

Iridium, Inc.

NASDAQGS:IRDM

Analyst: Brian McCune

Sector: Telecom Carriers

BUY

Price Target: \$14.67

Key Statistics as of 5/1/2015

Market Price:	\$10.24
Industry:	Satellite Telecommunications
Market Cap:	\$968.2 M
52-Week Range:	\$6.12-11.36
Beta:	1.14

Thesis Points:

- Increasing demand for data services across maritime, land, and aviation segments
- Launch of next generation satellite constellation
- Improving competitive advantages
- Decreasing CAPEX

Company Description:

Iridium Communications Inc. is a leading provider of Mobile Satellite Services and products which range from personal satellite phones to networked fleet tracking services. Iridium operates 66 cross-linked Low Earth Orbit (LEO) satellites which allows for both data and voice to be transmitted across oceans and continents alike. The company's satellite constellation is used by the U.S. Government, private businesses, and individual customers. In 2010, the company began development of "IridiumNext", a next generation satellite constellation. The company was founded in 2000 and is headquartered in McLean, Virginia.



Thesis

Iridium Communications Inc. will experience incredible growth in 2015. The company will begin launching their new “IridiumNEXT” satellite constellation in late 2015 which will drastically improve bandwidth capabilities, transfer speeds, and overall reliability. An upgraded network will create new and exciting areas of product and service growth in both established and emerging markets, thus generating value for customers and shareholders alike. Iridium has proven their ability to grow market share in a growing market, a trend which will continue through 2015 and beyond. In addition to growing revenues, Iridium will also see a significant reduction in CAPEX through 2018 which will greatly impact the company’s stock price.

Revenue Growth

Revenues are separated into three categories: Services, Subscriber Equipment, and Engineering and Support Services. Service revenues are divided into two sub-categories, Commercial and Government. All revenues are allocated based upon the primary source of specific deliverables. Total revenues in 2014 were \$409M, a 7% increase over the prior year.

Service revenues include commercial voice/data transfer and machine to machine (M2M) data usage. The service stream also includes revenues generated from various government satellite support services such as tactical radio and imaging services (U.S. Department of Defense). Unlike commercial services, government service revenues are not based on subscription rates, but rather are contracted through five year periods. The most recent government contract was inked in 2013 and guarantees revenues of \$72M from October 2014 to the same month in 2015, when they will increase to \$88M for the remaining three years. Total Service revenues increased 6% in 2014 to \$310M (76% total revenue), driven by an increase in commercial voice, data, and M2M subscriptions.

Subscriber Equipment revenues include those generated from the sale of Iridium satellite capable equipment such as transceivers, phones, and accessories. Equipment revenues rose 7% in 2014 to \$78M (19% rev.) driven mainly by higher volumes of M2M and handset device

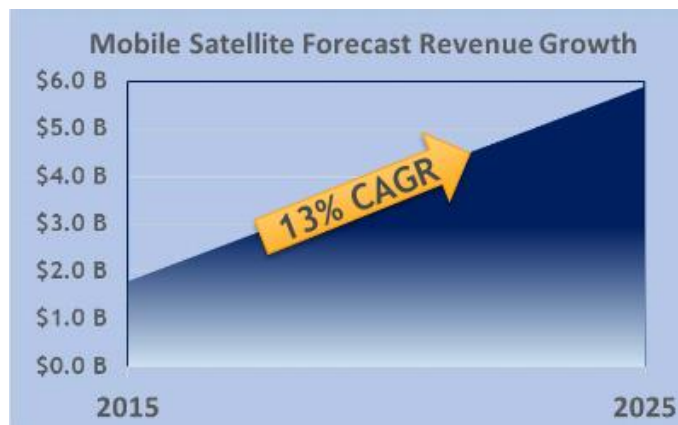
sales.

Iridium also provides engineering and support services to government and commercial customers. The company will aide customers’ efforts to engineer new technologies that can be used on the Iridium satellite network. Maintenance support services are also provided to customers, most notably for the U.S. governments dedicated gateway. Engineering and Support revenues increased 22% in 2014 to \$21M as a result of the government's modernization efforts heading into the transition to Iridium NEXT, the company’s next generation satellite service launching in 2015. Iridium expects that these revenues will continue to improve in the near term as the general scope of government services provided increases.

(\$ in thousands)	Year Ended December 31,			
	2014	% of Total Revenue	2013	% of Total Revenue
Revenue:				
Service revenue				
Commercial	\$ 243,875	60%	\$ 232,928	61%
Government	65,549	16%	59,164	15%
Total service revenue	309,424	76%	292,092	76%
Subscriber equipment	78,152	19%	73,303	19%
Engineering and support services	20,981	5%	17,254	5%
Total revenue	408,557	100%	382,649	100%
Operating expenses:				
Cost of services (exclusive of depreciation and amortization)	62,085	15%	59,346	16%
Cost of subscriber equipment	54,569	14%	52,062	14%
Research and development	17,587	4%	11,149	3%
Selling, general and administrative	78,656	19%	75,218	19%
Depreciation and amortization	72,769	18%	74,980	19%
Total operating expenses	285,646	70%	272,753	71%
Operating income	122,911	30%	109,894	29%

Catalysts of Revenue Growth

Iridium is currently the second largest provider of mobile satellite services (by revenue). In 2014, the MSS market reported \$1.8B in revenues. According to a report published by ResearchandMarkets.com total revenues in the MSS market are expected to surpass \$3.2B by 2020. The industry has a projected 13% CAGR between 2015 and 2025.



Iridium NEXT

Iridium is slated to begin launching their next generation “Iridium NEXT” satellite network in 2015. This new constellation began development in 2007 and is expected to be fully deployed by 2017. Iridium NEXT provides substantially improved; bandwidth capabilities, data transmission speeds, connectivity, and services. The network will run alongside the company’s current infrastructure. The new constellation will allow Iridium to address emerging data and satellite demands on a global scale, like mobile data transmissions from commercial airliners to the ground. Iridium will be the only company capable of handling the increasing data demands in all end-user segments.

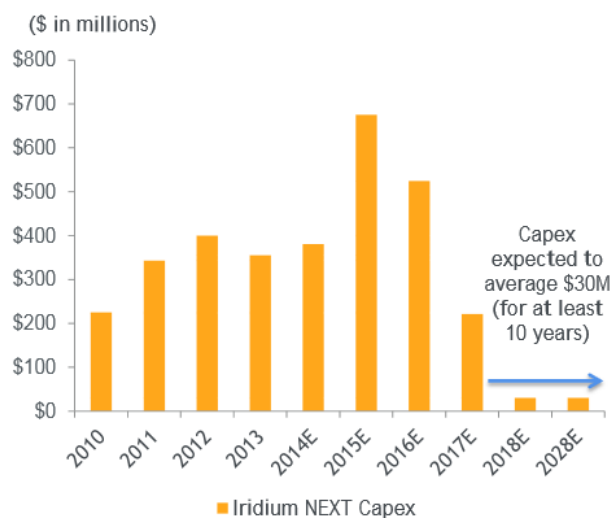
Geographic Expansion

Iridium plans to expand service and product offerings to growing international markets like China and India, two of the fastest growing economies in the world. Together, these two countries account for approximately one third of the total global mobile market. Mobile-to-mobile voice and data communication via satellite connectivity could prove to be a great improvement for those people located in remote areas of these countries. While personal satellite phone usage could create new areas of growth, most revenue potential in these economies will come from the rapidly growing M2M market through the Internet of Things (IoT), and increased demand for satellite tracking services for maritime and aerial vessels. Government contracts will also likely see an increase within these countries, although military applications may be limited due to the company’s current relationship with U.S. military and surveillance agencies.

CAPEX Reduction as a Driver of Growth

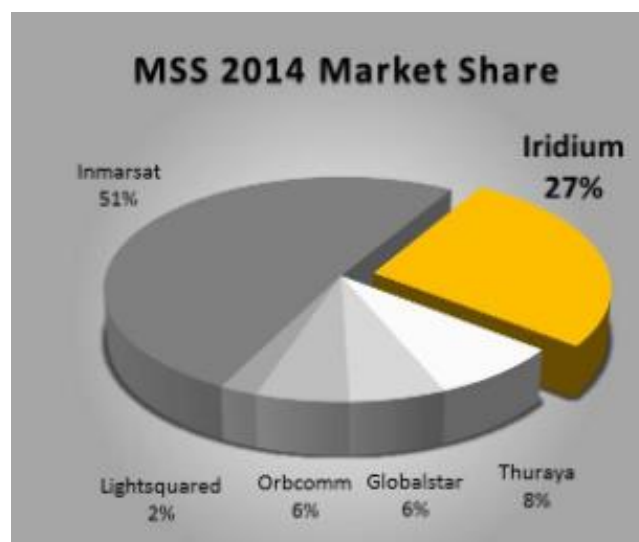
Iridium has had significant capital expenditures since 2010 which have had a negative impact on profit margins. The increase in capital expenditures can be attributed to development of IridiumNEXT and should be expected to decrease as the company moves through implementing the new network. Upon completion in 2017, CAPEX will decrease more significantly as costs of satellite production and launch are eliminated. A Monte Carlo simulation shows CAPEX to be the most important factor in stock value with a 66% contribution to variance. Iridium has stated that they will reduce CAPEX from just under \$700M in 2015, to approximately \$30M by 2018. Reducing CAPEX nearly

70% in three years will result in a 30% increase in stock price or two times its current valuation.



Competitive Landscape and Advantages

The Mobile Satellite Services industry is dominated by five major companies: Iridium, Inmarsat (ISAT LN), Orbcomm (ORBC), and Globalstar (GSAT). The industry has high barriers to entry, which limits the threat of new competitors. In their most recent 10-K filing (2014), Iridium states that “We compete primarily on the basis of coverage, quality, mobility and pricing of services and products.” Iridium is currently the only company which offers low-latency, real-time coverage that spans the entire globe, making them the industry leader in three of the four major competitive qualities. Coverage and service quality should only improve as Iridium NEXT begins to launch in 2015. For these reasons, Iridium will continue to increase market share in a growing market.



Why Buy?

I expect that Iridium will outperform analysts' expectations through 2015 and beyond as their next generation satellite constellation begins rolling out. The exact reach of this new network has yet to be seen which makes future growth difficult to quantify. I believe that this has caused the market to undervalue Iridium Communications, making this stock interesting to value and long-term investors alike. The company will continue to grow revenues by increasing their subscription base and maximizing the use of IridiumNext in emerging markets. More importantly, significant reductions to CAPEX over the next three years will launch the company's stock price out of this world. I believe that 2015 is the time to **BUY** Iridium Communications, Inc. (NasdaqGS:IRDM)

