

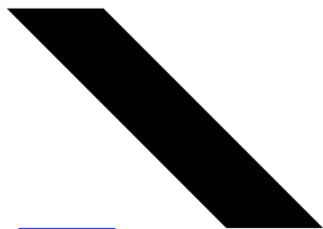


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Q2 2024 GOGO INC EARNINGS CALL

EVENT DATE/TIME: August 07, 2024 / 12:30PM UTC



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- **Oakleigh Thorne** *Gogo Inc - Chairman of the Board, Chief Executive Officer*
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- **Operator**
- **Sebastiano Perry** *JPMorgan - Analyst*
- **Ric Prentiss** *Raymond James - Analyst*
- **Scott Searle** *Roth Capital Partners, LLC - Analyst*
- **Simon Flannery** *Morgan Stanley - Analyst*
- **Louie DiPalma** *William Blair & Company - Analyst*

PRESENTATION

Operator

Good day and welcome to the Gogo, Inc. second-quarter conference call. (Operator Instructions) As a reminder, this call may be recorded. I would now like to turn the call over to Will Davis, Vice President, Investor Relations. Please go ahead.

Will Davis *Gogo Inc - Vice President, Investor Relations*

Thank you, Michelle, and good morning, everyone. Welcome to Gogo's second quarter of 2024 earnings conference call. Joining me today to talk about our results are Oakleigh Thorne, Chairman and CEO; Jessi Betjemann, Executive Vice President and CFO.

Before we get started, I would like to take this opportunity to remind you that during the course of this call, we may make forward-looking statements regarding future events and the future performance of the company. We caution you to consider the risk factors that could cause actual results to differ materially from those in the forward-looking statements on this conference call. Those risk factors are described in our earnings release filed this morning and are more fully detailed under Risk Factors in our annual report on 10-K and 10-Q and other documents that we have filed with the SEC.

In addition, please note that the date of this conference call is August 7, 2024. Any forward-looking statements that we make today are based on assumptions as of this date, and we undertake no obligation to update these statements as a result of more information or future events.

During this call, we'll present both GAAP and non-GAAP financial measures. We've 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 call is being broadcast on the Internet and available on the Investor Relations website at ir.gogoair.com.

The earnings press release is also available on the website. After management comments, we'll host a Q&A session with the financial community only. And it's now my great pleasure to turn the call over to Oakleigh.

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

Thank Will. Good morning, everyone, and thanks for joining us today. Gogo's second-quarter performance reflects the strength of our recurring cash generative service revenue model, even as we navigate a product lifecycle transition and continue to invest in bringing out our next-generation Gogo Galileo LEO satellite product and our Gogo 5G North American air-to-ground product.

Gogo is approaching an exciting inflection point in our product lineup. In the months ahead, we will have the most complete product portfolio in the best business aviation IFC industry with products that offer the right performance, the right coverage, the right total cost of ownership and with great customer support for every segment of the highly unpenetrated 40,000-plus aircraft global business aviation market.

We believe 5G and Galileo will accelerate our revenue growth beginning next year as they deliver order of magnitude improvements in the speed of Gogo service, expand our total addressable market by 60%, and extend customer lifetimes by providing easy and compelling upgrade paths for our AVANCE install base.

It's worth noting that because of record upgrade activity in the second quarter, AVANCE now makes up 60% of Gogo's fleet. We consider every AVANCE installation, a strategic win because it provides customers with easier and cheaper path to upgrade to new technologies like 5G and LEO, with Gogo today and new network technologies in the future rather than to move to another connectivity provider.

As we get close to launch, we're seeing our aftermarket customers adjust their purchasing behavior in anticipation of the Gogo 5G and Galileo products. This dynamic is reflected in our second-quarter equipment revenue and in our revised guidance expectations for 2024.

And this customer behavior isn't unique to Gogo? It's typical of what you see at other companies as they launch next-generation products. Just look at Apple, when it debuts the new iPhone. Sales of the older products start to slow as customers anticipate the arrival of newer, superior technologies.

This morning, I'm going to start by highlighting some demand trends we're seeing in the BA market that underpin our bullish outlook; then provide an overview of our Q2 results; and finally, dive into progress on our strategic initiatives, which are aimed at reigniting our growth by launching products that meet the unique needs of every segment of the BA market. Jessi will then walk through the numbers and discuss our 2024 and long-term guidance. This now reflects our most current expectations for 5G launch timing.

Overall demand for business aviation flights and demand for connectivity on those flights remains strong and continues to support our growth trajectory. Demographic trends bode well for connectivity penetration and younger fliers are coming into the market. Though all ages want better in-flight connectivity, demand for connectivity increases as the age of the flyer decreased.

The good news is that Gogo has different products to satisfy all types of flyers depending on their connectivity needs. In the second quarter, Gogo-equipped BA flight counts were up slightly at 1.1% year over year. And more importantly, flights remained significantly elevated from pre-COVID levels, with Q2 flight hours per day up 35% from Q2 2019.

As for data demand, average megabyte consumption per day in our networks has risen 165% from Q2 2019, demonstrating a step change in passenger demand and average megabytes consumed per flight hour, which has risen 96% over that same period and ran at 17% annual growth in Q2.

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

Finally, on demand, we see OEM order books and fractional sales of aircraft looking very strong, and those trends will continue to drive growth in Gogo units online. The trend towards increasingly voracious data usage on aircraft is important to Gogo in two ways. First, of course, it creates a strong demand tailwind for our products. And second, it highlights the importance of the decisions we made when we sold our commercial aviation business for years ago to invest heavily in new technologies to dramatically improve the capacity and quality of our products for our customers.

Gogo's continuous focus on future proofing our technology and infrastructure, we're prescient and will continue to remain key to our long-term success. Now, let me turn to our Q2 performance. Revenue was slightly down about 1% year over year as record service revenue was offset by a decline in equipment revenue. On the equipment side, we saw a decrease in revenues of 17% year over year and 11% sequentially in the second quarter.

We attribute much of this to the product lifecycle dynamic I described earlier. Customers are delaying purchases in anticipation of Gogo 5G and Gogo Galileo. With that said, we still expect our second highest year for AVANCE shipments ever and grew total AVANCE units online at quarter end, 17% over the prior year to 4,215 aircraft, or approximately 60% of our ATG installed base.

Our AVANCE base will only grow faster as we incent our almost 3,000 Gogo Classic customers to migrate to LTE as part of our FCC Secure Networks program over the next 20 months. As a reminder, we also warned on our last call that our usual pattern of higher second-half shipments might be reversed this year as we saw a boost in equipment orders last quarter, driven by NetJets pull through demand and a shift of a few OEM annual bulk shipments into Q1 from later in the year.

Within service, we achieved record revenue. This is the fuel of our long-term business model, driven by AVANCE upgrade even as total ATG units online and total declined slightly due to modest net deactivations in our Classic product line. On the earnings side, Q2 EBITDA decreased 30% sequentially, mostly due to lower equipment revenues and increased operating expenses, mostly in legal fees as a result of the smart Sky litigation and a series of vendor financing issues, almost all of which will go away over the next year.

On a positive note, as we invest deeply in the 5G and Galileo programs, free cash flow remains solid. Now, for our progress on strategic initiatives. Gogo is focused on accelerating growth with a three-pronged strategy. First, we want to expand our addressable market by expanding globally and by leveraging the flexibility of our AVANCE platform to deliver products at pricing that suit each segment of the highly unpenetrated 40,000 business aircraft, global business aviation market.

Second, we wanted to drive customer loyalty by continually improving our ATG networks to drive conversion of Classic customers to the AVANCE platform because they then have easy upgrade path to new technology such as 5G, Ku-band, LEO networks and other new network technologies as they emerge. And third, we're focused on offering the best product and customer support to each segment of the market at the lowest total cost of ownership. We're making great strides in our strategic initiatives to achieve these goals.

Let me start with Gogo Galileo. This is a very exciting time at Gogo as we ramp up our go-to-market plan, a regulatory approval process and production to support the Galileo ATX and FDX launches. As a reminder, this product category was born out of two conclusions, doing a deep dive strategic planning process in 2020 and 2021 after we sold the commercial aviation division.

First, that ESA antennas and LEO satellite constellations are going to change everything in business aviation connectivity. They would support lightning-fast connectivity with the extremely low latency critical to supporting applications like video conferencing. They would have high capacity to support heavy data applications like cloud-based file-sharing.

They would enable small antennas that would fit well on all business aviation aircraft. They could be cheaper and easier to install than GEO antennas. They would provide truly global broadband coverage for the first time ever. They would enable service pricing that is very competitive with GEO satellite pricing. And perhaps most important, the dramatic increase in value created by these offerings could accelerate IFC. penetration dramatically in the global BA market.

The second thing we anticipated in that planning process was in Starlink will become a significant competitor, which has become evident as they ramped up installations in Q2. Though we will launch a little later than Starlink, we will launch with a product that addresses much more of the market than they are offering. And they have done us a big favor. They've made the BA market aware of how much better ESA LEO technology is for BA in-flight connectivity than traditional GEO satellite solutions.

Our head of sales captured it well when he displays a picture of a fat mouse eating the cheese out of an already strong mousetrap and observes that the second mouse gets the cheese. And we feel that Gogo is incredibly well positioned to get the cheese.

Business aviation customers tend to be demanding. Reliability is critical. Space on the aircraft is at a premium. Ease of installation is important and customer support is imperative. It's clear that Starlink offering is just a repurposing of their consumer off-the-shelf products for aviation use and does not meet those demands. And that opens the door for meaningful product differentiation on our part centered in three areas.

Our equipment is aviation grade and designed from the aircraft up and satellite down to the specific needs of the business aviation market. There's consumer grade. You can buy it at Best Buy and is repurposed and poorly suited for aviation.

Second, our business model is business aviation focused with the type of personal customer support someone who just bought an \$80 million -- just spend \$80 million in an aircraft would expect from a service provider. While there's a web-based appointment-only chat service that does not allow customers direct access to aviation technicians.

And finally, our partner, OneWeb network is an enterprise-grade network designed to serve B2B customers with service level guarantees, while theirs is a consumer grade network aimed at 5 billion global consumers and many other markets with highly variable speed levels, our best efforts only service obligation, and no commitment to fixed pricing.

Galileo comes in two versions, a smaller HDX terminal and a larger FDX terminal. So I should add, our FDX is still dramatically smaller than the Starlink terminal. The Galileo as HDX terminal is our first-to-market mid-size and smaller aircraft antenna and will deliver a very consistent almost 50 megabits per second, 12 to 60 times our current product offerings.

It primarily target two market segments. The roughly 12,000 mid-size jets, small jets, and turboprops registered outside North America that have absolutely no broadband solution today; and those aircraft in the roughly 11,000 mid-size and smaller size range that don't sell inside North America that often fly international missions or want faster mean connectivity speeds than the 25 megabits per second that our 5G product will provide.

The Galileo FDX terminal is our best-in-class antenna and targets the roughly 9,700 super mid-size and larger jet that fly global missions with a product that will deliver very consistent speeds in a 145 to 195 megabits per second range, 40 to 200 times faster than our current product offering.

A huge advantage for us that is really resonating with AVANCE customers right now is that Galileo is a simple upgrade from any AVANCE installed plane. One only need to add our HDX or SDX antenna on top of the fuselage and then run data to the already installed AVANCE box on the aircraft and power cabling from the aircraft to the Galileo terminal and you are done, cutting roughly \$100,000 off the cost of a Galileo installation.

Another advantage is that AVANCE is already both a line-fit option at every OEM and an STC option on every currently produced model of aircraft in the aftermarket, rendering it relatively easy from an engineering and certification perspective for OEMs and dealers to offer Galileo.

We have already signed eight STC agreements for Galileo, covering 11 popular models of aircraft and have another 21 verbally committed, covering another 17 unique aircraft models. Which in total, these will all have a global service addressable market of 17,585 aircraft. And I should note, we started taking orders from many of the dealers that have committed to developing STCs.

We've already signed one OEM to launch it on four models of aircraft, and they've already set cut-in dates for three of those models next year. And those aircraft account for more than 100 deliveries a year. And we're actively engaged with several other OEMs on line-fit deals.

We remain on track to start shipping HDX terminals in Q4 and FDX terminals in the first half of 2025. We achieved a number of exciting milestones since our last conference call. We've announced our equipment and service pricing with a modest premium to our competitor, justified by our superior aviation grade equipment, our superior network reliability, and our superior levels of customer support.

We're finishing up our go-to-market campaign, and we'll launch our sales source this month focused on aggressively driving market penetration in order to capture the lifetime value of every Galileo customer and drive long-term value creation for Gogo.

In July, we started aircraft installation, and our Challenger 300 and the next big certification milestones will be engineering flight testing in August and parts manufacturing authority or PMA in Q4. To conclude on Galileo, we're very excited. It will be a game changer for the business aviation industry and will be a major accelerant to Gogo's growth.

Now, let me turn to Gogo 5G, which is targeted at segments of the 21,000 midsized and smaller business aircraft market that fly predominantly in North America and want a good connectivity experience at a more affordable price than satellite solutions.

Gogo 5G should achieve mean speeds of around 25 megabits per second, 5 to 25 times our current product lines and peak speeds of 75 to 80 megabits per second. On the aircraft, it consists of two belly-mounted MB13 antennas in an internal box containing a 5G aircraft. On the ground, it consists of 150 Gogo installed 5G base stations, installed at the towers across United States and Southern Canada.

As you all probably recall, on our Q1 call, we discussed a minor chip hardware redesign issue that would further delay our 5G launch. And we announced that we will provide guidance on the timing of our 5G launch on this call.

That chip is going back into patent and mass generation now, and we have recalibrated all of our milestones and planned shipping 5G in the second quarter of 2025. We're continuing to work very closely with our vendor partners to smooth the path toward fabrication and launch.

Importantly, the market continues to respond enthusiastically to the 5G value proposition with ongoing pre-provisioning programs and a flood of STC programs that position us for a highly successful launch. We've already shipped 290 to 5G pre-provision kit with MB13 5G antennas, which is up from 240 kits last quarter. And 105 of those kits have already been installed and are flying using our 4G network with an L5 4G LRU.

We have commitments from five OEMs with one already installing the MB13 with the L5 line fit today. Because the L5 is the same form factor as the LX5, once the 5G chip is certified, those customers that have installed L5s with MB13 can simply swap the LX5 in for the L5 and they'll be on the 5G network.

On the certification front, we have 16 STCs for MB13s completed with one version of those and another, covering 18 unique models of aircraft and 16 more in the works, covering 15 unique models of aircraft, and in total, all of those representing 8,700 North American registered aircraft. We're confident that between our FPGA flights and a virtual simulator our team has built that replicates our entire 5G network, that we will be able to test and validate 90% of our 5G functionality network before we receive the final 5G chip.

Now, turning briefly to the SEC Secured Networks program, which we refer to as Gogo Evolution. As a reminder, Gogo was awarded a \$334 million grant from the SEC under this program to incentive us to accelerate the removal of Chinese telecom equipment from our 4G network. Overall, we're making great progress upgrading our customers from the old Classic product line to LTE versions of the hardware and our AVANCE L3 and L5 products.

This program has considerable benefits for Gogo and its customers. It will improve the speed of our 4G network 40% for customers using our value-oriented AVANCE L3 product. It will double the aircraft that the ATG 4G network can simultaneously manage, and it will accelerate the number of Gogo Classic customers upgrading to AVANCE, which has the strategic benefit of extending Gogo customer lifetimes due to the ease of upgrade to 5G and Galileo and other new technologies.

We have a little under 3,000 customers still on our old Classic product line that will need to convert from EVDO to LTE versions of the hardware before year end 2025. A little more than 900 of which are in fleets and a little more than 2000 of which are smaller customers. We've had conversations with all about 150 of our customers and how they plan to convert. The vast majority have already indicated they will move to one AVANCE product or another.

We currently have customer promotions in place to incent conversions and our dealers are doing a great job configuring their operations to transition customers at scale. We also have a special product we'll introduce later this year called C1, which will house both an EVDO and an LTE air card in a form factor that is an exact replica of our Classic product. This will not improve service levels like upgrading to AVANCE but will allow customers who delay swapping to AVANCE before we cut over networks, more time to convert to AVANCE after the cut over.

As I mentioned at the outset, Gogo is continuing to deliver outstanding service and solid performance as we invest and prepare to launch Gogo 5G in Galileo. I want to thank the Gogo team that's done an incredible job getting us to this point.

Our long-term outlook is supported by strong demand trends, and we're strategically, operationally, and technologically well positioned to continue to meet and exceed the needs of IFC passengers for the long-term, with the most complete product portfolio in the business aviation market. Gogo has the right strategy in place to continue to capitalize on a significant opportunity in our market and deliver long-term value creation. And now I'll turn it over to Jessi for the numbers.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

(technical difficulty) service revenue and solid free cash flow in the second quarter. We believe our performance continues to demonstrate the strength of our core business, fueled by recurring service revenue as we invested in our new products, Gogo 5G and Galileo. With the pull-in of OEM equipment orders and timing shift of expenses, which resulted in higher adjusted EBITDA in the first quarter, our second quarter adjusted EBITDA declined sequentially but was ahead of expectations.

We continue to believe 2024 is the trough year for our growth and profitability within our long term plan extending through 2028. As the majority of our current strategic investments wrap by early 2025, we continue to target a significant acceleration in our free cash flow in 2025.

In my remarks today, I'll start by walking through Gogo's second-quarter financial performance, then I will turn to our balance sheet and capital allocation priorities. And finally, I'll conclude with additional context on our revised 2024 guidance and long-term targets, which now reflect the currently expected timing for Gogo 5G launch.

For the second quarter, Gogo's total revenue was \$102.1 million, a decrease of about 1% year over year and 2% sequentially, driven by a decline in equipment revenue. Gogo delivered record service revenue of \$81.9 million, up 4% over the prior year and just slightly higher than in the first quarter.

Our ATG aircraft online was 7,031, a 0.5% decline year over year and down 1% sequentially. The quarterly decline was driven by higher Classic deactivations and lower new activations due to, as Oak mentioned, the product lifecycle dynamic we are experiencing as customers defer purchases in anticipation of the launch of Gogo 5G and Galileo.

Total AVANCE aircraft online grew to 4,215 an increase of 17% year over year and 3% sequentially and now comprises 60% of our total fleet. Our progress driving AVANCE penetration reflects the record upgrade activity in the second quarter from Classic to AVANCE within our existing fleet.

AVANCE aircraft online has doubled in less than three years. Converting our Classic base to AVANCE remains a priority, and we expect these conversions to accelerate in 2025. We continue to maintain a conservative view on improvements in the maintenance cycle times that have slowed installations.

Every upgrade to AVANCE is a strategic win for Gogo as a prolonged customer retention by providing a seamless upgrade path to Gogo 5G and Galileo once launched. However, as previously mentioned, the upgrade process and product lifecycle dynamic will continue to put pressure on ATG aircraft online over the coming quarters.

Total ATG ARPU grew 3% year over year to \$3,468 and 0.3% growth sequentially, reflecting the price increase we initiated in the first quarter. The launches of Gogo 5G and Galileo are anticipated to further expand our ARPU growth opportunity over time.

Moving to equipment revenue, Gogo delivered second quarter equipment revenue of \$20.1 million with 231 AVANCE shipments. Equipment revenue was in line with expectations and declined 17% year over year and 11% sequentially, which we attribute to a combination of the pull forward OEM shipments in the first quarter and our overall place in the product lifecycle.

Gogo's equipment revenue typically ramps towards the back half of the year. But given the strong first quarter shipments and the product life cycle dynamic in the channel, we expect that trend to reverse for 2024.

Turning to profitability, Gogo delivered service margins of 77% in the second quarter, higher than our expectations due to lower network and data-center costs. We continue to expect service margins to be in the 75% range this year with a slight decrease in future years as Gogo Galileo's service revenue increases as a percentage of the mix.

Service revenue and service profit margin are the primary levers for free cash flow generation and long-term value creation. Equipment margins were 18% in the second quarter in line with expectations and lower than prior year and prior quarter periods, primarily as a function of lower revenue due to lower shipments. We expect equipment margins to decline in the back half of 2024 due to lower shipments largely due to the product lifecycle dynamics.

Now, on to operating expenses. Second quarter combined engineering design and development, sales and marketing, and general and administrative expenses increased 36% year over year and increased 28% sequentially to \$41.2 million. The year-over-year increase was mainly driven by legal expenses.

External legal expenses in the second quarter comprised \$9.5 million out of the total general and administrative spend of \$22 million driven by litigation matters, support for vendor financing issues, and global expansion efforts.

As we have discussed, 2024 is a significant investment year as we continue to invest in our Gogo 5G and Galileo program. Our free cash flow target in 2025 assumes that many of these costs roll off as we head into next year. We expect that these product investments will support revenue growth acceleration and significant free cash flow growth in 2025 and beyond.

In terms of Gogo 5G, in the second quarter, our \$3.2 million of 5G spending was comprised of the \$1 million in OpEx and \$2.2 million in CapEx. We now expect 2024 will include approximately \$5 million of OpEx and approximately \$8 million in CapEx, with total 5G spend for 2024 at approximately \$13 million. This is a shift from our previously mentioned \$6 million of 5G OpEx and \$14 million in CapEx.

This adjustment reflects the push of Gogo 5G timing to the second quarter of 2025 as well as a more efficient allocation of resources and the timing of expected milestone payments to our vendor partner. We continue to maintain our estimate of \$100 million in total external development and deployment costs for our 5G program and anticipate no negative impact on the overall program costs from the most recent delay.

Moving on to our Gogo Galileo initiative. In the second quarter, Gogo recorded \$2.2 million in OpEx and \$1 million in CapEx related to Gogo Galileo. We now expect 2024 will include approximately \$15 million of Gogo Galileo OpEx due to a shift of expense to 2025 and approximately \$4 million in CapEx.

We continue to expect external development costs for both the HDX and FDX solutions to be less than \$50 million in total, of which \$13 million was incurred in 2022 and 2023, \$19 million is projected in 2024, and the remainder is expected in 2025. Additionally, we anticipate approximately 90% of Gogo Galileo's external development costs will be in OpEx.

Moving on to our bottom line, Gogo delivered \$30.4 million in adjusted EBITDA in the second quarter, a 31% decrease year over year and 30% decrease sequentially. The decrease was primarily driven by lower equipment revenue and increased operating expenses as anticipated.

Net income of \$0.8 million in the second quarter decreased 99% year over year and 97% sequentially. The decline was primarily due to an \$11 million after-tax unrealized loss related to a fair market value adjustment to the convertible note investment we made in our key chip set supplier to support continued progress on our 5G chip that we called out on our first quarter earnings call. Potential future share price volatility will continue to affect our net income as we account for mark-to-market adjustments to the fair value of this investment.

Based on our substantial net operating loss balances at the end of 2023, including \$446 million in federal net operating losses and \$377 million in state net operating losses, we had a net deferred income tax asset of \$207 million at the end of the quarter. We do not expect to pay meaningful cash taxes through our five-year planning horizon.

I will now provide a status update on our FCC Reimbursement Program. In the second quarter, we received \$5.7 million in FCC grant funding, and our program-to-date total received is \$19.2 million. As of June 30, 2024, we recorded a \$17.5 million receivable from the FCC, and we incurred \$8 million in reimbursable spend during the quarter. This receivable is included in prepaid expenses and other current assets in our balance sheet, with corresponding reductions to property and equipment, inventory and contract assets, and with a pickup in the income statement.

In line with the plan we submitted to the FCC, we were granted our first six-month extension last quarter, pushing the program completion deadline to January 21, 2025. In our application, we stated that we will need to have multiple extensions to complete the program and are planning to request the next extension in the fourth quarter.

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

On to free cash flow. In the second quarter, we generated a solid \$24.9 million in free cash flow, an increase from \$13.3 million in the year-ago period, driven by lower cash interest and improved networking capital. Free cash flow decreased from \$32.1 million last quarter, primarily due to lower EBITDA and the timing of the FCC reimbursement from our Rip and Replace program this quarter.

Now I'll turn to a discussion of our balance sheet. Gogo ended the quarter with \$161.6 million in cash and short-term investments and \$603 million in outstanding principal on our term loan, with our \$100 million revolver remaining undrawn. Gogo's net leverage of 2.9 times remains in line with our target range of 2.5 to 3.5 times.

Our cash interest paid for the second quarter, net of hedge cash flow, was \$7.8 million. As we previously mentioned in prior quarters, we have a hedge agreement in place and had 87% of our loan hedged. At the end of July, the hedge stepped down to \$350 million, with the strike rate increasing from 0.75% to 1.25%, resulting in 58% of the loan currently hedged.

Starting in the fourth quarter, the hedge cash flow is expected to decline approximately \$3 million per quarter. Assuming no further debt pay down, the cash interest paid for 2024, net of hedge cash flow is expected to be approximately \$34 million.

Now, let me provide a recap of Gogo's capital allocation priorities. First, maintaining adequate liquidity; second, continuing to invest in strategic opportunities to drive competitive positioning and financial value, including Gogo 5G and Galileo; third, maintaining an appropriate level of leverage for the economic environment with a target net leverage ratio of 2.5 to 3.5 times; and finally, returning capital to shareholders.

We have executed across all priorities. In the second quarter, we repurchased approximately 1.5 million shares at a total cost of \$13 million, and over 3.1 million shares for approximately \$28 million in the last three quarters. Gogo has approximately \$22 million remaining of the \$50 million repurchase authorization our Board approved in September 2023.

We believe we are well positioned to execute our product investment requirements, evaluate further debt pay downs, and opportunistically repurchase shares. Our flexibility to pay down further debt and return capital to our shareholders is expected to increase as our free cash flow ramps up in 2025.

Now, I'll turn to our financial outlook. We have updated our 2024 financial guidance and our long-term targets to reflect two changes. First for the Gogo 5G launch timing that is now expected to occur in Q2 2025, and second for the lower aircraft online at the end of 2024 than originally projected. However, note that we have not completed a full bottoms-up long-term plan at this time as we normally do that annually in the January timeframe.

For our 2024 fiscal year, we now anticipate 2024 revenue in the range of \$400 million to \$410 million versus our prior guidance of \$410 million to \$425 million. The reduction is primarily tied to lower equipment revenue in the second half of the year due to the product lifecycle dynamic in the channel ahead of the launches of Gogo 5G and Galileo.

Secondarily, lower than expected aircraft online is anticipated to reduce our service revenue growth. We now expect 2024 CapEx to be approximately \$35 million versus our prior guidance of \$45 million. Our revised target includes approximately \$20 million for strategic initiatives, including Gogo 5G, Galileo, and the LTE network build-out, and is a decrease compared to the \$30 million for these initiatives stated in the prior quarter. The reduction in strategic spending is primarily due to the \$6 million shift in 5G spend to 2025, LTE spend shift to 2025, and also some cost savings.

We anticipate 2024 free cash flow in the range of \$35 million to \$55 million, which is an increase from our prior guidance of \$20 million to \$40 million. This includes approximately \$45 million of expected FCC spend, including non-reimbursable development spend, and approximately \$40 million of FCC grant reimbursement received.

The decrease in FCC reimbursement spend compared to prior expectations is a result of timing shifts within the program. The increase in our free cash flow guidance is reflective of the lower-expected CapEx and lower-expected net FCC program spend.

In addition, we continue to target adjusted EBITDA at the high end of the previously guided range of \$110 million to \$125 million. However, we now expect operating expenses for strategic and operational initiatives, including Gogo 5G and Galileo to reduce to approximately \$26 million, compared to \$33 million previously.

Despite lower revenue, we are maintaining adjusted EBITDA guidance, reflecting the shift in spend to 2025 for strategic initiatives, offset by an increase in legal expenses incurred to date, and expected to continue the rest of the year.

For our long-term targets, we are now targeting free cash flow of \$150 million in 2025, excluding the effect of the FCC program, versus our prior target of a range of \$150 million to \$200 million. The change from prior guidance is tied to top and bottom-line impacts of the latest timing of Gogo 5G launch to Q2, 2025 and lower than expected aircraft online at the end of 2024.

Over the long term, we reiterate that we expect revenue growth at a compound annual growth rate of approximately 15% to 17% from 2023 through 2028, with Gogo Galileo materially contributing to revenue beginning in 2025. And we continue to expect annual adjusted EBITDA margin to be reaching 40% by 2028.

In summary, in this challenging period in our product life cycle, Gogo's outlook underscores the significant value creation potential for our customers and shareholders that we expect to unlock by executing our strategy and investing in key initiatives that we believe will drive and sustain long-term growth.

Before we open the floor for questions, I want to echo Oak sentiments and expressing my gratitude to the entire Gogo team for their hard work and commitment to our business as well as their dedication to delivering exceptional service to our customers. Operator, this concludes our prepared remarks. We are now ready to take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sebastiano Perry, JPMorgan.

Sebastiano Perry JPMorgan - Analyst

Hi. Thanks for taking the question. I was hoping you could help us maybe think about expected ARPUs or price points as it relates to Galileo? And then maybe kind of stepping back, 5G being a bit delayed here, but more broadly, any help on helping us think about the 5G pricing strategy that we should be thinking about as it pertains to next year and the long-term revenue guidance? Thank you.

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

So, generally 5G ARPU would be about \$2,000 on average, higher than our current ARPU. And then the HDX and FDX would be priced at higher price points. I don't know that we've shared the average ARPU yet, but you can actually see the pricing on our website now.

So, they were reflecting greater coverage around the world and reflecting higher bandwidth. HDX and FDX are priced at premiums to 5G.

Sebastiano Perry JPMorgan - Analyst

Okay. And if I could maybe just --

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

Jesse, I don't know if you want to go into any more detail in terms of the exact ARPU we're projecting for those.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Well, obviously, it depends upon a range, depending upon the plan that we would be providing. But we are expecting an increase in ARPU as Galileo starts to take off. As a reminder though, I mean in 2025 we won't necessarily see that much impact with regards to the service revenue. It will be more of the equipment revenue, and then you will see the service revenue really start to take off more in 2026.

Sebastiano Perry JPMorgan - Analyst

Got it. Thank you. And a quick follow-up. Just thinking about AVANCE, can you help us think about the new planes online, between maybe a migration perspective or net new customer standpoint? Just trying to think about the drivers there behind the nice increase we saw. Thank you.

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

Jesse, do you want to go into the activations?

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Yeah. I mean, so this year we have been. And in this quarter, we noted our units online was impacted by lower new activations than what we were expecting. And that is due to the product lifecycle dynamic that we talked about. We also had the higher deactivation.

And I think that our expectation for the rest of the year is that will continue. But then come next year, we would expect, obviously with the launch of these two products, that our new activations would accelerate, as well as being able to kind of neutralize our net deactivation rate.

Operator

Ric Prentiss, Raymond James.

Ric Prentiss Raymond James - Analyst

Thanks. Good morning, everybody. Hey, got a couple questions. Obviously, you've called out a couple times the customer behavior while they pause for the new stuff to come in. How many aircraft are you expecting, ADG aircraft, are you expecting as you look through the rest of this year into, let's say, second quarter next year?

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

Jesse can get into the more precise numbers. I think we expect that a little bit more degradation in the total units online count until we get our new products launched.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

That's right.

Ric Prentiss Raymond James - Analyst

So if you had 105 aircraft net on 2Q, that same kind of magnitude, 100 each quarter or does it accelerate from there?

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

No. I mean, we're not anticipating it to reach, hopefully reach those levels, but there will be some deterioration, but not necessarily up to the 100.

Ric Prentiss Raymond James - Analyst

Okay. So more coming off, but maybe not the pacing you saw in 2Q.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

That's right.

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

That's right.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

As a reminder, in Q1, we had that unique situation in Q1 with the hourly deactivation.

Ric Prentiss Raymond James - Analyst

Okay. You've called out a couple of times, I think, the vendor financing hitting some costs out. Give us a little color on that. What's happening there, and what kind of costs are being incurred?

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Yeah. So in general, the legal expenses were very high in the quarter, so I wanted to highlight that, inflating our G&A expense. But with regards to the vendor financing issues, as noted, we had an investment in a convertible note in Q1 and Q2. And so the activity for that, the legal support of that, which is not normal business, that was one area.

And then also in our 10-Q, you'll see a disclosure around the supporting a revolver commitment for Airspan. That is not necessarily effective until Airspan emerges from bankruptcy. But we have partnered with Fortress to support a revolver, and there's legal support for that as well. So we're really supporting our vendors in this and its unusual activities, so we wanted to kind of call out that unique spend.

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

Got you, right. Okay. Yeah, I mean, in the case of Airspan, they went through a prepackaged bankruptcy, of course, so we ought - when that happens, you also have to spend money making sure that you defend your existing rights and your contracts, et cetera. So it was both, that we helped. In terms of helping them with some financing to get through it all, but we also had to protect ourselves.

Ric Prentiss Raymond James - Analyst

Okay. And the last one for me, following on Sebastiano's question. Obviously, you've got the pricing on the website for the Galileo. Oak, you make a point about your network, your bandwidth, your customer service, and customer support. What kind of anecdotal or outright detail do you have as far as how are customers valuing price versus coverage versus customer service?

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

You mean on a relative basis to each other?

Ric Prentiss Raymond James - Analyst

Yeah.

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

Yeah. I mean, I think that customers do value having a relationship with somebody that they can trust, who they've been doing business with for a long time, who has a very responsive customer support. Has been very consistent in terms of how they price, and the customer feels that they can count on. I think that's probably the highest value of anything.

And when you look at the products themselves, our network, our network will perform about the same as Starlink's frankly. And I think ours will be more stable and reliable in terms of being pinned to a higher mean connectivity rate. So I think that'll be valued by customers.

And then the equipment side, we manufacture equipment that can be put anywhere in the aircraft, inside the pressure vessel, outside the pressure vessel. It doesn't require any maintenance, et cetera. Starlink's is consumer grade. It's what you would have in your home.

That's what -- it's not going to work for a while, but it's going to be a question about how long it's really going to be reliable and how long it can withstand the rigors of business aviation in terms of planes that go from 130 degrees inside the cabin before the passengers arrive to minus 60 at 40,000 feet.

So there's reasons we build equipment aviation grade and they really -- they haven't done that. So I think there's a million little things that are wrong about how they are going at things. But right now, people that have had it installed are using it and they are liking it a lot, because it's a much better experience than any of the current IFC products out there in a way that kind of helps us.

We don't have to be – I don't think we have to be crusaders for LEO. I think people in the market are already seeing that LEO is a real improvement. So, I think in the end that kind of helps us and I think then we'll win with all those little differentiators around service, aviation grade, our aviation focus that will sway a lot of the market towards our products.

Will Davis Gogo Inc - Vice President, Investor Relations

Right. The last one for me is, the 5G launch now 2Q. Are we thinking early 2Q, mid 2Q '25, late 2Q '25 and what else might cause that to be at risk?

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

Well, I would say mid 2Q right now. A lot of the risk we will be able to retire or have been retiring, frankly, in two ways. One is our FPGA flights, where we've got all the chip software loaded on an FPGA that we're flying with.

That's done a couple of things. First of all, it was one of the ways that we identified some of the issues that our chip provider has to provide. So, we've got to those early before they cause problems, after coming out of fabrication a year down the line or whatever.

And second of all, that allowed us to validate our own software model of our network, which means that we can actually continue to test virtually now, and we are, and that will identify a lot of issues inside the network as well before we ever even get the chip. So those two things help a great deal.

There's still some risk around the actual chip fabrication, which is slotted to begin early in September. And once it comes out, there will be some bringing up risk. So with the amount of scrutiny that's been paid to this chip at this point, I'd be shocked if there was a problem when it came out.

Ric Prentiss Raymond James - Analyst

Great. Thanks everybody.

Will Davis Gogo Inc - Vice President, Investor Relations

Thanks, Ric.

Operator

Scott Searle, Roth Capital Partners.

Scott Searle Roth Capital Partners, LLC - Analyst

Good morning. Thanks for taking the questions. Hey, good morning, Oak. Hey, a quick clarification for Jesse. Legal expenses were relatively high this quarter. I'm wondering what you are thinking about and factoring into your expectations in the second half of this year. And if you could remind us what they were in the first quarter.

And then Oak, to follow-up on Rick's question around 5G, it seems like your comfort level of this launching in mid-second quarter is a lot higher than we had in prior conversations. I'm wondering if you could walk us through the steps and the milestones here.

It sounds like now you are expecting chip delivery in September. Is there a new spin on that chip? I was wondering if you could just kind of lay out some of the milestones that we should expect over the next couple of quarters.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Yes, I can take the first one. The legal expenses, it was \$9.5 million, and that was across litigation expenses, as well as the vendor financing we spoke about and also global expansion, just kind of our normal efforts that we're doing for global expansion.

We do expect that to decrease. There was a bit of a high point in Q2, so we'll not be at that level of magnitude going forward in Q3 and Q4.

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

Okay, and then Scott, for milestones, I didn't say the chip would be delivered in September. It said it starts fabrication in September, so that's one milestone. Then coming out of fabrication is another. Bring up is a third, when they complete bring up and then ship chips to us. And so arrival of chips with us would be another milestone. And obviously, we will install it and start flight testing with it right away.

And then it really gets to PMA and STC, which are regulatory. PMA is regulatory and the STC is in terms of approvals for your aircraft getting done. I think those are the main milestones going forward.

Scott Searle Roth Capital Partners, LLC - Analyst

Great. And lastly if I could, in terms of the competitive landscape, I was wondering if you could just give us an update on that front. We don't hear a lot about SmartSky. I'm wondering where they fit into the equation.

And then specifically on Starlink, while they will be a competitor going forward, given their presence, given their network, there's been a lot of talk recently about the Mini factoring in somehow into the equation. I'm wondering if you could address specifically that issue in terms of FAA regulatory issues around something like that, in terms of that creeping into the market and/or impacting pricing. Thanks.

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

Well, SmartSky is really not a factor in the market at this point there. They haven't - I'll just put it this way, I don't think they have any revenue generating customers. In terms of the litigation with us, we think that that case in many ways is basically over at this point.

As you might recall, Scott, there were two sets of patents. One set that expired in the 2030's, and one set of patents that expires in August of this year.

In discovery, and one of the reasons our legal expenses are so high is that discovery ended up being quite extensive. We had four times as many documents to review as we had anticipated in initially budgeting for discovery.

However, in that discovery, it was discovered that SmartSky knew about prior art to the patents that are expiring in 2030 and that they did not reveal that prior art to the patent trademark office. So that has raised a very significant equitable conduct issue for them and will most likely lead to those patents being determined to be invalid.

And you might recall that we have often said that we thought they didn't have any valid patents that we infringed on, and this is the reason why. So that, I think, eliminates frankly the risk of those long-term patents being an issue. Then the short-term ones, we have always did not infringe on patents.

We think we will win on that. However, even if by some miracle we were to lose, 5G is not coming out until May now and those patents expire in August. So there's not going to be a whole lot of damages in terms of the impacts on us. So, that's SmartSky.

The Mini, look, there's all kinds of little toys people use in business aviation -- general aviation, to get connectivity. There are people that fly low with their cell phones on. But that's not typically what people do in business aviation.

You'll see a lot of guys goofing around, who I would consider general aviation flyers, not business aviation flyers, trying to put the Mini in the windshield and the like. That is not going to be a solution that's going to satisfy business aviation flyers for a couple of reasons.

For instance, really, you've got to get the speed through the fuselage of the aircraft. In other words, the radio waves aren't going to penetrate the fuselage of the aircraft and hit the Mini sitting inside the aircraft. So you have to put it in the windshield essentially, on

the dashboard if you will.

These satellites are coming from -- flying at a very high speed and you've got to pick up one after another at a very high rate. And that will work okay if you are flying your plane in the direction the satellites are coming from.

But if you are not flying in that direction, your Mini is not looking the right way, you are not going to have reception. It's going to lead to very unreliable connectivity and that's fine for some people, but it's not fine for the bulk of the business aviation market.

There are also safety concerns and having an antenna fly around if there's a sharp banking or something like that, that doesn't make the FAA happy. The FAA would kind of have to catch you on the runway doing it, and they probably wouldn't like that very much. But it's pretty unlikely, frankly, that that would happen.

Frankly, the last thing is that Starlink doesn't want to sell you that at that price. So when they detect that you are flying, they turn you off. So, that's the business model question maybe Starlink will do something about. All in, it's not going to be a very satisfactory performance. It could have safety implications, and right now you are not supposed to be able to do it from the vendor.

Scott Searle Roth Capital Partners, LLC - Analyst

Great. Very helpful. Thanks, Oak.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery Morgan Stanley - Analyst

Great. Thanks a lot. Good morning. To start off, just on the churn or the DX, in the past we've had them waiting for maintenance upgrades and so forth. Are any of these customers churning to competitors or where are these aircraft going?

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

We have seen a little bit of churn to competitors, Simon. We had 11 that left us for a KA solution.

Simon Flannery Morgan Stanley - Analyst

Like a Viasat or something?

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

Yeah, and then we had 10 that we think left us for Starlink. They told us they left us for Starlink. So there's a bit of that on the margin there.

Simon Flannery Morgan Stanley - Analyst

Okay, and you'd expect that to continue through the balance of the year until we get these products out?

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

I would. Yeah, I think that that will. The good news behind those numbers is that it's happening because people have tremendous demand for connectivity. And I think, as I talk to flight departments and the like, especially for larger companies, the issue is that now

with all the file sharing going on and everybody's spreadsheets live in the cloud, they don't live on their PC. It's just putting a huge strain on older products like our older products, and frankly, a lot of the older GEO products as well.

And then you've got multiple video conferences going on on the aircraft at the same time. So that's all - those are all applications that LEO is going to support really well. And so I think we're fortunate that we're going to be well positioned to serve those. And I think we'll be very competitive.

But Starlink is there first with the solution and so they are getting a lot of attention at the high end of the market right now. So I think we'll see some pressure there until we get our FTX antenna out.

Simon Flannery Morgan Stanley - Analyst

Okay, and you talked before about Starlink having a smaller antenna. Do you think the Mini is that antenna, or do you think they are working on another smaller antenna that's going to be more suited to business aviation?

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

I'm not sure the Mini is that solution, but I also don't get the impression right now they are working on a smaller one for business aviation. I think they feel like they can fit this colossal antenna they've got on smaller aircraft, and they are going to try and FTC them on those aircraft.

You can put an antenna on anything, but it looks like an AWACS. And you have a smaller antenna. You've got to move a lot of other stuff on top of the aircraft when you install it, which drives up installation costs. There's a lot of inconveniences to it.

So we think that our FTX, in particular, which is the antenna that will compete with Starlink, it's our larger antenna, still much smaller than their antenna. It's going to be suitable for a lot more aircraft than their very large one. But my point there was only that I think that they may think they are okay with just the big one right now.

Simon Flannery Morgan Stanley - Analyst

Got it. And then maybe you could talk a little bit about OneWeb. I think they had faced some delays before. Any updates on their network status in terms of being able to support your timeline on Galileo later this year? And I think it would be really helpful just to understand more about your contract with them and how the pricing works on your bandwidth consumption.

Is it all sort of variable rate bit consumption? Any volume discounts, things like that? Any color on margins and so forth to help us think about what happens at the bottom line from the revenue flow through?

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

Yeah. So we have said before that we have traded off lowest price per megabyte for flexibility because we need to be able to react quickly to pricing changes in the market. And we can't be in a position where we've got a floor price on an aircraft or something like that, that would cause us to not be able to have a margin on whatever we sell.

So we haven't gone into much more detail than that. But I'll just put it that way that no matter what we end up selling a product for, we're going to have margin on it. So that's number one. The first part of your question again, Simon?

Simon Flannery Morgan Stanley - Analyst

Yeah. Just about their network and their operational readiness to support Galileo.

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

Yeah. Their network -- they are still rolling out some of their ground stations, but we feel good about where they are going to be when we launch at the end of this year. And so we feel good about that. They are also almost complete with upgrading the software and their network to handle aviation, so that's also in good shape. So we feel good about it.

Simon Flannery Morgan Stanley - Analyst

Okay. And that allows you to give kind of QoS guarantees to your customers off their network?

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

Yeah, it does.

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Simon, just one thing to add. With regards to the margins, so we did indicate obviously, that the margins will be slightly lower than the very healthy, strong margins we have in ATG. However, when you look at our long-term model through 2028, we do still expect our service margins to start with a seven handle, even with the mix of Galileo.

Simon Flannery Morgan Stanley - Analyst

Great. Thank you.

Operator

Louie DiPalma, William Blair.

Louie DiPalma William Blair & Company - Analyst

Doing okay. The launch of HDX is a pivotal milestone for Gogo in this dynamic market. You mentioned your expectation to receive the Galileo HDX PMA in the fourth quarter. When do you expect to receive the STCs for the first customers to begin generating Galileo service revenue?

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

They'll start coming in first quarter, Louie.

Louie DiPalma William Blair & Company - Analyst

Great. And those STCs and the PMA, that's a regulatory hurdle. Your Twitter account recently blogged how you had successful motion table testing with the HDX antenna. What are the major technical hurdles that remain that could potentially delay receiving the PMA or just the general functionality of the antenna.

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

There's not a lot of technical risk with this technology because this is not -- like 5G, there's a whole new 5G chip being developed, which is where the risk has been and it's caused all of our issues. Right now, Hughes is already using different form factors of this antenna in aero, and so it's not unproven technology.

So the next step is, we finish installing our Challenger 300, which is happening right as we speak. It started in July. It should be done very shortly.

Then we'll go into flight testing. The [PMA] process starts when you start developing a system. You've been in constant dialogue with the FAA for, in our case, a year plus in this. What they are trying to do in that is validate the authenticity of all the pieces and parts that go in there to make sure that they are all aviation grade, as you originally stated they would be.

So that is something that I don't think has a lot of risk around it at this point. We're in touch with the FAA and proving to them that it's got the parts that we said it was going to have in there. So I don't think that that's going to be a huge risk.

Then on the FTC side, once we start flying on the Challenger, I think we'd be able to show you can put it on a plane, you can fly it. And it works. So I don't think there's a ton of risk there to be honest.

Louie DiPalma William Blair & Company - Analyst

Great. And how far behind should the launch of the FDX be relative to the HDX, in terms of the launch?

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

Well, the FDX is, as we said, first half next year. And I'll leave it at that on this call, and we'll give more details probably on the next call.

Louie DiPalma William Blair & Company - Analyst

Great. And one final one for Jessie. If rip and replace funding is increased to cover your full \$334 million, what would be the significance to your free cash flow generation in 2025 and 2026, potentially?

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Yeah, So right now, we've indicated that, one, we've mentioned that our current plans would not be to deliver all the way up to the \$324 million. That was based off of our original application, so the total value has decreased a bit.

But it would cover the negative hit that we're expecting in 2025 and 2026, but not all of it because mainly there's probably going to be around \$10 million or so that we would still need to spend in '25 that's not reimbursable. So that piece we would still need to cover. But then in 2026, it would fully cover everything that we would need to do there for the most part.

Louie DiPalma William Blair & Company - Analyst

Great. And one final one, should service revenue stay flattish, even as aircrafts online trend lower over the next year? You've recently had ARPA slightly pick up. Should that offset the decrease in aircrafts online, or how should we think about that?

Jessica Betjemann Gogo Inc - Executive Vice President, Chief Financial Officer

Yeah. So I think that that's the expectation through next year because again, we won't necessarily see an uplift from the new products coming in yet on service revenue. So they'll be either flattish to very modest growth next year.

Louie DiPalma William Blair & Company - Analyst

Thanks everyone. We'll be looking forward to updates for the HDX on the Challenger as you do the flight testing over the next month.

Operator

Thank you. There are no further questions. I'd like to turn the call back over to Will Davis for closing remarks.

Will Davis Gogo Inc - Vice President, Investor Relations

Thank you, everyone, for joining our second-quarter earnings conference call. We look forward to talking with you soon. Thank you. You may disconnect.

Operator

Thank you for your participation. This does conclude the program. You may now disconnect. Everyone have a great day.

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