SES SA FY 2023 Results

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SES SA Full Year 2023 Results

Operator: Hello, and welcome to the SES full year 2023 results call. My name is Laura, and I will be your coordinator for today's event. Please note, this call 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 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 over to your host, Richard Whiteing, Head of Investor Relations, to begin today's conference. Thank you.

Richard Whiteing: Thanks. Good morning, everyone. Thanks for joining this analyst and investor call for our full year 2023 results. 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 document.

The agenda is outlined on page two. In a moment, Adel Al-Saleh, CEO, will present the main business highlights, followed by Sandeep Jalan, CFO, to cover the financials in more detail. After some closing remarks from Adel, we will take questions.

So with that, I will hand over to Adel.

Adel Al-Saleh: Great. Thank you, Richard. I hope everybody can hear me well. Good morning, everyone. I'm delighted to be here in my new role as the CEO of SES. As everybody knows, I officially started 1st February, but in reality, I've been working with the company for a few months now, engaging with the leadership team, meeting key experts, learning the satellite business, getting on board.

I joined SES at an exciting time. The industry is gaining traction and speed and attracting big investments. SES is a leader in satellite communications. We serve world-leading customers with critical infrastructures. We have a unique offering in our chosen market segments. We have talented people who drive innovation. We have strong cash flow and industry-leading balance sheet.

I'm pleased to say that all these fundamentals are evident when you look at our 2023 performance. Starting with the key highlights on page number four.

For the third consecutive year, we have delivered on our revenue and adjusted EBITDA objectives, as well as replenishing our contract backlog with a substantial level of new customer deals. With the expansion of our network business, we reach an important crossover point, whereby our growth revenues and growth segments make up the majority of our revenues.

SES was the first to launch an NGSO constellation back in 2014. And the schedule for our next-generation MEO capability, O3b mPOWER, is on track and will go into commercial service from April this year. Additionally, we'll be launching another two upgraded MEO satellites already at the end of this year.

Our next GEO satellite, ASTRA 1P, is on track to launch during the summer, bringing latest technology to replace the most valuable video neighbourhood at 19.2 degrees East. We will be replacing four satellites with one.

With the combination of the C-band cash and over €400 million of positive adjusted free cash flow in 2023, our industry-leading investment-grade balance sheet is even stronger now. As a result, we're in privileged position with financial flexibility and resources to deploy capital. We've taken a conscious and cautious approach to the use of this cash to create value and deliver returns to our shareholders. It's a great position to be in, but it's also a tremendous responsibility and we must make sure and we will make sure that we get it right.

Overall, €1.6 billion have already been deployed or are in the process of being deployed. We acquired DRS GES earlier, in 2022, which expanded our ability to serve valuable US government customers. We're using another €1 billion to reduce our gross debt and are deploying €150 million in the share buyback programme.

We're currently evaluating multiple scenarios, including additional cash returns for shareholders. And we will have some news on this particular point a little bit later in the presentation. We'll apply an even greater level of discipline and financial rigour to ensure we're using this opportunity in the most profitable and value-accretive way. I would expect us to have substantially crystallised our thinking by the summer, in time for the half year results.

On our financial performance on page five, it shows that 2023 was operationally a strong year in which we executed on our financial objectives. A strong performance for Networks in the second half of the year contributed to Group revenue exceeding expectations, while Video also came in at the high end of our outlook.

Adjusted EBITDA was impacted by unplanned additional costs in Q4, which Sandeep will explain later. We also prioritised investment, spending 10% less CapEx and deferring some spending to 2024.

And finally, we added to our sizable contract backlog, an incredible lineup of customers with €1.5 billion of deals signed in 2023.

Looking at just a few of the examples on page six, you'll see how our offering resonates with customers who are at the centre of everything we do. With O3b mPOWER, we have a strong value proposition for governments who look at us to provide high throughput and flexible connectivity. We have a mission-critical application. So guaranteed security, sovereignty is a must, and we can do that very well.

With the parliament's approval of MEO Global Services, or what we call MGS, the programme is valued at €195 million over 10 years. With that, the Luxembourg government plans to leverage the O3b mPOWER to provide critical resilient satcom capabilities for Luxembourg, its partners and NATO.

SES will bring high-performance connectivity for a wide range of sovereign government missions spanning defence, disaster recovery, operations and digital inclusion. We are confident in our positioning and future trajectory and government segment, especially with mPOWER beginning service as the expanded portfolio of capabilities and solutions from our Space and Defence team.

I'm going to talk a lot more about the innovative partnership we have with Starlink in a minute. But I'm delighted to say we've signed our first commercial customer for the joint MEO-LEO cruise product. Virgin Voyages offers exclusively adult cruises where passengers get the best of tech-savvy cabins, spas and designer suites, plus special live entertainment and larger than live shows. All of this requires superior connectivity.

We'll be powering Virgin Voyages with unlimited Wi-Fi access across multiple devices to power the best connectivity experience for their customers and crew as well as cutting-edge operational efficiency.

With our Video business, we're serving 11 million direct-to-home households in the UK, and our satellites at 28.2 degrees East reach over 60% of the total number of TV homes in the UK. When it comes to high-quality linear content distribution at cost competitive levels, satellite is the best solution. This is exactly what our long-time customer, UKTV, said when they were committing to a new contract with SES.

In addition to the capacity renewal of UKTV's bouquet of channels, which runs through the end of the decade, the agreement will see us provide new uplinking and ground services and give UKTV the flexibility to add additional capacity to expand to more channels in the future.

These are just a few examples of where SES is doing extraordinary things to empower world-leading customers with critical infrastructures to growing their operational footprint. On top of that, improving efficiency and giving their end users amazing experience wherever they are on earth. Those are just a few examples.

If you look at page seven, we have a lot more examples. Unfortunately, we're constrained for time to talk about all of these great customers, world-leading companies. We're very proud of serving these customers.

Looking at our two businesses in more detail, starting on page eight with Networks, which now represents more than 50% of our total revenue. This is a really important crossover in our total portfolio, as you know now that more than half of our portfolio is in the growth segment.

The Networks growth was 6% last year, and it breaks down between 6% growth in government with higher revenue from both US and global government segments, double-digit growth of 11.5% in mobility where cruise was the standout performer with new ships added to our portfolio by multiple cruise brands. And we had a robust performance in fixed data.

Our Networks team realised €940 million of signings across mPOWER, our classic MEO constellation and our GEO fleet with key wins across all segments. As a result, the Networks ended 2023 with a fully protected backlog of €2 billion. This number does not yet include the Luxembourg decision to commit €195 million over 10 years to use O3b mPOWER for the MGS programme that I mentioned earlier. We also expect this to lead to additional commitments from the US government clients through the MGS programme.

Turning to video on page number nine. We delivered revenue of €967 million, which was at the high end of our expectations. While it's clear that the trend of revenue decline in mature markets will persist, SES delivers premium linear content to nearly 230 million homes across Europe and North America, what we call the mature markets.

Because of this, our pricing remains stable, and in some cases, increasing. Contract duration continues to be long term with either the same or less volume. This mix is what we will need to manage the business going forward.

The long-term cash generation fundamentals of these highly valuable and profitable neighbourhoods continue to be strong. And as a proof point, we continue to extend our relationship with these clients for long periods of time.

On the other hand, in the international markets, where we serve another 130 million TV homes and growing, our revenue is solid. It's still relatively small today, but our Sports & Events business is continuing to grow, not only with major tournaments like the Women's World Cup, but adding regular leagues and championships to its lineup, which includes English Football League and the NFL.

This year's Super Bowl, as everybody knows, was the second most watched event in history, only second to the moon landing, by the way. You won't necessarily have noticed, but SES was there. And I can tell you the customer was really happy with what we did, saying that they had a tremendously successful season, in no small part because of SES. We're very proud of that.

The continuous relevance of our video business is evident in €540 million worth of signings in 2023. In addition to UKTV, which I talked about before, we also signed a major extension with Telefonica/Movistar in Spain, a series of renewal with public and free-to-air broadcasters in Germany, and critical new deals in India. This means we have a backlog in Video of €2.3 billion.

Moving to page 10. I'm a huge believer in the importance of technology and innovations, and SES been an innovative leader throughout the history, from being the first to co-locate satellites as a single orbital position, being the first operator in NGSO, being the first to use a reusable rocket, to being the first to deliver services across multiple orbits.

Now with our partnership with Starlink, we are first and the only satellite company that offers solutions across all three orbits. No single orbit is the solution for every customer needs. So being able to give them the ability to operate their networks using the best of all three orbits is compelling. It's compelling for our target customers, and it's compelling for their specific applications.

I already talked about our first customer in cruise of Virgin Voyages, and would also expect this to be an attractive in other segments as well. The fact that Starlink were excited to collaborate with SES on a joint solution also shows that we have something highly complementary to bring to the table.

Another great example of the proof-of-concept we just developed with Planet Labs and NASA, where we brought a satellite-to-satellite data relay solution for NASA's operations and missions, including MEO-LEO data interlinks. I want to make sure everybody understands what I said. So this is an interconnection not just between our satellites. This is an interconnection of our satellites with other operators' satellite constellations. We're able to move data around real-time to deliver important solutions that are relevant to our clients.

Lastly, on page 11, a quick update on our future technology. We're on track with all of our planned technology advancements in 2024. With the first fixed mPOWER satellites now launched in-orbit, we'll begin commercial services in April 2024. Our sales teams have been waiting for this patiently and are ready to go, with a committed customer now ramping up into the system, and of course, for the rest of the year, we'll see a huge uptake of that capability.

Delivery of the first two upgraded satellites, which is number seven and eight, is also on track, and we expect to launch them by the end of the year. With satellites nine through eleven planned for launches in 2025, will further increase our constellation resilience and capacity.

With mPOWER, we bring high performance connectivity with an attractive combination of very high download and upload rates, which can scale from hundreds of megabits to multiple gigabits per second, a lot of flexibility and guaranteed service levels.

On the ground, we have already delivered more than 150 new mPOWER customer terminals to clients all over the world, plus signed our first sovereign gateways. So customers are ready to go. We're also innovating in GEO with ASTRA 1P, which is on track to launch this summer. This satellite will be positioned at the most valuable neighbourhood 19.2 degrees East, which serves nearly 120 million TV homes and replaces the four existing satellites with just one. That just tells you the advancement of the technology of this satellite.

Later, we'll also add ASTRA 1Q, which in addition to providing redundancy, brings the ability to expand our network business further in Europe, a fully software-defined satellite, leveraging the latest in digital technology with both, by the way, wide beam and high throughput spot beams.

So with that, I would like now to turn over to Sandeep to go through the financials in more detail.

Sandeep Jalan: Thanks, Adel, and good morning, everybody. Starting with the financial highlights on page 13. We are pleased with our 2023 results, which are in line with the outlook that we gave at the start of 2023 and despite several challenges that we faced during the year. This year was also foundational in clearing C-band ahead of time and securing $3 billion.

Reported revenue grew by 4.4% year-on-year to €2.03 billion, including the full 12 months contribution from the acquisition of DRS GES that we had completed in August of 2022. On a like-for-like basis, revenue was 0.8% higher than 2022 and exceeded the financial outlook of €1.95 billion to €2 billion that we gave in February last year for 2023.

Adjusted EBITDA of €1.025 billion represented a margin of 50.5%. Quarter four of 2023 included an additional unplanned expense for full year 2023. This pertained to certain regulatory fees which crystallised in quarter four on account of a ruling that was not part of 2023 outlook that we had given back in February of last year.

Excluding this item, EBITDA for 2023 was more than €1.040 billion and operationally in line with expectations. This additional regulatory fee is a recurring expense and it is also factored in our EBITDA outlook for 2024. Adjusted net profit was €215 million, and I will cover this in more detail shortly.

With the peak CapEx year of 2022 behind us now, the recurring level of investing activities is returning to normal. This, plus positive working capital and interest received on cash, contributed to year-on-year improvement in adjusted free cash flow, which has stood at €431 million in 2023, which compares with negative €181 million that we had in 2022 due to peak CapEx.

The Board is proposing an annual dividend of €0.50 per A-share, which is in line with our stable to progressive dividend policy. In addition, we are proposing to move to a semi-annual dividend payment which better aligns to our cash flow generation. And therefore, we'll be paying €0.50

dividend now in April. This will be followed by an additional interim dividend of €0.25 in October. Following 2024, we will be paying dividends in April and October each year totalling at least €0.50 per year.

This rewards our shareholders with an additional dividend payment of €0.25, which is equivalent to €110 million in calendar year 2024. This is on top of 2023 dividend of €0.50, which is equivalent to €220 million, and this also smoothly facilitates the transition to the semi-annual dividend.

The C-band clearing having been completed ahead of schedule, we have realised the accelerated relocation payment of €2.9 billion after tax from ARP-1 and ARP-2. Net leverage reduced year-on-year from 3.5x to 1.5x at the end of last year. This is further strengthening our industry-leading investment-grade balance sheet and strong cash flow generations.

However, as you are aware, our gross debt was at €4.5 billion at the end of 2023. So as we announced in November last year, we have already repaid €550 million of hybrid maturities now in January 2024, and we also plan to pay down a further €450 million of debt. This reduces our gross debt by €1 billion, which is in line with our commitment to deliver and remain within investment-grade thresholds.

Finally, we are continuing with the €150 million share buyback. Since November last year, we have already bought back about 7 million FDRs and will buy up to a further 13 million FDRs. We will also ask the upcoming AGM for a new mandate, which will allow for further share buybacks of up to 10% of our share capital.

Moving to net profit on page 14. Adjusted net profit of €215 million was €85 million lower than the prior year, and this was primarily due to lower forex gains and higher tax charges. Adjusted EBITDA is in line with the outlook for 2023 and the decrease year-over-year is composed of two elements.

First, a change in the revenue mix with a reduction in Video revenues that is compensated by growth in Networks revenues. And secondly, higher OpEx year-over-year, including the unplanned regulatory fees that we booked in quarter four.

These effects were fully offset by lower depreciation and amortisation and net interest expense, meaning adjusted net profit was largely unchanged compared to 2022 before tax and forex effects.

The movement between adjusted and reported net profit is due to five main items that is reported on the right side of the slide.

First, recognition of a significant C-band income of €2.7 billion before tax of about €0.5 billion. Second, the C-band income recognition also allowed us to convert an intangible asset on our balance sheet into cash. Hence, as reported previously, we had already recorded a non-cash impairment charge of €1.55 billion during quarter three of 2023, on the related intangible assets.

Third, we recorded an additional non-cash impairment amounting to €2.1 billion in quarter four of 2023, out of which: €425 million pertained to the initial mPOWER satellites, which are now impaired due to lower anticipated operational life and lower available capacity, as announced with our quarter three last year results. An insurance claim of $472 million has been filed and is now under discussion with the insurers.

The majority of the remaining amount is a non-cash charge of intangibles and is in line with our anticipated business plan adjustments for MEO constellation ramp and capacity, and our business plan as announced in November last year.

Fourth item is other significant items totalling €40 million, which is primarily relating to restructuring costs.

Fifth is other tax effects on these exceptional items, which was €101 million and which included the tax on C-band proceeds of €484 million that I referred earlier.

Turning to the balance sheet on page 15. We continue to focus on maintaining a strong and sector-leading investment-grade balance sheet, which is now further bolstered by realisation of C-band proceeds and positive free cash flows. This has resulted in reducing our net leverage to 1.5x and a cash position of close to €3 billion as of December last year.

Since 2021, we have received €2.5 billion of net cash inflows from C-band, including ARP-1 in 2021 and ARP-2 in 2023. And further €0.41 billion reimbursement are pending by the clearing house. Of this, approximately €1.6 billion has already been profitably deployed or committed.

First, the acquisition in 2022 of DRS GES, a best-in-class US government services operator and integrator serving key US government agencies, which expanded our capabilities in this valuable growth market.

Second, we are executing the €150 million share buyback that started in November last year. We had already spent about €25 million by end of last year, and then the rest expected to be completed towards the end of this year. This is now being complemented by an extra €110 million for the interim dividend in October 2024, which I referred to earlier.

Third, we are reducing our gross debt by €1 billion or about 22%. This includes the €550 million which we already called and repaid in January, and further €450 million of upcoming debt maturities that we will pay to bring our gross debt in line with our investment-grade commitment.

And this will also improve our free cash flow generation due to €40 million of annualised cash interest savings. As mentioned by Adel, we have financial flexibility to create long-term value with the remaining proceeds. We are evaluating multiple scenarios, including additional cash for shareholders, and we are committed to applying even greater level of financial rigour and discipline. We expect to have crystallised our thinking by the summer. In the meantime, the cash is generating a return on deposit of about 5%.

Additionally, we expect a further $449 million of US C-band cost reimbursements. The process of reimbursement remains slow. Nonetheless, we have so far received over $0.9 million of reimbursement and continue to engage with the clearing house to process the outstanding claims.

Separately, we have submitted an insurance claim of US$472 million, resulting from the reduced life span and capacity of the initial four O3b mPOWER satellites, and discussions have started with our insurers. While we are convinced of the merits and validity of the claim, the timing and outcome of such negotiations are hard to give a precise guidance. We will continue to provide more clarity as this claim progresses.

Finally, turning to the outlook for 2024 on page 16. Our revenue and EBITDA ranges are consistent with the view given to the market in November last year, which had incorporated the update on the status of O3b mPOWER. 2024 reflects important transition year, with O3b mPOWER being brought into service starting from early quarter two 2024, and its revenue profile to gradually build from thereon, as we bring the committed customers onto the system during the year.

Our 2024 revenue outlook of €1.94 billion to €2 billion, foresees another year of growth in networks, mostly offsetting the decline of Video revenue. From 2025, we will have a full year contribution from O3b mPOWER, where we are also on track to bring five additional and upgraded satellites into the constellation. Two of them will be launching at the end of this year and three will be launching by the summer of 2025.

We expect CapEx this year to be in the range of €500 million to €550 million, broadly consistent with 2023 with an average annual CapEx of about €350 million for the subsequent years from 2025 to 2028.

Now I would like to hand back to Adel to conclude.

Adel Al-Saleh: Very good, Sandeep. Thank you very much. Looking at the industry on page 18, we see four key themes defining the new era of satellite industry. First, we're in a more dynamic and competitive environment now compared to any other time in the history of the satcom industry.

New players have arrived, brought innovation, new upgrading models with them as well. We'll need to be even faster and more agile to succeed. We'll have to innovate in how we serve customers and their businesses, models and requirements evolve.

Second, satellites continue to be strategically important to governments and other major commercial clients, with a level of stickiness that did not exist previously. We can offer fibre-like connectivity, which deliver the same performance as terrestrial connectivity in more places where terrestrial cannot be deployed.

Third, there is no doubt that Video is a mature single-digit declining business. But as I've shown earlier, it remains a critical distribution platform for our customers who will continue to make long-term revenue commitments to satellites. So to remain a strong long-term cash generating business, whereas technology continues to evolve, there is a real opportunity to improve CapEx efficiency, drive profitability and cash flows. There remain growth opportunities in the Video market, like sports and events and emerging markets where we have a lot of focus on.

Fourth, satellite communication is a growth industry. There is exponentially growing demand for fast, reliable and secure connectivity on land, at sea and in the air, where satellite is the best or the only answer. There is a clear path for high single-digit long-term growth in this industry.

On page 19, keeping all these themes in mind, I'm convinced we have the fundamentals to be a leader in our industry. We have a unique offering with access to all three orbits across our own GEO, MEO network and via innovative partnerships with LEO, such as Starlink, example I gave earlier.

Our €4 billion backlog is evidence that our customers recognise the value we bring to them. And we have a fantastic lineup of customers that I am looking forward to continue to serve.

We've reached an important crossover point where our growing Networks business is now 50% of our total revenue, which is not yet including the O3b mPOWER, where we're on track for April 2024 start to service.

This is complemented by valuable, profitable and industry-leading Video business serving 363 million homes and an impressive one billion people. It will get faster and better in our execution, with even stronger cost discipline to drive sustained improvement in EBITDA and profitable growth.

Our strong recurring cash flow profile underpins the dividend where we will be committed to maintaining to stable to progressive cash distribution, which are all aligning better to the timing of our cash flows.

Finally, we have ability to invest in the future and deliver total shareholder return. We're going to be disciplined. We're going to be focused on creating value for our clients, employees and our shareholders by delivering profitable growth.

With that, Richard, we're happy to take questions.

Richard Whiteing: Thank you, Adel. Thank you, Sandeep. Well, we can go ahead with the questions.

Questions and Answers

Operator: Sure. Thank you very much. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. And we'll now take our first question from Nick Dempsey with Barclays. Your line is open. Please go ahead.

Nick Dempsey (Barclays): Yeah. Good morning, guys. So I've got three. First of all, just regarding your plans for your headroom, which you've said you'll update us on at the first half results. Can you tell us whether you are currently looking at a pipeline of acquisitions as part of those plans or not?

Second question, just on the regulatory ruling that has caused you to have new cost in Q4. First of all, I think it was sort of a mid-teens amount in 2023. Can you give us a rough ballpark for the annual amount going forward? Because you said it will be recurring. And secondly, does this relate to you breaking some rules, or could there be any further negative impacts related to this? I understand you probably can't tell us all the details.

And then the third question, just on the adjusted EBITDA margins implied by your '24 guidance, you refer to this, including costs to start O3b mPOWER Services. Does that mean that we might hope for margins to improve in '25 versus '24 as those initial costs drop out? Or is the 2024 margin a new normal?

Adel Al-Saleh: Very good. Well, that's a lot of questions but thank you for that. But let me start, first of all, with your question on M&A. As Sandeep said, we are in a fortunate position here to be able to evaluate many different options. And me being new in this position, I wanted to take a few months to really understand what is the best way to create value for us with the headroom that we have.

Not only the headroom that we have, but also ensuring that we retain and continue to be investment-grade stock as we are today and have been for a period of time. So part of that thinking, of course, includes M&A. And we're looking at all of the different things we need to do to actually cement our value to the clients, whether it's scale, whether it's specific capabilities that we would like to accelerate through an inorganic acquisition or other areas to improve our overall positioning.

But we also are thinking about other areas. That includes organic investments, big projects that potentially could give us an extension to our constellations, strengthening of our future networks, organic investments in particular technologies that we need in order to make sure that we are on the forefoot - forefront of having software-defined capabilities and AI and big data in our satellites.

So, there's a lot of things we're looking at in order to make sure that we deploy this consciously with the right type of returns for our shareholders, mid-term and long-term.

Regarding regulatory, I'm going to have Sandeep answer it in a second, but I want to assure you that has nothing to do with us breaking any rules. I can't share a lot of that but it has nothing to do with breaking rules, a little bit of new news. But Sandeep, please get into the details.

Sandeep Jalan: No, that's absolutely right, Adel. Thanks very much, Nick, for the questions. So on the regulatory fees and as we announced this morning as well, we had a bump in quarter four. This was coming from a full year charge that we had to book in one quarter ago. So for the quarter, it becomes a meaningful amount. This pertains to a certain ruling that we received on the regulatory fee.

And going forward, we are not giving an exact indication, but it is fully factored in our outlook for quarter four. This amount was in the range of mid-teens, so slightly above €15 million. And the outlook that you see that we announced this morning, it is fully factoring this regulatory fees.

And what I'll say, we're remaining fully compliant and we're just in line with the new ruling that came in this year and we are fully booking it. Going to your third question, which is on the EBITDA margins. So yes, and this is consistent with what we have previously said, right? 2024, again, is a very important year for us. mPOWER is going to be in service from quarter two of this year.

As you know, when we start this very large constellation, there is a lot of start-up costs coming in the initial year, also some equipment revenues, but you do not bring as much EBITDA, subsequent capacity revenues will do. So our - that - this is fully factored in our 2024 guidance. When you take a look at the margins, they are similar in the range as 2023. But as we go beyond and as the capacity revenues ramp, we should expect certain improvement in the margin.

Again, we are not giving any guidance on the margins, as you know, but we should expect certain improvements there. Nick, did we answer your questions?

Nick Dempsey: You did. Thank you. That’s great.

Operator: Thank you. And we will now move on to our next question from Sami Kassab with BNP Paribas. Please go ahead.

Sami Kassab (BNP Paribas Exane): Thank you, and good morning, gentlemen. I have a few questions as well. First, can you provide any update on IRIS-squared and when to expect more news flow on that? Secondly, do you remain of the view that SES can flatten the decline curve in Video further? Or do we think that now 5%-ish is the going rate of declining Video?

And lastly, given the tech issues on mPOWER, can you help us understand what will drive SES Networks revenue growth in '24? Is it classic, is it GEO? Is it the GES business? Thank you.

Adel Al-Saleh: Okay. Great. Let me start and then Sandeep, please complement if I leave anything else. So first of all, on IRIS-squared, we continue to work with the consortium partners. And I can't really share a lot of information. I'm going to let the client, which is the European Commission, share their progress from their perspective.

We are fully committed to that programme. It is not easy because it includes many different partners within the programme, and we need to make sure that the programme does deliver on what the European Union is looking for, which is a sovereign high-end latest technology constellation, which we support 100%. As you know, a lot of our business does sit in the overall government sovereign space, serving Luxembourg government, serving NATO, serving the United States and many other European nations. So we believe in that project.

It's not clear yet how it's going to - when and how it's going to conclude, but I'm going to let the European Commission comment on that. But we continue to work very hard with the partners to deliver what the European Commission is looking for.

Look, on the Video comments, as I said, this is - there's no doubt that, overall, this market is going to be declining. The linear video will be declining, right? So we have actually done better than what we expected, because typically, we expect between 5%, 6% kind of a decline, and we've been below that for a couple of years now. So our goal is to continue to keep that. And as I said, we're not - it's not that we're losing customers in the mature markets. It's just that the volumes are coming out slightly. The pricing remains robust.

We continue to have a very good market share. And on the other hand, we have emerging markets that continue to grow for us and continue to have this linear TV distribution as a key component of their digitalisation and their inclusion. There are a couple of spots in this market like sports and events that proved to be very attractive to us. And I mentioned the NFL, where not a lot of people knew that we are behind the scenes there. But there are many other examples. For example, in the first quarter, we signed a very important customer in that sphere that we will be announcing in due course and probably in our first quarter announcement. So we see that pocket to be a growth opportunity, right, wherein satellite plays a very important role to be able to capture these live events and be able to be the backbone of distribution across the world.

So I wouldn't overpromise. I think our goal of keeping it around 5% is a very good goal. And we will continue to optimise the cost of that business in order to ensure that the cash generation continues to be as stable as possible to support our investments in other areas.

And then the last question on tech issues. It is important to understand, so mPOWER will play a very big role in our revenue growth this year in 2024. The satellites are not 100% impaired. They have lower short - lower lifespan and less capacity that were planned, but they are operational, right? So we will have services starting April on mPOWER with a significant backlog that we are trying to fulfil now with our customers.

But in addition to that, the combination of the different scenarios that I described, where we are very uniquely positioned to be able to provide multi-orbit solutions to our clients, a GEO, MEO constellation solution, a GEO-MEO-LEO is something that will drive more and more demand.

I believe a lot of aero customers, a lot of cruise customers are looking at this real proven resilient solution that they want to offer both when they are in very vast places where there are not too many connectivity requirements on them, but also on there the very congested places, like ports or airports where one solution doesn't work, right? And it requires multiple solutions to enhance that capability. So the growth will come from all these areas rather than from one particular and one only solution. I hope that answers your questions.

Sami Kassab: Yes. Thank you, Adel. And can I squeeze one last question is, what your net debt-to-EBITDA target? Are we going to think SES as a 1.5 times net debt to EBITDA leverage company? Or do you think that 3 times remains what the industry and the company can carry?

Sandeep Jalan: Yeah. So Sami, as we said earlier, we have a very strong balance sheet. Again, we are in a privileged situation with a lot of cash and that we'll remain responsible in usage of that cash. For the moment, we continue to maintain a strong investment-grade threshold leverage target, which is at below 3x.

So today, with a lot of cash in pocket, we have a net debt leverage of 1.5x, and that shows a lot of headroom that we have, that we'll remain fully responsible for. And using the best interest of long-term growth and value for our shareholders.

Adel Al-Saleh: Yeah. Sandeep, just to complement you, right, look, the goal - we need to be at the healthy debt ratios, right? A healthy debt ratios mean we are investment grade, right? And we're committed to that, and we are unique in this position in our industry, as all of you would know, we maintain focus on that. And I'm delighted, as I came here, to see the discipline that we have and the commitment we have to be in an investment grade.

But also, we've got to make sure we are deploying capital to grow this company, to make sure that we are not stopping. We're thinking this year, next year, but we're also thinking three years down the road. We're also thinking five years down the road. We're thinking 10 years down the road, how do we ensure that our offerings, our capabilities are sustainable for the long term to deliver shareholder returns and shareholder value? So that's the focus.

We're not - we've got to be investment grade. We have to be at a certain level, but we're also going to use our capabilities efficiently with the right trigger that Sandeep described.

Operator: Thank you. And we'll now take our next question from Akhil Dattani with JP Morgan. Please go ahead.

Akhil Dattani (JP Morgan): Yeah. Hi. Good morning. Thanks for taking the question. Can I start first on the balance sheet side again, please? I appreciate obviously you've given us quite a lot of colour on how we should try and think about it, but I just wanted to dive into this a little bit deeper. I guess the tricky thing as we're looking at this from the outside is that the satellite industry has had a pretty mixed track record historically around deployment of capital. Obviously, a very poignant example of that being at the moment with Eutelsat and OneWeb.

So I guess, can you give us some sense of exactly how we should try and conceptualise the framework that you're using so we can understand? And I guess, Adel, you mentioned, obviously, you're looking at the long-term sustainability of the business. But how do we think about that? Because some of the investments this industry makes are very long duration, and it becomes very difficult for us outside to really understand the credibility of these investments. Anything you can try and do to give us some comfort around the framework you're using or some colour on how you think about it would be key to understanding how disciplined that really is. That's the first thing.

The second thing, just to go back to the previous question on the regulatory fees that you've commented on. I understand that's embedded into 2024. But I guess I'm trying to understand, is this something we consider recurring? So it is something that's going to continue to impact numbers beyond the 2024 year.

And then finally, just on Starlink. Obviously, you mentioned the attractive nature of that agreement. I just wondered if there's anything you can share with us so that we can better understand the economics of that. Thanks a lot.

Adel Al-Saleh: Okay. Akhil, I will start and then, Sandeep, please help me. So first of all, how do we think about deploying capital, right? And what's the discipline?

So first of all, I assure you, and you can check on my background, we have a certain level of IRR that we will stick to and we will manage towards, and we will not be swayed away from deploying capital where we don't believe we can generally generate the IRRs that we need to. And our threshold, I think Sandeep, you guys shared – exactly, it's 10% or higher, right?

So we use that quiver in every decision that we're making, big ones, small ones, medium ones and we do not deviate, right? It's - for me, that is a very important discipline because it's very easy to have rationale on value or brand positioning, which drives you into spending money, but eventually, you don't get the type of IRR that you're expecting. So that's discipline number one.

Second, we think of it in different dimensions. One is how do we ensure that whatever we invest in has a staying power of more than 10 years? I.e., can we generate a differentiation in our offering, in our solution for a long period of time with long-term contracts, right? So we avoid doing very small tactical things that we can naturally support through our normal cash flow generation, and focus on things that give us really long staying power in the markets that we select. And the markets, we've been very open with you guys.

Government remains a very important market for us. The acquisition we did, and even before me joining it, with DRS GES has proven to be very, very positive. I have had the opportunity to meet many of our clients already. We held an important event called GovSat event with the Luxembourg government. What I was surprised to see customers that are not just from Europe. We had a lot of generals from different European nations. We had different ministers attending, and we had folks from the United States coming in from NATO, from the procurement agencies, demonstrating how relevant we are in that segment.

Aero and maritime is another two segments that we absolutely believe in. And we also believe in supporting the terrestrial operator with very hard-to-reach places, where it's very difficult for them to create the type of mobile networks or fibre networks, where we are able to deliver a fibre-like connectivity experience in remote locations.

And we've just had several announcements this week, right, with partnerships in Latin America, in Africa and you'll see a lot more coming in, in the future. So that's another angle is, does it give us staying power in the markets that we have selected to play.

And we also keep, of course, Akhil, on top of that is how do we ensure that the return to our shareholders remains front and centre of our thinking. And this is why we've announced today that we're doing an extra dividend, another €110 million. And nobody should be confused, we will do a €0.50 dividend in April. And on top of that, in addition to that, this year, we will give our shareholders another €110 million, another €0.25 of cash this year.

And the reason we did that is two things. One, as we transition to a semi-annual dividend payment, we didn't want our shareholders to feel like we've taken anything away from them by shifting to that right of way. So we wanted to give them a transition.

So as you think about it this year, our shareholders are expecting a €0.50 dividend in April. I was thinking we need to go to a semi-annual payment. Should we have done it in April and October, we felt that would be a takeaway. So we did the full €0.50. We do an extra €110 million. And in 2025, we will be doing a semi-annual payments, right, at €0.50 or greater, right? So that's an example of how we keep our shareholders 100% in our mind, right, as we think about how do we return some of the money to them. So this is almost as big as our share buyback, right? But it's cash to our shareholders.

And then look, on the - why don't you, Sandeep, answer the regulatory fee?

Sandeep Jalan: Yeah. So on the regulatory fees, and the first point to note is that it's part of our 2024 guidance. And as we go beyond, this regulatory fees will apply to our business. Clearly, this ruling came very recently, and we are looking at it indeed and trying to optimise all our business and flows, right, to minimise any incidents wherever we can.

So it is very difficult to give a precise number on the guidance. It's part of our outlook, and we will try and manage it in the best way as we do all our recurring operational expense.

Adel Al-Saleh: Yeah, very good. And then Akhil, last question you had which is the economics around the partnerships, in particular Starlink. Look, every partnership that we launch has to be accretive to us. So the partnership we described is very much accretive to us. With the philosophy, we drive with our sales force and our teams in front of the clients is not to have "a war between us and our extended competitors."

We are focused on our clients. And if a combination between us and our competitor makes a lot of sense for the client and it gives a positive return to us, an accretive deal, then we would do it. We would not do a deal that then takes away margin from us or reduces our opportunity with the client in particular. So that's how we did the Starlink partnerships, that's how we look at all the partnerships that we do.

And by the way, we have many other partnerships we didn't mention in today's announcements, with our competitors, with the incumbents in the marketplace. So it's not unique for us. We know how to do those things. Akhil, I hope we answered your questions.

Akhil Dattani: Yes, you did. Thanks very much for the answers.

Operator: Thank you. We'll now take our next question from Carl Murdock-Smith with Berenberg. Please go ahead.

Carl Murdock-Smith (Berenberg): That's great. Thanks very much. Firstly, I just wanted to ask about the satellite launch schedule, particularly the GEO satellite. So ASTRA 1Q, SES 26 and Eagle-1. At Q3, they were listed down as being launched in 2025. They're now down and due to be launched in 2026. I was just wondering if you could expand on what's caused those to be pushed back?

And then secondly, given the comments that you've made about considering increasing investments kind of organically to support growth and that being part of your framework of what to do with your balance sheet strength currently. Should we therefore consider the 2025 to 2028 CapEx guidance that you've provided today as kind of conditional depending upon what the outcomes of that review are? Thank you very much.

Adel Al-Saleh: Carl, let me start with the second question, and then guys, please help me with the first question on, because I'm not sure what we announced in the past, right?

So look, in terms of organic investment, you should take the 2025-2028 CapEx guidance as we've provided, but it does not include big investments that we potentially could make. As an example, IRIS-square is not included in that forecast, right? Because it's a sizable investment. It has its own business case that we're working on. It has its own elements of IRR that we're looking at, all applied - everything I said before applies to it as well. But it's uncertain whether or not and how was the staging of that and exactly when it will start, depending on when the Commission decides to look forward.

So you should look at it as a base with everything we know today, and what we're planning to do. And if it does change, we will give you guys an update as quick as we know it, right, and how we project it.

And on the launch schedules?

Sandeep Jalan: Yeah. So on the launch schedule, yes, we have seen the changes in the launch schedule for SES-25, 26. Please keep it in mind that SES-24, this is the most important one, that is fully on track. So this is going mid this year in summer of this year. This is going to our premium neighbourhood, 19.2, and we'll replacing four satellites, which are continuing to operate by the way.

So SES-25, it is a backup. It is a state-of-the-art software-defined satellite, which is a backup to SES-24. So we continue to have the current four satellites and SES-24. So yes, there is a delay in SES-25, but it is basically a backup satellite, and we do not expect any bumps in our revenues or being able to serve our customers.

So far as SES-26 is concerned versus the 57 East satellite. So this is once again an important replacement of 57 East satellite. This is delayed. But again, we have remaining life and the capacity on the satellite to continue to cater and we do not expect any impact from that on our revenue profile going forward. These are some delays coming from the manufacturer, and we are dealing with it to make sure that we get these satellites in the orbit in the beginning of 2026.

Adel Al-Saleh: And Sandeep, just if I may add to it, right, I mentioned that in the Video business, right, specifically, right, there are opportunities in the future to optimise cost and optimise efficiency. And this is an example - like SES-24 is a great example. As Sandeep said, and I mentioned earlier, it is replacing four satellites. And as a result of that, it is more efficient. It has better capabilities on the ground, like that we can be more efficient with our network operations, our satellite operations and how much cost we have there and so on.

And 26 delayed, but the life cycle of the existing satellites goes well beyond that. So we do not expect any revenue impacts because we still have a fully functional coverage in these different slots.

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

Operator: Thank you. And we'll now move on to our next question from Roshan Ranjit with Deutsche Bank. Please go ahead.

Roshan Ranjit (Deutsche Bank): Great. Morning, everyone. Thanks for the questions. I’ve got three as well. They'll all be quite quick, please. Adel, you've talked quite a bit about the partnerships, focusing on Starlink and IRIS-squared. Clearly, I guess, LEO-focused partnerships. Is it possible to get your sense on, yeah, has SES's view changed on the LEO constellation. Previously, you were already championing the GEO, MEO combination. So I guess if a stand-alone LEO opportunity presented itself, would that now be of interest given the developing technologies?

Secondly, you highlighted the equipment terminals that this quarter had a strong contribution. Is that - particularly in government. Is that laying the foundation for government contracts for mPOWER? Because if I remember correctly, within the $1 billion backlog, there isn't any government contracts in there. So is that - once the service is up and running, we should see a big pickup from government contracts.

And finally, Sandeep, you mentioned the authorisation on the share buyback. So just to understand the kind of mechanics there. Is that the case of having to apply for 10% authorisation each year? And if you could talk about any of the kind of, I guess, liquidity constraints in deploying that buyback, that would be helpful. Thank you.

Adel Al-Saleh: So let me start on the first two and then Sandeep can tackle the last one.

Look, on partnerships and our view on LEO, as I said, we like to see ourselves as an all orbit operator. That's how we've positioned ourselves. And you'll hear me talk a lot more about that in the future. And I think that's critical, because no one solution has everything that the customer needs for every application that they have. So energy customers in remote wind locations, in the oceans, aero customers across the world coverage. Cruise customers who go through not just in concentrated areas around the world, but actually in remote areas, government customers, both for military applications as well as disaster recovery and other kind of mission-critical applications.

There's no one solution that fits it. Therefore, we want to see ourselves as all orbit operators. Of course, our focus is our own satellites. We always want to leverage the capacity that we have and deploy that and make sure that we have high utilisation of the assets that we have built. Therefore, GEO, MEO continues to be our key focus area.

And we are very focused on MEO specifically because we have a very strong GEO constellation that we're renewing when it needs to be renewed, but we are now focused over the next five years plus to expand and grow our MEO capability. That's where we have made our bets. And the technology continues to confirm to us that, that combination of GEO- MEO gives us the best possible setup in order to serve these unique applications.

We do see the need for LEOs as well, right? However, we have not decided that we, as a company, should be going into LEO full force like we are in GEO and MEO. But that is something on the table, right? We are evaluating that.

It is difficult to make the business case work for us on the LEO constellations, given the size of these constellations required to give you relevance to give you scale. We are able to achieve scale much faster in MEO capability. And that is, think of it as Pole to Pole, think of it as across the world. We feel for us as a company, that's a faster path to provide our clients with the type of connectivity that we need.

But it doesn't preclude us of looking at certainty partnerships, and you'll see us doing more and more of those and also potentially down the line of their specific LEO applications. But today, we are fully committed to the GEO and LEO technology that we are deploying and we still have a lot of work to do there as well.

And then the last one, just - second question, equipment terminal. You're absolutely right. And as a matter of fact, we had a bunch of terminal teleports that we have been deploying, especially in the United States. We're restricted on how much we can talk about signings in these sensitive areas. But last year, our Space and Defence team had very good signings here, right? And these are very long-term signings. Some of them we announced, some of them will be announced later.

And as you know, the US government is very committed to a commercial/government-owned asset deployment. And we've been lucky and well-positioned to capture a very good share of those contracts. So as we won these contracts, we needed to start deploying ground equipment and antennas and things like that ahead of time, which is a precursor for services that will start flowing this year, right? And so that's a very good catch, and that's exactly what happened. And then the last one, Sandeep?

Sandeep Jalan: Yeah. So on the share buyback, as you know, that we are continuing to buy this €150 million programme. Additionally, we have asked for a resolution at the next Annual General Meeting, which is to buy back up to 10% of our shares. And this is an authorisation for 18 months, because as per AFM rules, this authorisation lasts only up to 18 months.

Now the precise size of any further buybacks, etc., will be part and parcel of the cash allocation that we are evaluating. And Adel and myself, we spoke about it earlier.

Another element linked to that is the liquidity that you spoke about. Yes, the liquidity of our share remains low, somewhere below 0.5 million shares per day. So that means we can buy back a limited amount of volumes per day, which is in the range of about 100,000 shares a day, and that's the reason out of €150 million.

In the last four months, we have completed close to one-third of our whole programme. This is something we've been mindful if any further buybacks are decided and announced, as to what is the mode with which they would like to deploy, whether it's an open market purchase or a tender. But again, those are details and means we will look into. The first and foremost focus remains a healthy return to shareholders, which is going on in form of share buyback, €150 million, plus an extra €110 million with this interim dividend for 2024 that will come.

Roshan Ranjit: That's great. Thanks both.

Operator: Thank you. And we will take our last question from Alexander Peterc with Société Générale. Please go ahead.

Alexander Peterc (Société Générale): Yes. Hi. Thank you for taking my questions. Unfortunately my line dropped out earlier, so I'm not sure if you answered this earlier on. I'd just like to understand what happened between Q3 and now for you to delay a more comprehensive overview of your capital allocation and returns to shareholders to midyear versus full year results, which is what you previously said. Is this related to the change of management? Do you need more time to evaluate your options?

And then secondly, with regard to your guidance, you say that Networks growth will offset Video declines. And if I look at your revenue distribution right now, if Networks actually grow in absolute numbers by, let's say, 2%, that would imply Video down 8%. Even if Networks were just flat, that's Video down 6%. So if you just help us understand why Video is now deteriorating again at a faster pace than in '23? Thanks.

Adel Al-Saleh: I'll take the first one and then Sandeep can also help to answer. Okay. So first of all, look, on the delay of our capital allocation decisions. So first of all, look, we are not - I don't think it's fair to tell - to see it as we are delaying our capital allocation decisions. Maybe you've missed it, but Sandeep went through a quiet clear description of how we deployed €1.6 billion already to that capital. That €1.6 billion does not include the incremental €110 million that we will be making an extra payment this year to our shareholders in a special dividend, an interim dividend, if you will, in October this year in addition to the €0.50 dividend we will do in April.

So we've been deploying cash. The team is, even before my arrival, been thinking very carefully on how to deploy cash, paying down debt, returning capital to the shareholders through the buyback, keeping our dividends going, introducing an extra interim dividend that we will do this year, etc.

In addition, of course, as I came on board in February, I would like to have an opportunity to work with the team here to really think about where is the best way for us to deploy capital to continue to have SES positioned as the premier player in this industry, with an investment-grade balance sheet and a strong dry powder capability to react to the market and get into the new areas and cement our existing areas to be successful in the future.

We just need a little bit more time. And as we already said, when we do our first Half-year announcements, we should be ready to talk a little bit more deeper about it. But we shouldn't - nobody should be viewing us as standing still and not doing anything. I don't think €1.6 billion capital deployment is a small number, but we're lucky enough to have a very good position going forward.

On the guidance, please, Sandeep.

Sandeep Jalan: Yeah. So on the guidance, you're right. When you take a look at our guidance, the first element that you have to take into account, the reported revenue of €2.03 billion. It is at a bit lower exchange rate, this guidance comes at €1.09 billion. So that means 2023 revenue is at €2.015 billion against which you should compare this outlook. The top end of the outlook is very similar to 2023, but a slight decline.

Our target will remain to hit at the top end of this outlook. And this Network will continue to grow, right? This is clear. Network will continue to grow. We will see the impact coming from the mPOWER getting into start-up service. So this will bring a nice trajectory of growth continuing in Networks.

But Video will decline, right, on the other hand. Network growth should mostly offset the decline of the Video, and we will clearly try and aim to fully offset this decline in Video that we'll face during this year. But keep it in mind that mPOWER starts in April so we won't have the full year revenues. As we go beyond '24, clearly that grows. And there is another element we should take into account, and Adel spoke about it earlier, in our total composition, Network is now 52%. So that means even at the same growth, we should continue to get back in the growth trajectory starting next year.

Adel Al-Saleh: Yeah. And just to add to that, it's a very good question. Look, for us, we are being prudent in how we depend on the ramp-up of mPOWER, right? Given the historical facts, given we want to make sure we get this right. So we will be prudent. But you should not expect in your models that Video suddenly will be different than the historical trend that we've demonstrated over the last several years.

We believe that trend is going to be the same. We don't see any - and one of your colleagues asked the question earlier around the dynamics of that and where the growth potentially could come. We don't see the dynamics different going forward. As a matter of fact, we're looking for opportunities in very specific segments, like sports and events, to give us even slight growth in these areas, right, as we look forward.

Alexander Peterc: Thank you very much.

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

Richard Whiteing: Thanks, Laura. Thanks all for listening. That concludes this morning's presentation. Of course, myself and the rest of the IR team are available should you have any follow-ups. Thank you. And have a wonderful day.

Adel Al-Saleh: Thank you. Thank you very much.

Operator: Thank you all. This concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]