SES YTD 2020 Results

Thursday, 5th November 2020

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

SES YTD 2020 Results

Operator: For the duration of the call, your lines will be on listen-only; however, you will have the opportunity to ask questions. This can be done by pressing star one on your telephone keypad to register your question.

If you require assistance at any point, please press star zero and you will be connected to an operator. I would now like to hand the call over to your host, Mr Richard Whiting, Head of Investor Relations, to begin today's conference. Thank you.

Introductory Comments – Richard Whiting – Head of Investor Relations

Richard Whiting: Good morning, everyone and thanks for joining our results call for the nine months ended 30 September 2020. This morning's presentation was uploaded to the investor section SES.com this morning, along with the press release, if you don't already have it. As always, please note the disclaimer at the back.

In a moment, Steve Collar, our 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 will be happy to take your questions where we're also joined on the line by JP Hemmingway, CEO of SES Networks. And so with that, let me hand over to Steve.

Main Business Highlights YTD Results – Steve Collar, CEO

Steve Collar: Thanks, Richard. Good morning, everyone, and thanks for joining us for our Q3 call. Let me take you through the main business highlights starting on page three.

Solid Year-to-Date Performance

We're pleased with our solid year-to-date performance, reflecting strong focus and execution and the resilience of our business despite the continuing challenges introduced by the COVID-19 pandemic. As has been the case for the last three years, Networks growth remains strong while video was flat quarter-on-quarter.

A Proactive Response to COVID – On Track to Achieve Full-Year Outlook

Our proactive and quick response to the COVID is contributing well to lower operating expenses and good performance at the EBITDA line. As a result, we're on track to achieve our full-year outlook with more than 97% of expected revenue already secured and full focus on closing out the year as strongly as possible.

Four Key Strategic Initiatives

As we've discussed previously, and I will share more details in a couple of slides. We have four key strategic initiatives underway at SES that will create significant value and we've made strong progress in all four areas over the last few months.

In particular, the visibility of substantial C-Band proceeds continues to increase, with our transition plan fully on track, the FCC auction due to start next month, and the success milestone for realising the first relocation payment now only 13 months away.

We have a well-differentiated value proposition in our Networks business, and we continue to build, and this has been sort of substantially expanded with our partnership with Microsoft Azure. Strong video neighbourhoods emphasised recently by the meaningful extension of our business with Canal Plus across three satellites and underpinned by strong cash flows and a disciplined financial policy.

Key Numbers

So turning now to the key numbers on page four. Overall revenue for the first nine months stands at 1 billion 410 million; for a third successive year our networks business has posted strong growth, delivered revenue up 7.5%, and this despite the COVID-19 environment that's depressing demand in some of our most important growth segments.

Our video business, the largest in the industry, delivered to our expectations. And we saw revenues this quarter stable with Q2.

I'm pleased with the resilience that we've been able to show at the adjusted EBITDA line, including a 4% reduction in operating expense year-on-year and reflecting the strong cross-company actions that we implemented at the start of the year to protect the bottom line in the face of COVID headwinds. We've also reduced leverage year-on-year with metrics consistent with investment-grade, strong liquidity and a healthy balance sheet.

Segments in Detail

So looking at the segments in more detail and starting with video on page five, our video business delivered results in Q3 in line with our expectations. As I mentioned, the long-term importance and resilience of our prime neighbourhoods was underscored by our recent agreement with Canal Plus. I'm really pleased with the outcome of this deal with an important long-term partner covering three different orbital locations and serving more than 10 million Canal Plus subscribers. Not only have Canal Plus committed to over 230 million of incremental backlog, but they're also consolidating a substantial part of their M7 business onto the SES network at 23.5 East, securing its long-term future and extending our relationship with Canal Plus until the end of the decade.

The Business in Germany – HD Plus

A couple of words now about our business in Germany, a market from which we generate almost 400 million in revenue, serve 18 million households from a total of 36 million, and where we operate, a brand-leading B2C consumer platform HD+. HD+ is an incredibly important value driver in our most important market; a market in which there's a vibrant collection of public broadcasters, commercial broadcasters, paid TV and a significant Free to Air audience.

Since the start of the year, HD+ has seen an uptick in paying subscribers to the platform, which stands now at over two million. Importantly, over the course of the year, we've developed and implemented a dedicated HD+ operator app that's now embedded directly into TV sets by manufacturers such as Panasonic and Samsung. This avoids the need for consumers to purchase modules or set-top boxes in order to receive HD Plus increasing convenience and providing greater insight into consumer behaviour. In fact, every third TV set sold in Germany

today is already carrying the HD+ operator app and HD+ is reflective of a global trend with consumers everywhere seeking the best viewing experiences and more high definition and ultra-high-definition content, where satellite is the most reliable and cost-effective means for customers to distribute their most valuable content.

SES is the global leader in premium content with further growth in HD and UHD channels to almost 3,000 in total carried over the SES network. This is 65% more than our closest rival demonstrating the strengths of our premium neighbourhoods, which serve an industry-leading 367 million households.

It's this combination of unparalleled reach and premium content that customers such as Canal+ continue to value highly when committing to long-term contracts, as evidenced by the substantial video backlog of 3.5 billion.

Networks

So now turning to networks on page six and Networks continues to be the growth engine for SES with more than 25% growth over the last three years. Despite the challenges from COVID in 2020, growth of 7.5% year-on-year reflects the work done signing new business over the preceding 12 months and really strong execution across our networks business unit.

Our government business delivered a step up in revenue this quarter, and we achieved some breakthroughs with new applications for our MEO Constellation with the US Government. The first is a flexible network deployed for remote, austere locations, and the second is a solution to support US servicemen in COVID-restricted areas. And we're optimistic that this will lead to repeat business.

Another feature of networks in 2020 and one that differentiates us from our peers is the growth that we're posting in Fixed data, up 6.6% year-on-year. Our partnership with INRED in Colombia is a great example of the kind of rural inclusion projects that have sustained this growth over the last several months.

In Mobility we've still recorded double-digit year-on-year growth thanks to the new services signed at the back end of last year. The team has done a fantastic job in working with our long-term partners in what is a challenging time for their businesses while managing so far to keep the quarterly run rate stable in 2020.

Our Network of the Future

And turning to page seven and I'm going to say a few words on what we're calling our Network of the Future, an integral part of how we intend to drive sustained growth across our network's verticals throughout the next decade. Our vision is a seamless, multi-orbit intelligent network that allows our customers to consume service flexibly and matched to their application needs. It's a network that benefits from cloud scale and leverages network functions natively running in and seamlessly interconnected to, the cloud.

Our gateways and platforms will be virtualised and integrated with cloud data centres, and this vision took a major step forward through the announcement of SES becoming a founding partner for Azure Orbital.

Just recently, we added ST Engineering iDirect and Gilat as key technology partners, for O3B mPOWER, both of whom share our vision and together represent a significant percentage of the terminals deployed across our markets today. They will deliver that platforms to be fully compatible with the O3B mPOWER space brain 'ARC' and the network automation functionality being built within ONAP. Just as importantly, the same hardware deployed at our gateways and customer locations will be able to transition seamlessly between O3B mPower and for example, SES-17.

We're now less than a year away from the launch of SES-17 and the first launch of O3B mPOWER. And we have 500 million USD of secured backlog for these systems, and we will report regularly on our commercial progress going forward.

An Update on our Four Key Initiatives

And finally, for me, before I hand over to Sandeep, an update on our four key initiatives on page eight. These four initiatives, when taken together, will transform SES; our capabilities, our ability to serve our existing customers and attract new ones and together will create substantial value for our shareholders.

These initiatives reflect our core priorities at SES, and we have real momentum in all four. Since our last results call, we've made really strong progress in our C-Band transition plan as I mentioned earlier on in this call, we've completed all major procurements, a number of which are already ahead of schedule and we've begun the process of transitioning customers. The FCC process is progressing at pace, and the strong demand for high-quality mid-band spectrum was evidenced recently by the extensive list of 74 potential bidders for the auction that will kick off already next month.

So we're really well on track with relocation payments expected to begin in a few months and with the first clearing milestone only 13 months away, unlocking the first billion dollars of proceeds that will be used to strengthen our balance sheet.

Looking ahead to the second acceleration payment it's still a little early to be definitive on the use of proceeds, given that we're around three years away. But the order of priorities remains clear. Shareholder return, any further balance sheet strengthening if required, and disciplined investment should we see an opportunity to create shareholder value.

Moving on to our second initiative, Simplify & Amplify, we've now implemented the actions needed to deliver on our targeted EBITDA optimisation that will deliver 40 million in EBITDA savings in 2021 and 50 million on an annualised basis from 2022 onwards. We're continuing to drive simplification, efficiency and operational focus internally, and this is reflected in our decision not to pursue the separation of our networks business within SES at this time. We've done a lot of work on this, both internally and externally, and now have a blueprint to execute if needed. We've concluded that we can achieve the objectives of sharp and operational focus and strategic flexibility without incurring the additional cost, resource and time to execute that separation would imply.

We do intend to simplify our legal and financial structures, reducing the number of legal entities by more than a third, increasing visibility of business unit performance internally and later also externally, and continuing to drive strong operational focus in video and networks, while the work that we've done preserves strategic flexibility for the future.

I've already spoken at some length about our third initiative, our network of the future, and the vision associated with that and the important part of the SES-17 and O3b mPOWER play in this architecture. This seamless interconnected multi-orbit vision is something we've been working on for some time, and I couldn't be more excited about the progress we're making.

And the important point to make is that if we can work seamlessly across SES, GEO and MEO assets, we can also ultimately work seamlessly across other space-based networks as well. We're building a platform that can form a backdrop for network sharing, driving both improved customer experience and capital efficiency in the industry.

And finally, Cloud and cloud is also part of this interconnected network of the future because it drives scale and the ability to virtualise large parts of our network. But as you can see from the industry forecast, the adoption of cloud services is also accelerating across many industries, including those that we serve today and represents a substantial value opportunity for us. I think we're meaningfully ahead of the industry in the way that we're approaching Cloud and looking to leverage the cloud across our business, and this is underscored by our substantially expanded partnership with Microsoft.

Operationally, we've moved our own key enterprise and operational systems to Azure, and we've created the corporate cloud initiative to define, develop and launch seamless cloud content and connectivity solutions to our customers. Last month really excitingly, we became an Azure Orbital partner and key connectivity partner of Azure Orbital, building and managing gateways from Microsoft that will be co-located with their Azure Data Centres, and we'll also place our O3B mPOWER gateways there.

We're also Microsoft's MEO Satellite Partner to connect Azure Modular Data Centres and benefit customers who will be able to take Azure to the network edge, extracting value by applying a range of data processing, AI and other tools. So with that, I'll hand over to Sandeep and then come back to conclude at the end. Sandeep?

Main Financial Highlights Year-to-Date – Sandeep Jalan (CFO)

Sandeep Jalan: Thanks, Steve. Good morning, everybody. Moving to page 10, I will now cover the main financial highlights, which are fully in line with our expectations and demonstrate a solid and resilient performance despite the current environment.

Adjusted EBITDA of €883 million was 2.3% lower than the prior year; however, adjusted EBITDA margins improved year-on-year to 62.6%.

Revenues were lower by 3% or 42 million compared to the prior year; however, impacts were limited at adjusted EBITDA due to year-on-year OpEx reduction by 3.7% or €21 million. Our quarter three EBITDA stood at slightly above €300 million, reflecting both resilient revenues and one of our lowest CapEx during the past many quarters. This shows a good outcome of our commitment for strong COVID-19 cost mitigation actions and cost controls to protect the bottom line.

Restructuring charges and C-BAND expenses during the first nine months of the year were €49 million in total. Depreciation and amortisation was lower by €20 million euros or 3.7% due to

the combination of satellites which are reaching their end of life, the extension of certain satellites, depreciable life and the new assets that entered service during 2019.

Reductions in Net Interest Expenses

We are continuing to make good progress on reducing the recurring interest expense thanks to the recent senior debt refinancings at rates much lower than the debt having been retired. Net interest costs decreased by 10% to €120 million compared to last year. However, the net financing costs of €135 million shows an increase due to lower interest capitalised and mostly non-cash forex losses.

The change in net profit to €154 million was mainly due to the result of additional C-Band and restructuring expenses, which stood at €49 million, movements in the forex and tax impacts from gains in 2019 to the tax losses in 2020, and lower non-controlling interest.

Revenues

Looking at the revenues on page 11, the developments reflected the continued strong growth in networks offset by near-term influences in the video. Video declined 8.1% year-on-year, impacted by DTH and cable customers, right-sizing capacity in mature markets by our ongoing withdrawal from low margin activities, and also by the cancellations and postponements of sports and other events due to COVID-19.

That said, quarter three revenue was unchanged compared with quarter two. Our network business grew by 7.5% underlying basis year-on-year which is third year in a row. This is thanks to a double-digit growth in mobility which was around 18%, new government rents, which was around +1% and return to growth in fixed data which stood at around 6% positive.

The Balance Sheet

Now, turning to the balance sheet on page 12. As mentioned by Steve, our leverage position continued to improve both year-on-year and quarter-on-quarter adjusted net debt to adjusted EBITDA stood at 3.2 times which shows a reduction by 0.2x year-on-year basis.

Our liquidity position, which comprises cash and the 1.2 billion credit facility, remains strong at near €2 billion. We have a strong base of senior debt with average cost of about 2.5%, average maturity profile of eight years and no significant senior debt maturities before April 2023 on a proforma basis.

CapEx Forecast

The CapEx forecast on page 13 is unchanged, with growth CapEx for SES-17 and O3B mPOWER during 2021 and 2022. After 2022, the cash flow profile is expected to benefit from the revenues generated by these highly differentiated assets, as well as from the low needs for replacement CapEx.

Full-Year Financial Outlook

Finally, the full-year financial outlook, as shown on page 14, is unchanged. As Steve mentioned, we are fully on track on both revenues, with good visibility from having more than 97% of the revenues already contracted, as well as a strong COVID mitigation measures to protect the bottom line. With that, I will conclude now and hand back to Steve.

Closing Remarks – Steve Collar (CEO)

Steve Collar: Great. Thanks, Sandeep. So just a few closing words from me. On page 15, our solid year-to-year performance reflects SES's long-term fundamentals, strengths and industry-leading position. Even with the headwinds of COVID-19 out networks business is delivering strong growth for a third consecutive year with impressive new wins across government and fixed data in 2020, highlighting the value of our unique multi-orbit infrastructure.

Our premium video neighbourhoods are continuing to attract new premium TV channels and retain the best customers, with Canal Plus being the latest to extend their commitments with SES adding to our substantial contract backlog. And we will remain committed to our financial discipline, which has enabled us to continue to strengthen the balance sheet even in this challenging macro environment.

We've been very thoughtful in terms of our growth CapEx and focused on investments like O3b mPower and SES-17, which will meaningfully enhance our ability to serve customer demand and profitably grow the business. And lastly, with C-Band, we're fully on track to realise substantial incremental value, delivering significant shareholder value. And with that, we're happy to take questions.

Questions & Answers

Operator: Thank you. If you would like to –

Steve Collar: Go ahead, operator.

Operator: Thank you. Apologies. If you'd like to ask a question, please press star one on your telephone keypad. Please ensure that your line is unmuted locally. You'll then be advised when to go ahead with your question.

The first question comes from the line of Sami Kassab, calling from Exane. Please go ahead.

Sami Kassab (Exane): Thank you very much and good morning gentlemen. I have three questions, please. The first one is on video distribution. Can you comment on the pipeline and on the upcoming renewals there to help us understand to what extent the quarter-on-quarter revenue trends are indicative for the next few quarters, please?

The second question is on mPower and its commercial momentum. You've disclosed a backlog. Thank you. Can you disclose the backlog as it stood a year ago so that we see if all the backlog came in the last few months? So – or how the momentum has been.

And lastly, you have no new assets entering commercial service until late next year. Assets recently launched are filling up nicely as your results show. So can you comment on how you bridged 2020 and 2022? In other words, how you see networks next year please Steve. Thank you.

Steve Collar: Thanks, Sunny, so I'll take the first couple and then hand maybe to JP to take the last. So, on the pipeline of renewals, we don't have any significant renewals in the last quarter of the year. And, you know, the vast majority of our business on the video side is already secured.

We've actually seen a bit of an uptick in sports and events in the fourth quarter, which is helpful. And as far as 2021, we'll obviously address that down the road. We do have some renewals coming up in 2021, but we'll kind of go into that as we move into 2021.

As far as mPower and SES 17, I mean, we're now sort of providing visibility into the backlog and we'll do that going forward. I think that we're going to go back in time and provide information on that. But I think the main message Sami is we're seeing momentum starting to build now as the launch sort of comes into view. That's fairly typical. There's a good reason, therefore, for us to kind of report on this now and then to give you visibility of this going forward. And then maybe for the last question, I'll hand across JP in the US.

JP Hemmingway: Yes, thanks, Steve and hi Sami. Yes, from a demand perspective we're seeing you know, positive progression through into next year, obviously working through the COVID assumptions that we have to date and the visibility we have of those to date. I think your question was more around supply and yes we're making good progress on some of the high throughput satellite assets, but actually, we still have room to grow in sort of, certainly SES 14, SES 12, SES 16 or [inaudible], and of course the other assets that we have around the globe. So I don't see our supply being challenged until we wait for SES 17 and O3B mPower who of course, we still have some capabilities in MeOh current generation to register that as well. So, I think supply and demand are well-matched until next year.

Sami Kassab: So may I conclude on that that you see the quarter-on-quarter stability in video as indicative and expect networks to continue to grow positively next year?

Steve Collar: Sammy, we're not going to get into guidance for next year until February. So I appreciate the question but we'll – we'll come back and talk to you about 2021 in February.

Sami Kassab: I had to try Steve. Thank you. Bye.

Steve Collar: Understood.

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

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

Steve Collar: Very clearly, Nick.

Nick Dempsey: Very good. So yeah, three questions from me. The first one, just going back to that $500 million of backlog. You know, is a large part of that the deal with TALOS on FES17 that was kind of wrapped into the commissioning of that satellite? Can you give us some sense of how much of it relates to that? And then just some kind of idea about the average contract length behind that $500 million of backlog so we can just cross-check it with our modelling.

Second question, in mobility, you continue to grow well. That's pleasing. You know as the benefit of the new business in aero and crews starts to wash out and obviously it's harder to get new stuff, do we see a risk of some quarters of year-on-year decline in that business over the next few quarters?

And the third question, can we just get the latest thinking on the tax rate likely to be applied to the C-BAND proceeds again to help our modelling of that?

Steve Collar: Very good, Nick, thanks for that. Yes. Look on the backlog, so, yes, absolutely. The – sort of the Talos Avionics deal is part of that – is part of that $500 million number. But

it's certainly not the only one, and I think the purpose of establishing this backlog now and providing you guys visibility of that is that you can now track this as we – as we go forward and talk about it. It is long-term in nature, and it ramps, as you would expect, right? So this is – and I would say that's sort of true of that backlog, that it kind of ramps as customers build in. But some of that backlog sort of starts immediately on day one. And so we were – we're not going to break it out in further detail at this point in time, but we'll certainly give more visibility on that backlog as it grows and as we sort of approach not only the launch of the satellite but the launch of the services.

I think the second question probably is for you, JP, and then the third one for Sandeep.

JP Hemmingway: Sure, yeah. Thanks, Nick. And on mobility, yes, obviously we're seeing some good growth over previous quarters, which has seen us through into this year. But as you indicate, you know, some new business has obviously been challenged this year, given the sort of COVID-19 situation. But we're confident the business we've won will see us, you know, strongly through into following quarters. Obviously, new business has been constrained, but we're watching very carefully the return to service, if I call it that, on both aviation and crews. Obviously, on crews, we're, you know, pleased by the list of the no-sale order from the CDC in the US and we're working with our customers very closely to see what that means. That actual return to service, which we expect to be relatively cautious and measured, as you would expect, with all the new safety measures coming in. But we do expect to see some of those vessels starting to come through and then back to growth and then the new vessels that have been on hold also coming through. So, yeah, we have to be measured in our new business expectations, but certainly, with the indications we're seeing for some of those sectors, we should start to see some of that flowing through into next year.

Sandeep Jalan: Hi Nick. Regarding your question on the tax rates on C-Band proceeds on C-Band, it's as Steve said earlier, we are making very good progress. Also, a Clearing House has been appointed on 22nd of October. We are in discussion with all the tax authorities because it's a multi-jurisdiction. We have given a tax guidance of between 20 to 25%, and at this moment, we are clearly expecting to deliver towards the lower end of that guidance.

Nick Dempsey: That's very clear. Thanks a lot, guys.

Steve Collar: Thanks, Nick.

Operator: The next question comes from the line of Aleksander Peterc calling from Société Générale. Please go ahead.

Aleksander Peterc (Société Générale): Yes, hi. Thank you. Thank you for the questions. I have a few. The first one is if you could give us an update on your costs to reduction of the third quarter alone and how much of that you expect to be able to sustain going forward once the effect of the pandemic subsides?

Secondly, if you could say on the video services, how much legacy revenue is there left there? It's been a few years now you've been talking about legacy dragging the segment down. When will it wash out completely?

And then the last one, if you could give us the puts and takes behind the thinking on the future of the separation of video and networks. What made the board change its mind at this point? Thanks.

Sandeep Jalan: Michael, so regarding the cost reduction so clearly for 2020, we had announced one-off COVID mitigation measures of €40-60 million. At this moment we are expecting the gains to be about €50 million as is stated in our earnings release and we are tracking it very well as you can see from our quarter three results, we have made very, very good progress on that front and we will continue to see the gains of that materialise during 2020 itself.

As we said, these are one-off COVID mitigation measures, and on top, we continue to see the Azenis[?] games which will start ramping up from next year. They are about €40-50 million euros. To be precise €40 million for 2021 and €50 million that we expect during 2022. And again we will get more clarification with our full-year guidance in February as to what impact from the cost we can expect during the next couple of years – next year.

Steve Collar: Great. Thanks, Sandeep. On the second question on sort of the low margin services, so sort of our exit from low margin services was the main driver of the overall service year-to-date reduction. But obviously what goes with the revenue reduction is also a reduction in cost and in particular cost of sales. And that showed a positive impact overall on the EBITDA level. We'd expect this to be largely done by the middle of 2021. And as you'd expect, we're always going to be focused on making sure that we're maximising profitability and sort of long-term value in the services that we're delivering.

Then on the third question, it wasn't so much a change of position. What we announced in March was that we were going to look at this, right? And when we announced in, I think it was March/Feb that we'd review this as part of our overall transformation plan, we had three main objectives in doing it, which was strategic flexibility. It was sharp and operational focus and also increased visibility both internally and externally. With the work that we've done, we can you know; our conclusion is we can achieve all of those things without actually incurring the costs that going into full separation would require and would imply.

Like I said, in kind of the talk, we're going to simplify our legal structures. We're going to get rid of about a third of the legal entities that we currently have in the business. And that's going to sort of streamline things and save us fairly significantly from a cost standpoint. And so, yeah, I mean, the short answer is we can achieve all of the benefits that we envisaged, in particular maintaining and increasing actually our strategic flexibility without actually incurring the costs that separation would imply.

Aleksander Peterc: Very clear. Thank you.

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

Michael Bishop (Goldman Sachs): Thanks very much. I've got one question, which is a bit of a follow up from the last one and then a second question just on costs.

The first one just coming back to a couple of the points you mentioned. So it sounds like the network separation, you decided that there wasn't essentially the financial synergies, but could I confirm whether you did explore any sort of external value creation type opportunities alongside the analysis on just the financial synergies and rolling into the second part of the question, which is you mentioned that capital efficiency in the industry could improve and SES was trying to knead that. That would, I guess, make people think about consolidation, but are

you trying to say that capital efficiency in the industry can improve without consolidation and things like partnerships? Just trying to understand that comment better.

And my third question on the costs is, as we think about the 50 million of one-time measures dropping away in 21, are they fully replaced by the 40 to six million simplified and amplify or is there some overlap? Because it seems quite hard to disaggregate at the moment what's going to be temporary and what's going to be permanent?

Steve Collar: Yeah, thanks very much. Look, I'll take the first two and then let Sandeep take the third one. So look again on the – on the separation question, you know, the objectives that we kind of laid out in February were relatively clear. This wasn't sort of driven by a particular M&A opportunity, if that was the question, it was really driven by the idea of how do we, you know, maintain strong operational focus and provide greater visibility into two businesses that, you know, look and feel quite different, but also give us strategic flexibility and having gone through this. And we needed to kind of disclose it because it was material, right? And we were going to do a substantial amount of work externally as well. But having worked through this, you know, we see that we really – you know, we can sort of get the best of both worlds, right? We can get all of those things without incurring the costs that it would imply.

I think it's also true to say that the world looks a little bit different than it did back in February. From a very positive standpoint, we've made really substantial progress with C-BAND and so have strong visibility towards the four billion in proceeds that will come as a result of us executing well on the accelerated transformation plan. But also, we've been – you know, the world has been dealing with this sort of global pandemic over the last sort of seven or eight months, which really drives focus on operational efficiencies. And so, yeah, this is the right decision for us to take for now, given that we can retain all of those benefits without necessarily incurring the incremental costs.

Yeah, the second question was sort of around this – this idea of, you know, building a platform that gives us the potential to interoperate not just across our own satellites and our own systems, but also potentially others. And I think that that is very meaningful. I think it's meaningful in terms of providing better solutions for our customers. Customers in the market today can get confused by the number of different offerings that are out there. And if we can aggregate those offerings into a more coherent network, I think that's a good thing. I think it will improve the efficiencies of networks, but ultimately, it may mean that we don't – you know, that the industry doesn't end up building kind of overlapping networks. And this was seen in Mobile not so long ago, right, with network sharing. And I think we can be a – I think we can be a platform to enable network sharing and sort of our ideas there are still relatively early in development. But I would say if we've created that capability be multi-orbit and interoperable within our own systems, then we can clearly do that outside our system as well. And I think that that is – is compelling for the future and Sandeep, leave you with the third question.

Sandeep Jalan: Yes, so Michael, regarding cost, both of these cost initiatives Simplify And Amplify 40 to 50 million gains ramping up from next year, and the COVID-19 mitigation, which is a one-off in 2020 action, these are very similar, so far as the amount is concerned, but the focus is very, very different.

While simplify and amplify gains of 40 million euros for next year, they are sustainable gains, and they will continue to recur year over year and rather continue to ramp up in 2022 to €50

million euros. COVID-19 mitigation measures are very exceptional and more kind of one-off, right? Because this comprises of a low amount of travel, [inaudible] also many staff actions, the cuts et cetera, that we did exceptionally during this year. And they are not expected to recur. And again, we are not giving a guidance for next year. Again, we are carefully looking at our numbers for next year and will come back in February and give our guidance for next year as to what all it means for next year guidance in terms of cost actions.

Michael Bishop: Great, thanks so much.

Operator: Before we move to the next question, please be reminded, if you'd like to ask a question, please press star one on your telephone keypads. The next question comes from the line of Giles Thorne calling from Jeffries. Please go ahead.

Giles Thorne (Jeffries): Thank you. Just coming back to the question of networks. It would be useful to hear very precisely exactly what the strategic flexibility you're referring to, the flexibility that you thought you didn't have, but then realising after doing the review that you can get it without having to do the – any kind of work around separating networks. So, again, what exactly did that strategic flexibility that you're aiming for?

The second thing, I remember in times gone by, a previous CFO describing the CapEx on FTS17 is completely covered by the revenue you'll be generating from TALOs assuming a satellite costs about $300 million, give or take. That's about $200 million of your $0.5 billion backlog that's coming from non-SES-17 stuff, so mPower. So it would be useful to know if you agree with those numbers and that 200 backlogs. Is that existing 03B customers doing existing things, or is these exciting new things coming in that you've never done before on the back of mPower?

And then my third question is if we consider yourself an Intelsat as the old guard in fixed satellite services mobility, there's been a massive departure by Intelsat in aviation with the acquisition Gogo commercial aviation business. Now, I know you vertically integrated with O3B in mobility for crews, but basically, in aviation, that's a big departure from the modus – from the status quo. I could ask all sorts of leading questions, but basically, I'd just like to know what you think about that? That's it. Thank you very much.

Steve Collar: Thanks, Gile, so, yeah, look, I mean, I don't think I have to sort of spell out too much on strategic flexibility. I think, you know, what we've said in the past is we believe that consolidation in the industry would be a good thing and would benefit the industry. That as SES is one of the leaders, we, you know, intend to remain open and sort of put ourselves in a position to lead that consolidation to the extent that we believe that sort of value accretive for our shareholders. And we could do that in multiple different ways. And so strategic flexibility speaks to putting ourselves in a position for which that's true. But as always, we're going to be financially disciplined about what we do and pretty objective about how we– how we would go about doing it. So I think that probably is all I would say on the first question.

On the second question and appreciate Giles you digging and – but you know, look we're providing guidance on visibility into how we see the market developing for SES 17, notably mPower. It is really exciting. I think despite, you know, what is by all measures a pretty depressed industry at the moment for growth on the mobility side in particular, we're seeing good traction on SES 17 and O3B mPower and a lot of excitement around what we're creating and this sort of, vision around the network of the future and the flexibility that that implies and you know, the sort of – the direct connection to Azure and everything else that's implied with

sort of, the network of the future and so yeah, I think that $500 million in backlog reflects that and will continue to provide that information as we get, sort of, closer to that launch.

Then, yeah, look, on the Intelsat's move and Gogo, I think what it reflects more than anything else is stress, frankly, in our sort of traditional customer base, which is the service providers. And when I say our I mean the industry's sort of traditional customer base in the service providers, you know, we shouldn't lose sight of the fact that this is a – this is sort of an unprecedented global pandemic and that has put the service providers under real stress.

I think that has led to, you know, not just the situation with Gogo's commercial aviation business, but also, we see a number of our traditional service providers going through restructuring, Chapter 11 and so on and so forth. I think the industry will emerge stronger for this. I think there was a little bit of irrationality in that sort of service chain, particularly, I would say, in aviation over the sort of the years preceding. And so I'm confident that that chain will emerge more strongly. As you know, we're an important provider to four of the six aeronautical service providers today: the other two being vertically integrated and Inmarsat and ViaSat. And so we don't see any medium-term impacts on our business with our medium-term impacts on us as a result of Intelsat acquisitions of Gogo. And we will obviously continue to support them as well as the other three that we serve today. And then for questions about, you know, Intelsat's strategy, why they did it, obviously you'll need to speak to them.

With that, did we get through your questions Giles or was there another one? I think we –

Giles Thorne: Yes, you did. A very brief follow up on the last point. Do you recognise the $100 million of capacity onboarding synergies that Intelsat has spoken to through the acquisition of Gogo? You know, do you see third-party capacity out there that they can transfer to Intelsat or do you think that number's not real?

Basically, what're your thoughts of moving business?

Steve Collar: Yes, no, Giles. I honestly have no idea. You'll need to speak to Gogo or to Intelsat ultimately when the transaction closes but what I can tell you is you know, our business with Gogo is very long-term in nature and you know, it comes as a result of us having a really important asset in SES 15 which has become sort of the prime location for Internet services to planes in North America. We designed that satellite specifically for those services, and I don't see too much out there today in [inaudible 00:43:56] that sort of is equivalent to SES 15. So I think we feel very, very good about the business we have with Gogo. It's very long-term in nature and yeah, for questions about the investment thesis that Intelsat had, you'll have to speak to someone else.

Giles Thorne: Thanks, Steve.

Operator: The next question comes from the line of Patrick Wellington calling from Morgan Stanley. Please go ahead.

Patrick Wellington (Morgan Stanley): Yeah. Good morning, everybody. Steve, did I spot a change in the order of your use of the C-BAND proceeds, which I think was shareholder returns, balance sheet and then acquisition? I seem to remember balance sheet coming before returns before. So, that's the first question.

Second one on disciplined acquisitions. And let's stop beating around the bush. I mean, what people want to know is whether buying [inaudible] another video-heavy player in Europe,

different technology structure sits within your definition of a potential disciplined acquisition? Or whether all this chat about consolidation in the industry is more about maybe networks than it is about video?

And then thirdly, I constantly struggle to find where to put my revenue for Cloud and Microsoft Azure into my model. Are we double-counting here? Is what we're going to get from Cloud and Microsoft Azure something that should sit alongside the O3B mPower revenue line? Or is it broader than that? Thank you.

Sandeep Jalan: Hi, so regarding the first question on the uses of proceeds, so we have been very, very clear and consistent from the last time the C BANDS, there are two tranches, the first tranche, which is one billion. The success milestone is in quarter four 2021, which is in one year's time. And this will be utilised fully for deleveraging. And the second proceeds, which is in about three years' time, we have been very clear about it that the first and foremost priority will be the shareholder returns. Then using part of the proceeds in case any balance sheet strengthening is required at that moment. And in case we see any particular options which are very value accretive and enhancing shareholder value, they would remain open to those with a very, very strict financial discipline mindset. So the priorities are very clear. Shareholder returns, balance sheet strengthening, if required, and any ready-for optionality if we see the value in a disciplinary.

Steve Collar: Yeah, Patrick, look I'm going to probably disappoint you, but what I'm going to tell you is we're not going to comment or get drawn into a conversation about any specific other companies, I think as a general statement, as I said earlier on, I do believe that there's, you know, long-term logic in industry consolidation. We're going to sort of continue to be financially disciplined in the way we think about it. We're going to be as flexible as we can be in making sure that we put ourselves in a position, you know, to execute to the extent that we think that there is something value accretive out there.

And then for the third question, JP, I suggest you take it.

JP Hemmingway: Yes, sure. Patrick, so obviously you know, cloud revenues I think are new to the industry. And I think we're sort of pioneering that, as Steve said. So I appreciate the question. So the way we think about our revenues that we're seeing today coming from cloud, we typically fold those into our fixed data numbers. And those would be comprised of the revenues that we're driving through our direct relationships with those cloud service providers. So direct into the cloud operators is where the initial revenues will be coming from.

Going forward, though, we expect more revenues through that channel, but what it will really drive is greater growth in the existing segments. So cloud is very important to mobility customers, very important to Telco's, etc. So it will drive kind of pull-through revenues into those segments. And in terms of where you should be pegging it onto the assets, yes, MeOh is absolutely something that provides high-performance connectivity. So could be biased towards that, but certainly not just and it will be across all of our MeOh and GeOh assets based on the end-user and application needs of cloud. So new to us all, I think. But that's kind of how we're thinking about placing the revenues.

Patrick Wellington: That's great. I mean, just in that context, Steve, I mean, do you envisage at some point having some sort of presentation to outline the potential of O3B empower and

these cloud opportunities? Or do we just roll it into our general sort of growth model for the individual divisions?

Steve Collar: I think we'll certainly – we'll certainly think about that Patrick. I think, you know, one of the things that is certainly true is as we get closer to the launch of both SES17 and O3B mPower, we want to give you more and more kind of visibility as to why we think these assets and the capabilities that we're building are compelling and also, frankly, why our customers do. Right, and give you kind of more visibility of that and examples of what our customers are going to use these assets for and use the network for. How do we – you know, one of the things we're hearing back from our customers most strongly is the need for sort of flexibility? And I think that probably comes from this COVID environment where, you know, anyone who's taken on a lot of fixed, you know – you know, fixed commitments and fixed networks, you know, was less able to respond.

That's really at the heart of everything that we're building with SES17, O3B mPower, with the – you know, the architectures that we're building, with the partners that we're announcing with our Microsoft, the work that we're doing with Azure and sort of, you know, the cloud at its very heart is flexibility, right? So I think, you know, what we're building is very, very responsive to what we're seeing coming out of this sort of pandemic period. But I think the short answer Patrick, is yes. We'll figure out how we continue to provide more and more examples, visibility and so on and so forth as we get towards the launch of 17 and mPower.

Patrick Wellington: Great. Thank you.

Operator: That concludes the question and answer session for the call, so I'd like to hand the call back over to your host for any closing remarks. Thank you.

Steve Collar: Yeah, just to say thank you very much all for joining. Really appreciate it. Particularly with all the excitement that's going on over in the US right now. I really appreciate your attention, I look forward to speaking to you again when we announce our end-of-year Q4 results. Thanks very much all. Appreciate it.

Sandeep Jalan: Thank you. Bye.

Operator: Thank you for joining today's call. You may now disconnect your lines. Hosts, please stay connected.