sorry.

Hi, good morning, Jesse and well Oak, you indicated that you expect to begin shipping the HDX and pendant in the fourth quarter? And when should we expect the first STCs to be received? And will your STSTC. schedule remain roughly a year behind StarLink as you see schedule on the business jet market or do you expect two to narrow that gap?

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

Well, we're better at getting STCs and they are in.

So we'll get a lot of STCs in a hurry. And that's why I noted the number that we're in in work already in my script, and we will get you have to get to your first article SEC before you can get PMA. So I think I said we were going to get PMA in Q4. So we'll have our first article STC. before that. And then we work hard with know how to work with dealers on STCs so that they are ready to go when we are ready to go. And so we will have a lot of them pre primed and Keno, I would guess we'd have several maybe even before the end of the fourth quarter and certainly a lot of them in the first quarter next year. So this is one of the things we do really well, very peculiar to our little industry in. It's something that StarLink is learning the hardware.

Louie DiPalma - *William Blair & Company - Analyst*

Great.

So you do expect to narrow the gap.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

And yes, yes. As far and for us as 5G goes, I mean, we've been really smart about that whole sGC program and which is why there are so many aircraft in North America that will be covered almost immediately after we launch because we've actually got first article SDC and PMA on a on an LX5 box already, but a 4G chip in it. So all we need to do it when that to get those STCs kind of up and running immediately substitute the 5G chip do a minor modification to the STCs that are already done. And then those STCs and that those will get quite rapid FDA approval because if it's a minor MoD. It's a week or two, and then we'll be ready to fly with 5G on a whole lot of planes, too.

Louie DiPalma - *William Blair & Company - Analyst*

Yes, great. And then another two parter loans.

The same on StarLink theme, there was a Bloomberg article about the StarLink service quality on a Delta Airlines trial that suffered some from quality issues because of StarLink sharing their aviation network with the residential network in the channel. Are you hearing if that is a customer concern? And also on the StarLink theme, are you hearing whether the \$2,000 per month plan price plan is resonating and do customers think that is just introductory pricing similar to what Comcast Xfinity does or did I think that's actually sustainable? Thanks.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

Yes, sure. Let's start with the \$2,000 plan.

I mean, that's just a bucket plan, right?

So you paid a minimum of \$2,000 and then you pay another \$100 per gig.

You we've got bucket plans, we know them well. And what happens generally is that people go over the bucket and pay a lot more for the plan than they anticipated.

And with the very powerful antennas like StarLink and we are bringing out, you're going to consume a whole lot of data. So that first 20 gigs is going to go pretty quick and people will end up spending a lot more than they planned.

And owners in this space typically do not like spending more than they planned.

So they opt for unlimited plans generally. So today, 80% of our R-class aircraft are on unlimited or fleet plans, which are very similar to unlimited, and only 13% are on bucket plans. So and also just given what we're projecting for usage and you know, we think has hit people on that plan. They'll actually spend more than the than the \$10,000 for the unlimited.

So that doesn't concern us very much to be honest.

And we'll have sort of aggressive plans like that, too.

And but that doesn't mean that that's what the RPU is right. The RPU is going to be a lot higher than your other question on on styling contention that it has an issue.

I'm not flown StarLink down the eastern seaboard, I've got between 16 megabits per second and 135 megabits per second. There was still good latency and the latency improvement that we will have and they have makes a huge difference in your perception of speed, to be honest. So I will I'll give them credit for that, but there is no for all of us, depends on which styling sound like you get on, you could have a lot of contention or not, so to the German issue. But I think, frankly, the real issues are not going to be around the service itself. I think the service will be good when it's available. And the issues from my perspective are more around on the equipment and what they're doing there.

I mean there's this market is a very, very demanding market in a lot of ways.

Equipment needs to be small because space is at a premium on business aircraft and it's very dynamic for safety and fuel consumption purposes needs to be ruggedized to withstand extreme vibration and temperature variations. I have all of that needs to be easy to install in actually check all those boxes StarLink, which has taken a very different approach, right? They are taking consumer off-the-shelf products that they mass-produce in order to keep the cost down for consumers and they're trying to move into residential into aero. And that doesn't doesn't work very well there. They're hard to install 39 inches wide, which will make it difficult to install a narrow diameter planes. By contrast, our HDX. 12 inches wide and easy to install a narrow diameter planes, 24 inches, Lon RFDX., which is our big one is only 30 inches long. And that comes into That's important because and you're on the top of an aircraft is actually all kinds of other antennas and gear up there in the more of that stuff you have to move in order to put an antenna on the more expensive.

The install is it's very complex to install.

They've got like 39 pieces of equipment and 200 plus fasteners to attached on tenant of the plane.

RFDS. has 12 pieces and 16 fasteners or HDX has 9 pieces and 14 fasteners.

I know you just throw those numbers out there. Just to give you sort of a sense of what we mean when we talk about complexity. They also have designed this thing in such a way that the FDA is requiring periodic maintenance, no other antenna and in-flight connectivity requires periodic maintenance. We build these things for the last 25, 30 years of those aircraft, and they never require maintenance that maintenance will actually require owners to remove the headliner inside the aircraft, which can be believe it or not very complicated. And sometimes you have to take out the seats take out the floor so you can get the side panels out to take the headliner down and then get into the fuselage inside the aircraft and you need to do that for a periodic expense of inspections. You're also going to need to take the actually radome off for those inspections and you're going to have to lubricate parts of this antenna. That's unheard of our in our in our space.

And so I could go on and on I mean, they just have all kinds of crazy things because their consumer off the shelf, they cannot survive outside the pressure vessel.

Okay? So they're not this equipment can't go from, you know, 130 degrees on the tarmac this minus 60 and 50,000 feet in 10 minutes that you can't withstand any of that. So you have to put all this stuff inside the pressure vessel.

This is taking up room for luggage, seat closet space place to put your golf clubs, et cetera, et cetera.

Obviously where ruggedized and we can be installed anywhere you can put it inside the pressure vessel or outside the venture vessel.

And they also require a lot of different pieces of gear.

They don't because they're made for consumer they are AC power. Most business aviation is DC power. So you have to have a power converter, then you need a fan to cool all that because it gets very hot most passengers don't like having a fan wearing in inside the cabin, et cetera, et cetera. So I could go on and on and on, but there's a lot of things a little kind of inconveniences minor problems, but add it up, it's sort of like, yes, you

know, if you're going to pay about the same and the services about the same, why would you put up with all those nuances and frankly a higher total cost of ownership with all the maintenance costs you're going to have the end of the day and the company, you know, is going to be in the business for long term and you could buy it from somebody who's been in it for 30 years has great service provides great support. So any kind of product and you know, he's going to be in the business?

Louie DiPalma - *William Blair & Company - Analyst*

Thanks.

Okay.

You're very in the weeds on that one.

Oakleigh Thorne - *Gogo Inc - Chairman of the Board, Chief Executive Officer*

If one, for example, you have to go a lot further away.

Louie DiPalma - *William Blair & Company - Analyst*

And what one were for Agensys, Jesse, if the 5G network is delayed on, does that mean that some of the 5G costs that you're anticipating for the second half of this year will be pushed into 2025 and that would imply that you would raise your EBITDA guidance?

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

Well, so I said that we would evaluate once we understood the exact timing, but potentially the impact would be on.

Yes, on OpEx and CapEx pushed out, which would impact positively impacts EBITDA and free cash flow. But the specific value of what that would be on?

We don't know yet on one of the things. I mean, we we have talked about due to flight testing. We're continuing to do by testing. So there still will be spending. It's just that particular milestones may get pushed out. So we'll have to evaluate that and come back.

Louie DiPalma - *William Blair & Company - Analyst*

Right.

And with those milestones therapy, the milestone payments, and it's about the deferred write HI.

Jessi Betjemann - *Gogo Inc - Executive VP & CFO*

those are possible.

Louie DiPalma - *William Blair & Company - Analyst*

Thanks, Jesse. Thanks, Will and Oak.

Oakleigh Thorne - Gogo Inc - Chairman of the Board, Chief Executive Officer

Thank you.

Louie DiPalma - William Blair & Company - Analyst

Those who, thankfully?

Operator

Thank you.

And I would now like to turn the conference back to William Davis for closing remarks.

Sir.

William Davis - Gogo Inc - Vice President - Investor Relations

Thank you, everyone, for joining our first quarter earnings call. This concludes our call.

Operator

You may disconnect and this concludes today's conference call and thank you for participating. You may now disconnect.

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