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GOGO.OQ - Q2 2025 Gogo Inc Earnings Call

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CORPORATE PARTICIPANTS

William Davis *Gogo Inc - Vice President - Investor Relations*

Christopher Moore *Gogo Inc - Executive Chairman of the Board, Chief Executive Officer*

Zachary Cotner *Gogo Inc - Chief Financial Officer, Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Scott Searle *Roth Capital Partners LLC - Analyst*

Justin Lane

Louie DiPalma *William Blair Capital Partners - Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q2 2025 Gogo earnings conference call. (Operator Instructions) Please be advised that this conference is being recorded.

I would now like to turn the conference over to your first speaker today, Will Davis, Vice President of Investor Relations. Please go ahead.

William Davis - *Gogo Inc - Vice President - Investor Relations*

Thank you, and good morning, everyone. Welcome to Gogo's second-quarter 2025 earnings conference call. Joining me today to talk about our results are Chris Moore, CEO; and Zach Cotner, our CFO. Before we get started, I would like to take this opportunity to remind you that during the course of this call, we may make forward-looking statements regarding future events and the future performance of the company. We caution you to consider the risk factors that could cause actual results to differ materially from those in the forward-looking statements on this call.

Those risk factors are described in our earnings release filed this morning and in a more fully detailed note under risk factors filed 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 August 7, 2025. 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 second quarter earnings release.

This call is being broadcast. The webcast is available at ir.gogoair.com. The earnings 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 Chris.

Christopher Moore - *Gogo Inc - Executive Chairman of the Board, Chief Executive Officer*

Thanks, Will, and good morning, everyone. We believe our Q2 performance reflects the fundamental strengths and capabilities of our business to revolutionize in-flight connectivity by leveraging our strong market position as the only independent global multi-orbit, multiband connectivity company in aviation. With LEO, GEO and ATG broadband we are strongly positioned to support durable demand trends. In Q2, the business continued to show growth as demand for our GEO solutions remained strong across the global business aviation and military government mobility market as we see increased advanced shipments and continued rollout of Gogo Galileo's STCs. Zach will provide more details on our financial performance shortly.

But I first want to highlight some key areas of growth and success. Starting with ATG, we reached several significant milestones in the quarter. It gives our team great pride that we announced an important industry first as we completed the initial end-to-end call using the Gogo 5G chip. We now have the first 5G aircraft in hand and are progressing with the remaining development, integration and testing that will prepare us for our expected Q4 launch this year on the already deployed and operational 5G terrestrial infrastructure. We also have positive news regarding our FCC rip and replace program, which now provides a \$35,000 incentive for C1 installations completed before December 31, 2025.

The C1 incentive enables to upgrade for over 40 aircraft models to our LTE network. This funding and certification allow classic customers to seamlessly upgrade in advance of the May 8, 2026 classic network cutover. We also had significant announcements for Gogo Galileo with the OEM wins. Embraer announced it will offer Gogo Galileo HDX as an the aftermarket option for the popular been on 300 light jets, which has over 800 aircraft in operation. Textron also announced that the HD-X will be available for aftermarket installations on sustentation types once the FAA has confirmed the SEC, this is expected in late 2025.

We expect it to continue delivering on the 38 HDX STCs under contract through our dealer and OEM networks. We now have eight HDX STCs approved, covering 10 aircraft types, with a further 13 development. STCs for the FDX variants are in progress with 10 STC contracts in the works with dealers, as previously announced, we have also signed an agreement with an undisclosed OEM, confirming STC will be live the option for all its production aircraft.

On the back of this good news, I'm looking forward to reviewing our strong Q2 performance. I'll cover our quarterly operating results, provide updates on our GEO broadband services and highlight realized acquisition-related cost synergies. We will also review our demand potential and outline our strategic approach to capitalize on these opportunities to enhance shareholder value. I'll finish by sharing progress on key strategic initiatives.

Our free cash flow exceeded our internal forecast and consensus expectations. This is driven by high-growth profit due to record equipment revenue, lower operating expenses, continued synergy realization and higher-than-expected adjusted EBITDA at approximately GBP62 million. On the revenue front, the higher-than-expected advanced equipment sales and higher ARPU on geo services contributed to driving revenue, 3% above consensus.

Though we're still seeing a gradual decline in ATG units online, we expect to see this slow and perhaps even turnaround as classic customers start taking advantage of our C1 rebate program (inaudible) to decide to upgrade from Classic to advance in anticipation of our classic network cutover to LTE in May 2026. Towards that end, we set a record for ATG shipments in the quarter with 405, including 276 advanced and 129 C1 units.

Shipments a strong indicator of future online activations. We also set a record 144 classic to advance upgrades for the quarter as shipments turned into activations. We had strong performance in our HDX LEO terminals as we recognized \$1.7 million of equipment revenue. And year-to-date, we have shipped a total of 77 units.

As I've stated earlier, we now have 8 HDX SDCs approved, covering 10 aircraft types with a further 3 DCs in development. We have also shipped our first three Gogo Galileo FDX units to support STC generation for mid- to large business jet customers. Our GEO products and airline aircraft online continue to grow up 41 units from Q1 with 1,321 aircraft connected to Gogo. This is up 177 units from Q2 2024, up 15%.

This demonstrates the power of the OEM line fit as many of these systems are installed at the factory. We also believe it shows a predisposition of many heavy jet customers to take both LEO and GEO offerings to get the capacity, redundancy and global coverage that neither LEO or GEO can provide alone. For instance, no LEO provider today can provide service in China for CEO chem.

In Q2, we completed synchronizing our Advance and SDR routers to schedule. The route located in the aircraft or the core of in-flight connectivity systems and data management. The SDR, DRG and advanced routers are now compatible for Gogo Galileo installation allowing for easy upgrade opportunities for customers. This adds to the approximate 2,400 aircraft equipped with SD routes to be almost 4,800 adents installed Gogo fleet.

These aircraft can now be installed at Gogo Galileo without extensive rewiring side the aircraft. It's also worth noting that the SacconDirect routers aligns that on three aircraft models, which add several hundred aircraft a year to that easy installed fleet. Additional software and hardware

harmonization for our router family are scheduled for the next two years, which will continue to improve performance for customers and lower costs for Gogo.

Gogo remains the only company that can satisfy the needs of customers seeking multiple connectivity solutions from a single source. The military needs to fulfill pace, primary, alternate, contingent and emergency requirements and global customers want a short redundancy. This gives us a significant competitive advantage and some very attractive segments of the market. We are progressing towards our synergy goals. We've completed most of the key actions to reach our now anticipated \$30 million to \$35 million synergy cost savings.

We have completed staff synergies associated with the merger, along with other actions such as Chicago data center transition to the Melbourne Florida side. the transition of the SD avionics manufacturing to Colorado, which is targeted to be completed by the year-end. The FD Melbourne building cell is expected to be finalized by the end of August. This will offset the \$15 million to \$20 million investment required to achieve the projected recurring synergy savings. In total, we have another 36 integration projects still underway, focused on moving to common systems and process, and we expect further cost synergies from many of these.

Business Aviation is currently characterized by strong OEM results, expanding fractional fleets and robust flight counts. In Q2, the five major OEMs increased aircraft deliveries 11% year-on-year and reported a very strong aggregate book-to-bill of 1.3x the trend is set to continue. And with the one big, beautiful Bill Act signed in July, allowing businesses to deduct the full acquisition cost of eligible aircraft, we believe this positive momentum will continue into 2026. We believe this presents a significant opportunity for the increased broadband connectivity and installations and a major opportunity for Gogo.

This sector remains buoyant with recent announcements confirming strong market growth. fractional ownership operator, Flexjet announced an investment of \$800 million. The company has indicated that much of it will be spent on improving passenger experience, much of which relies on connectivity. In addition, Bombardier recently announced a new fleet order for 50 aircraft with an option for a further 70 presenting a considerable opportunity for Gogo. This trend indicates more business aircraft will be entering the global fleet than leaving and more hours being (inaudible).

As a result, demand for connectivity should continue to increase. International governments are seeking alternative satellite suppliers, which provides an opportunity for Gogo and our multi-network approach.

The French government has already strengthened OneWeb's competitive position by becoming UteSat's largest shareholder following a \$1.55 billion capital commitment. This will support continued OneWeb network investments as (inaudible) only connectivity service partner for Business Aviation, we believe this strengthens our position to respond to growing demand and maximize our global office expansion.

In summary, we see demand for quality in-flight connectivity in both business aviation and military government mobility verticals, surging, while overall penetration remains extremely low, only 9,700 or 24%, a roughly 41,000 global business aircraft, which have broadband connectivity today. Gogo's strategy for value creation is to grow our share of a highly unpenetrated market by strengthening existing and creating new long-term, high-margin recurring revenue customer relationships. We plan to do this by first delivering the many new products I've just described that significantly improved performance over traditional in-flight connectivity products.

Second, engineering equipment that is purpose-built for our market and easier to install, maintain and upgrade than competitive products; third, expanding our addressable market by utilizing the broad product offering and global footprint facilitated by the SD Gogo merger to satisfy the needs of all segments of our vertical markets. Fourth, leveraging our significant presence in those markets to attract the best technology distribution and network partners on the best times to serve our customers; and finally, provide the world-class customer support that our customers demand. This strategy underpins our approach to multi-network, open architecture platforms and enables broad mission coverage across both business aviation and military government markets.

That flexibility is core to our future proofed hardware design strategy that can support multiple barriers with network-agnostic modular terminals such as our plan simple Geo and Gogo LEO antenna portfolio. With the upcoming launch of multiple Ka-band LEO networks, Gogo can leverage our terminal network architecture, so we remain agnostic about our customers enabling the latest developments from satellite providers on any aircraft type.

Our expanding global support network is a key part of the distribution partners part of this strategy. We now have 148 dealers across 233 locations. These dealers are invested in STC generation, ongoing customer support and as our representatives across the globe act as a force multiplier to our sales efforts. Now I'd like to share a few updates on the progress we are making towards some of the efforts that support this strategy. Since the start of operations in April, our LEO LEO (inaudible) customers have used over 1,200 hours.

HDX is ideal for the 12,000 midsized and smaller aircraft that fly outside of North America and have no broadband solution today, an aircraft among the 11,000 midsized and smaller North American registered aircraft, that often fly regionally outside [Konas] or on faster mean speeds than 5G alone can provide. The FDX terminal is designed for the 9,700 larger business aircraft operators many of which fly in into Continental missions as well as our VVIP and government clients. We are off to a strong start for Gallileo. Our early customers are positive about the HDX performance and we have more than 500-plus immediate opportunities for HDX in our sales pipeline. 40% of these are overseas, and we are seeing strong interest from international operators.

We've already signed our first multi-aircraft deal with the Middle East charter operator. As I mentioned at the start, we've made a crucial step towards forward in terms of our 5G product which is targeted at large segments of the North American midsize and smaller market that wants a good connectivity experience but a lower cost than satellite products. Our chipset supply successfully completed the first end-to-end call using the Gogo 5G chip in June. The chip is now in the final phase of testing at our Greenfield and Chicago facilities.

Following the integration into the advanced Alex 5 (inaudible) is anticipated to commence in September and to go live by year-end. It is worth noting that we have already made a bulk chip purchase to ensure supply for our customers when ready. More than 300 aircraft are now pre-provisioned for launch, the 5G to tower network is complete with 170 installed across the US and Southern Canada. Gogo has already received FAA approval to produce and manufacture advanced X5 LRU and 25 STCs in the new antenna covering 8,500 aircraft. The new 5G core is installed in our data center.

Our next-generation LTE network deployment is also underway. The first LTE Tower antenna has been installed, and we are beginning network build-out in anticipation with the cut favor. Supporting the transition we announced most for aircraft high STC for the Gogo C1 unit. This covers 42 aircraft representing 70% of the in-store Gogo Classic fleet. We have already shipped 234 units for customers.

As mentioned previously, the FCC rip and replace program now provides incentives for C1 installations assisting customers with the replacement of the old Gogo classic installs. The C1 LTE box has the same form factor as the old classic product, allowing for a very fast unit swap. But has dual BDO and LTE aircrafts. This enables a seamless network cutover. For customers lacking the time or budget for advanced upgrade before the May 2026 transition, this solution enables a cost-effective option and keeps our customers connected and preserves Gogo service revenue from this market segment.

We are urging customers to commit before year-end to take advantage of the FCC rebate and be ready for the cutover. In the [MilGov vertical], we see an opportunity for Gogo Solutions to be integrated with SD's GEO offerings. Our current revenue mix in this segment includes a significant portion of legacy narrowband services which are expected to decline gradually over the next several years. However, we anticipate broadband growth in the mill gov sector will materially outpace the decline in narrowband as the segment transitions to broadband solutions.

Today, almost all [MilGov] mobility aircraft still rely heavily on voice over radio and narrow band for communications, which is limited in bandwidth there is a significant effort underway to upgrade to new broadband satellite technologies.

The US Air Force [25-25] program aims to equip 25% of this 1,100 mobility aircraft with satellite communications by the end of 2025. This still leaves 75% of the fleet without satellite connectivity, which the Air Force believes must be addressed, presenting a substantial opportunity for growth. We believe Gogo's LEO product will be an excellent complement to our GEO products in this market due to the DoD PACE protocol, which requires military programs to have primary alternate contingent and emergency systems. With the support of the government funding, Gogo is also leveraging our SD Pro operating system, which enables monitoring and utilization of pace.

We also see the opportunity for 5G as ground as a possible new alternative for redundancy. While there have been some delays in awards the general trend towards better communication systems for aircraft aligned with the US administration's broader goal for modernizing the military.

We've also added a key resource to the Gogo Board of Directors with the recent appointment of retired General Mike Minehan. Finally, I'll touch briefly on tariffs.

We have made provisions, and while our decisions remain fluid, we believe that as the trade deals currently stand, there is minimal impact on aviation and our exposure is much reduced. In conclusion, we are pleased that our strategic investments are now being delivered. We are uniquely positioned to capitalize on the increased demand of in-flight connectivity as our multi-orbit multi-brand approach gives the business a competitive edge. We feel very positive about the merger process. So far, we are achieving the cost product and commercial synergies we wanted to accomplish with the FD Gogo combination.

We expect to produce compelling financial results in 2026 driven by growth in service revenue from our new products, a significant reduction in product program spend the full year impact of synergies made in 2025 and full funding of our FCC rip and replace program. And now I will hand over to Zach to talk about the numbers.

Zachary Cotner - Gogo Inc - Chief Financial Officer, Executive Vice President

Thanks, Chris, and good morning, everyone. Like last quarter, I'm pleased to report that second quarter results were ahead of expectations for revenue, adjusted EBITDA and free cash flow. Our integration is progressing well. Cost controls are taking root and the demand for our new products continues to ramp. As our product investments roll off, we continue to expect solid free cash flow growth in 2016 combined with further deleveraging.

Strong first half results led to improvements across the board in our '25 financial guidance, which I'll discuss later in my remarks. Our 2025 guidance continues to reflect limited new product revenue given most HGX shipments are STC focused and our 5G network is anticipated to launch in Q4. We 2025 remains an investment year, priming the pump for new product service revenue in 2026 and beyond. I'll now provide an overview of Gogo's second quarter financial performance, then I will turn to our capital allocation priorities our positive outlook regarding a potential refinancing over the coming quarters. And finally, I'll conclude with additional context on our raise 2025 financial guidance.

On a combined pro forma basis, Gogo's total revenue in the second quarter was \$226 million, up 1% year-over-year and down about 2% sequentially. On a stand-alone basis, Satcom Direct Q2 revenue grew approximately 1% from the prior year. Total service revenue of \$194 million increased 137% over the prior year and declined 2% compared to the prior quarter.

At the end of Q2, total ATG aircraft online were 6,730 or a decline of approximately 4% versus the prior year period and down 2.5% sequentially. Despite the pressure on total ATG AOL, Advanced AOL grew nearly 14% from the prior year period and now comprises more than 71% of the total ATG fleet, up from 60% in Q2 2024.

In the last two years, our total advanced AOL has grown nearly by nearly 1,200. Our 2025 guidance continues to assume advanced AOL growth, but the total overall ATG AOL will be lower at year-end '25 versus year-end '24. We believe that the rollout of 5G and LTE will help improve the trajectory of our ATG subscriber trends. Total ATG ARPU of \$3.445 was relatively flat versus both the prior year and the prior quarter. Total broadband GEO AOL, excluding networks that are end of life, reach [1,321], up 15% from the prior year and 3% sequentially.

The strength underscores our strong line-fit position with OEMs. In addition, most geo broadband aircraft are under fixed-term contracts, which helps to create revenue stability and our GEO ARPU is holding up better than expected.

Now turning to equipment revenue. Total equipment revenue in the second quarter was \$32.1 million, up 59% year-over-year and 1% sequentially. Total advanced equipment shipments of 276 increased 19% versus the prior year period and 15% sequentially. This was our highest advanced equipment shipment quarter in the last two years, and we believe this strength bodes well for the future conversion of Classic customers to advance ahead of our LTE network cutover.

Regarding our profitability, Gogo delivered combined service margins inclusive of Satcom Direct of 52.9%, up slightly sequentially. Stand-alone Gogo service margin was approximately 77% and in line with our previously stated targets. Service gross profit accounted for 96% of our total gross profit in Q2, and we focus on driving this recurring high-margin service revenue. Equipment margins were nearly 14% in the second quarter.

As a reminder, we expect Gala equipment pricing to be close to cost. Now turning to our operating expenses. Total Q2 operating expenses, excluding depreciation and amortization, were \$55.9 million, down roughly \$2 million sequentially. I will now provide additional commentary on our major strategic initiatives, 5G, Galileo and the FCC reimbursement program. In the second quarter, \$1.5 million of 5G spending was all tied to CapEx.

We expect total 5G spend to decline significantly in 2026 as we roll out 5G in Q4. Turning to Galileo, we reported \$1.3 million in OpEx in the second quarter. We continue to expect total external development costs for both the HDX and FDX solutions to be less than \$50 million, of which \$31 million was incurred from 2022 through the first half of 2025 and approximately \$9 million is expected for the rest of the year. We anticipate approximately 80% of Galileo's external development costs will be in OpEx.

And finally, our FCC reimbursement program. Following the passage of the National Defense Authorization Act last year, we continue to anticipate increased reimbursement of about \$50 million for our FCC program. This funding will support the upgrade of our ATE network to LTE and provide incentives to upgrade our Classic fleet to advance. In the second quarter, we received \$5.9 million in FCC grant funding, bringing our program to date total to \$53.4 million.

As of June 30, 2025, we recorded a \$9.8 million receivable from the FCC and incurred \$5.4 million reimbursable spend during the quarter. The receivables included in prepaid expenses and other current assets on our balance sheet, with corresponding reductions to property and equipment, inventory and contract assets with a pickup in the income statement.

Moving to our bottom line. Gogo generated \$61.7 million in adjusted EBITDA in the second quarter. Our adjusted EBITDA margin was 27.3% as compared to our initial long-term view in the mid-20s when the Satcom acquisition was announced last year. Gogo reported second quarter net income of \$12.8 million and \$0.09 of diluted EPS. I will now provide some color on our synergy progress.

I'm pleased to announce that within two years, we now expect to achieve run rate synergies in the \$30 million to \$35 million range, up from our prior view of \$25 million to \$30 million. While we achieved the vast majority of head count reductions, we expect further cost improvements from non-headcount areas like real estate and back-office software solutions. We achieved \$18 million of run rate synergies at the close of the acquisition, another \$9 million during the first quarter and a further \$2 million in the second quarter. We continue to believe the cost to achieve these synergies will be within our previously expected range of \$15 million to \$20 million.

Moving to free cash flow. Gogo generated \$34 million of free cash flow in the quarter, above expectations and totaling \$64 million in the first half. While we expect free cash from the second half of '25 to be lower than the first half, we believe our recent cash flow trends portend well for our longer-term outlook once investments roll off, new product service revenue begins, and we continue to delever.

Now I'll turn to a discussion of our balance sheet. Google ended the quarter with \$102.1 million in cash and short-term investments and \$850 million in outstanding principal on our two term loans with our \$122 million revolver remained undrawn. Our cash balance as of last Monday was \$116 million.

For Q2, this equates to a net leverage ratio of 3.2x, and we expect this ratio to remain relatively flat through year-end with a slight downward bias. Our cash interest paid for the second quarter, net of hedge cash flow was \$16 million. As previously discussed, our hedge agreement stepped down at the end of July to \$250 million the strike rate increasing from 125 basis points to 225 basis points, resulting in approximately 30% of the loans being hedged.

As a reminder, the cash interest paid for 2024 net of hedge cash flow was \$33 million and we continue to expect that to be approximately \$70 million this year. Given our improved financial performance and relative strength of the credit markets, we and our banking partners believe there is sufficient market appetite to pursue a comprehensive refinancing over the coming quarters. We believe this will be a positive outcome for Gogo and its stakeholders.

Our capital allocation priorities remain consistent with prior quarters and focused on executing across the following four priorities in order. First, maintaining adequate liquidity; second, continuing to invest in our strategic opportunities primarily through Galileo on 5G; third, maintaining an appropriate level of leverage for the economic environment with a target net leverage ratio of 2.5 to 3.5x and finally, returning capital to shareholders.

As a reminder, Gogo has \$12.1 million remaining on its \$50 million repurchase authorization that our Board approved in September of 2023. Until we complete our refinancing, we expect to continue to prioritize deleveraging over equity buyback.

Bottom line, we believe our expected free cash flow growth over the next few years will provide ample excess cash to pay down debt, reduce our interest expense and ultimately return capital to shareholders. In our earnings release this morning, we increased key elements of our 2025 financial guidance. For the year, we expect total revenue at the high end of the previously guided range of \$870 million to \$910 million which reflects our HDX launch in Q1 and 5G generating modest equipment revenue in Q4. Adjusted EBITDA at the high end of our previously guided range of \$200 million to \$220 million reflecting operating expense of approximately \$20 million for strategic investments, including 5G and Gallo versus our prior expectations of \$25 million. Given our guidance, we expect the second half EBITDA will decline slightly versus the first half largely due to timing of planned investments.

Free cash flow at the high end of our previously guided range of \$60 million to \$90 million. And we expect 2025 to be the trough of our free cash flow as we have approximately \$60 million slated for strategic investments, net of any FCC reimbursement versus prior expectations of \$70 million. Our net CapEx is still expected to be \$40 million after \$50 million of CapEx reimbursement from the FCC reimbursement program. After two full quarters following the close of the SP deal, we are seeing the clear benefits of the combination, including global expansion, product expertise, synergies and the addition of a [MilGov] business. We have more work to do, but I believe we are well positioned to delever the balance sheet, drive free cash flow and create long-term shareholder value.

Before we open up the floor for questions, I want to express my gratitude to the entire Gogo team for their hard work commitment to our business and dedication to providing exceptional service to our customers. Operator, this now concludes our prepared remarks, and we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Searle, ROTH Capital Partners.

Scott Searle - Roth Capital Partners LLC - Analyst

Thanks for the comprehensive overview. Chris, maybe to jump in on the ATG front, down [170] this quarter. I know there are a lot of moving parts in terms of 5G transitions reimbursement programs that are ongoing and there have been longer maintenance events.

I'm wondering, can you take us through a timeline of when you expect to see a return to growth in ATG and what the ultimate opportunity and penetration opportunity is for ATG when you look at aircraft within North America. I think there's a lot of different issues out there in terms of how much is ATG versus the Galileo potential. I'd love to kind of understand of stabilization time lines, which seem like it should be coinciding now with 5G commercialization, but how that growth should ramp up into 2016 and beyond with 5G and with C1.

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Okay. There's a lot there. So let me -- I'll start with kind of by market opportunity and where we kind of see that, and I'll let a chip in with the numbers and kind of how we see that playing out. But I think if you look at the suspension and deactivations over that period of time in the quarter, obviously, it's a little bit more than previous. But I think if you look at the advanced shipments the real reason for that is upgrade.

So you can already see there's a strong pull in that and the advance number is obviously extremely strong. So we're not concerns with the suspension obviously, they're a little bit higher than previous. I think also now we're building the strong backlog in Galileo product portfolio we're feeling pretty confident that those customers are looking the product portfolio as well and then with the announcement of 5G. So we're not concerned

or any concerns at this point. that we can't migrate customers and then also with the FCC funding with the C1 that now those customers have really got a good path.

And we've just got that done at zero cost of upgrading themselves to the new LTE network as well. So we think we're going to kind of key customers. Also, they're not just leaving the network. There are a number of suspensions in there. We see that with kind of seasonal behavior, maintenance.

We locked that pretty well. So -- at this point, we think we've got a strong growth path. We've got multiple products in the portfolio for customers to go to. And we're seeing strong performance with the advanced shipments I think we're in a good spot. I don't know if Zach, do you want to add anything to that on the numbers side.

Zachary Cotner - Gogo Inc - Chief Financial Officer, Executive Vice President

Yes. I mean I think the -- like we said in the guidance, it's -- we still assume that the net ATG numbers are going to be down this year, but we're hopeful that next year with the C1 and the 5G launch, like you said, that will start to pick back up. The other thing that's interesting is when we look at the activation reasoning, it's -- the highest drivers are consistent with what we see in other quarters, which are like to Chris' point, sold aircraft or management changes, right?

So I think we also mentioned in the last call, we kind of ramping up our inside sales team to really focus on these customers. It's early days, like we said, because it just kind of started in Q2, but they had a little bit of progress, but we got to get more focused on it.

Scott Searle - Roth Capital Partners LLC - Analyst

Great. Very helpful. And just to clarify, Chris, on that front. It's -- these are not competitive losses to Starlink. This is suspensions, and this is the normal transition that we see in the ATG business now ahead of 2 major product cycles.

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes, we're not seeing a mass of loss to competition now. It's -- like Zack said, it's the same reason. We have really comprehensive deactivation process. So we're not seeing kind of like math losses to competition and the activation.

Scott Searle - Roth Capital Partners LLC - Analyst

Got you. And lastly, if I could, and then I'll get back in the queue. On the geo front, you guys, I think, continued to outperform the early expectations. Both in terms of aircraft and I think pricing. I'm wondering if you could just give us some longer-term thoughts in that market because I think at the time of the acquisition, there was some concern around the ARPU's related to the geomarket opportunity.

It doesn't really seem like that's materializing at least not as fast. So I'm wondering if you could just give some updated thoughts on that opportunity and how you see Geo progressing over the next couple of years?

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

I'll cover the business side, but do you want to cover the other piece?

Zachary Cotner - Gogo Inc - Chief Financial Officer, Executive Vice President

Yes. I think as we said before, we anticipated even last year before the deal that we were going to see more ARPA contraction. But I think the nice thing that's happened is like we said, a lot of times, this stuff is very expensive to swap out, right? And if it's good enough for a lot of folks, they're not going to spend \$500,000, \$600,000 if satisfying their needs. I think our view is longer term, it's going to have to come down slightly.

It's just the rate at which it does -- it's kind of anybody's guess. But like I said, we're working on our long-term model and it will assume modest degradation over the next few years.

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes, I'll just add to -- I think customers have been waiting for Gallileo. So I think that's a good testament to customers believing in Gogo, which is great. We've just got to get off led the products out to the merger. We're now executing on logs, which is fantastic. The other piece would be GEO business.

We also launched our own products within the last few years, which actually really enhance the performance of those networks with the plain simple range. And then I think also like what I said in the script is just kind of like earlier on, it's a testament to having line-fit positions, which we're very lucky to have, really, and we've worked hard to get -- and you can see that kind of working through the OEMs as well as the MROs. But those products are predominantly really strong OEM products. So I think with that mix, like Zach said, our business is holding up really, really well.

Operator

(Operator Instructions) Scott Sherrill, ROTH Capital Partners.

Scott Searle - Roth Capital Partners LLC - Analyst

Chris, it sounds like there's some interesting opportunities percolating with 5G private network opportunities, I think you referenced some military applications potentially in North America. I'm wondering if there's -- any additional color on that front? And also, I'm not sure if there were some 5G metrics that you provided in terms of the number of 5G-ready aircraft at this point in time as we start to get to that 4G launch time period.

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes. The -- I mean, Acute government piece, and then I'll let Zach the numbers. So then I can accurate. The -- but without military business, I mean it's really new to Gogo, but not from the SP point of view from the business that we've been in the government business pretty much for over 20 years. So looking at the 5G piece and the opportunity of those increased speeds and then looking at the US.

DoD, we really do think there's some opportunity there of giving kind of broadband resilience with pace planning. The other thing we're looking at is the potential with -- as which I mentioned on a previous call as well, we've started looking at that with ATX as well. on the fact that we see that market growing massively from the military markets, not only from a domestic point of view, but from a global point of view for Galelio, then actually, 5G could be a really interesting alternative for [Konas].

And we're pursuing those opportunities at the moment, it's very early days, but the fact that we're starting to talk to the customers about that. We're actually getting some level of interest on exploring that.

Now we've got the product set. A couple of things really in June with the DP and different aspects of government within the US. So actually, we kind of -- we see that as being a potential new market. So we're just exploring it, early days but pretty excited and then on the backlog, it's thinking a little over [300] pre-provisioned.

Yes, they will pre-provision the network there. I mean it's all rolled out. The towers are done, as I said before, just kind of getting these 5G cards in those boxes and converting those customers really quick. And those customers have been fantastic, really patient. So we're really motivated on getting those guys over the rig really quickly.

Operator

[Justin Lane], Morgan Stanley.

Justin Lane

A few quick ones for me. Maybe can you just add a little more color on the CapEx guidance change? I understand the net number doesn't change, but just maybe the underlying drivers of the difference in the guide?

Zachary Cotner - Gogo Inc - Chief Financial Officer, Executive Vice President

Yes. It's all related to the reimbursement for the rip and replace program. Basically, we've accelerated some stuff that would have hit next year. It's really to make sure in advance of the cutover date that we're totally buttoned up. So it's just pulling in from next year.

And then like I said, it's all reimbursed. So basically, everything else is pretty similar.

Justin Lane

Okay. Great. And then maybe just on the HDX shipments in the quarter, it looks like they might have stepped down sequentially. Is there anything to call out? I mean, was that a dynamic that was sort of anticipated or anything to call out there?

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes, that was anticipated. At the moment, we're rolling out those STCs and really, I mean, at the moment, this is all just preparation work for 2026. So the -- from an STC point of view, we're pretty much on the ACH got more shipped out to our MRA partners. So we've got great traction there. We do have customers now starting to deploy, which is great, but that's the aviation cycles.

Unfortunately, I mean it's good and it's a bad thing. It's a difficult market to get into from a competitive point of view, kind of gives us good moat around the business. But equally, you've got to get the products ready, you've got them to go through the you've got all of those aspects. So as we've said previously on calls, 2025 for us is really a build year on making sure that we've got those STCs.

So this is all kind of anticipated. We don't see any slowdown in ramp on the product.

Justin Lane

Okay. Great. And maybe just last one on [MilGov] business. Chris, I think you mentioned in your prepared remarks, some delays in awards. Just curious if you could elaborate there.

I mean, is that trend holding steady? Or does that look like it might reverse? And then just because we get the [President's] budget and the one big, beautiful bill act, just from a [MilGov] perspective, anything above or below expectations on either of those?

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes. I just got to things are even a little bit lower than expected. So -- and then it's just the nature of the government business really, awards come, you try and influence as much as you can. The budget cycles, they operate a little bit differently as well. So we're hoping kind of we start seeing a little bit more movement where you typically -- from a trend point of view, we've seen that.

The fiscal year starts. I think it's October, right. So I think hopefully, we start seeing things through. But I would say there's definitely a nowledgment with the administration on the need for the technology refresh. We've had a lot of interest on demonstrations technology, the CIPR awards as the (inaudible) is really strong.

We're looking at kind of next year rolling out our software within the Air Force, which is a really kind of good point for us. I mean, they've been a great partner with us as well, the US Air Force on developing that software platform with them. So I think things will start picking up, but it's a really difficult thing to predict. So -- but -- and then -- the one piece of it, what we've seen, right, it's small business, but it's exceptional growth this year.

It's actually been the international market. And I think that kind of step up of Nato, people looking at their budget. We're starting to see a lot of interest being generated from overseas clients, and that team has been growing quite a lot. And the way they contract is quite different to the DoD as well, and the fiscal cycle is a little bit different. So we're very optimistic.

Team's working really hard, doing a really good job. So we kind of wait and see. But the technology is there, which is the exciting piece. It's not like we're now waiting for the technology to come, I think, with the advance of the product portfolio and delivering on the product portfolio, I think we've now got something really interesting for the military.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - William Blair Capital Partners - Analyst

Do you remain confident in I think, approximately the \$65 million in cost for 2025 coming out in 2026 as it relates to the different synergies and milestone payments for 5G, HDX and FDX and -- how should we think of like the cost in 2025 versus 2026?

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes. I think we still feel like the vast majority of that will go away. Like you said, we get the full year -- and then obviously, we're kind of working on our R&D road map. We -- I don't know that we're ready to release what all the projects are we working on. So some of that will get backfilled, but the vast majority will be pulled out.

Louie DiPalma - William Blair Capital Partners - Analyst

Great. And one final one. From a high level, as you and customers have done more testing of HDX and FDX. Just in general, how does it compare with StarLink in the market, even though there are many left OneWeb satellite in Starlink, it appears that the OneWeb constellation is far less utilized.

So how has the performance and testing been for the different solutions. And also, I missed the first part of the call, but what is the timing for flight tests of 5G?

Christopher Moore - Gogo Inc - Executive Chairman of the Board, Chief Executive Officer

Yes, we'll handle the 5G thing, Louise, we've got the customers ready to go really got STCs and things flying. So from a network point of view, I think rollout in Q4 as planned and migrating those customers over there's no hold up there. So the 5G thing is pretty straightforward. Now we've got the jet. On the performance on Galileo, we're seeing great performance metrics.

I think the nice thing is we're not seeing people do futile speed test in the cabin because they can do what they want to do and that low latency, snappy product field is what they've got. We've got aircraft now flying around capturing a lot of data. We're seeing very consistent, service, happy customers. I think the fact that we've truly designed an aviation-grade products. And more importantly, we've got the support because things do happen from network point of view that we make that seamless for customers we can get an engineer.

We advertise under 24 hours on an aircraft anywhere in the wells. The reality is we don't really go beyond 12 hours, and having that human touch if we need it. But the team has been great. Customers have been fantastic, some big anchor clients who we've announced before in the past. -- they're moving ahead and very, very happy with the service.

So we're very enthusiastic. And we're seeing great performance on the FDX as well. And we're just wrapping up the STCs on that. So yes, it's -- I think it's -- I think this is a bit where everybody kind of looks at satellite networks and speed test, whereas having consistent performance in flight, and you can fly anywhere in the world with our services, whether you're using dual purpose service or you're not.

So you're using multi-networks or a single network I mean our aim is to have consistent service anywhere a client flies anywhere in the world. And I think we can safely say that we can do that.

Operator

The question-and-answer session is now closed. I will now turn it over to Will Davis for closing remarks.

William Davis - Gogo Inc - Vice President - Investor Relations

Thank you all for your participation in our second quarter earnings call. You may disconnect.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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