SES First Quarter 2021 Results

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Introduction

Operator: Hello and welcome to the SES first quarter 2021 results. Please note this conference is being recorded and for the duration of the call, your lines will be on listen only. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question. I will now hand over to your host, Richard Whiteing, Head of Investor Relations, SES, to begin today's conference. Thank you.

Richard Whiteing: Good morning everyone. Thanks for joining our investor and analyst results call for the first quarter, ended 31st March, 2021. This morning's presentation was uploaded along with the press release and subsequent release regarding the share buy-back to the investor section of the SES.com website this morning, if you don't already have it. As always from me, please note the disclaimer at the back. In a moment Steve Collar, CEO, will present the main business highlights, followed by Sandeep Jalan, CFO, to cover the financials in more detail. After some closing remarks from Steve, we'll be happy to take your questions, where we're also joined from the US by J-P. Hemingway, CEO of SES Networks. And so on that note, I'll hand over to Steve.

Business Highlights

Steve Collar: Thank you very much Richard. Good morning everyone and thanks for joining us this morning. I'm going to start on page 3, and a good start to the year with revenue and EBITDA fully in line and with the business on track to deliver on our financial outlook.

In video, the value of our core neighbourhoods, our market leadership in delivering premium content and strong execution on renewal, is translating into improved top-line performance. In networks, we've maintained revenue year on year, notable in view of the extended Covid environment. We've delivered a solid step up in our government business, with an expanded set of services delivered on our unique MEO fleet. More broadly in networks, we're seeing good traction in the market and a step up in deal flow and pipelines.

We continue to be laser focused on cost, cash generation and running the business in the most efficient way. The positive impact of Simplify and Amplify, our internal transformation programme that we successfully implemented last year, is showing strongly, with recurring OPEX down 7% year on year, and is also reflected in the higher EBITDA margin versus this time last year. Leverage is also lower, with half a billion of year-on-year net debt reduction on the back of strong cash generation and continued financial discipline.

Very positive progress on our C-Band clearing. As you know, we will earn $1 billion through successful clearing of phase one by the end of this year and we're ahead of schedule with customer migrations. We're also fully on track with phase two, with satellites well into their manufacturing cycle.

And finally on this page, today we're announcing a share buyback programme to purchase up to €100 million of our shares over the next few months. Our share price does not at all reflect the underlying value of the business. We've invested substantially in our next-generation that will launch later this year, driving top-line growth, EBITDA growth and expanding cashflow in the coming years, augmented by substantial C-Band proceeds. This buyback programme represents an attractive opportunity to deploy capital for the optimal benefit of our shareholders and it underscores both our commitment to delivering shareholder value and our confidence in the long-term fundamentals of the business.

So, turning to the key financial highlights on page 4. Revenue of €436 million and in particular adjusted EBITDA of €268 million was solidly in line with our expectations and we are on track with the financial outlook that we presented to the market in February. €263 million delivered in Q1 in video reflects an improving trajectory, down 4.6% year on year versus 8% for the full year 2020, while €173 million in networks represents solid performance in an extended Covid environment, flat year on year and with increasing deal flow and traction as we progress through the year.

I'm pleased that the structural changes that we implemented last year to reduce our footprint and our overall cost base are reflected in lower OPEX year on year and improved EBITDA margin of 61.4%. This laser focus of running our business in the most efficient way while supporting the growth opportunities that we see in networks and cloud will continue. Net profit is also up 41.5% year on year.

So now to speak to each of our segments in turn, starting with video on page 5. And as I mentioned, a strong start to the year in video. We served 361 million TV households, a reach that underpins the extraordinary value that we deliver to our customers across our industry-leading neighbourhoods. This reach allows us to defend our value strongly in renewal discussions with our most important customers. To that end, we've concluded over €150 million worth of deals in the quarter, including a major multi-transponder long-term renewal with Sky. We've continued to deliver on our recent successes with the public broadcasters in extending and augmenting our services with BMT, an important public broadcaster in the rich German ecosystem that we support at our most valuable orbital location of 19.2 East.

An increasingly important part of that ecosystem, in which we support 18 million TV homes, almost 50% of all homes in Germany, is our unique B2C position with HD+, and I'm pleased with the progress that we're making here. The number of paying subs is growing again after a couple of years of stagnation. We've implemented a modest price increase given the expanded functionality and brand new look and feel that we've introduced, and excitingly, we'll be launching an IP version of HD+ in the coming months, substantially expanding our addressable market and building a capability that we expect to be able to leverage elsewhere in our business.

Our good start to the year and strong progress on renewals means that we've already secured 90% of our video revenue outlook and if we assume a nominal run rate for HD+ that number becomes more like 95%.

Shifting to networks now on page 6, we've maintained revenue in line with pre-Covid levels, despite the adverse impacts of the pandemic in some of the market segments that we serve and notably in some of the market segments such as aviation and cruise that provided substantial growth up to that point, given that these segments were our fastest growing prior to the global pandemic, and have faced near-term headwinds as the segments recover and as some of our service-provider customers undergo restructuring.

The growth fundamentals for networks remain strong and this is reflected well in our government business, which posted growth of 8.5% year on year on the back of additional US government services on O3b, with notable wins with the US Navy and other DoD departments.

We announced an important contract award yesterday, a $35 million deal with a major US DoD combatant command for a new GEO-based reach-back solution connecting forward stations, units in remote locations, back into secure sites within Europe**.**

Also this quarter, Lux GovSat, our affiliate operating the GovSat-1 satellite, closed an important contract for services under the umbrella of the European Defence Agency programme managed by Luxembourg Defence, to support the GovSat com requirement of the Belgian MoD**.** This is an important win and the first in what we hope of many projects and programmes to be secured under the broad European Defence Agency programme**.**

Two further wins with European governments in GEO and MEO, the expansion of our business through our strategic partner Marlink in Africa and a successful demonstration of our high-throughput, low-latency MEO mobile capabilities with major European navy programme, points to strong progress and good traction in global government**.**

Fixed data continues to perform well and we're successfully building strategic partnerships with tier one mobile operators and local providers serving rural inclusion programmes**.** There's building interest in O3b mPOWER among our key tier one operators, leveraging its unique capabilities to augment their fibre networks and leverage the ability to pool and share resources across a wide area, something that's unique to O3b mPOWER**.**

As I mentioned and in spite of the headwinds in our mobility sector, our fundamentals are strong, given our differentiated fleet and our ability to offer multi-orbit performance and resilience**.** In cruise for example we've secured in excess of €200 million of commitments from four of the largest cruise brands – four of the five largest cruise brands – and to expand onto O3b mPOWER and our GEO hybrid solutions**.**

We're getting closer to the launch of SES-17 and 03b mPOWER, both programmes on track to launch this year, SES-17 having recently passed its important thermal vacuum testing with flying colours**.** We've signed almost $200 million in backlog for the programme since the start of the year**.** We'll be the first to market with our second generation network and we see good traction in the market over the course of 2021**.**

O3b mPOWER is about more than just satellites and we announced this week another key milestone with our O3b mPOWER strategic gateways**.** These investments will enhance our ability to serve customers needs and segments with high throughput-per-user requirement in the most flexible and scalable way, in turn driving acceleration of top-line growth in networks from 2022**.** A number of those O3b mPOWER gateways will be co-located with Microsoft and our partnership with Microsoft along with our overall plan strategy continues to gain momentum, with increased revenues from delivering Azure Orbital solutions and building a strong pipeline with joint go to market cloud and connectivity services**.**

And then lastly from me a brief update on C-band on page 7**.** As you all know, executing on the accelerated clearing of C-band spectrum while protecting our customers and their neighbourhoods creates substantial value for our business and our shareholders**.** We have a large and dedicated team devoted to this effort and I'm pleased to confirm that customer transitions are proceeding ahead of schedule**.** Starting next month, we will be into the broad deployment of filters that will protect our customers' cable feeds while clearing the lower 120MHz for mobile carriers**.** Everything remains fully on track and even a little ahead for our first clearing milestone on 5th December 2021, which will trigger the initial $1 billion of accelerated relocation payments.

Preparations for the second clearing milestone at the end of 2023 and another $3 billion of payments is also on track with the new satellites under construction for launch in the second half of next year, and as we've discussed previously, we continue to pursue further C-band monetisation, both within and outside the US.

So with that I will hand over to Sandeep.

Financial Results

Sandeep Jalan: Thanks Steve, good morning everybody. Given the continuing Covid situation in some of our markets, we are very pleased with the strong start to 2021, with our solid first quarter financial results. Our revenue and adjusted EBITDA is fully in line with our expectations. Net profit is up 42% year on year and net debt reduced for €500 million. As you can see on page 9, adjusted EBITDA €258 million represented an improved adjusted EBITDA margin of 61.4% compared to 60.4% in the last year quarter one 2020. This reflected solid revenue performance combined with a reduction in overall CAPEX by 7% year on year, which demonstrates the benefit of the Simplify and Amplify programme.

At the revenue level, video delivered an improved performance, down 4.6% year on year compared with minus 8% recorded during quarter one of last year. As Steve mentioned, despite our customers right-sizing their requirements, they continued to capture value at our core neighbourhoods through stable and in some cases increasing pricing to offset the impact from right-sizing. We also recorded higher video revenues from our progress in emerging markets as well as adding new digital subscribers as well as from price increases in Germany.

In networks, our flat performance versus quarter one 2020 is evidence that even in the challenging Covid environment our unique infrastructure delivers customer value, especially in government, where you saw a growth of 8.5% year on year. This is partly offsetting the impact from mobility, which not surprisingly declined by 9% year on year, with lag impacts after double-digit growth during 2020. Our network revenues for 2021 are tracking in line with our outlook. The long-term fundamentals remain strong and we are very well placed to grow, thanks to our unique assets and capabilities in network, which is well set to capture the massive growth in connectivity demand and is also set to benefit as the recovery from Covid starts to set in motion.

I will now move to slide 10, which explains the net profit bridge. Adjusted net profit for the quarter stood at €75 million, which is an increase of 42% compared with quarter one of last year. The effect of the lower adjusted EBITDA year on year was more than offset by three main positives: lower recurring depreciation amortisation by €22 million, and our guidance for the year 2021 stands between €600 to €650 million of depreciation and amortisation; we had the second main positive, which is the lower interest cost. This is a very good reduction that we are continuing to see unfolding in our P&L account, a reduction of €6 million in our interest cost from €41 million last year to €35 million in quarter one 2021. Please note that interest cost will reduce by about €25 million per year with the recent repayment of the €556 million bond that we fully repaid in March 2021. This leads to our annual net interest cost outlook of about €120 to €130 million range; and then the third main positive comes from the non-cash Forex gain, which was about €9 million compared with a loss of about €5 million in the prior period.

Tax remains unchanged compared to quarter one of last year and the effective tax rate is at 10.3% for the quarter, which is within our guidance range of ETR excluding C-band between 10% to 15%. After the adjusted net income of €75 million, we had a few exceptional items totalling €6 million net. These comprised restructuring charge of €1 million, net C-band charges of €7 million, and related tax benefits on the exceptional charges. Our reported earning per share stood at 13c for the quarter, which is about an increase of 44% compared to last year.

Turning now to the balance sheet on page 11, we continue to pay strong focus on our cashflows, thanks to the adjusted net debt reduced by €500 million or by 13% compared to the prior period. As shown by the chart on the right, our weighted average debt maturity profile is quite healthy at average 8.2 years with no significant senior debt maturities coming due over the next two years.

I will now move to the CAPEX forecast, on page 12, which is unchanged, having significantly reduced our CAPEX spend by €390 million between 2020 to 2024, which we had announced with our previous full-year results. Our robust cashflow will be able to support the growth investment of 2021 and 2022 with no major refinancing needs. After the growth CAPEX peak of this year and next year for SES-17 and O3b mPOWER, our cashflows will not only benefit from the growing revenues and EBITDA generated by these highly differentiated assets, but also from the significantly lower level of CAPEX needs beyond 2022. Our normalised CAPEX needs as you can see in 2023 to 2025 are on average €375 million per year, with lower growth and replacement requirements. After these significant investments of over €2.67 billion, we would have completed the majority of our growth investment and the majority of our renewals and will enter a sustained period of limited CAPEX needs.

Turning now to the financial outlook, on page 13, we are on track and continue to expect 2021 group revenue to be between €1.76 billion to €1.82 billion, of which more than 85% has already been contracted. We are forecasting and EBITDA of €1.06 billion to €1.1 billion range for 2021, including the gains from the Simplify and Amplify programme, which has continued to ramp up to €40 million of recurrent annual savings in 2021 and which will continue to ramp up to further about €50 million gains by 2022.

As announced by Steve, we are happy to launch a share buyback programme of up to €200 million, to expand the shareholder returns in context of significant undervaluation of our shares, which doesn't reflect our growth outlook and expanding cashflows and the C-band proceeds which are due to come. And secondly, our strong balance sheet, which is – and we continue – the programme will start during May and we expect to complete the programme over a few months.

With this, I will now hand back to Steve to conclude.

Closing Remarks

Steve Collar: Thanks very much Sandeep. So I will round up on page 15, which provides a picture of our business in the coming years. We've kicked off 2021 well, with the trends in video reflecting our expectations that we will see an improving trajectory as we reduce our exposure to US wholesale and legacy services, while benefiting from the strength of our core neighbourhoods and leverage our ability to delivery hybrid satellite and OTT solutions to our customers. Networks remains the growth engine for SES and our investment in our next-generation constellation O3b mPOWER provides us with highly differentiated capabilities in high-margin networks verticals, particular in maritime and government, and we'll be coming to the market ahead of other enterprise low-latency solutions and at a time when the world is emerging from Covid, giving us the opportunity to capture the significant growth in data and connectivity**.**

The entry into service of SES-17 and O3b mPOWER will coincide with our investment peak, so cashflows from expanding top-line and EBITDA will be augmented by mean free lower CAPEX from 2023 onwards and with our fleet largely refreshed and substantial growth investment behind us, we'll have substantially lower CAPEX needs for the second half of the decade. And all of this is further reinforced with the €4 billion in accelerated clearing proceeds that we will realise from the FCC C-band clearing process**.**

We believe that the strong position that we outline here is not at all reflected in the current valuation of our business and our announcement today of a new share buyback programme represents an attractive opportunity to deploy capital for the benefit of shareholders and reflects the confidence that we have in our growth and the long-term fundamentals of the business**.**

And so to conclude, we'll continue or laser focus on execution and on delivering on both our outlook for the year and the exciting growth plans that we have for the future, and the value creation that SES is well positioned to capture**.** And with that, we are open for your questions**.**

Questions and Answers

Operator: As a reminder, if you would like to ask a question or make a contribution, please press star one**.** Our first question comes from the line of Sami Kassab from Exane BNP**.** Please go ahead**.**

Sami Kassab (Exane BNP): Thank you and good morning gentlemen**.** I have three questions to start with please**.** The first one is on the improvement in video**.** You are still guiding for minus 9 to minus 6 [inaudible] for the full year, despite 4.5 in the first quarter**.** So why would the video trend deteriorate in coming quarters or are you being very conservative in terms of video outlook for 2021**?**

Secondly, MEO orbits offer a somewhat higher latency than LEO, as we all now, but can you comment on whether the 100 millisecond difference in latency does indeed have any commercial relevance at all**?** In other words, what are the applications that could run on LEO but would struggle to work on MEO, if any, and how will you address the issue**?**

And lastly, mPOWER satellites live longer than LEO satellites**.** Your constellation costs much less than competitors**.** In my own opinion I think bandwidth economics looks much better than LEO**.** So in that context, can you elaborate on your pricing policy and on how mPOWER pricing or total cost of ownership compares to current LEO pricing**?** Thank you Steve**.**

Steve Collar: Thanks Sami**.** So, look, on video we've been sort of suggesting that we see the curve in our video business flattening, and that's reflected in our Q1 results**.** No change in guidance, no change in outlook as far as video is concerned**.** We gave a range, obviously, at the start of the year and continue to be comfortably within that range, I would say, as far as video is concerned, and will obviously update as we go through the year**.**

On MEO orbit, look, completely agree with the inference in the question**.** We picked MEO for a very good reason; because we think it is exactly the sweet spot between delivering low latency but also far enough away from the Earth for us to deliver all of the really key competitive benefits that we can bring with O2b mPOWER, which is about being able to flexibly assign very large amounts of bandwidth to, you know, high demand and highly valuable users**.** And that's something that we're laser focused on**.** So we think that the bandwidth economics but more importantly the products and services that we can deliver from MEO are meaningfully better, I would say, than LEO**.**

And to sort of try and take your third question as well, what I would say is we don't price based upon, sort of, you know, cost**.** We price on value and we position our products based on value into the market**.** And that's where we feel very, very comfortable with the position with O3b mPOWER**.** As I said, it's coming to the market at a very good time as the market emerges from Covid**.** I think we will be unique in the market with the kind of capabilities that we have and we see strong demand coming from, you know, users who are not super price sensitive and are actually more interested in the kind of quality that we can deliver, the kind of service that we can deliver and that's the sort of – the ground on which we will position O3b mPOWER in the market**.** And we're seeing strong traction on that basis**.**

Sami Kassab: And Steve is there a way to compare One Web's prices into the telecom[?] industry for instance to mPOWER O3b mPOWER prices**?**

Steve Collar: Yeah, again, I think we obviously know the One Web constellation well as we know all of the other constellations**.** I think they will sort of operate in adjacent and sort of lower market segments than we're targeting**.** We feel like we have a very, very strong position with a large market that we can serve with O3b mPOWER**.**

Sami Kassab: Thank you Steve**.**

Operator: The next question comes from the line of Michael Bishop from Goldman Sachs**.** Please go ahead**.**

Michael Bishop (Goldman Sachs): Thanks very much**.** Just three questions as well please**.** So the first one is on the buyback**.** I think you were quite clear in the presentation that where the shares are and your confidence in future leverage of the business, the growth and the C-band proceeds have framed why you're doing the buyback at these levels with the shares that are close to €6**.** But I was just wondering behind that, whether you've actually got a more formal framework now as to how you and the board think about buybacks**.** Because clearly if you're going to complete this buyback, as Sandeep said, over the next three months, you then still don't have, you know, very high leverage and you've got the 1 billion of C-band proceeds coming in**.** So any sort of background on whether you've got a more formal framework would be really interesting**.**

The second question is just to again pick up on video, it seemed like there was quite a lot of moving parts in terms of renewals and new business, so I was wondering if you could give us any more detail on that**?** You mentioned I think that some pricing actually went up, but whether you could give us any insight on that and in particular Sky contracts, would be great**.**

And a final quick question would just be what's the latest from your mobility customers with regards to sort of the impact from Covid and whether there's any sort of green shoots you're seeing there**?** Thanks**.**

Steve Collar: Great. I think you're going to hit all three of us. So Sandeep's going to take the first, I'll take the second and J-P will take the third.

Sandeep Jalan: Hi Michael. So look, this share buyback we have been pretty clear there's a €100 million buyback, it's a very decent size, it's about 3.5% of our market cap. In terms of the framework, how we think about it, our financial policy is very, very clear. We maintain a base dividend, which is a minimum base dividend of 40c. So that is given. And then there is any surplus cash that we try and deploy and discuss with the board to deploy it in the best interest of shareholders. And taking a look at our current investments over 2021 and 2022, as well as very strong balance sheet, as well as the C-band proceeds just around the corner, and given the significant undervaluation of our shares, we really believe that it is the best deployment of this €100 million. And we will continue to look at this framework which guides us to manage between our growth and CAPEX needs on one hand but also continuing to maintain our strong balance sheet consistent with investment-grade metrics and make sure that we continue to deploy our capital in the best interest of shareholders, and that's what we are doing and that's what will continue to be done within our financial policy framework.

Steve Collar: Yeah, and I think on the video side, Michael, yeah, I mean, I think predominantly driven by good, solid performance around renewals. So we've captured a lot of the renewals that we need to for 2021, so that reflects in the fact that, as I said, 90% of our revenue for 2021 is already secured and effectively 95% if you include sort of a nominal run rate for HD+. So we feel good about that and I think, you know, it reflects solid performance across the board. A couple of new wins, a renewal with Sky, 90 million in additional contract value that came as a result of that and when we add that to the existing business that we have with Sky and extend them out into 2027 and obviously that also comes on the back of an important renewal with Canal Plus that we closed at the back end of last year.

So I think, you know, the momentum that we had at the back end of last year with renewals and then sort of carrying forward into a good three months on the video side is what shows this trend. Like I say, no change in our outlook for the year, but we feel very solidly within guidance for video. And then perhaps hand to J-P for the third question.

John-Paul Hemingway: Sure. Good morning Mike. In terms of the Covid impacts, I think it's fair to say that Covid hits all of our segments to some degree but we're really pleased with the resilience and performance of fixed data and government, as the results have shown here. But clearly they focused on the critical projects and we've been very successful in winning those critical projects, which is fantastic. But obviously we talked before about cruise and aero being the two segments that were very visibly impacted by Covid, but as we've said before, we've had fixed, long-term contracts with both of those segments, but obviously we've tried to be flexible. Tried to be flexible as those customers have suffered their own end-customer business, and where we've been flexible we've generally managed to extend our contracts with those customers for the future. Incidentally, in cruise, as we discussed, we've extended them well into O3b mPOWER, which is fantastic for us and also their own innovation for the future.

Now, we're watching those segments very carefully. LT work very closely with those customers. We don't see a miraculous recovery starting this year but we are seeing good return to sale, both in Europe, Asia and good progress with the CDC in cruise, so we're watching that carefully. And in aero probably, you know, starting to see more flights but also see that recovering well into next year.

The good news is we've got really strong long-term fundamentals in those segments and the new business we secured pre-Covid that yet was returned – was yet to get to revenues during this period, will drive future growth as that demand recovers.

Michael Bishop: Great. Thanks everyone.

Operator: The next question comes from the line of Nick Dempsey from Barclays. Please go ahead.

Nick Dempsey (Barclays): Yeah, good morning guys. Can you hear me?

Steve Collar: We can, Nick.

Nick Dempsey: Excellent. I've got three questions as well. So first of all just on fixed data, you mention some issues in the Pacific. Is this competition with sub-sea cables and is that something we should worry about as a headwind for a while? And while I'm on fixed data, minus 1% organic in Q1. What could make that year-on-year run rate improve through the rest of 2021?

And then same question, you've given your opinion on potential consolidation in previous calls. Now that all of the other FSS[?] players except Intelsat have been investing in LEO and you've shown your views on the economics of LEO, does that make it less likely that you could participate in the consolidation in this market?

And the third question, your backlog for mPOWER and SES-17, that's not stepped up since February. Is there a seasonal element to when you're likely to add new contracts or can we expect that number by the time we reach the half year?

Steve Collar: Thanks Nick. J-P, why don't you jump in on one?

John-Paul Hemingway: Sure, yeah. Thanks Nick. So fixed data, yes, in terms of the down 1%, let's put that in context. It's a fraction of €1 million, right, so it really is flat year on year, which given the year we've been through, we actually feel, you know, pretty positive about. And was actually greater than our expectations in our plans, so we're, you know, we're feeling pretty good about that. What do we see through the rest of the year? We have got really good progress with major tier one mobile operators around the world and some of these rural inclusion projects have actually become more important as a result of Covid for needing connectivity out into the most rural locations for health and education. We're seeing really good progress in that, so we see the timing of that run through the year and absolutely would underpin the guidance we have been 2% and 6% for the overall networks growth period.

Specifically on the Pacific region, yes. We've obviously anticipated submarine cables coming into some of the islands where we were the only connectivity medium at the time. We've long planned for that being a point where those cables come in, and we tend to shift to a more second resilience mechanism to back up those cables, because they're not always highly available and take a long time to fix when they have failures. So, something we have planned for and certainly with mPOWER, we've got a much greater capability to connect to the outer islands, not just the main islands, and there's a number of programmes we've got ongoing there. So we expect some growth from that sector in the future.

Steve Collar: Nick, I'll take the second question, which is sort of around consolidation but also kind of our view on LEO. So the first thing I'd say is we have absolute conviction around multi-orbit rather than an aversion to LEO. We have sort of taken an approach that says we intend to combine the investments that we're making in GEO and MEO and use the full power of that network in an integrated way. And we think that that also gives us advantages when we think about looking at ways that we can improve return on invested capital across the industry, without necessarily relying on M&A. We think that there's ways that we can use the integration that we're building with our arc system that will allow us to sort of move resources across our MEO network and our GEO network, but those networks will ultimately be interoperable and that means we can also interoperate with others.

I think with respect to LEO, we certainly don't say that LEO isn't a valid to serve customers from. But the economics for a pure LEO network are really challenging and I think our view on that hasn't changed.

And with respect to consolidation, again I think probably no real change in our position, which is that, I think the overall industry will benefit from consolidation. I think, again, return on invested capital across the industry will become challenged and I think that probably means that consolidated is needed, likely, what have you. But we will continue to be, you know, financially disciplined, as you would expect, operate in the best interests of SES, look at opportunities that are there, but remain absolutely committed to delivering on our promise to our shareholders, which is probably, Nick, what you'd expect me to say.

And then your third question was on backlog for Ob mPOWER and SES-17. Look, I mean, it feels like yesterday that we had this sort of conversation, so I think a relatively short of time between our end-of-year results and Q1 results. I wouldn't read too much into that. We've got a strong pipeline, we see really good opportunity. We've closed €200 million in backlog since the beginning of the year, which feels like good progress. And the most exciting thing is the launches are on schedule, which in this environment is not obvious. And so SES-17 and O3b mPOWER both slated to go off this year and sort of excitement building, both within the company but also externally in the customer community for the services that we're going to bring on the back of those assets by 2022.

Nick Dempsey: Thanks guys.

Steve Collar: Thanks Nick.

Operator: The next question comes from the line of Aleksander Peterc from Societe Generale. Please go ahead.

Aleksander Peterc (Societe Generale): Yes, good morning and thank you for taking my questions. I'll have to continue with the tradition set up of three questions, so the first one is just kind of a maintenance one on HD+ price increase. Could you quantify that and what's the timing? Presumably that's Q2 but if you could give us some [inaudible] there, that'll be…

Then secondly can you give us a view of your long-term average CAPEX to sales ratio that you're targeting in your model? And that includes the peak that you see now with O3b, with mPOWER launches for [inaudible] CAPEX scaled to 2022, and then that jumps straight to 12% the following year. So you can see the fascination. So I'm just wondering is 25% a good range for your over-the-cycle CAPEX per sale intensity?

And then just finally how much of the EBITDA margin strength should we extrapolate into the remainder of the year? I mean, I know you have your guidance, so that's something to anchor our estimates around, but would you say that your EBITDA is now structurally firming or do we have a flat outlook from here? Thanks.

Steve Collar: Great. I got your first question, Aleksander, but the second one was a little unclear because there was a bit of noise, so we might ask you to repeat that and then Sandeep will take the third.

So on HD+, it was a relatively modest price increase. It was sort of high single digits in terms of percentage, but nevertheless important, right, in terms of the step up and the fact that we've seen good subscriber traction both before, during and after that, points to the fact that – that the sort of B2C customers that we have and the market more broadly sees real value in the product that we're bringing to the market. We've done a lot of work on HD+ over the last year or so. About 50% of all TVs that are now sold in Germany include the HD+ operator app, which means that customers no longer need a set-top box or a module, they can literally just buy a new TV and go straight to the HD+ environment. And that environment has been sort of meaningfully upgraded, so we provide a lot more functionality, a completely different look and feel, and that kind of I think is generating good traction with customers in the market. And so, you know, we're seeing subscriber growth and a little bit more ARPU from those customers in what is a very important market for us.

Sandeep, handing to you for the third question and then I'm not sure if you caught the second.

Sandeep Jalan: Yes. So on the EBITDA margin, as you see, that we have a very good EBITDA margin in quarter one, at 61.5%. Currently we are trading very competitively towards the high range. And we are continuing to focus on execution. First of all on the revenue, as you can see from our performance in video as well as the network during quarter one. And secondly also on our CAPEX – on our OPEX, where we continue to make very good progress on delivering the gains from Simplify and Amplify programme that continues to ramp up. And this basically shows again a good track[?] so far as our EBITDA margin is concerned.

And I can also comment a little bit about our [inaudible] item in context of EBITDA as we told you earlier, on our CAPEX, our CAPEX passes its investment peak in 2021-2022. It continues to go down meaningfully. Over 2023 to 2025 we expect about €375 million but by 2024 [inaudible] of all our major growth investments as well as major renewals. So long-term outlook for CAPEX we expect to be sustainably lower levels.

And the second question somebody?

Nick Dempsey: I was just wondering if you could give us a percentage target range where you expect to be longer term, including the peak that you see because of the constellation launches with [inaudible]. So is 25% CAPEX to sales good or is it 30% or is it 20%?

Steve Collar: I mean, I think the CAPEX profile that we show on page 12 of the presentation includes all of the launches and all of the O3b mPOWER investment. So you know at the end of this period in 2025, we'll have a brand-new, 11 satellite constellation for O3b mPOWER. We will have meaningfully refreshed our core video neighbourhood and as we look beyond 2025, our view of CAPEX is lower than the average €375 million that we show on slide 12. So the second half of the decade I would say given that we have a brand new fleet, a brand new constellation, looks meaningfully lower. Not providing guidance at this stage but the second half of the decade looks like a low CAPEX environment for us.

Nick Dempsey: Thanks.

Operator: The next question comes from the line of Giles Thorne from Jefferies. Please go ahead.

Giles Thorne (Jefferies): Thank you. My first question was on the LEO question again and obviously the recent news of Eutelsat[?] taking a minority stake. And one of the things that stood out for me was the idea that in the cloud era, latency becomes strategic or similar such language. And obviously SES has been a first mover under that thematic umbrella. So I'm interested, Steve, to hear how you protect that first-mover advantage.

Second question, just to frame the decision to buy back shares a bit better or a bit more. It'd be interesting to hear the type of growth investments that you could've made with that money at this point in time.

And then lastly, and it's a very specific question, but picking up on the Global Eagle and Eutelsat announcement from the other day, it's very curious. They are your major partner and North America is where you provide them a huge amount of Ku. And there's obviously been volume step-down the past year to reflect the impact of the pandemic. I'm just curious why Global Eagle is buying Ku from Eutelsat at this point in time. I'm inclined to think it's because the satellite's on an inclined orbit, but you tell me. Thank me.

Steve Collar: Yeah, thanks Giles. Look, I mean, so, it is – is latency strategic? A hundred percent. And it's something that we've been – you know, we've been – I would say leading the industry in that area. It was an unpopular view I would say 10 years ago when we started on this journey. It's now a popular view and I think that reflects the fact that it's true. And sort of, you know, latency was a challenge for the satellite industry historically and I think the industry is now addressing that challenge and that's very, very positive. You know, that said, what you need to do is find that sweet spot where you can deliver the right level of performance but also the right level of profitability and – of the constellation, affordability of the constellation, and that's where we feel like MEO is really, really advantageous.

And then how do we capture the cloud opportunity? I think it's doing exactly what we're doing with, for example, our partnership with Microsoft and with Azure. You know, that is going really well. We have very strong alignment with Azure, with Azure Orbital and with Microsoft more broadly, and I think they see a real value in some of the market verticals that we're able to serve, I would say, somewhat uniquely, by having the ability to deploy a lot more bandwidth from MEO than is typical from LEO networks. With LEO networks you tend to be limited by the individual performance of the individual satellite and that means that you typically can't provide a lot of concentrated supply or a lot of concentrated service.

So for example cruise, where you've got kind of floating cities. It's why we've become by a distance the number one provider in cruise, with all of the large cruise lines. But also a number of government applications, a number of other applications where our ability to move very substantial amounts of bandwidth around the system and to do it flexibly, which is something that comes uniquely from MEO, is really, really attractive.

So I think, Giles, the answer is yes, latency is absolutely strategic. Yes, cloud, absolutely strategic. And I think we're doing all the right things by leveraging the very differentiated infrastructure that we're building, but not only that, partnering in the right way with the broader ecosystem. Something that we've been, again, banging on about and talking about for some time. Sort of taking satellite mainstream and driving satellite into the broader ecosystems of telco and cloud, is something that we think is important and that we will continue to do.

On the buyback, look, I mean I think, you know, we've said it all in the presentation, we've said it all in the voiceover. We see this as a, you know, an interesting opportunity to create shareholder value and with the value of the business where it is, it's a very good opportunity. I would say, in terms of growth we are investing very substantially in terms of growth rate. If you look at O3b mPOWER and SES-17 and even just over the course of the next couple of years, we're investing €1.5 billion in CAPEX in order to, you know, bring this fantastic second-generation, state of the art, network to life on our own balance sheet. So that reflects a very significant commitment to growth. And the fact that we're able to grow, remain investment grade, invest very substantially in our network and indeed sort of launch this buyback I think reflects the financial strength and the strength overall of the business.

And then your third question was on Global Eagle. J-P, do you want to take that?

John-Paul Hemingway: Yes, absolutely, Steve. Morning Giles. So as part of Global Eagle coming out of Chapter 11, obviously they've had the ability to restructure their contracts and their situations. They remain a very strategic customer of ours and a very strategic partner as we go forward, but obviously part of that restructuring they're able to look at what they needed during these Covid-impacted times and analyse the price-performance of any assets they would like to take, which as you say, they've chosen to take something from Eutelsat. I won't comment much more on that but obviously they've been matching what they think their needs are to the price-performance they need to supply in the current Covid-impacted environment.

Giles Thorne: Thank you guys. Steve, if I can just a follow up. Why not take that €100 million and in this era of huge opportunity and [inaudible] there being much more, I suppose, radical or ambitious, why not take it and use that €100 million to lock in Google as a key partner or – maybe not Amazon cos they're probably going to go a different direction – but you know, why not – why not go for it?

Steve Collar: I see! Giles, I think we are going for it. I don't think you should sort of read into the fact that we're – that we've launched a share buyback meaning that we're not full-in on growth and delivering on the promise that we have with the network. I think, like I kind of answered, I think it speaks to the strength of the business that we're now able to invest very substantial amounts of CAPEX in growth, in bringing this brand-new constellation that we really see has strong competitive advantage, remain investment-grade and be very, very lasered around that, but also deliver value to our shareholders; firstly through the dividend that we just recently paid and now through the share buyback programme. So it's a balanced approach, I would say, that can deliver growth for us in the future and also shareholder value today.

Giles Thorne: Thank you very much.

Operator: The next question comes from the line of Ben Lyons from Credit Suisse. Please go ahead.

Ben Lyons (Credit Suisse): Hello, thanks for taking my questions. I also have three. First one is if there is any update on the issue regarding claims against Intelsat, that would be really helpful.

The second one was regarding C-band opportunities. I was just wondering if you also saw any risks around that? You know, we're seeing a competitor of yours facing problems in the Netherlands. I was just wondering if there are any hurdles to possible further monetisation?

And lastly a quick one, I'm not sure if I missed it, but would you be able to quantify the Covid impact to the or within the OPEX savings? That would also be quite helpful. Thank you.

Steve Collar: Very good. So I think the first question was around Intelsat litigation. So, I would say no, no real update from what we've said previously, which is we intend to hold Intelsat fully accountable for the agreement that they had with us. I think that the case is proceeding and it will be heard before Intelsat emerges from their Chapter 11 restructuring. So that's a positive thing, so we are sort of the schedule works out well from that standpoint. And I believe it's sort of June-July timeframe where we expect that to kind of resolve itself.

C-band, didn't get the reference to the Netherlands, so you might need to expand on that a little bit, but what I would say is no risk that we see in the C-band clearing process. It's going very well. You know, we have all the filters in-house that we need to in order to secure the phase one clearing. The customer clearing is ahead of schedule. We'll have a busy time of it over the summer deploying filters but we really – we really feel like that programme is going as well as it can, and similarly on the phase two. So there may be a follow up on that because I'm not sure I got the full question but the bottom line is, C-band clearing, see no risk there and really the programme is going as well as we could've expected it to.

And Sandeep do you want to take the Covid-impact?

Sandeep Jalan: Yeah, so in terms of the Covid-impact, as we had announced last year as well, our Covid mitigation plan last year we had targeted about €50 million of savings that we fully saw as an outcome in our P&L account. Clearly this was partly offset by certain bad debts, so we were in a range around €30 to €35 million of net savings, including certain one-off impacts, right. Including some bonus cards etc that we had done.

Now, as the world starts to recover, so we see this year that these Covid-related savings are starting to go down quite a lot. But we are still having some savings but they are in low single-digit millions on a quarterly basis.

But the good things is that while some of those costs start to come back, we are starting to see meaningful impact on the Simplify and Amplify programme, where the savings run rate is ramping up very decently, around €40 million savings for this year and €50 million for next year. So we are fully on course. So far as our OPEX is concerned we are laser focused on every cent of cost that we spend on the business and we're disciplined about it.

Ben Lyons: Great. That's really helpful. Just on the Netherlands point is Inmarsat have been reallocated spectrum essentially to make way for the 5G spectrum. So I just wondered if there were any risks around that or if that would impact any of your services?

Steve Collar: We've been tracking that. We don't see any direct read-across or any impact from our standpoint.

Ben Lyons: Great. Thank you very much.

Steve Collar: Thank you.

Operator: The next question comes from the line of Ranjit Roshan from Deutsche Bank. Please go ahead.

Ranjit Roshan (Deutsche Bank): Great, good morning. Thanks for the question. Just two very quick follow ups for me please. Firstly on video. You talk about the 90% of the revenues outlook contracted for this year. Is it possible to get an update on where we stand on the Echostar and QuetzSat? And if that has filtered into that 90% or is that more going to hit FY22, whatever the outcome there.

And secondly, Sandeep thanks for providing the Simplify and Amplify impact for this year and next year. Is it possible to get a breakdown of where those are coming from? Because I think previously you talked about restructuring certain areas of the business, footprint adjustment – I mean I know you've closed certain offices – but a bit more detail there would be very helpful. Thank you.

Steve Collar: Yeah, so, want to avoid getting too specific around sort of individual customers' arrangements. I would say, you know, we've spoken about US wholesale and kind of what we expect to happen there. The good news is with QuetzSat we continue to support an important customer in Mexico in Dish Mexico and that's something that we expect to continue going forward. And so what I would say is fully factored into our outlook for 2021. 2022 obviously we're not providing guidance but we have a clear idea, I would say, in terms of what we expect to happen with QuetzSat and importantly the customer that we support on QuetzSat going forward.

Sandeep Jalan: Yeah, so in terms of Simplify and Amplify programme as we had announced last year, it is focusing very heavily into our organisation, in our offices, integration thereof, and a complete restructuring. I mean, unlike every before in SES history of 35 years, it was a programme of massive magnitude impacting almost 20% of our people around the world. And it is creating a more concentrated offices, more agilities coming together and creating this pool of savings. We have taken a look not only at our internal manpower but also our external manpower, our contractors, and gone through every single line, and that is where we continue to see now very good progress starting to unfold in our quarterly results and ramping up towards this €40 and €50 million of run-rate savings, that we are very, very confident about in fully delivering.

Ranjit Roshan: Great, that's super helpful. Thank you.

Operator: A further question comes from the line of Patrick Wellington from Morgan Stanley. Please go ahead.

Patrick Wellington (Morgan Stanley): Morning everybody. First question on video. Actually, go back to Sami's question originally. Do you think this quarterly performance is an expression of the flattening of the curve that you've talked about in the video organic revenue decline? As I remember from the full year, you're looking at three things to flatten that curve: the US, now less than 10% of video turnover, the decline or the effect of the decline there falling away; the right-sizing effects in Europe being complete; and your own retirement of those low-margin distribution revenues being over. So perhaps you could frame the video – the better video performance in the context of those three things: US, right-sizing and the distribution stuff?

Secondly, on networks. Is it still your feeling, as it was at the full year, I think, that cruise will begin to normalise in the middle of this year but not – but aero won't normalise until next year? Is that still your feeling about cruise, that that starts to come back this year?

And then thirdly on O3b mPOWER and SES-17, by the time it launches, what would be a good backlog number in your view?

Steve Collar: Very good Patrick. Thank you for those questions. Video, yeah, I think you're exactly right. We see the sort of trajectory over a period of time flattening and the sort of, I would say the main drivers that you highlight and that we've talked about previously. We had, you know, exposure to US wholesale and given the market there that's something that we knew and understood would reduce. We've also talked about the C-band neighbourhoods in the US will somewhat shrink, and that has been not unhelpful, I would say, in the context of the C-band clearing. But actually we see some good stabilisation there. We've secured some good renewals during the course of early 2021 and I would say probably, in a couple of cases, a little bit unexpected, so that's been helpful and probably gives us a little bit of momentum in video in the early part of 2021, explained a little bit the performance that we see there. So that's very positive.

Yeah, and right-sizing, absolutely. This is about core DTH customers balancing what they carry over satellite versus what they carry terrestrially. We feel like we're really on a good side of the curve. Most of our neighbourhoods are already MPEG-4 or HEVC. Our customers already have hybrid solutions. And so we feel like we're a good way through that process and again, the fact that we see the curve flattening sort of reflects that.

And internally, yeah, we've done a lot of hard work around our services to make sure that we're delivering services in a profitable way and we've sort of refocused what we do towards our largest and most strategic customers. So for example we signed and we've just implemented and we're now operating play-out and services for the BBC internationally. That's a very important customer.

But we've also reorientated towards the cloud. And in the cloud we can really deliver a completely different level of services to our customers, a lot more flexibility, but also do it with improved margins. And so we've reduced our exposure to the, I would say, legacy, on-premise, low-margin services that were part of our portfolio. We still have – that work isn't completely finished, so we will continue that over the course of 2021, but I have to say already the dent that we've made there has made a difference to the profitability that we have within our video services team and that focus will continue.

Like I say, I'm pretty optimistic not only that we will, you know, shift the profitability of those services but actually we're also developing some very interesting capabilities in the cloud. And sort of more to come there. And when you think about that in combination with HD+ and the experience we have in B2C as well, I think we've got some unique aspects to our video business. I think we can leverage more as we go forward.

On the networks side, maybe J-P you can give the voiceover?

John-Paul Hemingway: Yes, absolutely. So, you're sort of question was around mid-year for cruise for next year for aero. So maybe I'll start by reiterating that our contracts are generally fixed in nature, so therefore the relief that we've given is more around cash relief in the short term, and as I said, in general we've managed to extend our partnerships by being a good partner through this challenging period.

But yeah, on cruise, some of the cruise ships that we serve are sailing now. They've called these 'cruise to nowhere' so they're contained within certain regions, as I talked about Europe and Asia, and the whole industry is watching carefully the latest CDC guidance and looking to see, July onwards for those kind of US-centric cruises to start and they're obviously working fairly carefully with that.

But as we said before, it's the new business that really suffered in both cruise and aero and we don't expect an immediate uptick for that. We're watching when the new vessels are set to sail and that situation is fairly fluid. So we're looking for that new business to really translate into revenues through the second part of this year, but onwards into 2022.

And on aero, despite passenger numbers increasing and indeed those passengers consuming more connectivity than before, it was all about new business, and we don't expect that much new business to suddenly ramp up in the back-end of this year, more certainly in 2022 and beyond. So in essence, yes, your – your suppositions were fairly close.

Steve Collar: And Patrick on the backlog of O3b mPOWER and SES-17, so look, important that we continue to provide you guys with visibility of how we're doing there. I think, you know, €200 million signed already in 2021 represents a good performance, something that we have good traction on as well, I would say. We've got – you know, as we look at the pipeline there are a number of opportunities in there that look really good and where we feel like, you know, we have a strong competitive position. Particularly, as I said, given that I think we're going to be largely on our own with O3b mPOWER in the market with the kind of capabilities that we can deliver. So I think we feel like we've got a very strong right to win in significant parts of the network verticals that we're serving.

Not going to give guidance on what we think good numbers might be yet at either time of launch or time of in-service. I think it's really about incrementally signing more and more business as we approach the launch and approach the in-service dates and that's something that I'm very optimistic that we will continue to do, given the pipeline that we see.

Patrick Wellington: Steve, that's great. And quickly while I have you, you talked also about the opportunities for C-band in other markets. Briefly, I think you've talked about Canada, Brazil, maybe two to three other markets, is there any –

Steve Collar: Yeah.

Patrick Wellington: – update to give there?

Steve Collar: Yeah, I think the processes are moving forward. I mean, these things rarely go as quickly as you would like, right, and that was definitely our experience with the US, which was probably a three-year process. I think others won't take that long but it's not something that necessarily we expect to see, you know, progress on a quarterly basis. So I think the next one is likely to be Canada, that's the one that, you know, we're spending a good amount of time on and the government are thinking and the regulator are thinking seriously about what to do there.

Brazil is moving. I think Brazil probably won't be a big, let's say, C-band monetisation opportunity, but I think it may well be an opportunity for us to capture more of the market in

Brazil, which would be equally interesting for us. So yeah, I think those are the two shorter-term, but short-term is a bit of a movable feast in the context of this topic. You know, the timeline is difficult to control. But I do think that there are good opportunities in Canada and Brazil, and I think, you know, more opportunities in the US as well, as we speak to and work with the carriers who have been successful in the record-breaking auction that was completed in the early part of the year.

Patrick Wellington: That's great, thanks.

Steve Collar: Thanks Patrick.

Operator: That's the end of the Q&A session. I will now hand over to your hosts.

Steve Collar: Okay. Listen, thanks very much for joining us as usual. Happy with the start that we've made to the year and we will focus hard on execution and driving the business forward throughout the rest of 2021. So look forward to speaking to you all at the end of the first half, and with that, have a great day.

Operator: Thank you for attending today's call. You may now disconnect. Hosts, please stay on the line and await further instruction.

[END OF TRANSCRIPT]