Q3 2023 Results

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Q3 2023 Results

Operator: Hello and welcome to the year-to-date 2023 results SES SA announces financial results for the nine and three months ended 30 September 2023. My name is Laura and I will be a coordinator for today's event. Please note, this call is being recorded and for the duration of the call your lines will be on listed-only. However, you will have the opportunity to ask questions at the end of the call. 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 will now hand you over to your host, Richard Whiteing, Head of Investor Relations, to begin today's conference. Thank you.

Richard Whiteing: Thanks, Operator, and good morning everyone. Thanks for joining this analyst and investor call for our year-to-date 2023 results. We appreciate you accommodating the change of date given the material agreement just signed. This morning's presentation was uploaded along with the press release to the Investors section at SES.com if you don't already have it. And as always, please note the disclaimer at the back of the documents.

In a moment, Ruy Pinto, CEO, will present the main business highlights, followed by Sandeep Jalan, CFO, to cover the financials in more detail. After some closing remarks from Ruy, we will take your questions.

And on that note, let me hand over to Ruy.

Ruy Pinto: Thanks, Richard. Good morning, everyone. Again, our apologies for changing the date, but we wanted to give you an mPOWER update that is material for our company and that justifies just advancing it by a couple of days.

So please, starting on page three, let me go through the highlights of our announcement. I'm really pleased that our year-to-date financial performance has been good, solid and good. Our Networks business has delivered growth on the back of positive out-turns across each of the three sectors, Government, global and the US, Mobility and Fixed Data, Enterprise and Cloud. Also, on our media video segment, our revenue performance was consistent with our expectations, and we have signed and are signing important long-term renewals across our valuable TV neighbourhoods. A couple of examples, Telefonica in Spain, CANAL+ in Africa, and I'll elaborate a little bit more during the call, but it's a really good performance from our Video team. Therefore, we are on track to deliver our full-year 2023 financial outlook, and I have to say that it's really pleasing to see that result.

I'm also delighted to announce that following the FCC certification of our Phase 2 US C-band team, we have now collected accelerated payment of $3 billion gross pre-tax. This is a true milestone. We have been working on it for quite some time, as you all know. We enable the accelerated deployment of 5G service in the US, while preserving our key customer services and realising substantial value to the company. And having that milestone ticked off is really a feather in the cap of the team that achieved it.

We're already putting a portion of these proceeds to work in a very disciplined way. We announced a share buyback programme of up to €150 million, and we intend to start executing on that programme with practically immediate effect in November 2023. At the same time, we have decided to call the hybrid bond of €550 million in line with our objectives of reducing leverage and lowering our overall cost of debt.

If we could please move to page four, and I'll jump straight to the mPOWER update. And let me start that, on one hand, it's disappointing that we are not be in service as early as we would have hoped, but clearly, we as a company, have to get this right. And we work hard and extensively with our partner supplier, Boeing, to make sure that, one, we understand the causes of the phenomenon that we have observed in space, and two, and more important, that we have a solid plan moving forward to deploy the mPOWER constellation.

We have made a lot of progress towards identifying the causes of the mPOWER module issues that I have mentioned back in August. With four satellites in orbit, we collected, quite frankly, a really good amount of data, and we're now in a position to not only understand what is happening, but also to have a technical fix for the problems. I also have to say that after this assessment and investigation over the last few months, we determined that the initial satellites in orbit will have a significant reduction in anticipated operational life and available capacity.

However, one of the beauties of these extremely flexible software satellites is that we can trade that. In other words, if our model indicates that we are being, for example, pessimistic on the longevity of these satellites, we can trade that by adding capacity to the constellation and vice versa. This flexibility allows us to be confident that we can start our service in early Q2 2024.

Importantly, and I should mention that very clearly, we expect that with the mitigations in place, our existing O3b MEO constellation customers will be supported as well as the O3b mPOWER customers with still room for further customers and market growth from early Q2 next year. We always like to keep personally a bit of margin, but this may be as early as April if our tests continue to proceed as we plan. However, it's a little bit later by a quarter than what we planned before. Therefore, we have to adjust the expectations that you all have on the start of service of the constellation.

Furthermore, we continue to work, and we are going to deliver on the full life cycle capabilities of the OCD and mPOWER constellation. And we are going to be upgrading the remaining five satellites, 7 to 11, and deliver an additional two satellites with Boeing, beginning not only the remedy or the fixing of the design weakness that we identified, but also the construction of two new mPOWER satellites that will be delivered in record time, including our agreement with Boeing, which we finalised yesterday. We are confident that we are going to accommodate this additional investment within our existing CAPEX envelope from 2023-2027. And this is a mix of our material agreement with Boeing where Boeing and SES are sharing the risk and possibly insurance proceeds. But that is still being investigated and depends on the performance of the satellites in orbit.

Therefore, it's expected that the impact of the O3b mPOWER delay of one quarter will be in the order of mid-single-digit percentage lower in terms of 2024 revenue and adjusted EBITDA. However, we are not giving up on that and there are potential mitigations. We are looking at how can we best optimise our extensive MEO and GEO fleet so that we serve our customers and preserve as much of our revenue. We are preserving our backlog of sizeable and important customers and there are a number of strategic programmes that we are working on, some of them you know, that may help us mitigate the impact of this delay.'

This is a solid plan. We are confident on that plan. And it will enable our customers to already benefit from the O3b mPOWER system from early next year, from Q2 next year. And it will focus on delivering a capable system to the market which will be the bedrock of the long-term success of our Networks business. As one example and to allay maybe some of the possible concerns, we have done a successful demonstration of mPOWER F1 and F2 in India at the India Mobile Congress with our partner Reliance Jio. They branded this the GEO space fibre, and we have demonstrated gigabit per second capabilities for a number of remote sites alongside Jio[?], including a demonstration to Prime Minister Modi, and that was just last week. So this was actual data, actual satellites, actual demo demonstrating the capabilities of the mPOWER constellation in orbit as we had planned.

So on that note, let me move quickly to the key elements of our year-to-date performance on the next slide, please.

Our revenue of €1.5 billion year-to-date is fully in line with expectations. In the last nine months as well, we have signed a total of €1.3 billion of contract renewals and new business wins across the group. I couldn't be more pleased with that outcome, given the fact that competition is intense in all our sectors, certainly on the network side. This result includes €835 million of revenue on the three network verticals. A couple of notable wins are the Mexico CFE programme using SES-17, and it's a pleasure to be able to help with digital inclusion in Mexico.

We have had several US government awards. One that is notable is the Air Force DEUSCI programme that we have won, and there are other deals as well in the Aviation Cruise customers section as well. We also did sign a partnership with Starlink which benefits our customers and increases our market penetration in the cruise sector, and we are very proud of that. This is all complemented by €445 million backlog that we have secured in video, notably some multi-year transponder renewals with Telefonica in Spain, the successful extension of UK TV until the end of the decade, the renewal of CANAL+ in Africa, renewals of QVC, RTL, HD+, and a number of others.

Our Media/Video team has been very diligent and disciplined in trying to withstand market pressure in terms of price and even sometimes being able to index some of our contracts, and that's a good outcome. We are also maintaining a strong grip on costs and discretionary spend, with an adjusted EBITDA of €792 million.

If we could move them to page six, please.

Third quarter revenue grew 8.6% year-on-year for Networks, and it's really good to see the rebound on Government 15% year-on-year. It's a priority sector for us, where we feel that we have differentiated capabilities. This resulted in a year-to-date results being 5% higher than in 2022, including growth in all three verticals. You can also spot on the bullets that the sector where we have more intense competition in fixed data, but even there, we achieved a 2.3% year-on-year growth.

If we move on to page seven, please.

On the video side, as I said just before, we are tracking really well against forecast. We saw reduction of 2.5% year-on-year in the third quarter that contributed to the last nine months underlying a revenue closing of 3.2% lower versus 2022. These are secular trends that we are all familiar with, and we believe that we are better than the competition, certainly this year. These trends continue to be largely lower volumes in mature markets, with pricing stable to increasing and contract duration remaining very healthy and strong and long.

Sport. The small sector of Sports and Events is one that we are very proud of because we are seeing a lot of growth in there, including a contract with FIFA that is notable that we managed to get.

With that, I will hand over to our CFO, Sandeep, to give more details on the financial, please.

Sandeep Jalan: Thanks, Ruy. Good morning, everyone.

Starting with the financial highlights on page nine and as Ruy already explained the brief highlights, reported revenue for the first nine months was 7%, up year-on-year to €1.49 billion, including the full contribution from acquisition of DRS GES that we completed in August of last year. On a like-for-like basis, our revenue was slightly higher compared to year-to-date September 2022. Adjusted EBITDA of €792 million was about 5% lower, both on a reported basis as well as on a like-for-like basis. This represented a margin of 53%. Adjusted net profit was €180 million, and I will cover this in a moment in more detail.

The financial outlook for 2023 is fully reaffirmed with revenue, adjusted EBITDA and CAPEX each being on track versus the outlook we gave in February this year.

Moving now to the net income walk on page ten. Adjusted EBITDA was €37 million lower compared to year-to-date September last year, and it was driven by four main components as shown in this table. First, €6 million positive from the Scope effect of the DRS GES acquisition and forex. Second, 5% growth in Networks of €37 million, including the periodic revenue of €7 million that we have recognised in quarter one of this year. The third component is Video declined by €33 million, including the periodic effects. On an underlying basis, Video was 3% lower year-on-year which represents an improvement versus the 7% decline that we reported last year for 2022, and we are pleased with this flattening trajectory. Finally, recurring OPEX was higher by €47 million, as we had anticipated with our guidance.

Below, adjusted EBITDA lower interest expense contributed positively to adjusted net profit by €27 million versus the prior period. The main movements leading to adjusted net profit of €180 million were almost entirely non-cash, particularly higher appreciation linked to a SES-17 being in service, additional amortisation and lower net forex gain than the prior years. The difference between adjusted net profit and reported net profit of €682 million is primarily explained by the C-band income-related effect. We are very pleased by a fantastic execution of the C-band project with full success and 100% proceeds have now been realised in cash, mostly in October.

One effect is that we have recognised a significant C-band net income of €2.7 billion, which is close to $3 billion. This income recognition also implies that we have converted an intangible asset on our balance sheet into real cash, and hence we have also recorded a non-cash impairment charge of €1.55 billion on the intangible assets triggered from this recognition of C-band income. We have also recognised the tax payable on these proceeds of about €0.5 billion which, after including other positive effects from impairment effects etc., amounted to a net charge of zero point €0.44 billion in the P&L.

Moving now to page 11, we continue to focus and maintain a strong and sector-leading balance sheet with investment-grade metrics, now further bolstered by US C-bank proceeds fully realised in cash by now. Adjusted net debt at 30 September was €3.7 billion. We have not only a low cost of funding, around 3%, but also healthy maturity profile of seven years, with only

€400 million of senior debt falling due for maturity during next couple of years. Leverage stood at 3.5x, essentially unchanged from the end of last year.

Now, since the end of September, as we reported, we have fully received the Phase II C-band incentive payment of $3 billion. We expect to pay the tax of €0.5 billion, and we will now start the share buyback of €150 million that we had announced in August. This buyback represents the maximum amount authorised by AGM resolution and demonstrates our belief in the business fundamentals.

We also intend to exercise the call on the €550 million hybrid bond at the upcoming maturity in January 2024, thanks to the C-band proceeds that we have realised. Hybrid bonds continue to remain an integral part of our capital structure, including the 2026 hybrids that we have on our balance sheet.

Additionally, we expect a further $445 million of US C-band cost reimbursement. The process of reimbursement remains much slower than our expectations. Nonetheless, we have so far received over $0.9 billion of reimbursements and continue to engage with the clearing house to process the outstanding claims. When adjusting for these items, this leaves a pro forma adjusted net debt of around €1.5 billion and net leverage of around 1.5x. We remain committed to using the C-band proceeds in the best interest of shareholders, and expect to provide further clarity with the full-year results in February. In the meantime, the cash is earning interest income of more than 5%.

With that, I will hand back to Ruy for the conclusions.

Ruy Pinto: Thanks, Sandeep. Appreciate that.

So to sum up on page 13, please, I'm clearly pleased with our continued strong financial performance, which means we are fully on track to achieve our financial targets for 2023. We now have the substantial C-band proceeds, which further support what I'm sure is a sector-leading financial position and strength.

We are deploying, as announced before, €150 million share buyback programme, and we are exercising our option to call the hybrid in keeping with our commitment to be financially disciplined and lowering our cost of debt. As you heard from Sandeep, we expect to provide further clarifications regarding the financial policy in end of February next year, but that's a good problem to have if you ask me.

While I appreciate that today's news on O3b mPOWER will require a little bit more patience from the market as we work to deliver the constellation's full life cycle capabilities and growth potential, we can look forward to starting services in Q2 – early Q2 next year with the ability to still support our existing O3b mPOWER customers as well as additional service and market growth.

We have a solid plan to manage the near-term operational shortcomings, deploy five satellites that will have a design improvement, addressing the issues that we have intensively investigated and adding two brand-new satellites to the constellation alongside our partner, Boeing. This will ensure that SES will deliver the highly differentiated capabilities of O3b mPOWER and will deliver long-term growth and success to our Networks business. So we did the right thing here. I'm really pleased that we have a solid plan going forward, despite the fact that we are not exactly where we wanted to be in terms of schedule.

With that, thank you very much, and we are happy to take questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll now take our first question from Aleksander at Societe Generale. Your life is open. Please go ahead.

Aleksander Peterc (Societe Generale): Yes, good morning, and thank you for taking my question. I just have two. The first one would be, should investors expect any further capital allocation decisions beyond the reimbursement of the hybrids that you just announced and the €150 million buyback that was previously announced? Is there more to come still on this front, or are you happy with your capital structure right now? And then the follow-up is just on the impact of the mPOWER delay. Which of the three verticals in Networks is going to be more affected and which one less, so we can model this correctly. Thank you.

Sandeep Jalan: Hi, Aleksander. So on your first question, clearly the hybrid continue to remain an integral part of our capital structure. We have two hybrids on our balance sheet as we stand today, with the C-band proceeds in our pocket and the current capital market conditions. We have the upcoming call on these hybrids in January 2025 that we intend to call. Of course, these are decisions that we will continue to take, taking into account the latest capital market conditions where these instruments may be quite costly, the market.

Regarding further clarity on the financial policy, as I already spoke earlier, we are currently assessing our plans and with our annual results in February, we'll be giving more clarity. The current share buyback programme is already at the maximum level of €150 million, which is authorised by our Annual General Meeting. Clearly, the direction of the financial policy remains a solid financial policy with a heavy focus on investment-grade, stable to progressive dividend and disciplined investments. And clearly, with the C-band proceeds now in pocket, and with our upcoming focus on the next year plans that we are currently assessing, this is something we will engage with our board and provide more clarity as we go forward at the end of February.

Ruy Pinto: Thanks, Sandeep. Aleksander, commenting on your second question, we believe that the differentiated high throughput and flexibility of mPOWER is stronger on Government and Mobility. We are quite confident that our growth plans and ambitions on those two sectors are going to be minimally impacted by this delay. But I would also say that on Fixed Data, Enterprise and Cloud, the competition and the price erosion is intense. So every month that we delay, of course, there is a little bit of an impact. So if you wanted to put an order, I would say Government and Mobility are still strong sector for us, and Enterprise and Cloud or Fixed Data is a sector where we have to pay more attention.

Aleksander Peterc: Perfect. Thank you very much.

Operator: Thank you. We'll now move on to our next question from Roshan at Deutsche Bank. Your line is open. Please go ahead.

Roshan Ranjit (Deutsche Bank): Hi, good morning, everyone. Thanks for the questions I've got a few on the mPOWER, please. Firstly, the backlog this quarter, understandably, I guess, it didn't move up materially versus previous quarter, and you do highlight a big chunk is protected backlog, but is there a risk that given that we've had this additional delay, customers go to some of the alternatives? Ruy, you mentioned Mobility and Government being key verticals. And we have seen a few competitors make a bit of progress here on that front, having signed capacity contracts. So anything you could say there would be useful, please.

On the CAPEX envelope and the two incremental satellites you mentioned Scope forward insurance payout. So, have you got clarity that you will receive that or is this something which you are looking to investigate, please? Sticking with the CAPEX, you highlight that the lifetime of the existing satellites in orbit has been shortened. So, I guess in this current evolution we are talking about shorter CAPEX cycles, but is there now a risk that you have to start getting the next iteration of mPOWER up and running given these shorter life frames, please?

And secondly, just on – lastly, just on the operational front, Government had a very strong performance this quarter. Anything on that or are we now fully washed through the withdrawal of troops from previous quarters that you mentioned, or could we expect this to be a new trend going forward in Government? Thank you.

Ruy Pinto: Thanks. Let me take the questions in turn. So on the backlog, the fact that we are going to start our service in early Q2 gives us a high level of confidence that the backlog will not be impacted. We still have margin, a bit of margin in our customer commitments and on our backlog that gives us confidence that the backlog will not be impacted given the new in-service date and the launch of mPOWER F5 and F6. Actually, we are on the manifest with SpaceX for our launch on the 12 November. So there is margin there. It's not something that is worrying us. Of course, it's not infinite margin, but there is margin, and we are confident that with the start of service in early Q2, possibly even April, that we are not going to have an issue with our protected backlog.

On the CAPEX envelope, we have kept, of course, our insurers fully in the loop on the investigation as we should. But the agreement that we have with Boeing and the sharing of risk that we have with Boeing gives us confidence that we can deploy two additional satellites without impacting our CAPEX envelope and without depending on insurance proceeds and that's an important point. That does not mean that we are not going to explore the insurance avenue, but it's not a dependency on our CAPEX envelope. Boeing and SES are working together on making sure that this groundbreaking service goes up. It's important for both companies, and we work extensively with them on how to proceed with the mPOWER constellation.

in terms of lifetime, I'm not sure I captured the question completely, but as I mentioned in my opening remarks, we have flexibility with these satellites in terms of deploying capacity versus lifetime on the initial satellite, so we can adapt to the ramp up of our customers. As you can imagine, I mean, we are going to have a 12-month, give or take, period where we will be carefully managing the constellation, and we have flexibility and margin to make sure that our ramp up is fulfilled and protected for our customers.

Finally, on Government, if I remember the question, you know that Government, they have their own cycle in terms of budget and execution. And sometimes it's not uncommon for you to have signed contracts that have delays due to milestone delivery or project execution, more in Government than in other sectors. So it's not something that worries us that sometimes it moves to the south because it's guaranteed revenue and guaranteed customers. So again, not really concerned on that front. And just to complement, you are seeing an effect of this sort of approach at the end of the year as we start delivering and speeding up. Sorry for the addition there.

Roshan Ranjit: That's perfect. Very helpful. And sorry, just to check, you said 12 November for satellites five and six to be launched. So they're on-site now, I assume.

Ruy Pinto: Oh, yes, they are quite comfortable in Cape Canaveral. Of course, it's no earlier than 12 November. We are working closely with SpaceX. We are on their manifesto. We have our second stage. It's all good to go. So we have an already agreed date and as you know, in launches we have a date, a backup date. Sometimes you're subject to weather and other Florida things, but we are there.

Roshan Ranjit: Perfect. Sounds good. Thank you.

Operator: Thank you. And our last question comes from Itec[?] at Barclays. Your line is open. Please go ahead.

Aytaj Khalilli (Barclays): Hello. Hi. It's Aytaj from Barclays. Thanks for the presentation today. So, I have two questions. The first one, you referred to a mid-single-digit impact to revenue and EBITDA next year, are you effectively providing us 2024 guidance for current consensus numbers like less around 5%? Or when we get to February, could there a series of other things that could change the numbers and this mid-single-digit number is just one part of that?

The second one is also related to that. When we say a mid-single-digit impact before any mitigations, can we quantify the impact of any potential mitigations that you are looking at, even if we understand that you cannot be confident on this right now?

And the final question, overall, are we basically thinking about losing a year in your growth plan or could the delays and capacity issues also impact your growth in 2025 compared to what you might have hoped before? Thanks a lot.

Ruy Pinto: I think Sandeep and I will take turns. I didn't quite get the first question, but I think why don't I leave it to Sandeep? I think it's a question between guidance and expectations.

Sandeep Jalan: Yeah, so clearly a good question. So, as we explained you about the mPOWER situation, this mid-single-digit percent lower revenue and EBITA is to give you a kind of magnitude that we are looking at. Looking at all the components that Ruy explained earlier, these components basically include, first, a delayed start of service from April early quarter two compared to 2023 and 2023 that we're expecting. Second, the necessary operational procedures, mitigation procedures that we are putting in place to operate these satellites and lower ramp up.

So these are the current impacts that we are expecting from the mPOWER-related effects. This is not including any potential mitigation effects. As you can imagine, we are at early stages. We are assessing all the potential mitigations, including usage of our own extensive fleet of satellites, MEO classic, as well as GEO fleet and other mitigating actions.

This is not a guidance for 2024 or beyond, and this is a process that we have in early phases. Again, we are currently going through our business plans and budgets and that's a process that we'll undertake in February. In February, you can expect a full-year guidance, which will include a comprehensive assessment of mPOWER situation, the necessary mitigations, and our fullfledged plan, including our GEO capacity, which are a very important part of our fleet. So this is not an annual guidance. This aims to give you magnitude of the impact that we currently see and transparently tell you this is our expectation and where the consensus currently stands.

Ruy Pinto: And if I may add on the second question, the third one, Sandeep captured it really well. We have a very diverse business with GEO capacity, multi-orbit, MEO classic, Video and Media, some services and so on. We do believe that once we dig deep into the planning for 2024, we'll be able to mitigate some of the impact of the mPOWER delay. But we are being very upfront here so that you have full visibility of our thinking. And we'll come back, as Sandeep mentioned, in February with a fully formed view. There are, for example, programmes that we don't put into our business plan because they are speculative or at an early stage. And if we can forecast what we could expect from those programmes in 2024, these numbers can change in the right direction.

And finally, in terms of growth for 2025, we fully expect that by the end of '24 Q4 or in Q1 '25, we will have additional capacity coming online and mPOWER that will not be limited by these small and understandable operational shortcomings. So that will be able then to perhaps even have an upside on the mPOWER growth trajectory depending on market conditions. So I'm actually more optimistic about 2025 because of the plan that we have in place.

Aytaj: Okay, that's clear. Thank you so much.

Operator: Thank you. And we'll take our final question from Carl Mudrock-Smith at Berenberg. Your line is open. Please go ahead.

Carl Murdock-Smith (Berenberg Bank): That's great. Thanks very much. Two questions from me. In the presentation, you say that the buyback will start in November. Just practically, when is the first day that you can go into the market and buy shares? So, I take it, it's not today, is it? And then, sorry, following on from that, or following on from a question Roshan asked, actually, just I'd wonder if you could provide a bit more detail on the risk sharing that you've mentioned with Boeing? Is that something new in relation to the scale of delays that there have been over time, or is it retrospective and something that's in contract upfront and any detail you can provide in terms of the nature of that risk sharing and how that works practically would be great. Thank you.

Sandeep Jalan: I'll take the first one and give the second one for Ruy. So, as you know, we are coming out now, the close period. We will start the share buyback now, as soon as possible, now the money as well is in the bank. So you could expect that within coming days. I mean, we are just setting up the mandate, etc., as soon as we go out of the close period starting tomorrow. And we will start these buyback as soon as possible.

Ruy Pinto: And on your second question, so, the risk sharing, we have reshaped our agreement with Boeing. Boeing and SES, both companies have a strong interest in the success of mPOWER. It's new technology that is working in space. It's important for Boeing and for SES that that new technology works flawlessly in space and that we can deploy it with our customers. So having a common objective with Boeing was essential to a negotiation that involved a reshaping of the contract of the agreement, where both companies took an element of risk in the delivery and the capital expenditure, and in adding to the capabilities of the constellation. Of course, I cannot disclose any details, but I can tell you that we are together in sharing the risk and investing further on mPOWER, both Boeing and SES.

Carl Murdock-Smith: That's great. Thanks very much.

Operator: Thank you. There are no further questions in queue. I will now hand it back to Richard for closing remarks. Thank you.

Richard Whiteing: Thanks all. Thanks for joining us. As we said at the start, thanks for accommodating the earliest timing. As ever, myself and the IR team remain available if there are any follow-up questions. Have a great day. And if we don't speak, have a wonderful Christmas. Thank you. Goodbye.

Sandeep Jalan: Thank you very much.

Operator: Thank you. Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Thanks, you may now disconnect.

[END OF TRANSCRIPT]