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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth Quarter 2018 Gogo Inc. Earnings Conference Call. (Operator Instructions)

As a reminder, this call may be recorded.

I would now like to introduce your host for today's conference, Will Davis, Vice President, Investor Relations. Sir, you may begin.

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

Thank you, and good morning, everyone. Welcome to Gogo's fourth quarter 2018 earnings conference call.

Joining me today to talk about our results are Oakleigh Thorne, President and CEO; and Barry Rowan, 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 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 press release filed this morning and are more fully detailed under the caption Risk Factors in our Annual Report on Form 10-K and 10-Q and other documents we have filed with the SEC.

In addition, please note that the date of this conference call is February 21, 2019. Any forward-looking statements that we make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call, we'll present both GAAP and non-GAAP financial measures. We included a reconciliation and explanation of adjustments and other considerations of our non-GAAP measures to the most comparable GAAP measures in our fourth quarter earnings press release.

This call is being broadcast on the Internet and available on the Investor Relations section of the Gogo's website at ir.gogoair.com. The earnings press release is also available on the website.

After management comments, we'll host a Q&A session with the financial community only.

It is now my great pleasure to turn the call over to Oakleigh.

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Thanks, Will. Good morning, and welcome, everyone.

I'm only a few weeks shy of my first anniversary serving as CEO and know this past year has largely been focused on fixing operational issues. I thought I'd take a minute to provide an overview of the fundamental promise of our business and what attracted me to Gogo as an early investor.

We provide broadband connectivity products and services for the aviation industry and monetize that bandwidth through passenger connectivity, in-flight entertainment and connected aircraft solutions.

We have a simple business model: to provide connectivity products and services that grow revenue as in-flight bandwidth consumption grows.

At this point, I don't think there's much argument about the fact that airborne bandwidth consumption is growing and will continue to do so. Passengers expect it, aircraft operators want it, and aircraft owners are committed to providing it.

We provide connectivity through 2 solutions: satellite solutions for larger aircraft and air-to-ground solutions for smaller aircraft.

The satellite [aircraft] system is going through unprecedented change. So we serve the global large jet market with an open architecture that can adapt to technology innovations that come to market that improve capacity, lower costs, enhance reliability and expand coverage.

Over the next few years, we see tremendous advances coming in the satellite world and in the Ku satellite world in particular. We believe our 2Ku platform is uniquely positioned to capitalize on those advances.

In the air-to-ground world, we have a competitive advantage by owning and operating our own spectrum, which we leverage through a nationwide network of towers and the state-of-the-art Network Operations Center to provide the highest-quality service available. We'll enhance that capacity through additional bandwidth in order to continue improving the quality of our product.

Today, Gogo is the largest provider of in-flight connectivity in both the commercial and business aviation markets, and that size gives us scale advantages and operating leverage in bandwidth procurement, product development, customer support, research and development, engineering and network support. And we believe scale will be the most important determinant of who the winners will be in the IFC space.

I'm proud of the entire Gogo team's effort in making us the industry leader. Our customers, the OEMs and our suppliers all tell me one of the major differences between Gogo and its competitors is the quality of its people and the fact that our people are passionate about making the Internet in the sky work.

Even though we're the leader, Gogo has significant runway ahead of it as both our markets are largely underpenetrated. Business Aviation is roughly 25% penetrated in North America and only 15% globally.

And Commercial Aviation, though fairly well penetrated in North America, is only about 35% penetrated on a global basis.

Our ultimate vision is to seamlessly integrate the passengers' airborne-connected experience with their on-the-ground experience by providing immersive connectivity and entertainment on the aircraft.

Between now and that seamless vision, our goal is to future-proof our customers' investments in in-flight connectivity equipment by developing hardware and software that can be modified and upgraded cost effectively as future technologies emerge.

We took major steps forward in this direction in 2018. We achieved a milestone of more than 1,000 2Ku-installed aircraft in our Commercial Aviation division, flying at very close to 98% availability in Q4, and we have roughly 1,000 2Ku aircraft in our backlog. We believe 2Ku is uniquely positioned to take advantage of new satellite technologies as they emerge, whether LEOs or some newer and potentially even more interesting technology on the drawing board today.

We also took major steps in our Business Aviation division with the successful launch of our AVANCE product line. This software-defined product platform gives us the ability to upgrade and support our products from the ground, making upgrades easier and more cost efficient than installing new hardware at a dealer or maintenance and repair facility.

On my first quarter -- quarterly earnings call in May, I laid out 4 priorities: quality, focus, getting profitable and driving shareholder value.

While 2018 was a transitional year, we made significant strides in several of these and laid the foundation for solid achievement in all 4 in 2019.

We significantly improved quality, as exhibited by our progress in deicing and on numerous other internal metrics, we focused our investments on products and services with the highest return for shareholders, and we grow cost savings to position our business for long-term success. We look forward to demonstrating continued momentum in 2019, including a significant reduction in our cash burn as we progress towards becoming free cash flow positive.

In the past, we've discussed strategic options, including the potential of selling one of our divisions in order to delever the company. At this point, I think that is less likely as we have other approaches to dealing with our debt that we believe create more value for shareholders. Our top strategic priorities in the near term are to continue our strong operating performance, drive to becoming free cash flow positive and to address the balance sheet. Also, that we can control our own destiny and to maximize value and enhance our company's position in a rapidly evolving industry.

Over time, we continue to believe that the IFC industry would benefit from consolidation, and we'd like to play a role in that consolidation from a position of strength. The first step in strengthening the balance sheet is to address the remaining portion of our $162 million convertible notes due March 2020. We have several good solutions that we're pursuing and believe that our improved performance and cash outlook will facilitate a less dilutive solution.

Before I turn to the quarter, I'd like to address the deinstallation and business term changes we are experiencing at American Airlines.

As I'm sure many of you know, in 2016, we lost a bidding process to upgrade our legacy ATG product to a satellite product on 550 American Airlines aircraft. 374 of them were deinstalled in 2018, and the remainder are planned to be deinstalled in the first half of 2019. In conjunction with this decision to upgrade 550 aircraft through our competitor, American also elected to upgrade roughly 150 of our ATG aircraft to our 2Ku product, most of which were installed last year.

American made this decision in good faith as our satellite solution was not as advanced as our competitor's at that time. We continue to have a good relationship with American and look forward to working together in the future. We're also proud that all of our other mainline ATG customers have selected to go with our 2Ku product.

We've shared this before, and it's largely old news, but we recognize that it's difficult to see our underlying growth rate given the noise from these deinstalls. Throughout these comments, Barry and I will refer to "excluding deinstalls" when we mean to isolate our growth rate, excluding the deinstallations and change in business terms with American.

Now let me turn to the quarter.

Q4 was strong, and we finished well ahead of our EBITDA expectations due to strong consolidated CA service revenue, strong performance from our deicing remediation efforts and cost savings across the board. We've exceeded our own EBITDA expectations for 3 consecutive quarters, driven by sustainable cost savings and quality improvements from the IBP initiatives we announced in July.

We ended the year with $223 million of cash, which is $75 million ahead of our Gogo 2020+ plan as a result of better-than-expected operating performance and modestly upsizing the convert refi we closed in December. We continue to shift our CA business model from upfront subsidies for equipment to full pricing, which should further improve the quality of our earnings and cash flow over the longer term.

As Barry will discuss, we expect to approach cash flow positive results on an unlevered basis in 2019.

We believe our stronger cash position and expectations for continuing strong operational performance significantly reduce and may obviate the future need for buffer capital that we have discussed in the past.

Business segments. With that overview, I'll dive down into the operating units for a minute, starting with Business Aviation.

BA had a strong Q4 and an outstanding year. I'll leave the detailed numbers to Barry, but I'm going to steal a little thunder.

2018 revenue was up 21% over prior year, and segment profit was up 41% with a 48% EBITDA margin.

Service revenue grew 13% for the quarter year-over-year as our strong AVANCE shipments started getting activated and generating service revenue. In total, we shipped 796 AVANCE units for the year, making it our best product launch ever, which bodes well for future service activations.

At the end of 2018, we had 5,224 ATG units online, up from 4,678 at the end of 2017. Our ATG monthly ARPU increased to $3,027 in 2018, up from $2,876 in 2017.

And at year-end, we had 5,124 satellite aircraft online versus 5,443 at the end of 2017. Our satellite monthly ARPU grew to $237 a month in 2018, up from -- I'm sorry, from $237 up to $243 a month in 2018.

The decline in satellite units has been long predicted as the classic Iridium product nears end of life. As a value-added manufacturer and service reseller of the new Iridium service, Certus, we anticipate a slow transition from classic Iridium units online to the new Certus service with a higher -- once the Certus service is commercially available later next year.

A big success in Q4 was the widespread adoption of our new dash enhancement to our AVANCE platform. This software upgrade allows flight departments to monitor and manage the customer experience on AVANCE aircraft while in flight and was signed on by 500 customers in the fourth quarter alone. AVANCE continued to deliver 3x the throughput of our classic ATG product, and customer satisfaction ratings have risen dramatically.

One exciting piece of news is that we're having great success selling Gogo Vision, our CA entertainment product, into the BA market. We gave a free 90-day trial for GGV to each AVANCE subscriber last year. And of those, 50% or 341 ended up buying the product, taking us to 664 GGV subscribers in the BA segment at year-end. As we warned on our Q3 call, Q4 AVANCE shipments slowed to 162 units from 245 units in Q3 because some dealers had already purchased all of the inventory they needed for the year.

Now let me turn to Commercial Aviations.

Probably the most important victory of the quarter was our defeat of the deicing demon. As you'll recall, last winter, our system availability suffered tremendously as a result of deicing fluid entering the radome and coming up antenna raceways.

Developing and deploying a deicing solution has been the top priority of our operational and engineering teams. I'm grateful of the Gogo team for how well they responded to this challenge and grateful for the support we received from our airline partners throughout this process.

As we discussed in our last call, after a painstaking process of identifying causes, identifying and testing solutions and passing safety tests, we developed 4 different potential modifications to solve the deicing problem, and we began installing the first modification in October.

That modification has worked. And as of today, we've installed it on 100% of our 2Ku aircraft in North America. As of yesterday, we've flown more than 15,000 flights that had been deiced, and there's not been one incident of deicing fluid entering the radome and causing degraded system availability. The best proof of the efficacy of this modification is that last winter, our system availability ran roughly in the mid-80% range versus the upper 90% ranges this winter.

Q4 CA North America service revenue was down 13% year-over-year as a result of the deinstalls I described earlier but up 6% when you exclude those deinstalls.

Q4 CA-NA equipment revenue came in below expectations, mostly due to customer and certification delays in installation programs.

However, we installed 327 aircraft for the year in CA-NA, of which 254 were 2Ku and ended the year with CA-NA aircraft of 2,551.

Though equipment revenue was down in CA-NA in Q4, we did have several important new inductions, including the Alaska B737-900ER, the Alaska A320-200, the Delta 737-700 and of course, the new Delta A220-100, which has gotten a lot of media attention and was our first line-fit installation and also boasts the new seatback wireless IFE system we developed with Delta Air Lines.

CA-NA take rates showed nice improvement in the quarter, up to 12.9% from 12% in the prior quarter and 9.9% a year earlier. CA-NA also showed very positive improvements in customer satisfaction and in the Net Promoter Scores our airline partners share with us.

CAO -- CA Rest of World revenue showed nice growth over the prior year period and on a subsequent basis for both service and equipment revenue. Installations accelerated as we started to gain some traction on take rates with our newer Rest of World fleets.

We're excited about the growth prospects for Rest of World, especially as we see several of the world-class airlines we've been installing turn from focusing on installations to thinking about 2Ku marketing and distribution.

In 2018, our Rest of World segment added 199 2Ku aircraft online, adding 76 of those in Q4 and finished just shy of 600 aircraft online for the year. In the year, we had a significant number of installations at IAG, Virgin Australia, Air France, Cathay Pacific and Air Canada.

In Q4, we also had one new induction, the KLM 777-300.

Now I'd like to make a few comments on things that impact both Commercial Aviation divisions, including NA and Rest of World.

First, we increased total 2Ku aircraft online globally by 453 aircraft in the year, 254 of which were in CA-NA and 199 in Rest of World. 174 of the NA 2Ku installs were ATG retrofits. In total, across all CA fleets, we started the year with 3,231 aircraft online, and we ended with 3,140, down as a result of the deinstalls I discussed earlier.

Second, data usage is moving quickly from ATG to satellite, with 72.5% of our data traffic now on our satellite network versus 47% a year ago.

Third, we're making progress with the OEMs. Boeing Global Services has been installing 2Ku under a Service Bulletin on the 787-900 for Air Canada and will install 2Ku in 2 more airline 787s later this year. And we believe we're on track to have our first Boeing line-fit installation by year-end.

At Airbus, the A330 electronic transmitter issue has been resolved to the satisfaction of the [ASSA], and we could restart the AIS Service Bulletin installations on the A330s and A340 families last month. As a result of the ELT holdup, we lost one fleet of 16 aircraft and 10 aircraft that had been delayed for installation.

In 2018, we also achieved AIS Service Bulletin installations on the A350, and we believe we're on target to achieve our first Airbus line-fit installs in 2020.

In general, 2018 was a slow year for airline IFC awards with approximately 815 aircraft awards announced versus roughly 1,700 the year before and roughly 3,800 the year before that. We were awarded 60 aircraft with Air Canada and another 30 aircraft with other customers. And as I've said before, we're involved in several bidding processes that we hope will deliver some very strong new airline partners.

Another trend that we've mentioned is the shift to some airlines from the airline-directed model back to the turnkey model. One airline is about to sign a revised contract that does that, and another one appears to be heading in that direction.

The immediate impact of a switch from the airline-directed back to turnkey is to depress reported equipment revenue. However, the longer-term impact is to increase service revenue which should improve our quality of earnings and margins in the future.

It's important to note that, apples-to-apples, this transition has no impact on cash flow.

Now let me turn to our business outlook.

We just completed our planning and budgeting process for 2019 and have set a few critical objectives for the year. Those objectives include: first, continuing our drive towards achieving cash flow-positive results in our CA segments as soon as possible without jeopardizing the business or hurting quality; second, investing in Business Aviation to protect our customer base and attack new business segments; third, strengthening our balance sheet by dealing with our convertible stub and perhaps refinancing our senior notes to get a lower interest rate; fourth, investing in our people because Gogo has employees with unique technical and industry knowledge that are very, very valuable to our business; fifth, continuing Gogo's cultural migration to process compliance and accountability while maintaining the creative problem-solving skills that are our unique competitive advantage; and finally, once we have our house in order, get out and tell our story. The image of us on Wall Street and the media is pretty negative. And though I think we've improved our image with airlines, we have a lot of work to do in the [rest of the world].

So given those objectives, let me provide a high-level outlook for the year.

I think the most important aspect of our outlook is that we expect a substantial improvement in our free cash flow. I also think it's worth noting that despite the negative impact of our -- of the deinstalls I discussed earlier, we expect consolidated service revenue to grow in 2019. In fact, if you exclude the negative impact of the deinstalls, we plan to grow consolidated CA service revenue 10% to 15% for the year. I think this is positive for 2019 but portends for much higher growth in 2020 and beyond as we get past the impact of the deinstalled aircraft I mentioned earlier.

In CA/Rest of World, we expect significant service revenue growth as the quality airlines, such as British Airways, Air France, KLM, Cathay Pacific, Virgin Australia and Air Canada, begin to move from an installation mode into more of a marketing and distribution mode. We expect to install roughly the same number of CA aircraft in 2019 as we did in 2018. That's 400 to 475 roughly split 50-50 between North America and Rest of World. But we will have less equipment revenue due to a, the onetime recognition of revenue for an airline switching to airline-directed model in Q1 last year and b, as a result of at least one airline moving from airline directed back to the turnkey model this year.

We have a lot more confidence in our install guidance this year because we only need 2 new STCs and 4 amended STCs to hit our target versus 9 new and 16 amended STCs last year. To put that another way, regulatory approvals are finalized for 90% of our total 2019 2Ku installation plan, whereas last year, it was only 39%.

For BA, we expect growth to normalize to the levels we've guided to in the past. Service revenue will grow at about the same pace as last year as AVANCE activations drive more units online, but equipment will temper as a lot of the pent-up demand for the AVANCE product was satisfied in 2018.

On the cost side, CA-NA and Rest of World, we expect dramatic reductions in non-Satcom operating expense, driven by IBP operating improvements and diminishing 2Ku start-up expense.

And let me give you a couple of examples of what I mean: first, as I discussed a moment ago, our airline certification costs will come down significantly as a result of the reduction in the required STCs to hit our install schedule; second, we'll be able to reduce inventory significantly and reduce outside contractor expenses as a result of improvements to our ERP system; third, the lower outside contractor costs for software development is a result of having implemented the Agile software development process than having built up our own development resources in India. And there are many other examples we could give.

I should add that after reducing employee CA headcount in 2018, we expect to end 2019 with higher headcount in our CA division as most personnel reductions this year will be consultants and contractors, not full-time employees.

In terms of OpEx investments at CA, we'll continue investing in user experience improvements and in developing more and better self-service tools to help airlines monitor and maintain Gogo equipment without needing to rely on our support staff.

As far as costs for BA, we expect to increase our investments in new product technologies, including our next-gen ATG solution and new products aimed at penetrating the heavy and light jet markets, including a Ku satellite product and rollout of the new Certus product from Iridium.

We continue to invest judiciously in our 2.4 next-gen ATG product. We're cognizant of the fact that the United States government may apply new sanctions against Chinese providers of telecom equipment. We're also actively working on alternative approaches to delivering next-gen ATG should our approach with ZTE, our current supplier, incur too much risk.

It's worth remembering that by virtue of having a backup network that uses licensed spectrum, we have an advantage over any competition that may offer a product that relies solely on 2.4 unlicensed spectrum. Passengers using only unlicensed spectrum will likely lose their sessions when flying over densely populated areas where unlicensed spectrum will be congested by other users.

Regarding segment profitability, we expect growth in all 3 segments. In BA, the increase in product development would be more than offset by revenue growth. In CA-NA, we believe that the revenue headwinds I described earlier will be offset by non-Satcom expense cost reductions, and we will have a modest segment profit increase. And in CA-Rest of World, we'll see strong revenue growth with a shift towards higher-margin service revenue which will reduce operating losses in that segment.

Most importantly, we expect a significant reduction in free cash burn of approximately $100 million due to better inventory utilization, better working capital management and the EBITDA improvements I just described.

As for the longer term, we expect to see a return to higher growth rates in 2020 as the year-over-year hit from the deinstalling aircraft I described earlier starts to subside and our underlying growth rate reemerges as our main revenue driver.

With that, I'd like to turn it over to Barry.

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

Thank you, and good morning, everyone. Before reviewing our detailed financial results, I'd like to build on Oaks' comment by offering some additional perspective on the year.

In summary, 2018 was a year characterized by exceptionally strong performance from BA, significant progress in addressing the operational challenges in CA and taking important steps to strengthen our balance sheet.

We made real progress during the year on all of the critical issues we faced, resulting in higher adjusted EBITDA and a much stronger-ending cash position than expected earlier in the year. These improvements also provide the foundation for significant free cash flow improvement in 2019 and beyond.

Let me provide the data behind these observations.

Business Aviation had its best year ever, including revenue growth of 21%, segment profit growth of 41% to $140 million and record segment profit margins of 48%.

As Oak described in detail, 2Ku has performed exceptionally well through thousands of flights receiving deicing. This has elevated CA service revenue and avoided the need for approximately $10 million in additional remediation costs that may have been required if our initial modification plan did not work as expected.

Our cost savings plans also began to yield results during the quarter.

In addition to these operational improvements, we took a major step toward addressing our balance sheet during the quarter by extending the maturity on $200 million of our convertible notes. While the transaction was executed in a very difficult capital markets environment, it was meaningfully oversubscribed and enabled us to add $29 million in cash to the balance sheet.

These underlying operational improvements and balance sheet actions drove 2 key results in the fourth quarter: first, adjusted EBITDA of $19 million for the quarter and $71 million for the year surpassed even the $60 million top end of the guidance range we had previously provided; a second major achievement of the quarter was that our ending cash position of $223 million was approximately $75 million higher than anticipated in the Gogo 2020+ plan completed in September. While this includes the benefit of the cash from the convert refinancing, over 60% of this difference was from operational factors. These include the stronger-adjusted EBITDA performance and lower cash outflows for airborne investments. Importantly, the operational discipline underlying this better-than-expected finance performance enables ongoing improvement in 2019 and provides a foundation for even stronger performance in 2020 and beyond.

After completing our Integrated Business Plan in July, we stated that we were targeting a nearly 20% reduction, representing $75 million, in CA functional expenses, which include Satcom -- excludes Satcom, excuse me, by 2020.

On our November earnings call, we said we expected more than half of this reduction to come in 2019. We remain on track to achieve those savings in these time frames.

Our confidence is based on 2 primary factors. First, our investments in several key programs have passed their peak spending periods. These include line-fit programs with Airbus and Boeing and STCs required to install our equipment on a wide range of commercial aviation air frames, 28 of which were completed during 2018.

A second major contributor to these cost structure reductions are the comprehensive operational and process improvements being implemented throughout our Commercial Aviation business, many of which were identified through our integrated business planning process last summer.

Our operational improvements also provide an important foundation for our confidence in setting expectations to significantly improve free cash flow in 2019. Over the past 2 years, Gogo had negative free cash flow of $220 million and $214 million in 2017 and 2018, respectively. We're targeting to cut this burn rate nearly in half as we expect to improve free cash flow by approximately $100 million in 2019. We expect unlevered free cash flow to improve every quarter on a year-over-year basis during 2019 and for this metric to approach positive territory for the full year.

The primary drivers of the substantial improvements in cash flow performance are twofold: first is the higher-adjusted EBITDA achieved through the planned reductions in our CA cost structure and underlying CA service revenue growth as excluding the deinstalls: and secondly, our cash flow is improved by significantly reduced working capital requirements enabled by improved business processes and systems.

The combination of the $75 million higher cash balance than previously planned exiting 2018 and expectations for continuing improvement in operations have significantly improved our outlook for our cash position going forward. Last July, we were forecasting a cash low point of negative $50 million to $75 million.

Our intense ongoing planning improved our outlook by our November call. At that time, we said we expected a positive cash balance throughout our planning horizon but that we might need to add additional buffer capital at some point. Our outlook for our cash position has continued to improve since then, which significantly reduces and may eliminate the need to raise additional buffer capital.

This improved outlook will also make Gogo's business easier to finance, including enhancing our options to address the remaining $162 million stub of our convertible notes on more attractive and less dilutive terms.

Let me now provide an update on our plans to address these convertible notes, which come due in March of 2020.

While this remains an important task, it is meaningfully mitigated by our success in extending the maturities on $200 million of convertible notes last December.

We are in advanced discussions with a select number of targeted strategic and financial parties under nondisclosure agreements and are currently negotiating term sheets to address the $162 million stub. We expect to have this remaining convertible stub addressed by our Q1 earnings call, which will be in early May.

Based on our expectations for the continuing strong performance of our Business Aviation division coupled with ongoing operational and financial improvements in CA, we believe we will also be in a position to refinance our senior secured notes at more attractive rates after the first call period in July of this year. The interest on these notes accounts for a high percentage of our total interest payments and represents a potential for further improved cash flow when

[Audio Gap]

at lower rates. This benefit is not factored into the guidance we're providing on today's call.

I'll now turn to a discussion of our operating results, followed by a summary of our 2019 guidance.

I'll start by highlighting some results at the consolidated level.

Total quarterly revenue of $217 million increased 16% from the prior year, driven by growth in equipment revenue, while service revenue declined slightly. Service revenue was significantly muted by the impact of the deinstalls. Equipment revenue also declined sequentially based on the level of 2Ku installations, as Oak discussed.

We delivered adjusted EBITDA of $19.4 million in the quarter, well ahead of both internal and external expectations. Our deicing modifications are performing extremely well, and we expect very little spending for deicing remediation in 2019. Adjusted EBITDA also benefited from lower operating expenses, solid BA execution and better-than-expected CA-NA service revenue.

We crossed into positive free cash flow territory with $2 million generated in the fourth quarter, and our ending cash balance of $223 million came in approximately $75 million ahead of our earlier internal projections, as I described.

Now let's move to a discussion of the business segments, starting with Business Aviation.

BA delivered yet another outstanding quarter. On a year-over-year basis, service revenue grew 13%, equipment revenue

(technical difficulty)

and segment profit was $36 million, up 33% over the prior year period.

Segment margins expanded from 41% to 48% from the prior year.

For the full year, BA delivered exceptional performance across the board with total revenue growing by 21%

(technical difficulty)

and segment profit growing over 40% to $140 million.

BA revenue growth was led by a 34% growth in equipment revenue based on continued strong sales and installations of our AVANCE L3 and L5 products.

Service revenue grew 15% to $196 million for the year. BA's service revenue growth came through adding ATG aircraft as well as increasing ATG ARPU, which grew 12% and 3%, respectively. Those of you familiar with the BA story know that our ATG systems represent our core broadband connected systems and have monthly occurring revenue more than 10x out of our legacy narrow-brand systems.

We surpassed 1,000 ATG shipments during the year. The number at the end of 2018 was 1,062, up 28% from 2017 and up 44% from 2 years ago.

Our continuing ARPU growth was augmented by adding products to BA's already attractive offering.

Paying subscribers for Gogo Vision more than doubled over the prior year, and Gogo Text & Talk units online increased 15%.

As we've said previously, we expect total BA revenue to grow in the range of 10% per year for the next several years. During 2019, we expect this increase to be largely driven by growth in recurring service revenue as we realize the benefit of a significant number of AVANCE systems installed in 2018.

We also expect continued growth in BA segment profit in 2019. However, it will slow from 2018's record 41% growth, which reflected significant operating leverage achieved during the year.

Even with the planned 2019 investments primarily in the technology areas Oak described, we continue to expect the BA segment profit margin to be in the mid-40% range this year.

Now I will turn to a discussion of our Commercial Aviation division.

CA-NA fourth quarter revenue was $97 million, representing a decline on a year-over-year basis due to the impact of the deinstalls.

CA-NA service revenue, excluding the deinstalls increased 6% from the prior year period and increased 11% for the full year.

On the same basis, CA-NA net ARPA grew 1% year-over-year in the fourth quarter to $127,000 and grew 6% for the full year to $125,000.

Customer demand continued to grow in the fourth quarter with take rates reaching all-time highs.

CA-NA take rates were up approximately 30% from 9.9% to 12.9%. The strong growth in take rates is due to accelerating usage of 2Ku, increased usage of airline free messaging offers and continued growth in third-party revenue.

Entertainment and Connected Aircraft Services revenue grew 12% in 2018 versus 2017.

Now let's turn our attention to CA-ROW, which delivered revenue growth at 26% in the fourth quarter over the prior year as we installed 200 additional 2Ku aircraft in 2018.

Take rates decreased year-over-year as planned, from 14.9% to 13.7% due to dilution from new planes and fleets. The percentage of our

ROW fleet characterized as new increased to 40% from 12% in the prior year period. Importantly, as Oak noted, we're installing 2Ku systems on high-quality global airlines. We're confident these planes and fleets will drive higher take rates and ARPA as they season.

Segment profit in CA-ROW was down slightly in the fourth quarter from the prior year period to $24.7 million as higher revenue was offset by higher equipment losses.

Service gross margin was nearly breakeven for this quarter at negative 1%, an improvement from negative 17% in the prior year period.

In 2019, we expect to see continuing reduction in segment losses as we spread Satcom and operating costs across a larger 2Ku fleet and benefit from a reduction in expenditures for major new programs.

I'll now turn to a discussion of our 2019 guidance and would like to start by providing some context.

First, we will face difficult year-over-year comparisons in 2019 due to the impact of the deinstalls which will continue this year.

During the fourth quarter, 185 aircraft were deinstalled, bringing the total deinstallations in 2018 to 374. This represents about 2/3 of the total expected deinstallations, and we continue to believe they will be completed by June of this year.

This will meaningfully reduce service revenue in 2019 with the accompanying negative impact to adjusted EBITDA.

We've noted throughout today's discussion the positive revenue trends of our underlying business, excluding the impact of the single airline.

With these deinstalls completed in mid-2019, we expect an acceleration in CA's top and bottom line growth beginning in 2020.

A second exogenous impact on our 2019 guidance is the shift by airlines from the airline-directed business model back to the turnkey model, which Oak described. Our 2019 guidance reflects one airline shifting back to the turnkey model and another airline as considering switching back. These shifts have no impact on expected 2019 cash flow, but they do affect the financial statement presentation.

The primary change is a reduction in equipment revenue under 606 accounting when an airline converts to the turnkey model. You'll recall that under the turnkey model, the equipment is treated as a fixed asset and depreciated rather than sold as inventory, which generates equipment revenue under the airline-directed model.

We'll provide an update to our guidance as required during the course of the year to reflect the impact of these changes.

One final piece of context regarding our 2019 guidance is that we are no longer providing cash CapEx guidance. Cash CapEx is an increasingly irrelevant metric as it no longer fully reflects airborne equipment costs since these are treated as equipment revenue and cost under 606 accounting for airlines under the airline-directed model. The shift by airlines between the 2 models further obfuscates this metric.

So the primary drivers of free cash flow will be adjusted EBITDA, 2Ku installations and their associated level of subsidy or profit, non-airborne CapEx and changes in working capital.

With this context, following is our financial guidance for 2019: total revenue in the range of $800 million to $850 million; CA-NA revenue in the range of $355 million to $380 million, with approximately 10% from equipment revenue; CA-ROW revenue in a range of $135 million to $150 million, with approximately 30% from equipment revenue; BA revenue in a range of $310 million to $320 million; adjusted EBITDA in a range of $75 million to $95 million; an increase of 400 to 475 2Ku aircraft online; and finally, approximately $100 million improvement in free cash flow versus 2018.

As I conclude my prepared remarks, we want to thank you all for your interest in Gogo.

Operator, we're now ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Philip Cusick with JPMorgan.

Philip A. Cusick ***JP Morgan Chase & Co, Research Division - MD and Senior Analyst***

First, Oak, can you dig in more to what discussions look like with the current pipeline of airlines around the world and how your new customer discussions change with your increased discipline versus where things were a year ago?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Yes, I think airlines are being more cautious around the world as they go through these processes because a lot of them have been burned by bad suppliers, to be honest. And so they're going through more rigorous processes, and those are taking more time. I think that so far, we've not been bounced out of a deal because of our sticking to our equipment pricing discipline, and I think that's generally true across the industry. If you look at the competitors in the industry, everybody's balance sheet is damaged, and I don't think anybody can really afford to subsidize equipment much anymore. So I think that the industry was relieved when we came out with that policy, and we're starting to see that play out in the market.

Philip A. Cusick ***JP Morgan Chase & Co, Research Division - MD and Senior Analyst***

Okay. And then can you also give us some more thoughts on next-gen ATG? You've been much less willing to invest in this than the company was a year ago. How do you think about it today? And what do you think about the competitive landscape as well?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Sure. So we are cognizant, obviously, of the government's concern about ZTE as a security concern. The current manifestation of that is the rumored executive order out of the White House that would -- we would -- we don't know what it would do, but one end of the spectrum had said it would just ban 5G. Those companies wouldn't be part of any 5G initiatives. Some people say no, it might ban current networks from using their existing ZTE network -- equipment, rather. So we have to be very cautious about that. And we've been working on a next-gen solution for a long time. We have a lot of other alternatives. So at this point, we are waiting to see what happens with ZTE but teeing up other approaches. So we're going to be ready to bring a product out either way.

In terms of competition, the -- in the ATG space, there's SmartSky, of course. We follow them very, very closely, we are not -- we don't take anything for granted. They have some real issues. First of all, they don't have a backup network. So they're going to use only unlicensed spectrum. Users are going to lose their sessions when they fly over densely populated areas, and there's interference from ground use of the 2.4 spectrum. Second, they have a real issue in terms of getting the right distance from the towers to the aircraft. We follow where they fly, and we follow all their demo flights. We know how they're showing people what works. And generally, they're sticking pretty close to a couple of towers, and they're staying at low altitude. And that's easy to do. Like in golf, they say, "Drive for show, putt for dough." Well in ATG networks, demo for show, and you build a nationwide network for dough. And there's 2 companies that have tried to build a nationwide networks. One is Inmarsat in Europe, and the other is SmartSky here, and neither one of them has been able to succeed because the real issue is in order to have an economically feasible network, one needs to achieve pretty long distances from the tower to the aircraft. We have very talented technical people who have figured out how to bridge those distances so that we can reach 200, 300 miles, and these guys can only reach about 100 miles. And if that's the case, it's going to take a lot of -- actually, I think they're about 60 miles. It's going to take a lot of dough to build a nationwide network. So I think they had some real challenges. And then the last challenge they've got is that they haven't yet figured that out. When they do figure that out, assuming they do, they're going to have to go back for regulatory approval, so this is going to change all their antennas and everything else that they've gotten PMAs for already. So they'll be a long way from rolling something out. So we're not -- don't take them for granted. We take very seriously. We take the market more seriously. The market needs something faster, especially the regional jet market, so we're very focused on delivering that.

Philip A. Cusick ***JP Morgan Chase & Co, Research Division - MD and Senior Analyst***

Are you still convinced that you have a moat around that RJ market, that a smaller satellite antenna footprint isn't going to be a threat?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Well, if there's going to be a smaller satellite footprint in the regional market, we're going to be there first. We follow ESA invest -- developments very, very closely because we think it would be probably an electronically steerable antenna with a relatively small footprint. It would have to be a small footprint. So -- and we would love to bring that product to market, but we're still waiting for technical feasibility in the ESA development world.

Operator

Your next question comes from Paul Penney with Northland Capital.

Paul Richard Penney ***Northland Capital Markets, Research Division - MD& Senior Research Analyst***

The airline-directed turnkey transition, can you give more clarity on what is driving that trend? And will it reverse or stop the deceleration in ARPA? And what are the potential effects on cash flows and margins?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Yes, I'll leave the cash flows and margins to Barry. But I think I pointed out before that some airlines might figure out it's better to get a check than write a check, and I think that's the primary motive here. So if the airline takes on the airline-directed, they've got costs flowing through their income statement and they have to manage that as opposed to just getting a check from us. So I think that's the primary motive. In terms of cash flow, it's neutral over the long term. In terms of ARPA, I think it's neutral as well, Barry?

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

Yes, I think that -- [I'll catch it]. Well, it primarily affects equipment revenue. So we talked about -- so that turnkey -- shifting to the turnkey model reduces the equipment revenue because it's not accounted for along those lines. Over the longer term, it will actually increase service revenue because if it's going through the airline-directed model, the -- what happens is that you allocate the revenue over the life of the contract between equipment and service. And so if it's -- and so the service revenue under that airline-directed model is muted as a result. So we see some modest improvement in service revenue as they make that switch. But the key point here is that it's cash flow neutral.

Paul Richard Penney ***Northland Capital Markets, Research Division - MD& Senior Research Analyst***

Okay, great. And one more. Congrats on your impressive BA results once again. But can you clarify the breakdown of the installed AVANCE units? How many represent an upgrade of current ATG customers versus how many are new customers? And how long on average did your customers have the old ATG system before upgrade?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Yes, it's very heavily skewed to new customers, actually. It's 65%, 70% new customers. And I couldn't tell you of the 30%, 35% that were old customers, how long they had their ATG systems. We can find that data for you, but I don't have it.

Operator

Your next question comes from Simon Flannery with Morgan Stanley.

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

Oh yes, this is Landon Park on for Simon. I was just wondering if you could maybe talk about the underlying ARPA expectations embedded in the guidance and maybe where you think on ROW, where you think that number could bottom out and when you expect to return to positive growth in the North America segment?

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

Yes, so let me start with the last part of that first on North America and then go to ROW. And on North America, the reason we show it differently between the overall business and excluding the impact of the deinstalling airline we talked about is that you can see that the underlying growth is -- and there's significant growth in the underlying take rates. Over time, we expect that to continue to grow as airlines move to expand the distribution across the plane. The ARPA impact was relatively muted last year for those reasons and importantly were -- the deinstalls are from high-value, high-ARPA planes on the old ATG network. So it will take some time for -- as those come off, for that to be offset in North America. But we expect that to begin to really grow again in a -- out in a couple of years.

With regard to the Rest of World, it will still decline because of the addition of new aircraft. So we talked about the percentage of aircraft on new fleets has gone from 12% to 40% over the last year because of the strong backlog and the number of installs there. So we expect that to continue to decline over the next couple of years, but then we expect it to increase. But it's really important to look at it on an airline-by-airline basis from the old airlines versus the new. And the key part about this is that there some very high-quality airlines coming online that Oak talked about on the European-based airlines, for example, the Cathays of the world. And we think that the economics of those aircraft are going to be very attractive as they come online and get seasoned.

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Yes, in that -- in Rest of World, the old aircraft are around $200,000, $210,000 a year in ARPA, and that stays about flat. Those planes are very heavily penetrated in terms of usage. And the new fleets were about $84,000 ARPA in 2018, and that gets up into the high 90s in 2019. So there's growth there. So overall, I'd expect ARPA growth in Rest of World this coming year, and I think probably the real return to ARPA growth in North America is like 2020.

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

Okay, that's helpful. And then just one last one. I think last quarter, you guys had talked about providing a more formal update on your 2020+ Gogo plan. Should we expect an update on that in the coming quarters? Or how should we think about the different factors you mentioned in terms of airline renegotiations and factoring costs and all that?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Yes. So there are 3 drivers we've talked about in the 2020 plan. One was take rates. And in that, you'll remember that we expected a take rate of 12.6% in 2022. Well, we're at 12.9% now. So we're well ahead of take rates -- on take rates. And after the deinstallations are done with American, I think we're going to be way, way ahead of the 2020+ plan in terms of service revenue. So that's been a positive. Satcom is also a major positive contributor. You see it coming through in this year's guidance. And as we project out, there's a big improvement from that in the 2020+ plan. And then finally, there was the airline subsidies and renegotiations. There are 2 of those that are in renegotiation now. We don't -- we've not completed any of those renegotiations. One of them appears to be getting pretty close to finish, and that will improve our cash flow further in the 2020+ plan. So all those things are driving things the right way. And we expect -- we had sort of targeted $200 million for EBITDA in 2020...

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

'22.

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

2022, I'm sorry, yes. I wish it was 2020. 2022. And I think we believe now that, that number will be substantially higher.

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

Do you expect to put a formal -- a more formal target around that or not so much?

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

I think what we'll do is let the year unfold a little bit. And at some point, it may make sense to do that, but I think the key takeaway here is that with the strengthening performance on the operating side and the underlining business, that we are certainly more sanguine about the future than we were in the middle of last year by [longest].

Operator

And your final question will come from Louie Dipalma with William Blair.

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

You guys did a great job of burying the lead here. Do you have any more color on the term sheet negotiations that you expect to execute with strategics before Q1? And does it involve selling an equity stake in the commercial division? Or would it be for an equity stake for the entire company? And secondly, did you say that there are multiple strategics involved? Or did you say that there's just one strategic involved?

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

Yes, Larry, let me comment to the degree we can on that. We are in advanced discussions with really a targeted set of select investors that are strategic and financial. As Oak mentioned, this does not involve the -- a sale of one of the divisions. It's a different approach where the capital would come into the company. And really, the objective of that is primarily to address the $162 million stub and really get the -- take the next major step in the balance sheet. So those are the primary things that we are looking at. We -- the things that we are looking at, most of them are less dilutive than the deal that we did last year. And so we'll have to see how that plays out. But we're very actively engaged in that process and as I've mentioned, are committed to getting that done by early May on our first quarter earnings call.

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

Oh, okay. And you announced an improved cash burn profile. Are you able to use some existing cash to refinance the $162 million stub? Or in other words, how much new cash do you need to raise to refinance that stub?

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

Yes, as we said, our cash outlook has improved substantially from where it was last summer. At that point, we forecasted a negative $50 million to $75 million cash balance. We're in positive territory. So we've said that we don't have to raise the level of buffer capital that we're thinking about then. We may not have to raise any. But I think it's fair to say that what we're -- we really looking to do is to raise enough money to address the convert and then maintain the cash for operations.

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

Okay. And a final one for Oak. Line-fit offerability over the past 6 years seems to have superseded quality of service and even price in many instances in terms of winning deals. You discussed Boeing line-fit offerability potentially later this year and Airbus next year. What remaining milestones are involved in this process to achieve line-fit offerability?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Well, I mean, they differ at both OEMs, and it would take me an hour to explain the process at both of them. But we are getting down to the final strokes on those processes, [it -- different spikes lead] at both OEMs also. Some of them are more fleet oriented. Some are more corporate wide. So we have -- we work very tightly in conjunction with the OEMs. The fact that we have service bulletins with them both now for a lot of the major fleets and that they are installing our equipment today under those service bureaus -- bulletins immediately after the equipment comes out of the factory, if you will, bodes very well for line-fit because it's that same design and installation that they would be using, the same equipment also that they would be using in a line-fit process. So that's kind of the last step right before line-fit. And as I'd noted in my comments, we've gotten in a lot of the major fleets at both OEMs.

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

Okay. And is the Boeing model for the 737 MAX?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

I'm sorry, no. The -- where we're doing service bulletin at Boeing right now is on the 787s. We hope to have the 737 MAXes soon. Yes, that's a very important...

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

Yes, is that the first one that you're targeting for later this year?

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

I'm not going to comment on that because Boeing would get mad at me, and I don't want Boeing to get mad at me.

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

One other question. I know you said you could explain this for an hour if there's a lot of engineering involved. But how does the process for the Airbus A350 differ from the A330 and the A320? I know in, I think, April of 2016, you signed an agreement with Airbus to be part of their connectivity program, but the A350 was omitted for that. And given Gogo's global coverage, it seems that the A350 would be pretty strategic for you. So I was wondering how like that aircraft model fits into the whole line-fit scheme.

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

Yes. So we're being installed by AIS. That's Airbus Industrial Services (sic) [Airbus Interiors Services], I believe the initials stand for. Right now, on the A350 as it comes off the line, and we're on a bunch of Delta A350s today. So that means we're not far from line-fit there. And frankly, having the equipment put on right after it comes out of the factory isn't that -- it doesn't add that much time for the airline. So they're willing generally to accept that as a solution. So the A350 is in there. Where we had problems this past year was the A330s and A340s because of the electronic transmitter -- locating transmitter, and there was a wind vortex issue. That held us up for about 8 months, and they couldn't install us post-production on those 2 fleets. That's been taken care of. The [ASSA] has approved the solutions, and we're ready to go back to installations on those aircraft now. So hopefully, that answers your question.

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

Louie, thanks for the questions. I think that'll conclude our Q&A session.

Oakleigh B. Thorne ***Gogo Inc. - President, CEO & Director***

So let me thank you all for attending our Q4 earnings call. And I'd like to leave you with a few thoughts.

First, we have a strong cash flow generating business in BA. And not only does it have a unique competitive advantage by virtue of our spectrum ownership in our ATG network, it also has attractive growth opportunities in new market segments, including the heavy global jet market and the light jet and turboprop markets.

Second, we're still investing in CA/Rest of World, but it's an extremely large and unpenetrated market. And our global 2Ku platform is very well positioned to attack the attractive long-haul, wide-body market, as Louie just mentioned. And we're building an important business across the world that we think will drive very good financial results for us in the long term.

Third, CA-NA has taken a big hit from the deinstalls I mentioned earlier, but it's going to return to solid growth in 2020 as increasing take rates drive ARPA and strong free cash flow.

Fourth, we're taking -- we're dealing with our balance sheet. We started with the step we took in November to address the $200 million converts, and now we're focused on dealing with the $162 million stub. And then we'll return our attention to refinancing our senior notes hopefully at a lower interest rate than we pay today.

And finally, by virtue of our industry-leading market share, we have the biggest scale in the industry. And scale economics are what it's going to take to win in this business.

So thank you for your time, and we look forward to talking with you again next quarter. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you all may disconnect. Everyone, have a wonderful day.

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