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GOGO - Q4 2015 Gogo Inc Earnings Call

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PRESENTATION

Operator

Welcome to Gogo Inc's fourth-quarter and full-year 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Ms. Alva, Vice President of Investor Relations and Treasurer. You may begin.

Varvara Alva - *Gogo Inc - VP of IR & Treasurer*

Thank you, and good morning everyone. Welcome to Gogo's fourth-quarter 2015 earnings conference call. Joining me today to talk about our results are Michael Small, President and CEO; and Norman Smagley, Executive Vice President and CFO.

Before we get started, 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 future financial performance of the company. We caution you to consider the risk factors that could cause actual results to differ materially from those in the forward-looking statements on this conference call. These risk factors are described in our earnings press release and are more fully detailed under the caption risk factors in our annual report on form 10-K and other exchange act reports filed with the SEC.

In addition, please note the date of this conference call is February 25, 2016. Any forward-looking statements that we may make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP and non-GAAP measures is included in today's earnings press release.

This call is being broadcast on the Internet, is available on the investor relations section of Gogo's website at IR. Gogoair.com. The earnings press release is also available on our website. After management's remarks, we will host a Q&A session.

And now, it's my great pleasure turn the call over to Michael.

Michael Small - *Gogo Inc - President and CEO*

Good morning, everyone. Thank you, Varvara. I am proud to announce the Gogo had a record fourth quarter, rounding out what has been a transformative 2015. We again stood face forward into the rapidly evolving market that Gogo created and emerged with validation that our investments in technology, global operations, and services have produced the most advanced platform in the business.

We became a $0.5 billion revenue company with strong growth in every segment. We got 2Ku flying and we introduced Gogo Biz 4G into business aviation. These are major accomplishments that set us up for it great 2016 and beyond.

But what we are most excited about, is that, after years in the making, Gogo is now operating with an open architecture. This means that our airline partners will have much more control over the systems they choose and the services they offer. It means greater assurance that a decision they make today won't trap them in a technical box in the future. Most importantly, it means we can offer our aviation partners the flexibility to meet virtually any connectivity need they will encounter today and tomorrow.

I think that's the proper context for a comment on last week's news about American. As you know, American wants to explore its provider options for upgrading 200 of the more than 900 Gogo equipped fleet -- Gogo equipped aircraft in its fleet. The move isn't surprising, given the rapidly changing technology and pricing environment in our industry.

We value our partnership with American. We are competing for this piece of business. We will deliver a 2Ku upgrade proposal that gives American an option to get faster, cheaper, open-ended technology onboard these aircraft. We hope that when they weigh the long-range value of our service, they will join the other carriers that have already built our 2Ku backlog of more than 800 aircraft.

That is really the place to start as we look ahead 2016 and beyond. The backlog of firms, the work we've been doing, and the money we have been spending to produce a technological advantage for aviation that answers the demands for more capacity and speed, lower prices today, and greater control over connectivity for the future.

Let's start with capacity. This week, we announced a deal with SCS which is the largest aviation dedicated capacity deal ever. It means we have cheaper bandwidth and lots of it using SCS's high-throughput satellites. In turn, our airline partners and their passengers can expect lower costs.

With respect to speed, you will be hearing about a powerful new modem in the coming weeks, capable of handling 400 Megabits per second to the plane. That's a lot of Netflix streams with plenty of runway for growth.

Finally, Gogo's reached an exciting point in its technological development; one that supports a way business around open rather than closed systems. So what does this mean?

From a technology perspective, 2Ku is built on the redundancy of dozens of 2Ku satellites in orbit today. We've also built it to leverage the new 2Ku high-throughput satellites that have started going up and any of the new 2Ku band Leo constellations coming online in the future. These satellite constellations will have tremendous advantages in terms of latency and coverage. You can expect to hear an announcement from us on this soon.

To take advantage of this, we have been working for the past several years on technologies that enable us to seamlessly switch from one network to another, so that our airline partners will be able to easily upgrade when the time comes. We are not gambling on a single closed system that ties us to a few satellites. Instead, we are betting on an open architecture that will allow us to take advantage of whatever creative innovations the Googles, the OneWebs, SpaceXs, the SCSs, the (inaudible), and others will bring to the market.

This open strategy yields unprecedented benefits in terms of flexibility and risk management. Now our partners can manage their technology risks by staying future ready and ahead of the curve.

Open is also the approach for taking in our products and services. This applies to portal development, to our entertainment products, and our connected aircraft services. For example, our Gogo vision product is now fully customizable for our airline partners, and is now generating well over 1 million views a month.

We have also built an agile digital platform, on which we can develop products that will continue to advance aviation well into the future. In some cases, our airline partners will build them. In other cases, Gogo will build them. It will also enable third parties like Honeywell and GE to build them and to benefit from the connected aircraft.

Finally, our operational abilities are where we really shine. We have a major commitment to continuous improvement; we are operating at unparalleled levels in our industry; between BA and CA, we have more than 11,000 connected systems flying around the world. In 2015 alone, we installed or updated more than 1900 planes. That is more aircraft than any of our ISD competitors have flying, let alone install in a year.

This isn't sexy, but it is absolutely critical to what we do. We plan on plowing through the bulk of our 2Ku backlog by 2018. 15 certification programs are underway to jumpstart those installations.

And our Boeing and Airbus line-fit programs for 2Ku are progressing nicely, which will help us get this technology on aircraft at the factory in the near future. We expect to get 75 2Ku planes flying this year, and we will quadruple that number in 2017. The scale drives operational leverage for Gogo and adds value to our partners.

Before I turn it over to Norm to go over the numbers, which are really strong by the way, I want to leave you where I started, with American. The recent action by American validates what I have been saying for quite some time. Making the right connectivity decision matter to airlines a lot.

What really matters to them is that they don't make the wrong decisions. Our air-to-ground technology is still an engineering marvel that will keep improving. I'm extremely excited about our 4G ATG service for business aviation and the prospects of next-generation ATG, whether that is through 14G or other spectrum.

But American is absolutely right, our first-generation technology, which is still more than adequate for certain aircraft, is not cutting it today for some of their aircraft. That is why we have added Ku satellite service to our portfolio and have spent the last few years developing our next generation 2Ku technology.

But in my view, American's decision holds an even stronger message: simple, single technology solutions are not only passe, they are risky. Speed, adaptability, access to new technologies. These are the differentiators of the future, and Gogo now possesses them.

If connectivity technologies are not conceived and architected in a way that is open to new technologies, they won't be good for long. Now that connected aviation is developing into a big business, Moore's law is starting to take hold. For a while now, in addition to developing 2Ku, we have been innovating with an entirely different philosophy and building equipment and technology that will take advantage of whatever we can see and discover in the future.

To pioneer this industry, we had to out-innovate the world. But to transform aviation, we have to enable the world to innovate. We are incredibly well positioned today and in the future, and given the engagement we are seeing from the world's airlines, we expect more decisions to be made in 2016, and we expect to win more than our share.

With that, I will turn it over to Norm.

Norman Smagley - *Gogo Inc - EVP and CFO*

Thank you, Michael, and good morning, everyone.

We had a great fourth quarter, total revenue was up 26% to $138 million. Service revenue grew 29% to a record $116 million. CA in North America and BA finished the year strong.

The combined segments were free cash flow positive in the fourth quarter and full-year 2015. Combined segment profit was up 18% to $29 million, for a 21% margin. This led to a sixfold increase in adjusted EBITDA to $8 million.

As for the segments, CA North America service revenue was up 22% to $83 million, driven by increases in aircraft online and ARPA. Net of retirements, we ended 2015 was almost 2,400 aircraft online, with 128 installs in Q4. During the quarter we installed or upgraded 90 ATG-4 aircraft.

Nearly 950 ATG-4 aircraft were online at year-end. Last month, that number topped 1,000, or 40% of our connected aircraft. This is important because ATG-4 equipped aircraft bring more capacity, improve overall customer expense, and generate high ARPA.

We expect to install ATG-4 in more than 400 additional aircraft this year. Net of expected retirements, we had approximately 280 awarded but not yet installed aircraft at the end of the year.

ARPA grew 7% last year to $141,000, driven by a 14% increase in the average per session. ARPA grew 20% when we exclude the impact of new regional jets. We expect continued ARPA growth dilution in 2016, as we install our North America backlog, the vast majority of which are regional jets.

Our ability equip regional jets means Gogo can uniquely provide full-fleet solutions for North American airlines. Installation of RJs also drives revenue on the related main-line fleet because of the full-fleet effect.

Gogo Vision is a hit in the market. It accounted for 5% of total CA North America service revenue for the year, more than double the prior year. CA North America segment profit was $9.2 million for a margin of 11%. Improved leverage reduced cost-of-service by 6 percentage points. This was offset by heavier investments in 2Ku certifications and next gen technology development.

Now turning to BA, service revenue was up 41% to $28.5 million, driving total revenue to record $49.6 million for the quarter. BA equipment revenue of $21 million was up 9%, primarily due to higher ATG units shipped at higher pricing. ATG aircraft online increased 24% to nearly 3,500, and ATG service ARPU increased 15% to more than $2,400 per month.

Segment profit was up 20% to $19.4 million, a margin of 39% compared to 40.5% last year. We shipped more low-margin accessories, and we continued to invest in next-gen products and services.

Turning to CA rest of world, we ended the quarter with 202 aircraft online and reported $4.2 million in revenue for the quarter, up threefold from the prior year. Our CA rest of world backlog grew to over 450 awarded but not yet installed aircraft, including wins from unannounced airlines. The bulk of this backlog was for 2Ku.

We expect to install the majority of our awarded aircraft by 2018. We reduced the ROW segment loss to $20.2 million from $23 million last year. The improvement is due to higher revenue from more aircraft online. We also had lower STC expenses, as we completed our Ku certification work for Delta and JAL last year.

Turning to full-year results, Michael called 2015 a transformative year, and the numbers support that view. We generated $0.5 billion in revenue. Our adjusted EBITDA tripled to $37 million. We expanded our industry leadership by bringing nearly 1,100 broadband aircraft online during the year.

Also for the first time, BA service revenue broke through $100 million, and exceeded equipment revenue for the full year. Cash CapEx of $80 million was lower in 2015 than the year before but about $15 million related to inventory build will carryover to 2016.

With that now let me turn to 2016 guidance, starting with aircraft installs. CA North America, we expect over 200 incremental installs. For CA rest of world, we expect add 75 aircraft as we finish our Ku installs with Delta and JAL, and begin our 2Ku installs.

We also expect at least 200 incremental installs in rest of world in 2017. Overall for 2Ku, we expect to add 75 units in 2016 between North America and rest of world, and at least four times that number in 2017.

For financial guidance, total revenue is expected to range from $575 million to $595 million, reflecting year-over-year growth of 15% to 19%. This includes CA North America revenue of $350 million to $365 million, BA revenue of $190 million to $205 million, and CA rest a world of $25 million to $30 million. We expect our adjusted EBITDA to range between $55 million and $65 million, an increase of 50% to 77%.

Finally, we expect our cash CapEx to range from $110 million to $135 million, including the carryover from 2015, most of which will come in the first quarter. At the midpoint of guidance, our 2015 and 2016 cash CapEx will average roughly $100 million per year.

With $366 million on the balance sheet, we have the funding to execute our business plan and get to profitability. And with our open technology strategy, we don't have to spend billions of dollars on satellites.

Let me now turn the call back to Michael.

Michael Small - *Gogo Inc - President and CEO*

Thanks, Norm. Before we take your questions, I would like to reemphasize how airlines benefit from our open strategy. We all know airlines make money by keeping planes in the air. Taking planes out of service for upgrades is disruptive and expensive.

Meanwhile, airplanes last for 40 years, eons by high-tech standards. Satellites are delivering 250 times the bandwidth they did just six years ago, and that place will not stop.

With 2Ku, airlines won't have to keep upgrading antennae to deal with changes in satellite technology. 2Ku does that for them without any downtime.

The point is, with an open architecture, airlines aren't tied to satellite technologies. Instead, they take advantage of whatever new technologies come down the road. High throughput, lower-earth orbit, balloons even if you listen to Google.

Put another way, our platform will last longer and deliver a lower cost because it is open. It is not built, as some others are today, for a point in time.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

James Breen, William Blair & Company.

James Breen - *William Blair & Company - Analyst*

Great. Thanks for taking the question. Obviously, big topic was around American. I'm not sure exactly how much background you can give there, but any further color just in terms of how that process would progress from here? When you would send a proposal onto them? And then, obviously there's been a lot of talk in the market about the different types of technology. Where do you guys view 2Ku sitting relative to Ka band satellites?

Michael Small - *Gogo Inc - President and CEO*

Thanks, Jim. A couple things. On American, there are a valued customer, are a launch partner, and we tend to do everything possible to retain a strong and lasting relationship with them. We also do that, recognizing that ultimately we will respect American's decisions, and they will make them in their own interest, and they won't always necessarily go our way. Supplier diversity is an interest that they must balance with others, and we never had all of their planes from day one.

But, we will fight for every plane. We are now very focused on providing AA a proposal for 200 aircraft. We have already described at length on this call why our proposal will provide AA the fastest and lowest cost solutions now and in the future, based on 2Ku's open architecture and the other advantages of working with Gogo. That is what we can say about American.

On the difference between 2Ku and Ka, the real advantage is the amount of investment in the Ku band is dramatically larger than the amount of investment in the Ka band. It's not a technological issue as much as where the money is flowing. When we looked at our choices, for satellites, we see literally hundreds of new satellites coming in the Ku band and we see a much scarcer offering in the Ka band. That's why we chose that.

That is why we built the open architecture of our antenna, so we could take advantage of as many different investments in the Ku band as possible. That is the way we avoid these expensive, nasty upgrades that no one wants to go through. That antenna is a technological marvel, and it's the key point around which airlines should focusing as they make decisions about connectivity.

James Breen - *William Blair & Company - Analyst*

Great. One financial question for Norm. As you guys move toward delivering more bandwidth over 2Ku, you're obviously getting that capacity from satellite partners. How does that change the capital intensity of the business as we move through 2016 and 2017?

Norman Smagley - *Gogo Inc - EVP and CFO*

It brings it way down. Of course, the bandwidth becomes a cost of service rather than a capital investment to develop own networks. Much more affordable for us, and given where cost of capacity is, very easy for us to maintain our margins.

Michael Small - *Gogo Inc - President and CEO*

We were thrilled with the SCS deal, and when we -- we've literally seen our estimates of cost of bandwidth fall by two thirds since we initiated the 2Ku project. That is the advantage of having an open architecture. You can take advantage of the progress others make.

James Breen - *William Blair & Company - Analyst*

Great. Thanks.

Operator

Phil Cusick, JP Morgan.

Phil Cusick - *JPMorgan - Analyst*

Hi, guys. Thanks. A few things, if I can. First, you mentioned the backlog includes some unannounced airlines. What should we think about there?

Michael Small - *Gogo Inc - President and CEO*

That we will be announcing those airlines in the not too distant future, and that we will continue to add to the backlog in the future.

Phil Cusick - *JPMorgan - Analyst*

Can you tell us of the 450 or -- how many of those are from unannounced airlines, or if I was smart would I be able to triangulate that from other contracts that are announced?

Michael Small - *Gogo Inc - President and CEO*

You can easily triangulate that. We announced in previous quarters that we had 550 in backlog, and it's now up to over 800, so there's 250 plus that are yet unannounced.

Phil Cusick - *JPMorgan - Analyst*

That's great. Second, with American, can you remind us of the contract terms? We've been through this since we brought the company public. Can American choose another carrier if you offer a similar product, given the contract? And who decides which product is superior? If you argue that yours is superior, can they still canceled your ATG and go over to someone else?

Michael Small - *Gogo Inc - President and CEO*

The contract states that in Americans regional judgment, they can make the choice once we submit competing proposal. In my view, these contracts are doing what they're supposed to do. They are valuable to both parties, but ultimately in the long run, we have to deliver better solutions and I would further add that think about the triggering event of all of this is having to go through an upgrade process to get more bandwidth.

That is why were arguing so strongly that the open solution of 2Ku is really important, because it reduces the prospects that your have to touch the aircraft. It let's all the innovation happen in the sky, not on the plane. You don't have these events were you have to go through big upgrades.

Phil Cusick - *JPMorgan - Analyst*

Just to make sure I understand. Once you have concurred with American that there is a technology out there that is superior to ATG-4. It is totally up to them who they choose?

Michael Small - *Gogo Inc - President and CEO*

Yes. In their reasonable judgment, they can make the decision. Correct.

Phil Cusick - *JPMorgan - Analyst*

Got it. Last one, if I may. What is your thought on cash needs over the next few years, given Norm just talked about CapEx coming down and everything else you see in the pipeline?

Norman Smagley - *Gogo Inc - EVP and CFO*

Phil, with the cash on hand, the business plan is fully funded. Gets us to profitability. As we said on several calls before, we always look in the markets and to the extent there is an opportunistic debt financing available, we will take advantage of it if we think it's the right thing to do.

Phil Cusick - *JPMorgan - Analyst*

But you don't need any cash for the current business plan?

Norman Smagley - *Gogo Inc - EVP and CFO*

No.

Phil Cusick - *JPMorgan - Analyst*

Thanks, Norm.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

If you could just delve into the rest of the world install number of 75 planes this year. I think what you described is ramping completing the Ku bills and then starting the 2Ku. What are the kind of milestones that we are looking for here? And is that level through the year or is it -- there is a lot of Q1 and a lot in Q4, but there's a little bit of a gap in the middle?

And then, we see a lot about the freemium business model now, and particularly on the JetBlues and Virgins of the world. How are you thinking about working with airlines, in terms of if they don't want to have a paid solution labeled by Gogo, but rather would like more flexibility about how maybe they buy bandwidth in bulk from you and then offer a free service, particularly with some of the 2Ku type solutions?

Michael Small - *Gogo Inc - President and CEO*

Two good questions. We will be wrapping up most of the Ku installs -- essentially all of them in the first half of the year. The bulk of the 2Ku will happen in the second half of the year.

Right now, we are very active in getting the STC process going for 2Ku. Both the Virgin, Atlantic, and the Aeromexico 2Ku planes, we expect to be flying commercially in the first half of the year. First half, finishing up Ku, second half really starting 2Ku. And then as Norm described, once you got the STC's out of the way, the production rates, the install rates go way up in 2017.

The second half the your question -- we're in a whole new world with 2Ku and the capacity it brings. So premium models, all different models, we are exploring all of those with different airline partners. They are clearly on the table now, and we expect to actually see a lot of different approaches in the marketplace, and it's all enabled by more capacity. It is really, at this stage, it's how fast can you get it on planes? The rate of install is what matters. It is no longer the technology, it's how fast you can get it on planes.

Simon Flannery - *Morgan Stanley - Analyst*

Are those models then contemplated in your master contracts, or is that something you would have to negotiate a contract amendment?

Michael Small - *Gogo Inc - President and CEO*

That varies from partner to partner. Some of the legacy situations, we will have to make contract amendments to do that, and then as we are putting out bids, we are often coming up with new models. We will be perfectly happy to make contract modifications for the new world with our airline partners.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you.

Operator

Dick Ryan, Dougherty & Company.

Dick Ryan - *Dougherty & Company - Analyst*

Michael, one more question on American. Is there a specific timeframe, once you make your proposal that they need to make a decision, or is that an open-ended valuation?

Michael Small - *Gogo Inc - President and CEO*

As we've pointed out, we had a 45 day window to get our proposal in, which is going to be by March 20. We will do it clearly in advance of that. From there, it is largely American's choice on how fast the process moves forward.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. With that kind of being a pretty public issue, has there been any collateral damage with any other customers? Has it caused any angst or questions within the customer base?

Michael Small - *Gogo Inc - President and CEO*

Minimal. Obviously, it's a question everybody asks. Which is why we were so anxious to clear up the lawsuit as quickly as we did. Thankful that we could do that. We are in the business of making airlines happy and supporting them. No one likes having that out there less than we did, and we're thankful it's cleared up now.

Dick Ryan - *Dougherty & Company - Analyst*

Switching to the meeting you had with the FCC, can you give us an update of what your thoughts or expectations may be on the next gen ATG spectrum?

Michael Small - *Gogo Inc - President and CEO*

We still have interest in the 14G spectrum, and obviously went there to encourage that that auction happens. But we also have to move on in life, too. We have explored lots of other options, and we will have a solution to our next gen ATG in North America. It may be the 14G or it may be alternatives, and the alternatives are much more fleshed out today than they were a few months ago.

Dick Ryan - *Dougherty & Company - Analyst*

Any thoughts on the timing, if they should choose to move in that direction, what we are kind of looking at?

Michael Small - *Gogo Inc - President and CEO*

I really can't comment on that, other than I would say the clock is ticking from our perspective.

Dick Ryan - *Dougherty & Company - Analyst*

[FCC] is getting pretty populated with service providers, Global Eagle, you guys, Panasonic now. Any concerns there with that, and can you paint a little picture -- if you're able to replace some of your previous higher cost capacity with some of the anticipated lower bandwidth cost coming from the HTS. Any ability to move from those higher cost capacity?

Michael Small - *Gogo Inc - President and CEO*

I can frame that a lot of different ways. We will continually moved to lower and lower cost bandwidth. That's the trend in our industry, that's the value of our open strategy. I think that gets our airline partners down the curve with the least risk and the greatest speed to ever and ever lower bandwidth and to try and get there by minimizing the number of times you have to touch the aircraft.

That is the constraint. It is how do you get faster and lower-cost bandwidth with the minimum number of touches to the aircraft? 2Ku, we think, is a great platform for doing that. That is what our business is all about.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. One last one. One of the competitors came out and provided their view of fuel burn differential, flat-panel versus a gimbal-style for Ku antenna, suggesting the fuel-burn and cost of ownership would favor the gimbal versus flat-panel. Have you guys done a cost of ownership sort of comparison?

Michael Small - *Gogo Inc - President and CEO*

Yes, and we got the opposite answer. It's a little intuitive to me that the lower profile one burns less than the higher profile one. We are about 6.5 inches of versus 12 inches or 13 inches. That height difference makes everything.

We estimate a typical international aircraft is about $25,000 of fuel savings per year. Varies in lot of different things, but that would be the typical answer. It was surprising to me to see the opposite conclusion out there.

Dick Ryan - *Dougherty & Company - Analyst*

Sorry. One last one for me. American is roughly 25% of CANA, and but it looks like pushes 40% of aircraft installed. Does the rough math suggest the ARPA for their ATG aircraft at about $80,000, $85,000 per year?

Michael Small - *Gogo Inc - President and CEO*

I won't comment on that number. The only guidance we've given is what our total ARPA is, and we've given that RJs, particularly newly installed ones, tend to be run lower, but other than that I can't offer any guidance.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. Thank you.

Operator

Jonathan Schildkraut, Evercore ISI.

Unidentified Speaker - - *Analyst*

Thanks, it is Rob, for Jonathan. I was wondering, how covered is the 2Ku backlog by STC's. At what point do you have enough STC's covering the eligible fleets out there that STC's costs start to decline?

Michael Small - *Gogo Inc - President and CEO*

Excellent question. There is a major STC barrier anytime you adopt a major new technology. The biggest cost is the first time you deal with an aircraft type, 737 or 787 or an 8350 or whatever. We are working through all of the aircraft types.

And then there's a smaller cost each time you have to apply that aircraft type to a specific airline. That is the gating item on 2Ku installs, is working through that. We have 15 STC programs -- certification programs underway right now. Once that is behind us, next year the install rates will accelerate dramatically from what they are this year.

Unidentified Speaker - - *Analyst*

And the costs would decline from that point, as the program gets to a certain critical mass, which is next year?

Michael Small - *Gogo Inc - President and CEO*

Correct. And that's -- again, this is the benefit of the open architecture of the -- particularly the antenna, but all of our systems. The 2Ku antenna is approximately twice as spectrally efficient as any antenna in the marketplace, that is a big deal. 2x is a big deal because antenna technology doesn't improve at Moore's law-type rates. It's like having an engine that's twice efficient as the next one. It's a big deal. So you put that on the plane, you're going to have twice the efficiency of using any new satellite that goes up.

That is important and plus, we are developing all the software on how you switch from one network to the next as seamlessly as possible. When someone invents something new, we can incorporate it very easily. There's a lot of intellectual property behind that. What we are arguing is yes, these things like STC's -- yes those big install programs become a lot less likely, a lot rarer for the airlines if you go down our path. That's what really matters to them.

They care about, when they touch their airlines, what they do with their airplanes. They don't worry about what gets launched into space. That's not their issue. But touching their planes is their issue.

Unidentified Speaker - - *Analyst*

Got it. Thanks for taking the question.

Operator

John Hodulik, USB.

Unidentified Speaker - - *Analyst*

Hi, it is Lisa for John. I have two questions. One sort of big picture, and one more segment specific.

With respect to the situation with American and this competitor that's in the market and seems to be very aggressive with pricing and offers, I wondered if you could talk a bit about any concerns you have about how this may affect pricing more broadly? You told us you are getting a lot of benefit as the cost of Ku capacity comes down. But if you have a competitor that's willing to give away their service to gain market share, that obviously is not good for you as the incumbent.

Also on BA, it looks like you had some nice acceleration in average monthly revenue per aircraft online for both satellite and ATG last quarter. We were expecting that might slow because of the newer systems, the ATG 1000 and 2000. I just wondered what was behind that? Thank you.

Michael Small - *Gogo Inc - President and CEO*

To your first question, long run cost structure, who can produce the cheapest gets, over time, wins. We think we win that battle, and we are going to have the best pricing in the marketplace. There could be short-term pricing strategies by competitors that are a nuisance, but they won't prevail over the long-term.

On business aviation, we continue to see good progress and average revenue per aircraft. Some of the grandfathered unlimited plans are coming to an end here, and more people are being switched to usage based plans, which is helping ARPA. Also on the satellite side, we are selling a lot of broadband, which is much higher than the Iridium product that had previously been a satellite. Those are the two things that are basically driving ARPA growth there.

Unidentified Speaker - - *Analyst*

So you would expect some of those trends to continue then, because there'll be more grandfathered customers moved over, and a greater share of the satellite sales will be swift broadband?

Michael Small - *Gogo Inc - President and CEO*

Correct. They're still good trends there, yes.

Unidentified Speaker - - *Analyst*

Thanks very much.

Operator

Sergey Dluzhevskiy, Gabelli and Company.

Sergey Dluzhevskiy - *Gabelli & Co. - Analyst*

A couple questions. First one on competitive landscape in the rest of the world. Here, obviously on North America you have certain competitors that are getting more aggressive. What are you seeing -- and obviously because they play in the rest of the world as well, But what are your expectations of how it shapes up over the next several years? And how your technology compares to some of the competitive solutions?

And second question. If you assume you do lose those 200 planes, or at some point you lose a portion of your existing fleet to a competitor, can you talk a little bit about install time for you versus competition, and realistically how quickly those planes could migrate to a different solution?

Michael Small - *Gogo Inc - President and CEO*

Okay, so the two questions. We've been talking about 2Ku and its ability to produce cheaper and faster fits over time with minimum number of touches to the aircraft, very important. I would also point out that we have, by far, the best global coverage today, because we get to take advantage of so many KU satellites, and we get to do it with the satellite -- with an antenna that does not have the skew angle problem. So we don't have deficiencies in coverage in equitorial regions. And furthermore, because we're in the Ku band, we have tremendous redundancy of supply there. Availability and redundancy of supply.

It is the best global solution in the marketplace, not only based on the ability to improve fits, but based on coverage and redundancy. I think it's going to fare very well in the marketplace. I expect wins around the world, across all three major airline alliances. I expect that they are coming in 2016.

Back to your question about the US, and how long it basically -- how long does it take to install planes? If you're dealing with satellite in particular, and you've got the STC process, I conclude there is nothing, whether we win it or lose it with American, that affects 2016 results. It simply takes longer than that.

If you're talking about the 200 planes to get them all done, even 2017 and 2018 is a lot of work. We think our installation capabilities are unparalleled in this industry, and we actually think we might get most of them done in 2017, but I would be surprised if anybody else could do them in less than two years.

Sergey Dluzhevskiy - *Gabelli & Co. - Analyst*

Thank you.

Operator

Phil Cusick, JP Morgan.

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Phil Cusick - *JPMorgan - Analyst*

Thanks for bringing me back on. I wanted to follow-up, one, on something you just said on the global opportunity. I think you said you expect major decisions from all three airline alliances in 2016. Can you expand on that for us?

Michael Small - *Gogo Inc - President and CEO*

Sure. I think it is now the time for airlines around the world to make decisions, and I see that based on the nature of our discussions. They're much more specific than they used to be. And getting down to brass tacks about this type of fleet, this date, instead of just generally do we like this technology or that technology?

So that tells me -- that is the real-world feedback that decisions are coming. I think it is by all airlines around the world, across all three alliances, and I think we are going have a strong position. When I say alliance, Skyteam, One World, Star Alliance. We will do business in all three alliances.

Phil Cusick - *JPMorgan - Analyst*

That leads me to the second part. If you look at 2015 and you gave yourself a report card on RFPs you worked on that were awarded versus your wins, what does that look like? And then what is that activity level look like, walking into 2016?

Michael Small - *Gogo Inc - President and CEO*

It did go slower than we predicted in 2015. There was no doubt about that. I think we did really well in 2015, we've built a backlog of 800 2Ku installs, essentially -- awards, essentially all in 2015. That is industry-leading type of numbers.

We are still winning if you look at the scorecard on getting the most installs -- most awards. I just think a lot of airlines were very uncertain, and I said in the script, they want to make the right decision, but making the wrong decision is really a difficult thing because it is so invasive to install stuff on planes. You do not want to have to redo that.

There's been a huge debate going on in the industry. And as 2Ku keeps flying, you've all flown on it on demo flight, and we've done test flights, and then this spring the first commercial planes are going to start going up, and that is going to help and as we work through the backlog, that will help.

I also think, as this becomes clearer, what airline should really be focusing about is what goes on in their plane, not what goes up in the sky. I think we've seen some of the competitors talk about the sky, and we've talked about the plane. I think we're going to prevail in that argument.

Phil Cusick - *JPMorgan - Analyst*

Last one. If you think about the 2Ku installs this year, 75 planes. How should we think about the capacity for ATG planes in the US? It doesn't sound like we're going to see any kind of relief in the capacity constraints this year for your ATG fleet?

Michael Small - *Gogo Inc - President and CEO*

I would agree that 75 is not big relief this year on the capacity constraints, and that will accelerate next year. I would point that we are doing even more ATG-4 upgrades this year, and that is real practical relief.

I would also add that the Air Canada domestic fleet is now fully installed, and that is flying on a congested portion of our network up in Canada. There are some positives, but I would still say it's fair characterization that it is the crunch year for our North American network, and the real relief starts in 2017.

Phil Cusick - *JPMorgan - Analyst*

Thanks, Michael.

Operator

Dick Ryan, Dougherty & Company

Dick Ryan - *Dougherty & Company - Analyst*

In the business jet market, it looks OpEx had a 15% bump, quarter over quarter. I am wondering, are there one timers in there or short-term investments or is that a new level for R&D and SG&A?

Norman Smagley - *Gogo Inc - EVP and CFO*

There was one time things in there. I would not view it as a permanent bump.

Dick Ryan - *Dougherty & Company - Analyst*

Great. Thank you.

Operator

Jonathan Schildkraut, Evercore ISI.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Can you hear me?

Michael Small - *Gogo Inc - President and CEO*

We can.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Great. Thanks, Michael. I have three questions, I guess. The first is, in reading American Airlines' complaint, it sounds like they're considering not only technology, but also sort of pricing and business model. Is it fair to say, as you guys put together your proposal, all sorts of options are on the table?

Michael Small - *Gogo Inc - President and CEO*

Absolutely. We had the right business model to get this industry started. Gogo had to control it all, and I don't think it would have come together, and we had to absolutely minimize the risk for the airlines with the turnkey approach, or I don't think it would have happened. But at this stage, we are open to all business models. As long as the NPV looks good to us, we're game.

Jonathan Schildkraut - *Evercore ISI - Analyst*

In terms of that, and obviously you can't say too much here, but in terms of thinking of that. You bear a lot of cost in the retail model, the branding and the customer service and things like that. As we think about balancing other business models into the mix, do you anticipate that there could be a meaningful change in the underlying economics of the business? Your expected returns and things like that?

Michael Small - *Gogo Inc - President and CEO*

I do think some things change. The biggest thing that goes away is rev-share, which is one of the biggest line items in our expenses. I don't think it gets at the underlying economy -- There's really three components of costs in this business, and we do fix on the bandwidth costs, and there's no doubt that critical in the long run, they're probably your biggest variable cost.

But there is also the costs, and this is literally half the people at Gogo focus on this area, is aircraft engineering. Designing the stuff that goes on planes. Not the high-tech stuff, just installing it; how it's installed on planes. Getting it certified, and getting it installed, and getting it maintained. That is a big area of cost -- (technical difficulties) -- that doesn't go away. We're focused heavily on driving efficiency there. But that's independent of business model.

Finally, we spend a fair amount of money developing hardware and software platforms that make our service easy and flexible for the airlines to use. I can give a couple of examples. When we first launched the portal, it was Gogo portal, and we put the airline logo in the corner, and they did not like that. Now it is all about building a customized portal for the airlines that runs on Gogo platforms.

I don't think the underlying cost of this business changed. I think the business models on how we want to package it to the airlines may change. It is all about the trend of giving airlines more control and flexibility over time.

That is true of virtually any new innovation. You come up with an application that works. Everybody loves it, and then you realize I need to open this up and let it be the customer's way, not our way. And we are moving down that path.

Are you still there? I guess we can take the next question, operator, if there's any more.

Operator

Carter Mansbach, Jupiter Wealth.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Good morning, gentlemen. Congratulations on a great quarter and a great year. I have a couple questions for you. I want to see if we could nail down this 250 new planes that you have committed.

I have two questions on it. Number one, do we not know the name of it because the airlines are controlling the press release, and they are the ones who have to put it out? Number one. And number two, are these firm orders the additional 250 tails for Ku, or are they options?

Michael Small - *Gogo Inc - President and CEO*

I will make a couple comments on that. First, we never release an aircraft -- an airline award without agreement by the airline. That's often contractual, but it would be our policy to always do this. We would not be referring to them as awards unless we thought they were very solid and we have an exceptionally high degree of confidence that we would see these aircraft.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Fair enough. Second question. Michael, over the last couple of quarters, you've spoken a lot about outfitting the entire plane. Not just Wi-Fi, but everything else. And you believe that could be as big as Wi-Fi on the plane. Do you see any of that starting to begin on the rest of the plane, outside of Wi-Fi?

Michael Small - *Gogo Inc - President and CEO*

We call that connected aviation, and we have often said non-passenger connectivity is ultimately larger than passenger connectivity, even as in the current moment the passenger connectivity is the growth engine in the short term. And we still see that.

In fact, I will tease it right now, in that very shortly Gogo will be releasing a bound book on the subject of connected aviation that I think you will all find very provocative on the topic. That will be a big piece of this, going forward. Absolutely.

And the reason airlines care about it is it will be their biggest opportunity to drive costs out of their business, and it will be their biggest opportunity to improve the customer experience on their planes. I am very excited about it. I think that is a long-term opportunity for us.

We're working on it hard today. There are people coding, there are people designing hardware to accommodate that today. And the revenue stream is actually already started in a very small amount. It will pick up steam over the next few years.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Great. Congratulations on a great 2015. Look forward to seeing what you guys do next year.

Operator

[Steph Pierpoint, Sycamore].

Steph Pierpoint - *Sycamore - Analyst*

Michael, could you comment on consumer demand. Fundamentally, consumer demands, any change that you've seen in 2015? Take rates and that sort of thing, please?

Michael Small - *Gogo Inc - President and CEO*

Consumer demand is really constrained by bandwidth on our network right now. But every indication we have, as you bring more bandwidth to the aircraft, you are going to see skyrocketing passenger demand. That is almost a given in today's world. It happens everywhere. This is a supply constrained business right now.

I still firmly believe the airplane would have to be the exception, if you don't get to 100% usage on the plane. It may be in all different ways and varieties. Some may be for free and some may be paid, but ultimately the whole plane will use it. It is merely the challenge of getting the supply there. I will add that, while you are never down this path, it never ends, you keep getting more bandwidth.

When I joined the company, I concluded that ATG was good enough to get this industry going. I am now 100% confident 2Ku gets us to the bountiful and affordable world of bits. You will want to make it better, trust me, but it gets us into the bountiful world.

Steph Pierpoint - *Sycamore - Analyst*

Thank you.

Michael Small - *Gogo Inc - President and CEO*

Thank you, everybody. I appreciate your questions today, and look forward to talking to you over the course of 2016. Have a great day.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This concludes your program.

You may now disconnect. Everyone have a great day.
