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GOGO - Q2 2017 Gogo Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gogo Inc. Second Quarter 2017 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Ms. Alva, Vice President, Investor Relations and Treasurer. Please begin.

Varvara Alva - *Gogo Inc. - VP of IR*

Good morning, everyone, and welcome to Gogo's second quarter earnings conference call. Joining me today to talk about our results are Michael Small, President and CEO; John Wade, Executive Vice President and COO; 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 on our earnings press release and are more fully detailed under the caption Risk Factors in our Annual Report on Form 10-K and other documents filed with the SEC.

In addition, please note that the date of this conference call is August 7, 2017. Any forward-looking statements that we may make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. We include an explanation of adjustments and other reconciliations of our non-GAAP measures to the most comparable GAAP measure in our second quarter earnings release.

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

After management's remarks, we'll host a Q&A session.

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

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Thanks, Varvara. Good morning, everyone. We had another excellent quarter, with revenue up 17% to $173 million and now have 2Ku service on nearly 250 aircraft across 9 airlines around the world. The launch of 2Ku on 5 airlines in the second quarter alone and investments in retrofit and OEM programs position us for a substantial increase in 2Ku installations after Labor Day this year and in future years.

2017 is revealing our leading technological and global operating capabilities as we lay the foundation for our continued leadership in what will be an enormous rapidly growing market. We expect our EBITDA to increase substantially in the second half of the year and into 2018. We reaffirm guidance of achieving positive free cash flow in 2019. In Commercial Aviation, the performance of our 2Ku technology is being recognized and experienced by airlines and passengers. Our announced awards of 1,600 2Ku planes are sizable relative to our 3,100 connected commercial aircraft currently in service.

By early next year, we expect enough planes in North America to have been converted to 2Ku to meaningfully improve overall network capacity and performance, including offloading some of the demand on our ATG network. In Q2, take rates in CA-NA increased more than 20%, and ARPA grew as we started to see the benefits of more bandwidth and the multi-payer strategy. In CA-ROW, revenue more than doubled over the previous year for the second quarter in a row on robust ARPA of $226,000 for the quarter, up 56% from a year ago. Based on the strong airline response to 2Ku, the cost and performance advantages of our airborne connectivity platform and our ubiquitous coverage, we expect to announce additional large commercial airline wins from around the world later this year.

Business Aviation continues to deliver exceptionally strong financial performance, with service revenues up 30% year-over-year and 44% segment profit margin this quarter. We see significant opportunity to continue to grow this business by expanding into adjacent market segments. We now have technologies that can address the full range of BA aircraft from small turboprops to private 747s. With its approximately 90% market share, strong service revenue growth and robust margins, Business Aviation generate significant value for Gogo's shareholders.

Our proprietary 2Ku technology continues to set the standard for aircraft connectivity in terms of performance, market adoption and cost. On performance, we deliver what we call 15, 98, 98. That means 15 megabits per second to the passenger device, service coverage on 98% of flight hours around the world, with service availability 98% of the time. No other provider can match this performance. But we're not standing still. The most recent example is our new satellite modem technology, which is now being rolled out into commercial service. This modem is capable of delivering more than 16x the throughput of Gogo's existing modem, a performance level which will support the increased capacity of next-generation high-throughput satellites as they continue to come online. The new modem will include dual channels to simultaneously support Internet traffic and broadcast TV -- IPTV. It also features faster and more sophisticated processing that enables much shorter handoffs from one satellite to the next, further improving our service availability. In summary, with industry-leading technology and established global operating capability, 5 new airlines online and all systems go for an acceleration of 2Ku installs after Labor Day, Gogo continues to fire on all cylinders. John will now review our operations.

John Wade - *Gogo Inc. - COO and EVP*

Thank you, Michael. During the quarter, we continued to focus on preparing for the upcoming ramp for Q3 and Q4 installations. We've also closely coordinated with our airline partners to ensure aircraft will be available to meet our agreed-upon schedules. As in 2016, we will see the majority of our installations occurring after Labor Day. The operational progress we have made is the basis for reaffirming our guidance of installing 450 to 550 2Ku aircraft during 2017 and for increasing installations beyond this level in 2018. We now have the capability to install our airborne connectivity systems at an unprecedented speed and scale, and it raised the bar for the industry on what is considered achievable. One of our most significant operational achievements this year has been to reduce the 2Ku installation time to less than 2 days, something none of our competitors come close to achieving. This progress results in significant cost savings for us and even more importantly, enables our airline partners to keep their aircraft in service and generating revenue. In parallel, we've been working aggressively to ensure we have the STCs in place to complete the installations in accordance with the schedules established with our airline partners. By Labor Day, we expect to have the STCs we need for over 90% of this year's planned installations. And by year-end, we'll have STCs for over 80% of the aircraft that can install 2Ku. We've streamlined our STC processes, which will reduce the costs of bringing new aircraft online as well as shorten the time between contract award and initial installation. Our OEM efforts also continued to show strong progress, with the first Delta Airbus A350 arriving in the U.S. just this weekend, meaning that Delta has taken delivery of the first OEM-installed 2Ku system. We're making good progress with Boeing, too, for the line-fit optionality on its Air France.

Turning to Business Aviation. It's a great business for Gogo, and it continues to operate highly efficiently, with strong operating margins. Gogo Biz 4G has now started shipping as planned. Our next-generation ATG solution is on track to be delivered in 2018. Our first 2Ku-equipped private aircraft is now in operational service, and we expect to see more orders this year for 2Ku in the VVIP market. We're also seeing ATG as option building in smaller and older airplanes, confirming the significant market potential across the entire business aviation market. With broadened technology portfolio offerings and increased connectivity platform capabilities, BA has a large runway for growth ahead, and we continue to penetrate the more than 16,000 private aircraft currently without connectivity. I'll now turn it over to Barry to discuss our financial performance.

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

Thank you, John, and good morning, everyone. Let's jump right into the numbers. We delivered another strong quarter of growth with $173 million in total revenue, up 17% from the prior year. Service revenue grew 21% to a record $154 million. Adjusted EBITDA of $9.9 million was lower than the prior year as it includes approximately $14 million in incremental expenses related to planned investments, all of which will continue -- will contribute to future growth and profitability. Included in these costs were investments to launch 2Ku service on 5 airlines, OEM program costs and next-generation ATG development. We previously provided guidance that we expect to incur approximately $50 million in incremental expenses during 2017 to launch new airlines and for next-generation ATG development. During the first half of 2017, we invested $30 million in these initiatives, which included some accelerated expenses associated with our OEM programs. We expect these expenses for the full year to be somewhat higher than previously planned.

Let me now turn to the results for our individual business segments. For Commercial Aviation North America, service revenue increased 10% over the prior year to $99 million as a result of an increased number of aircraft online to nearly 2,800 and stronger ARPA. For the quarter, ARPA grew 3% to $141,000 on 8% growth in passenger connectivity revenue and nearly 50% growth in passenger entertainment and connected aircraft revenue. Our take rate increased over 20% to 7.7%, up from 6.3% a year ago, largely due to the success of our multi-payer partnerships. We expect a continued uplift in take rates based on the additional bandwidth from more 2Ku aircraft online and the expansion of our multi-payer partnerships.

CA North America segment profit of $16 million reflects the impact of the investments we previously discussed, resulting in a segment profit margin of 16%. Excluding these investments, CA-NA segment profit margin was 20%, demonstrating the underlying profitability of this business.

Turning to CA Rest of World. Total revenue for the quarter more than doubled for the second straight quarter to $14 million, driven by exceptionally strong annualized ARPA of $226,000, up 56%, and a 28% increase in aircraft online. We expect ARPA to remain at approximately these levels for existing airlines, but we do expect some ARPA dilution in the coming quarters as new airlines come into service. We believe this ARPA performance demonstrates the strength of our ROW and North American business models made possible by more bandwidth availability and tailored airline partner connectivity programs. Aircraft online increased to 318, up 69 versus the prior year, and we will nearly triple this number as the more than 600 aircraft in backlog come online. We continue to expect roughly 150 2Ku installations for ROW in 2017. Rest of World segment loss for the quarter increased to $31 million from $23 million in the prior year and was up $5 million sequentially, reflecting the costs associated with bringing new airlines online, including 4 in CA-ROW during this quarter alone. It's important to view these ROW results in their strategic and financial contexts. We are clearly making significant investments to pursue the world's most important untapped connectivity opportunity, which is outside of North America. Based on the number of aircraft online and in backlog, CA-ROW have sufficient critical mass to achieve profitability. And we expect to announce more ROW airline wins this year. These factors meaningfully derisk the financial dimensions of pursuing this important market.

Let's now turn to our Business Aviation segment. BA continues to outperform. Total revenue was $58 million for the quarter. Service revenue was up 30% to a record $42 million, with a 17% growth in ATG aircraft online to over 4,400 and a 14% increase in ATG service ARPU to nearly $2,900 per month. Our unlimited Gogo Biz Data Pro plan, which was introduced in April of 2015, is being very well received by customers and is the primary contributor to these strong ARPU results.

BA equipment revenue was $16 million for the quarter. As John noted, we began shipping Gogo Biz 4G in June and have started recognizing some of the $5.7 million of deferred revenue. BA continues to achieve outstanding levels of profitability with segment profit up 33% to $25 million, representing a 44% segment profit margin. This is up 5 percentage points from last year, led by our high-margin service revenue.

Turning to cash and CapEx. We ended Q2 with $380 million of cash on hand, and the funds used during the quarter were consistent with our full year expectations. Consolidated cash CapEx of $66 million was $26 million higher than the prior year, largely related to increased airborne equipment purchases to support 2Ku installations. Let me expand briefly on the profile of our capital expenditures. As you know, a key driver of our CapEx spend is the capital we invest to bring new 2Ku aircraft online, particularly the cost and installation of airborne equipment. We believe it is helpful to look at the business before and after these success-based investment. Segregating the financials in this way helps reveal the underlying economics of the ongoing business by breaking out our co-investment with our airline partners for new installations. While this airborne equipment represents significant current investment, it is a source of future growth and profitability. We expect approximately 70% of the $230 million to $260 million in 2017 CapEx to be for the success-based 2Ku airborne equipment costs, and it will continue to represent a significant portion of our CapEx as we install our 2Ku backlog. The returns associated with this investment represent attractive customer economics, and we expect the net cost to Gogo for the airborne equipment and installations to come down in 2018 versus 2017.

As we look to the second half of the year, we reaffirm our 2017 and long-term guidance provided in the fourth quarter 2016 earnings press release. While our guidance remains unchanged, let me offer some additional perspective as to how we see the balance of the year unfolding. Based on the strength of our revenue performance, particularly from CA-ROW and our Business Aviation segments, we expect revenue to come in at the high end of the $670 million to $695 million range provided.

Regarding EBITDA, we have made significant investments in our next-generation technologies and bringing new aircraft online during the first half of the year. Based on expected revenue growth and some abatement in investments in the back half of the year, we expect EBITDA to approximately double from the first half of 2017 to the second half, putting us at the low end of the $60 million to $75 million EBITDA guidance we provided. We continue to expect EBITDA to be significantly higher in 2018 than 2017 and reaffirm our guidance of achieving positive free cash flow in 2019.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Ric Prentiss of Raymond James.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

A couple of questions for you. Obviously, you mentioned a couple of times you expect to announce additional large commercial around the rest of the world later in '17. Talk to us about how you're winning those awards, and also if there's any update on the process for Alaska and Virgin as far as what's important to that decision and timing.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Sure, Ric. So I think it is increasingly recognized by airlines around the world, particularly when you have a global coverage need, that 2Ku is the preeminent solution, as we described, 15, 98, 98. Secondarily, Gogo's operating capabilities around the globe are becoming industry leading, where our ability to take care of airlines, get their planes installed with minimum ground time and keep the maintenance levels high, that's being recognized that we're being able to serve airlines. So we're well advanced in a lot of processes with airlines around the world, and when the airlines are ready to announce, we will announce some significant wins this year. As far as your question for Alaska and Virgin, we don't, as a matter of policy, comment about specific deals. But we would reassert that our -- it's not just our coverage of Alaska and Hawaii, but it's the overall performance of 2Ku and our ability to serve airlines, I think, that will be our strong points as we pursue that airline.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

And the install time, getting the 2Kus down to under 2 days, that's impressive. Update us as far as how many lines you've got as far as getting 2Kus installed around the world. Obviously, it ramps up significantly after Labor Day. But just trying to frame your ability to hit that 450 to 500 this year and then a higher pace next year.

John Wade - *Gogo Inc. - COO and EVP*

Sure. The number of installation lines varies. Some are dedicated; some are more associated with kind of regular maintenance. There's sort of 3 major components you need to look at in terms of how you get this done, which is having the STCs, because that can be a real-time hog if you don't have them. And as we noted in the script, we're ready -- for this year, we're pretty much there. And by the end of the year, we'll have all the major STCs we need moving forward. Supply chain is the next bit of it. Can you get the parts there? And supply chain is set up well to -- ready to go, and we've got the commitments from the airlines with the installation teams trained. We have been very successful in terms of getting that installation time down to sub-2 days. And I think that, again, speaks to what Michael was talking about a minute ago about how we really are an operationally excellent company. And that's a significant competitive advantage.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

I imagine that's important, too, to get more awards, given the backlog.

John Wade - *Gogo Inc. - COO and EVP*

Absolutely.

Operator

The next question is from Robert Gutman of Guggenheim Securities.

Robert Ari Gutman - *Guggenheim Securities, LLC, Research Division - Senior Analyst*

So if you could provide some clarity on the installations in North America. In the second quarter, it seemed to be a pretty high number, significantly higher than what we'd expected. And also, just more broadly, given the pace of conversions, you mentioned that next year, you expect to be at a much higher level of capacity and performance in North America. Can you provide a little more color on that too, where you expect to be at the current pace of conversions by about this time next year?

John Wade - *Gogo Inc. - COO and EVP*

So when you say conversions, you're meaning the upgrades? Or you mean...

Robert Ari Gutman - *Guggenheim Securities, LLC, Research Division - Senior Analyst*

Yes, the upgrades.

John Wade - *Gogo Inc. - COO and EVP*

Sure. Through the rest this year, there's a lot of conversions that are happening, primarily with Delta. We are -- we'll be shipping north of 300 airplanes this year alone in terms of Delta, so probably getting closer to 400 overall, I expect. So that's a very significant number of the Delta aircraft. Outside of North America, there actually aren't that many conversions happening. A lot of them are new aircraft, which we'll be adding to the fleet. So next year, I expect you to see a significant number of aircraft added overall as opposed to conversions.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

And one other point. Subsequent to the end of the quarter, we activated our first American Airlines plane to 2Ku. So that actually was delivered early, and those conversions will begin this year and will accelerate into next year.

Robert Ari Gutman - *Guggenheim Securities, LLC, Research Division - Senior Analyst*

Great. Just some color about North American installations in the quarter? 77, I think was the number.

John Wade - *Gogo Inc. - COO and EVP*

Yes. It was primarily Delta. We had a number of Delta aircraft that were converted, and that was all part of the ramp-up that starts in the next couple of weeks here is making sure that all those installation lines and the crews are trained. And as part of that, we were able to show that significant improvement in installation time to getting it down to sub-2 days.

Operator

The next question is from Dick Ryan of Dougherty.

Richard Allen Ryan - *Dougherty & Company LLC, Research Division - VP & Senior Research Analyst of Industrials*

Say, Barry, the 248 aircraft 2Ku, is that current? Or is that at the end of Q2?

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

Yes. That's current.

Richard Allen Ryan - *Dougherty & Company LLC, Research Division - VP & Senior Research Analyst of Industrials*

So that's as of today. What would the number have been at Q2? And just as housekeeping, do you have that total 2Ku number for March?

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

It was 226 installed.

Richard Allen Ryan - *Dougherty & Company LLC, Research Division - VP & Senior Research Analyst of Industrials*

Okay. For June?

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

For June. Correct.

Richard Allen Ryan - *Dougherty & Company LLC, Research Division - VP & Senior Research Analyst of Industrials*

And sorry, but do you have the margin number?

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

We'll pull that up for you.

Richard Allen Ryan - *Dougherty & Company LLC, Research Division - VP & Senior Research Analyst of Industrials*

Okay, sure. Going on to the next one. You said the incremental spend of $30 million in Q1 for 2Ku and NexGen might need to be ratcheted up from the $50 million previously guided to. I was wondering is there any color as how much of that spend may be incurred in Q2 -- or second half of the year? And what that spend might look at next year?

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

Yes. First, let me just clarify a little bit what we've said, Dick. So the guidance for the year is for $50 million in incremental spend over 2017 -- excuse me, over 2016. Of that $50 million, $30 million was for bringing new aircraft online, and $20 million was for next-generation ATG development. So we incurred more than half of that during the first half of the year in addition to the OEM support costs to bring the Airbus line-fit opportunity online. So the amount that we'd said is that we expect that $50 million number for the year to be somewhat higher, and that's what is pulling the EBITDA guidance down to the lower end.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

And to follow-up on your earlier question. We had 156 2Ku installs at March 31 and 226 installs at June 30. So we did 70 during the quarter.

Richard Allen Ryan - *Dougherty & Company LLC, Research Division - VP & Senior Research Analyst of Industrials*

Okay. And Michael, just a quick one. Pricing strategy -- 2Ku versus your ATG pricing strategy. Can you talk a little bit about your current thoughts there?

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Well, our general approach will be to take pricing down and more than offset that by increased take rate to continue to grow ARPA and stay on -- and we're on track to double ARPA from when we made the forecast through 2021. And we're still on pace for that. We are doing a lot of trials with different airlines on how to best do that. And increasingly, our strategy will be airline-specific. It will not be one price fits all. It will be tailored to the desires of each of our airline partners.

Operator

The next question is from John Hodulik of UBS.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Just maybe a follow-up on the last question. Barry, you'd said in your prepared remarks that you expected some dilution on the ARPA side. Was that just Rest of the World? And then I did notice in the U.S., you did see some deceleration in ARPA from like 6% to sort of in the high 2s. I guess, again, following up, I mean, are you seeing higher ARPA as you shift these planes to 2Ku? And are you sort of executing on -- just I'd love to hear what you're seeing in terms of as you do cut prices, what kind of lift you're getting and from an ARPA standpoint.

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

Sure, John. So first, regarding your question about ARPA relative to ROW, yes, that's what we were talking about on the dilution. There are really 2 components to that. It's the seasoned aircraft online, which are -- really driven the significant acceleration in ARPA that you've seen there to an aggregate $226,000 for the quarter. We expect those levels of ARPA for the seasoned aircraft to remain in that general ZIP code. That overall ARPA will be diluted beginning in the back half of 2017 by the new aircraft coming online, because as we mentioned, 150 of the installs this year would be attributable to ROW aircraft. So that meaningfully dilutes the ARPA. But that's a meaningful number of aircraft, and that would have some ARPA dilution during the course of the year.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Okay. But you expect to see continued growth in ARPA in the U.S. as you move to 2Ku?

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

Yes. That's exactly what we expect to do. And it's really driven by the same dynamics, which is that -- the combination of more bandwidth and tailored airline programs that enable us -- enable them to take advantage of that bandwidth. So as that bandwidth comes online, we expect the increased usage to more than offset the per unit decline that Michael described that we expect over time.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Okay. And lastly just one question on the NexGen ATG network. Can you talk about the costs associated with rolling that out? Sort of where you are in the sort of planning and deployment there, and when we can expect to sort of have planes installed that can utilize that new capacity.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Yes. We're very excited about NexGen ATG, and it will be deployed next year. It will be a significant competitive advantage for Gogo both in performance and costs. We now have received the prototype equipment in our own lab. We're testing it. We are still achieving the 130 megabits per second or higher. And we will have it flying on our plane approximately the first of next year. It'll be very late this year, first thing next year. And we'll be in commercial deployment. But all the components are coming together. It's staying right on schedule, and it's performing great.

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

And on the cost side, it's very much on track. So we're pleased with it on both the performance side and the budget side.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

So the development costs, we had said it would be an extra $20 million of R&D this year. It will be no more than that, so we're staying right there. The $50 million CapEx deployment will be largely next year, a little this year, a little in '19, largely next year. And that's staying right on track. And the cost to install a plane will be ATG range, dramatically less than satellite. It'll also be a very low cost per bit to produce. So the numbers are great. And finally, it will be an overnight install, which our airline partners will appreciate.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

So, Michael, do you think you can start installing planes in 2018 with the NexGen ATG service?

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Correct. Both in BA and in CA.

Operator

The next question is from Philip Cusick of JPMorgan.

Sebastiano Carmine Petti - *JP Morgan Chase & Co, Research Division - Analyst*

This is actually Sebastiano on the line for Phil. Just a quick follow-up on the level of RFPs. And it sounds like you guys feel good about additional wins in the back half. And in the past, you had noted that the lack of line-fit was one issue that had come up. Are you seeing a meaningful difference now that you have Airbus line-fit? And I think you did mention also Boeing line-fit. But any idea on the rough estimate of timing of when you look to achieve that? And then I had another just high-level question. You did reiterate your, I guess, conviction for long-term guidance, I think particularly free cash flow generation by 2019. But is it safe to assume that the other long-term guidance that you've laid out in the past of, first, doubling of ARPA, 30% consolidated adjusted EBITDA margins, et cetera. Do you also have a high level of conviction in achieving that long term as well?

Michael J. Small - *Gogo Inc. - CEO, President and Director*

I'll answer the second part first, and then turn it to John Wade to answer the first part. But yes, we stand by our previously issued long-term guidance to generate free cash flow in 2019 and to double the ARPA by 2021. And just generally see a strong ramp in the profitability of all business units, including ROW.

John Wade - *Gogo Inc. - COO and EVP*

About the question about OEMs. As we mentioned in the script, we actually did deliver the first factory-fit Airbus aircraft just this weekend. It arrived in Atlanta, actually, just last night. So that's a major step forward. We expect to have full Airbus factory-fit installations in 2018. We actually also expect to have our first Boeing factory-fit OEM installation rather -- right around the end of this year on the 787. And we expect to have full lines of optionality either late 2018 or 2019 for Boeing --

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Sebastiano Carmine Petti - *JP Morgan Chase & Co, Research Division - Analyst*

I have a one quick follow-up, if I could. I guess it was on the 27th, Global Eagle and Shareco kind of announced that, that wasn't kind of going forward. Have you had any additional conversations with them perhaps? Or any update maybe about revisiting your previous agreement?

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Again, we won't comment on specific negotiations. But as we indicated coming into this year, we've increased our resources in Asia Pacific regions, and We now have that well staffed. And we are going to be aggressive there in that area of the world. And Hainan is a large airline, so that would be one of the targets. We do target large fleets. We just we think it is a much more efficient way for Gogo to grow at this stage of the industry.

Operator

And the next question is from Simon Flannery of Morgan Stanley.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

I think you made some comments during prepared remarks about opportunities in the multi-payer models. So perhaps you could just expand on what opportunities -- are we going to see things like the T-Mobile deal, opportunities for sponsorship or, indeed, full airline pay, where they offer it free to the customers? And then on the 2Ku, just coming back to that, you've now had a little bit of experience of taking an ATG plane and having it run with 2Ku for a few months at least. So what sort of uplift in ARPA are you seeing for those apples-to-apples type planes?

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Simon, yes, exactly as you describe. T-Mobile as an example of a third party paying, and we've often referred to Japan Airlines as being an example of an airline paying as a result -- as compared to our traditional model of the passenger paying. We do expect future deals like that. And basically, what permits those deals is having the bandwidth to take on the additional volume. And as 2Ku comes into the market, we will do that. So this is a timing issue. We don't want to get too far out in front of that, of the additional capacity, as we indicated in the script. By early next year, there will be a material change in the amount of capacity, particularly in North America. About 300 more Delta planes will have been converted by that time, or during the course of this year. So that's a -- will be a pretty significant change. We aren't yet reporting on 2Ku uplift. As I think a lot of people have observed flying, we're trying a lot of different new pricing models. I would not say any of them are indicative necessarily of where we're going to go for the long run, other than to say that they will increasingly be tailored to the airline's preferences. Some airlines, like Japan Airlines, may pay for 100% connectivity. Other airlines may do a lesser amount of airline paid connectivity and collect more from the passenger. I think there'll be a wide range. We now have served over 1 million sessions on 2Ku flights. And the performance is great. The speeds are high. And that gives us a lot of flexibility on how to price this going forward.

Operator

The next question is from Andrew DeGasperi of Macquarie.

Andrew Lodovico DeGasperi - *Macquarie Research - Analyst*

I guess, my first question. You released a statistic not too long ago that 80% of passengers on global flights use a mobile device versus 40% to 50% in the U.S. I was just wondering, is that 80% statistic spread out across airlines? Or do you think it was skewed towards JAL? And then secondly, I know ViaSat and Eutelsat are suing Inmarsat in Europe for their plans to develop an underground network there. I noticed that Panasonic Avionics joined that lawsuit. I was wondering why did you decide not to as well?

Michael J. Small - *Gogo Inc. - CEO, President and Director*

The first question, slight skew towards Japan Airlines. But remember that there's about 77 planes in Japan Airlines and there's 180 plus aircraft on Delta International. So Japan Airlines can only weight it so much. So they're very high mobile usage in general on international flights.

And on the second question, I do believe Inmarsat has taken an extraordinarily liberal interpretation of the rules to implement their European network. But we -- we're focused on winning on the playing field and think we have far superior service regardless.

Operator

The next question is from James Breen of William Blair.

James Dennis Breen - *William Blair & Company L.L.C., Research Division - Communication Services Analyst*

Just a couple of questions. One, on the incremental $50 million spending this year, I think Michael had said that the -- on the NexGen ATG, it's going to be around that $20 million range, so it implies that the rest is coming from the other $30 million. Is that in anticipation of winning more deals? Or is that because of the install rate picking up? And then secondly, as you look out into the future, you're obviously seeing good contribution margins on the EBITDA side now. It seems to me the only thing that would slow that down is increased wins and more success-based costs in capital. As you look at the competitive environment and some of the RFPs that are going out, are there any large airlines out there that could potentially significantly impact that EBITDA growth? Or are most of the deals at this point, 50, 60 planes at the most, and it's just a matter of getting a larger volume of those deals?

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

Yes, Jim, let me take the first part of your question about the incremental spend. So the other part of the incremental spend outside of NexGen ATG is primarily in 2 buckets. It's bringing the new aircraft online that includes some onetime costs, particularly like STCs. It includes a global operations support, so there's heavy investment at the front end of that process, and then you get the benefits of that over time. And the other investment is satellite capacity. So there's some upfront investment to provide global coverage. But obviously, as you add planes and revenues, it significantly leverages that investment. The other part of the investment that we're making that came through in the second quarter was for OEM support costs. Airbus expenses were accelerated during the quarter to -- into that quarter as we take advantage of that opportunity. You see the results of that with the first A350 coming online. So the combination of those 2 factors are the ones that we expect to be a bit higher for the year. And that really is tied to the success in winning airlines and bringing them online.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

And as far as new airline wins, we forecasted an ongoing rate of new airline wins, and we target the larger airlines. And by large, 100-ish aircraft is what's realistic out there right now. You can do something more than 100 aircraft in a win, and you can do something less. But that's a general ZIP Code of what a good win in the marketplace is today. And I think we've largely captured in our forecast what we expect to win.

Operator

(Operator Instructions) I would like to turn the call back over to Michael Small for closing remarks.

Michael J. Small - *Gogo Inc. - CEO, President and Director*

Thank you, everyone, for joining the call today. We look forward to the remainder of the year as we ramp the 2Ku installations and announce additional airline awards. Thanks, everyone.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day