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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Q4 2020 Gogo Inc. Earnings Conference. (Operator Instructions)

I would now like to turn the conference over to your speaker today, Mr. William Davis, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Deb, and good morning, everyone. Welcome to Gogo's Fourth Quarter 2020 and Full Year 2020 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 the conference call. These risk factors are described in our earnings press release filed this morning and are more fully detailed under the 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 March 11, 2021. 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 more information or future events.

During the call, we'll present both GAAP and non-GAAP financial measures. We've included a reconciliation and explanation of adjustments and other considerations of our non-GAAP measures to the most comparable GAAP measures in our fourth quarter earnings press release. This call is being broadcast on the Internet and available on the Investor Relations section of the Gogo 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 Thorne - *Gogo Inc. - Chairman, President & CEO*

Thanks, Will, and good morning, everyone, and welcome to our first quarterly earnings call as the new Gogo. Obviously, the highlight of the fourth quarter was clearly our completion of the sale of our CA business to Intelsat for $400 million. And today, we're a more focused company with an industry-leading technology, a strong market position, a dependable recurring revenue model and a stronger balance sheet, all positioning us well for long-term growth.

This morning, I'll walk through the highlights of our financial results of continuing operations for the fourth quarter and full year 2020, give some color on the market trends and competitive advantages that we believe will drive the new Gogo's long-term performance, and describe how those factors contribute to our outlook for fiscal 2021 and beyond. And I stress beyond because 2021 will still be impacted by COVID, and we'll still bear transition costs as we migrate from being a bigger unprofitable company to being a smaller profitable company.

Let me start with the fourth quarter results. The impact of COVID-19 on our 2020 results can't be overstated. However, I think our team managed extremely well in an extremely challenging environment. And I want to give kudos and thanks to them. We executed a comprehensive 16-lever cost reduction strategy that enabled us to preserve cash and run a leaner, more efficient operation. We completed the sale of the CA business, showing up the balance sheet and focusing our resources on an attractive resilient market where we have deep competitive moats. And we actually expanded our installed base, growing our ATG aircraft online, or AOL, by 2% year-over-year. Gogo delivered Q4 2020 total revenue from continuing operations of $77.6 million, down only 10% year-over-year, not bad when you consider that most business travel was still in a standstill in the quarter.

On a quarter-over-quarter basis, we obviously did much better as we were still coming back from the COVID low point that occurred in Q2, with total revenue growing nearly 17% from Q3, driven by a 7% increase in service revenue and a 57% increase in equipment revenue. Sequential service revenue was driven by a 4% increase in AOL and a 2% increase in average monthly connectivity revenue per ATG aircraft or ARPU.

Importantly, Gogo entered 2020 with 5,669 ATG subscribers online and ended 2020 with 5,778 subscribers online, topping our pre-COVID quarterly peak. On the equipment side, Q4 was by far our highest quarter of the year at $21 million, up from $13 million in Q3 and equal to our quarterly average for 2019. Total ATG units online set a quarterly record at 5,778 versus 5,669 at year-end 2019.

Total advanced units online reached 1,719 at year-end, up 532 or 45% from year-end 2019 and now account for 30% of the ATG broadband installed base. Later, I'll touch on why expanding the proportion of advanced platform users in our subscriber base is such a positive impact on Gogo over the long term.

In the fourth quarter, the business aviation industry generally proved its resiliency. We look at business aviation flight activity as a proxy for demand for our products. And in Q4, we saw a strong rebound in flights as more passengers shifted from commercial to business aviation travel and those passengers demand quality in-flight connectivity. Our customers flew 83% of the number of flights in Q4 2020 as they flew in Q4 2019, up from 81% in Q3 2020 versus Q3 2019 and up from 47% in Q2 2020 versus Q2 2019. In December, that number actually rose to 85% of 2019 flight counts and actually hit 100% for the last 2 weeks of December, and we continue to see improvement this year as flight counts rose to 86% of the 2020 count for January and 88% of the 2020 flight count in February.

We see the strongest performance recovery among our charter and fractional customers, which in February, flew 108% and 103%, respectively, of their February 2020 flight counts. Meanwhile, our corporate flight department customers have cut travel considerably. And in February, only flew 75% of their February 2020 flight counts. We think this bodes well for future business demand because we expect corporate flying to come back as vaccines are rolled out. And the leisure demand may wane a bit, we expect the aggregate demand for flights to be positive. And as demand recovers, we expect more aircraft to be pulled into service and more Gogo systems to be activated.

Usage is another important measure for us because it reflects the utility of our products to passengers and their demand to have connectivity on their aircraft. Overall, average data consumption per flight through the end of February 2021 was 20% above average consumption for the same period in 2020. And on major charter and fractional fleets, consumption per flight was 30% over pre-COVID rates, further demonstrating that reliable in-flight connectivity is more of a must-have than ever.

The impact on us of these trends has been positive. We had 567 gross ATG activations in the quarter, of which 349 or 62% were new accounts. And 218 of those were upgrades, mostly from our classic product line. We've also seen account suspensions, which spiked in the March, May 2020 timeframe, settled back down to pre-COVID levels. On an even more positive note, of the more than 1,100 account suspensions we suffered in the first 3 months of COVID, about 80% have come back with 93% of those choosing the same or a higher price plan. And of the 928 planned downgrades we suffered in that period, 87% have restored their old plans or bought upgraded plans.

In general, we had a very strong quarter. However, our profitability was negatively impacted by a $10 million accrual for the full year 2020 bonus payout. Normally, that expense would be accrued over the course of the year and wouldn't hit quarterly numbers with such magnitude. This occurred because as part of our COVID 16-lever cash management program, our compensation committee decided early last year that we would pay out 2020 bonuses in stock, which was recorded as stock-based compensation and excluded from adjusted EBITDA. However, once we completed the Intelsat transaction and had adequate cash on our balance sheet, the committee decided we would pay the bonus in cash, which led us to accounting for the full year bonus in 1 quarter.

Now let me turn to the new Gogo. We entered 2021 as an agile, niche-focused company. And we're looking forward to more comprehensively introducing the new Gogo more thoroughly to the market in the second quarter of this year. But today, I want to touch on the opportunities we see in front of us, and how we plan to take advantage of our core strengths to capitalize on those opportunities.

Let me start with the market opportunity. First off, though the business aviation market is relatively small compared to other mobility verticals, it holds a lot of opportunity for a niche-focused company like Gogo. 66% of the world's business aircraft are registered in North America, and more than 70% of those, roughly 18,000 aircraft do not yet have broadband in-flight connectivity. For the last 5 years, Gogo has added an average net of 400 aircraft online per year. And we feel we can sustain that pace or a little better over our 5-year planning horizon. We think a number of trends support that level of growth, including the growing demand for connectivity as COVID has led all of us to spend more time online than ever before. The uberfication of business aviation as more connected passengers turn to charter or timeshare models to access travel. The trend of commercial airlines cutting service to secondary markets. The desire of corporations to protect executives from health risks. And the fact that inventory of secondhand aircraft for sale has hit all-time lows, which should lead to more new jet orders and aircraft online for Gogo.

Now let me turn from the market opportunity to some of our core strengths, starting with our ATG network. Our ATG network and proprietary FCC license spectrum give us a unique advantage in serving the U.S. market over our traditional satellite competitors, providing positive, vertically integrated owner economics. Our equipment is small and light compared to satellite equipment and fits on midsized, light, jet and turboprop aircraft that cannot support the size and weight of satellite equipment. Even in the large jet market, we have more jets activated in the U.S. than all of our traditional satellite competitors combined because our equipment and service is lower cost and our services is of equivalent or better quality given its low latency. I should note, this quality aspect has improved considerably over the past 5 years as our former Commercial Aviation division has offloaded most of its mainline aircraft from ATG to satellite connectivity.

We anticipate that with advances in technology, namely electronically steerable array antennas, satellite antennas will get smaller over time. And as we invest in improving our ATG network, we expect ATG to remain competitive, especially in mid- to smaller aircraft that fly U.S.-based missions.

Speaking of investments in new ATG technology, let me touch on Gogo 5G. Our current Gogo 5G network upgrade will allow us to take advantage of the advanced platform's bearer aggregation capability to combine our 4 megahertz of licensed spectrum, the 60 megahertz of 2.4 unlicensed spectrum into what amounts to a single channel for our customers. This aggregation will allow for a significant expansion of capacity for most of the United States without the degradation that interference in the unlicensed band will cause for competitive offerings that rely on only on a licensed spectrum.

I should note that our portfolio of 349 patents includes patents related to this aggregation technology. We're extremely pleased with the progress our team and our partners, Cisco, Airspan and FIRST RF have made on this project. However, as is true of many projects in the telecom and satellite space, our schedule has slipped, primarily because of a supply chain delay for one particular micro chip, and we now expect to deploy the network in 2022 instead of 2021.

Now let me turn to the hidden gem at Gogo, our AVANCE platform. We've mentioned AVANCE to the street in the past, but I don't think we've done justice to how AVANCE is truly a software-centric platform as opposed to just a product. It gives us unique competitive advantage over our competitors who merely have products. So what do we mean by software-centric? We mean that like Apple, where iOS is the operating system for all of their devices, AVANCE is our operating system. And all of our devices, whether L3 or L5 on the plane or our applications in the cloud, on the ground, they all run on the same software. The AVANCE software has many platform advantages. It can support multiple barriers or networks, including satellite networks. In fact, as I mentioned, with 5G, it can aggregate multiple barriers or multiple networks into 1 channel, or SSID, if one wants to expand capacity for certain users on the airplane.

It's engineered to be extensible, easily supporting the addition of new products and features, which soon will be able to load over the air. For instance, today, our Gogo Vision IFE product is embedded in AVANCE, and can be turned on or upgraded remotely by simply turning a software key. This year, we'll enable on-air software updates, thereby saving customers time and money when installing new releases. This is especially important for fleet operators who're installing upgrades manually with USB sticks can take months for every release. AVANCE runs self diagnostics, and it reports them remotely, allowing us to often fix issues before the customer even notices an issue has occurred, and it does much, much more, and we'll talk about more in the future.

But the main point here is that we can do with minimal hardware upgrades -- I'm sorry, we can do all of this with minimal hardware upgrades because like Tesla, we do with software upgrades what competitors do with hardware upgrades, saving customers hundreds of thousands of dollars on equipment and weeks of downtime.

To prove that point, when we upgrade AVANCE L5 customer to 5G, most of the upgrade will be software. The only hardware needed will be one small box in the plane and 2 new antennas that fit exactly where the old antennas fit. The AVANCE platform also standardize componentry across all AVANCE devices, which drives down per unit cost and improves quality because our supply chain consists of a higher quantities of a less diverse component base. Needless to say, we're very bullish on AVANCE, and believe it gives us the flexibility to adopt and integrate new technologies as they evolve to both defend and grow our current market position, and also attack new market segments in the future.

The last core strength I'd like to describe today is the deep relationships we have with our customers and distribution partners. We've been building and delivering products to our partners and customers for more than 20 years. And in the case of our distribution partners, we've been making that money for more than 20 years. We've dedicated -- we have dedicated sales forces focused on the OEM and dealer markets. Our line fit at all 9 of the major business aviation original equipment manufacturers, and we have a network of 120 dealers worldwide that includes all the major MROs.

It's significant to note that dealers invest in developing STCs for Gogo equipment because they're confident that they will sell enough installs to earn a return on that investment. And that's why today, 36 different dealers have 93 different supplemental type certificates for Gogo equipment, covering more than 200 makes and models of aircraft.

Likewise, OEMs invest in type certificates. And today, Gogo equipment is an option or standard on 45 different makes of aircraft. We also have dedicated sales teams focused on end customers and on strategic accounts to make sure that the ultimate user understands the benefits of our platform and pulls demand through the channel. These deep relationships and the teams we have working with customers enable us to drive product penetration very quickly once the product is released. We've sold more than 1,700 AVANCE units since we launched the product in 2017, and we believe that's more broadband IFC units than all of our competitors combined have ever sold into the VA market.

Now let me summarize our strategy as we go forward. First, we'll continue to enhance our ATG network to protect our core markets and drive penetration of the AVANCE platform; and second, as technology evolves, we'll layer new products and services on top of the AVANCE platform in order to drive improved product performance, thereby widening our competitive moats and driving customer loyalty.

Finally, I'd like to touch briefly on our financial strategy and trajectory and then turn it over to Barry to do the numbers. The last step in our transition to becoming a new Gogo is the refinancing of our current $975 million of first-lien notes and settling our $238 million of convertible notes. As of last night, we had cash on the balance sheet of $465 million, and as Barry will discuss in the midst of a refinancing aimed at lowering our leverage ratio and lowering our interest expense.

Strategically, we'd like to strengthen our balance sheet for 3 reasons: first, the more free cash flow we generate, the more we can take advantage of future investment opportunities should we see them; two, the stronger our balance sheet, the more resilient we can be against competition should it arise; and three, the more free cash flow we generate, the more quickly we can further delever and enhance shareholder returns.

Towards these ends, our approach to settling the converts will now be aimed at producing a stronger balance sheet, and we expect to settle them in shares for the amount then outstanding. In terms of our financial trajectory, our new 5-year plan projects 10%-plus revenue growth over the planning period, steady 35% to 40% adjusted EBITDA margin throughout the 5 years and significant free cash flow growth beginning in 2023 after the 5G network deployment is behind us.

Underpinning that thesis, is our ability to more fully capitalize on the competitive advantages of our industry-leading AVANCE technology platform, the deployment of the Gogo 5G network in 2022, and significantly reducing our debt service obligations. In the coming months, we look forward to sharing more about our long-term strategic plan and the outlook for the new Gogo.

In the meantime, I'll turn it over to Barry to do the numbers.

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

Thanks, Oak. I'd like to begin by highlighting 3 key themes running through my remarks today. First, the strong rebound in business aviation is driving continued improvement in our top line; second, the closing of the CA sale positions us to leverage the favorable economics of our proprietary ATG network, an industry-leading AVANCE platform enhancing the long-term value creation potential of our business; third, closing the transaction materially improved our balance sheet and financial outlook. This positions us well to execute a comprehensive refinancing this spring that will align our capital structure with our new business and result in rapid deleveraging.

Turning now to the details of our fourth quarter results from continuing operations. Total revenue for the quarter was $77.6 million. While this was down slightly, less than 10% from the prior year period, total revenue grew nearly 17% sequentially. This is solid evidence of the business aviation industry's continuing recovery from COVID. Service revenue was $56.9 million, down 3% from the prior year period. This was driven by a 4% decrease in average monthly connectivity service revenue for ATG unit online or ARPU. This decrease was partially offset by a 2% increase in ATG units online.

On a sequential basis, service revenue increased 7% as ATG aircraft online and ARPU both increased by 4% and 2%, respectively. Gogo delivered equipment revenue of $20.7 million in the fourth quarter of 2020. This was a 57% increase from the third quarter as both L5 and L3 AVANCE product shipments finished the year strongly. This growth is attributable to strong pent-up demand for the AVANCE platform, augmented by promotions that accelerated year-end shipments.

As Oak outlined, driving penetration of the AVANCE platform into our installed base and with new customers, is the centerpiece of our long-term strategy. Adding to the installed base of our AVANCE platform, we'll continue to build on our strong competitive position. Importantly, over 95% of units shipped in the fourth quarter were AVANCE, and the number of AVANCE units online increased 45% year-over-year.

Historically, our business aviation business has delivered very strong profit performance, stemming from the owner economics of our proprietary ATG network and the efficiency of our operations. We continue to maintain attractive profit margins even during the COVID pandemic. Our fourth quarter service margin declined only modestly year-over-year in spite of the COVID impact. In 2021, we expect service margins to contract somewhat, mainly due to increased data center and network operations costs. Some of these increased costs are transitional as they relate to the separation and migration activities following the sale of our Commercial Aviation business to Intelsat. Our revenue and gross margin percentages will also be modestly affected by our ongoing relationship with Intelsat as a customer.

As a reminder, Gogo entered into a 10-year network services agreement with Intelsat in conjunction with the sale of CA. Intelsat maintains exclusive access to Gogo ATG services for the CA market in North America, provided it meets minimum revenue guarantees over the course of this 10-year period. Based on the current schedule for the Gogo 5G launch, these revenue guarantees are expected to total $177.5 million.

With the sale of CA, Intelsat revenue share will now be reported as service revenue and all ATG network costs are included in cost of service. Prior to the sale of CA, ATG network costs were shared between our BA and CA-NA segments. These changes do not meaningfully impact business aviation gross profit in the near term from what we would have expected if BA and CA remained as a combined entity. However, with the launch of 5G and the associated contractual increase in the revenue share percentage, we do expect revenue from Intelsat to ramp over the long term.

Our equipment margin declined from the third quarter and from the prior year period. This decline is attributable to a $2.6 million inventory reserve taken in the fourth quarter, tied to the expected transition from our older classic ATG product line to our AVANCE platform. We expect equipment margin percentages to remain approximately flat for the full year 2021 versus 2020.

Now let's turn to a discussion of OpEx. Combined ED&D, sales and marketing and G&A expenses increased to $30.4 million in the fourth quarter of 2020 from $25.7 million in the fourth quarter of 2019. This was primarily due to an increase in G&A spending and an increase in employee bonus expense, which I will further explain in a moment.

In 2021, we expect operating expenses to increase due to 5G development spend and investment in sales and marketing activities that were largely paused during COVID-19. We expect general and administrative expenses to be approximately flat year-over-year, driven by growth in nonrecurring IT-related separation and migration costs associated with the CA sale, offset by a reduction in corporate costs. We plan to exclude the separation and migration costs from adjusted EBITDA in future periods to allow for greater comparability. We stated on our third quarter call that we expected to reduce total G&A expense meaningfully beginning in 2022. We have now quantified these anticipated savings and expect G&A expense to be approximately $10 million lower in 2022 versus 2021.

Turning now to our bottom line performance. Gogo's fourth quarter adjusted EBITDA was $19.3 million, a decline from $36.2 million in the year ago quarter. On our third quarter call, we noted that we expected our fourth quarter adjusted EBITDA to decline sequentially from $30.2 million due to increased engineering, design and development expense. In addition to the increase in ED&D expense we planned in the quarter, our adjusted EBITDA results also reflect an additional $10 million of employee bonus expense, as Oak highlighted.

We had previously assumed that the annual employee bonus will be paid in stock and therefore had recorded the bonus expense and stock-based compensation, which is excluded from adjusted EBITDA. However, after closing the sale of the CA business in December and based on our enhanced liquidity, we felt we were in a position to revert back to our traditional practice of paying the annual employee bonus in cash. This resulted in us recording bonus expense for the full year in December, negatively impacting adjusted EBITDA by $10 million.

Before I move to a discussion of some of Gogo's strategic priorities and our balance sheet position, I'll briefly summarize our full year 2020 results from continuing operations. Our business performed well in 2020 despite the effects of COVID-19. This reflects the resiliency of our subscription-based business model, the underlying demand for our services and the underpenetrated business aviation market and our active expense management. Gogo generated total revenue of $269.7 million in 2020, a decrease of 13% from 2019. Service revenue of $212 million declined just 4% from 2019 despite the impact of COVID, a significant testimony to the quality of the business.

Equipment revenue was impacted more severely as customers delayed purchase decisions in the midst of COVID-19. We ended the year at $57.7 million, down 34% from 2019. We posted adjusted EBITDA of $98.3 million compared to $121.8 million in 2019. A particular significance is that during this COVID-impacted year, we were able to achieve an adjusted EBITDA margin percentage, which was approximately on par with the average level achieved for the previous 4 years. 2020 was certainly challenging, but having weathered the depths of the pandemic and completed the transformative sale of the Commercial Aviation business, Gogo exited the year a stronger, more focused company.

Now I'll turn to our balance sheet, which represents our next major opportunity to improve the financial foundation of Gogo. I mentioned at the beginning of my remarks that the sale of the CA business materially improved our balance sheet. We ended the fiscal year with a cash balance of $435.3 million. This number reflects the proceeds from the transaction, net of transaction-related fees, residual CA costs, CA employee and deal-related bonuses and the repayment of our ABL facility, which had $19.1 million outstanding and is now 0.

At year-end, the principal value of our total debt outstanding was $1.213 billion. As of March 9, Gogo had $465 million of cash, up $30 million since the end of last year. This growth in our cash position during this relatively short period, demonstrates the already meaningful cash flow generation of the BA business. I want to highlight one point relating to the accounting treatment of Gogo's debt, which is tied to the covenants in the senior notes indenture that govern the use of proceeds from certain asset sales. If we don't use the net cash proceeds from the CA sale by December 1 of this year to repay certain debt or invest in our business, we will be required to offer to repurchase senior notes in a principal amount equal to the net cash proceeds, which we calculate as approximately $341 million. We have, therefore, reclassified this amount from long-term to current debt. Our expectation is that the comprehensive refinancing we plan to complete in the next several months will satisfy this near-term obligation.

We are now set up well to refinance our balance sheet on much more favorable terms. This is based on the attractive structure of the business aviation industry, along with our strong market position and compelling business model, combined with the resiliency of our results during the COVID crisis. Our strong cash position also positions us well to execute on our planned refinancing. Over the past several months, we have developed robust strategic and long-term financial plans. And in light of continuing favorable credit markets, we are now moving with urgency on this important initiative.

An important objective of our refinancing is to reduce our leverage. We regularly consider refinancing, liability management and other transactions with the goal of improving our balance sheet, and certain of our investors often share their ideas with us for how we can optimize our capital structure. In this regard, we have been approached by certain holders of our convertible debt and are currently evaluating their suggestions relating to potential deleveraging opportunities. We believe that we can reduce our annualized interest payments by at least $50 million through this comprehensive refinancing, which would put Gogo on a path to significantly delever and strengthen the balance sheet going forward.

In addition to the comprehensive refinancing opportunity in front of us, Gogo's cash generation potential is enhanced by the significant tax assets we retained after the sale of the CA business. As of December 31, Gogo had over $800 million in federal net operating loss carryforwards and federal interest expense carryforwards. While the gain from the CA sale will modestly impact our NOL balance, these represent significant tax assets that will benefit Gogo for years to come as our business turns net income positive. Additionally, if the change of control were triggered under the IRS rules, we would expect to retain a substantial majority of these tax assets under current tax laws.

I'll now turn to a discussion of our outlook for 2021 and beyond. I'd like to start by providing some background on our planned 5G investment. As Oak described in some detail, the deployment of our 5G network is a near-term strategic priority for us as we look to deploy our nationwide network by the end of 2022. We plan to approximately double our 5G program investment in 2021 for external development and deployment costs, which will be reflected in both OpEx and CapEx. We expect 5G OpEx to peak in 2021 at approximately $12 million and CapEx to be about $12 million as well for this year. We expect CapEx costs to be concentrated in 2022 based on our plans for completing a nationwide 150 cell site network by the end of that year.

Our expectations for the total cost of the 5G network have not changed from the figure we initially quoted more than 2 years ago. We continue to expect to invest approximately $100 million in external development and deployment costs, split approximately 1/3 for CapEx -- excuse me, 1/3 for OpEx and 2/3 for CapEx. Based on our current plans, we will have spent approximately $41 million of this total amount by the end of 2021, including $24 million in OpEx and $17 million in CapEx. With the 5G deployment largely completed in 2022, we expect ongoing CapEx to be in the range of $15 million to $20 million a year beginning in 2023.

I'll now focus on our 2021 guidance. We believe that with the recovery from COVID-19 in the business aviation market well underway, as reflected in our financial results, we are well positioned for growth this year. We expect 2021 service revenue to grow at least 15% over 2020. We expect equipment revenue to remain flat or grow modestly in part due to the 57% sequential growth we saw in the fourth quarter of 2020.

With this context, we are providing the following financial guidance for 2021. We expect total revenue in the range of $300 million to $320 million. We expect adjusted EBITDA in the range of $105 million to $120 million. This adjusted EBITDA range includes approximately $12 million of 5G external development and deployment expense and excludes approximately $4 million of separation and migration costs related to the sale of the CA business. We expect capital expenditures in the range of $25 million to $30 million, with the majority tied to Gogo 5G.

Having now completed our 5-year plan, we would also like to share some of our long-term targets, which are as follows: at least 10% compounded annual revenue growth from '20 to '25, adjusted EBITDA margin of 35% to 40% throughout the planning period, and significant free cash flow growth in 2023 following our 5G network deployment in 2022. These targets reflect our current 5G investment plan. However, they do not reflect some additional strategic growth opportunities we may choose to invest in beyond this baseline plan. But let us be clear, we will only pursue these additional initiatives if they provide tangible strategic benefits and very attractive projected returns on our investment.

As this outlook demonstrates, we are looking forward to a bright future for Gogo, driving on our strong market position, our culture of innovation and the rebound of the industry as we emerge from the pandemic as a stronger, more focused business.

Finally, I want to reiterate Oak's thanks to the Gogo team for your unwavering focus and support through the challenges of this past year and our company's ongoing transformation. Your talent and commitment are the reasons we've been able to execute through the effects of COVID-19. You have positioned Gogo to be an even stronger company on the other side of the pandemic. We can't thank you often enough or deeply enough. You are our company. So thank you again.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Scott Searle with ROTH Capital.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Oak, Barry and team, I hope you guys are all healthy, safe, your families and your teams. Congratulations on the quarter. It's hard to imagine 12 months ago heading into the pandemic we'd be sitting here today talking about the new Gogo with this kind of financial performance. So congrats again.

Maybe just to quickly dive in. Oak, I'm wondering if there's any additional color or metrics as it relates to now the core BA services business related to geographies or 10% customers? Any color that you can provide there? It seems like there's a lot of disparity in terms of some of the flight data related to the Northeast versus the South. Do you have any other exposures there that we should be thinking about?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Well, in terms of geography, we're obviously mostly U.S. bound because that's where our ATG network is. In terms a slight pattern, I mean, I don't think there's anything that is going on that negatively affects us. We see flights this year, during COVID, have been slightly longer. People have been traveling further distances. Data consumption has been up, as we noted. There's more flights per aircraft. That's because the charter and timeshare folks are really getting hit hard, they've got a lot of demand. So I think that's good because they will press more aircraft into service, which would mean more installs for us. So we like that trend. So Scott, does that answer your question or are you looking for something else?

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

No, just looking for any sort of geographic mix within the United States. I know places like Florida, Southern California had a lot more flight activity than the Northeast, for instance. But you guys have been growing faster than the industry in terms of the recovery of aircraft that are online as well as your revenue per aircraft. So I just didn't know if there was any additional color or things that you're thinking about in terms of metrics going forward on that front, although you provided tremendous amount of granularity today.

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes. I mean I think that in one sense, we're fortunate in that we're so North American-centric because where you see business aircraft really taking a hit is in global travel, and there's very little global travel taking place right now. So if you're -- if most of your installed base is in large jets that are flying internationally, flights are down. Now most of those competitors there are on service plans. So if people don't cancel, that doesn't matter that much, but if they do suspend their accounts while they're on the ground because they're not flying, obviously, that would hit their revenue.

We've been fortunate and it's bounced back very quickly here. We're not all the way back, but we're close to former flight levels. And as I noted on the call, we've had suspensions, but most of those have come back. There's still some out there, but not that many. And hopefully, we'll get those back over the next couple of months, and we had some planned downgrades to pay as you go. So people wouldn't have to pay while their planes are on the ground, but the plans have really come back strong. And a lot of people have actually bought up as they came back, so that's been helpful. And that's why we had a bounce back in ARPU.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Great. And if I could just, Barry, a clarification on the OpEx. I think you said $12 million this year for 5G. I want to make sure is that what flows through the P&L, is that the total cost or is some of that being capitalized just in terms of how we think about that? And then also, the component availability impacting the deployment. Is that having any impact in terms of your ability to deploy just ATG equipment on the aircraft themselves, the L5 AVANCE solution?

And lastly, if I could, Oak, that 10% long-term growth target, I'm wondering how you think about it in terms of penetration of the different aircraft. Turboprop has been a very underpenetrated category in general, but smaller aircraft. I mean, are you seeing enough opportunity in the larger aircraft that's really driving that 10%-plus growth over the next 5-year period?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes, I'll start with the 2 parts of that, and I'll turn it over to Barry for the first part. We're not counting on a lot of turboprop penetration to drive that growth rate. That growth rate is -- just under 8% of that is units and the rest is ARPU. So we see that opportunity, frankly, in the light-, medium- and large-sized jets right now. And as we look at it, when we look at our addressable market, and we project forward 5 years, we are including the turboprop market in this data, the market is still 60% unpenetrated. So there's just a lot of room in this market to grow.

In Business Aviation, it's a slower adopter than Commercial Aviation or some other verticals. So the answer to the first question -- the last question is that we're not really counting on turboprop. The other question you noted was the delay in supply chain. Now really, we've gotten ourselves caught in the world, chip shortage crisis here a little bit and the demand that's hitting chip manufacturers, and there's just one manufacturer in particular that's a supplier to 1 of our partners in the 5G project that had to go back and retake a chip and had to get back in line behind a whole bunch of other demand. And so that's delayed us and pushed us into 2022. It doesn't affect L5 at all. It's a 5G chip. So that's what that situation is.

Barry, I'll turn it over to you for the first part of the question.

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

Yes. Let me comment on that, Scott. So the $12 million that we cited, so it's $12 million in OpEx, and then $12 million or so in CapEx. There's a few million dollars of capitalized internal costs on top of that, but the lion's share of that are the numbers that I cited.

Operator

Next question comes from the line of Ric Prentiss with Raymond James.

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

Glad to have 2020 behind us and navigated very well through it. And thanks for all the details today, a lot of visibility into stuff. I'd like to focus on the 5G project. Help us understand what kind of speed and capacity that's going to bring to your customers? And I think I heard you, but I want to just confirm what do you think that's going to help with ARPA?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes, I'll jump on that. We don't have exact data in terms of the speed, exact speeds because everybody plays with those numbers. And frankly, we don't want to get into that game of competition. But the way to think about it is that it is 10x faster than our classic ATG product and 5x faster than the current L5 speeds. So I think it's a significant improvement, and our customers are going to love it. So that was the first part of that, Ric. What was the other part of your question, I'm sorry?

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

Yes. So it's what it brings as far as capacity and also the ARPA transcend.

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes. ARPA, yes, it will help ARPA because 5G will be priced at a higher price than the classic product is in terms of service plans. And so yes, it's a bump to ARPA.

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

Okay. And to the previous question, I think you threw out kind of a thought about the 10% long-term growth rate, how much is units and how much is ARPA?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes. So about 8% units and 2% ARPA.

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

Okay. And then Barry, on the 5G spend, I think I heard through year-end '21, you'll spend about $41 million. So does that imply maybe $60 million gets spent in '22 with about $10 million of that OpEx and $50 million CapEx? Is that how we should think about that?

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

Yes. Most of it gets spent in 2022. Ric, there is a little bit of a tail on the spending beyond 2022 for CapEx. As you know, there are kind of 2 phases of the CapEx spend. Initially, it's to provide the nationwide coverage and then capacity gets added after that. But the lion's share of that CapEx spend is, I mean, within a few million dollars and is done by the end of 2022. And then OpEx is virtually all done by the end of '22, just a little bit left after that.

And I just want to make sure we talk about the -- importantly, the maintenance -- ongoing CapEx of $15 million to $20 million beyond '22, I think is a really important point because when you look at the cash flow generative capacity of the business, it really picks up after that investment bodes in 2022.

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

Yes, we really like looking at the free cash flow in valuing companies as well. When you think about margins, Oak, I think you mentioned that margins would be steady. Wondering why they couldn't grow over time given as you roll out a new network and then you sell extra revenue on top of it? What would keep margins in that 35% to 40% range instead of being able to grow over time?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Ric, I think they could grow over time. And we're probably going to start more towards the bottom end of that range and grow towards the top of it over the 5 years. We also -- if we see opportunities to invest further and enhance growth and enhance our margins, we will. And the AVANCE platform really does give us the opportunity to do that in a very cost-effective manner, which would help margins.

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

Great. Makes sense. And last one for me. You've mentioned -- go ahead, Barry.

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

I was just going to add to that, Ric, is that we do see very strong continuing margins on the service margin side of things. As we've talked about, a key component of our strategy is to drive the penetration of AVANCE and then 5G. So we've tried to be pretty conservative about what we expect equipment to be over time, and we want to be able to accelerate that equipment installation as 5G gets rolled out, too. Yes, we do get the benefit of the reduction in the G&A expenses also starting in 2020, too.

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

Makes sense. Last one for me. You mentioned growth initiative a couple of times. What is it -- is on the wish list that you would like to have or might be good to have just kind of thematically?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Well, an example -- 2 examples today would be, obviously, 5G, which is from an equipment perspective, if you have AVANCE L5, you're pretty much all the way to 5G. The antennas that are on the plane, they come off and other antennas go back in the exact same screw holes in the exact same place. So that's a very easy install. And initially, you're going to need to add a small box next to your AVANCE L5 box, but most of the workings happen in the software. Over time, we hope to not even have that small box that you have to add.

So that's an example of an upgrade to our current platform that will significantly enhance performance, and is really cheap to install because you're leveraging the AVANCE platform much cheaper than going to a competitive product. The Gogo Vision is another example, that leverages AVANCE today. And today, when we ship AVANCE software, Gogo Vision is already in there, it's got a key. And if you want to -- and we can do things like run promotions where we let people use it free for 6 months, and they have a right to buy it. And if they buy it, it's just turned on permanently with a software key remotely.

And that obviously is a very high-margin and helps ARPA over time. So those are examples. I don't think we want to get into anything too specific, Ric, in terms of what we're thinking about right now, just for competitive reasons. But I think we have -- we see a lot of different opportunities. We want to be very careful in selecting those and make sure that they give us strategic benefit as well as a very high return on invested capital for our shareholders. And I think we'll probably have more to say about those opportunities in the future.

Operator

Our next question comes from Louie DiPalma with William Blair.

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

Barry, can you reaffirm what you just discussed about the net operating losses, if there were to be a change in control? Did you say that now you would have the ability to retain them if there were a change of control?

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

Yes. So under the current tax law, we would be able to retain a meaningful majority of those under a couple of rules that apply to that. One is that the rule currently allows for a net unrealized built-in gain, new big. So the calculation is based on the value of the company and you can spread that over 5 years. So we would -- at current stock prices retain on the order of $500 million of those NOL values. So a meaningful portion and particularly when you look out across a 5-year planning horizon that it would really largely cover the income for an extended period of time.

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

I think that is material. And for Oak, many investors have used Gogo's or old Gogo's service on commercial airlines such as Delta. And at times, the user experience was poor due to capacity limitations. On the other hand, though, I have not spoken with any investors that have used Gogo's service on a private jet like a text on citation and Embraer Legacy or a Bombardier Challenger. And so I was just wondering how fast and what is the capacity for the Gogo network for private jets? And you discussed how the capacity has increased with the shift of traffic to satellite networks. And so I'm just wondering, does the private jet network support like multiple Zoom sessions at the same time? Does it support VPN? Any high-level color on like the overall quality of service would be helpful.

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes. I'll start with a funny little story, if you don't mind. Last week, an Embraer employee posted a video on her LinkedIn page showing her video conferencing over FaceTime. The FaceTime conference was with one of our partners who was flying in an Embraer Praetor, I think it was. And they were talking about the meeting he just had and he was -- it was live. It was video back and forth. And somebody typed in on the thread and said, "hey, so what do you have -- what connectivity do you have on that plane?" And they say, well, we've got Viasat and we've got L5.

And so a Viasat person was watching and they say, "oh, great, great to see the Viasat system working so well." And then another person typed, "on which system it was running?" And they responded, "that was L5." So L5, you can have a variety of different experiences with our product, depending on which product you have and what plans you buy, right?

So L5 delivers much more -- much faster speeds than the old classic product does. And so you could run into it, if you got on a plane that was very crowded. And I've been on a plane with like 15 people using the Internet all at once on an old classic product. And you could get timed out and you could have a bad experience. But that was back on a lot of mainline aircraft who were still on the network. Now that the network is much better and is relatively empty, we could support 3 to 4x the number of aircraft we have today on today's network, no problem.

So we have a lot of capacity to grow. And people with L5 are very, very satisfied. Our NPS scores have gone up steadily and are very strong now over the last 4 years. And then we're going to further enhance that. So moving people to L5 with significantly improved performance, and the decongestion of the network has significantly improved the performance for the classic products already. And -- but I think our goal is to continue to improve the performance. People's expectations are driven by what they get on the ground. And with the launch of 5G, and then there's going to be 6G and everything else, one has to continuously improve what you deliver to the aircraft to try and keep up with those on-ground expectations, and that's what we aspire to do.

Operator

Your next question is from the line of Phil Cusick with JPMorgan.

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

I'll ask 10, if that's okay, since I'll be your last. You talked about addressing the convert around this time, and it sounds like you expect to by the first quarter earnings. Can you give us some color on how you think about target leverage at this point?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Barry?

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

Yes. Phil, our thinking has evolved regarding the converts. And that with the converts being so far into the money now, it's really essentially a decision to make a stock buyback. And so when we think about the allocation of capital and the opportunities to invest in our business, that pushes us to lean toward being more willing to equitize those converts. And of course, that would improve the leverage ratio. So we'll have to kind of see how that plays out, but that would put us kind of out of the gate with leverage ratios in the kind of 6x type range, but with the opportunity to significantly reduce that leverage in the coming years.

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

Okay. So it sounds like you let the converts fee equity and that results in 6x leverage? It's not a math that I remember. Sorry, if I'm confused.

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

Yes. There's some ranges in there, but if that were to be the case, that's the general Zip code were lower, depending on kind of how you -- what the base is and what period of time you use as the basis for calculating leverage. But I think the main point is, a couple of points here is that we want to run the company with a more conservative balance sheet, point one. Point 2 is that with the cash flow, we expect to be able to significantly delever going forward and would plan to do that. And thirdly is that when you look at the analysis, the dilution from the -- from issuing shares to satisfy the convert is more or less offset by the benefits of the lower leverage when you look at the value creation opportunity over time.

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes. And so the other way to look at it is if you sell these things for cash, you're essentially doing a stock buyback. And I think that's -- from our perspective, probably not as cautious as we'd like to be at the moment.

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

So is there a mix between the 2 that we should think about or do you think running the most of them on equity is the right way to think about it?

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

Yes. It's too early to tell what that would look like. And there are certainly some rules you have to follow to be mindful of in terms of how much you can do, but I think our general predisposition is to be able to equitize more of them.

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

Perfect. And then is there still a chance for an analyst meeting between now and 1Q earnings or is that probably after 1Q?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Probably after, I would think, Phil. It think it's late second quarter timeframe, I think.

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

To follow-up on a couple of other things. You also -- you offered a 10% CAGR in revenue from '20 to '25. Do you think you can reliably grow at 10% or better in each of those years as well?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes, I think so, Phil. Yes. I mean, there might be years it dips a little below, but it's not significant.

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

Okay. That's real. And then last one -- sorry, go ahead.

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

I was just going to say, Phil, it's based in part on coming out of cohort, but when you get into the later years, it really is a result of the market being underpenetrated. So when you look at the kind of growth rate that we have in mind, still over half of the aircraft at the end of the 5-year planning horizon did not have broadband connectivity. So the market itself provides the background to be able to grow at those kind of rates.

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

Well, that sort of goes to my last question, which is L3 sales are doing so well. And given the trend in fixed and mobile, I don't see why someday, there isn't nearly 100% penetration of broadband on private planes. Do you want to offer an even smaller or less capable product for the smallest aircraft out there?

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Yes. So today, there's 2 AVANCEs. And the only real difference is the size of the box and what -- we got 1 less card in the L3, I think. So the L3 is small, and that's meant for the light jet market, turboprops. And then L5 is bigger. So it's more easily accommodated in midsize and large aircraft. So we do have a product that goes down market, and we're having a lot of success in the light jet market, and we're getting -- we don't have a lot of penetration in turboprop. We measure it in the hundreds today, but it's growing, and we're getting some traction down there. The turboprop market is a very diverse market. There's a lot of different segments of that market. And some of them will may never buy IFC and the planes will be retired before anybody wants to spend the money on it. But there are also some very attractive parts of that market with newer aircraft that do want IFC, and we're having some success there.

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

Okay. Thank you. That will be our last question for the day. Thank you, everyone, for joining our call, and we'll talk to you soon, and have a great day.

Oakleigh Thorne - *Gogo Inc. - Chairman, President & CEO*

Thanks all. Cheers.

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

Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.
