SES SA Half Year 2020 Results

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Operator: Hello, and welcome to SES Half Year 2020 Results. My name is Val, and I will be your coordinator for today's event. Please note, this conference is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question at any time. If at any point, you require assistance, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Richard Whiteing, Vice President, Head of Investor Relations, to begin today's conference. Thank you.

Richard Whiteing: Thanks, Val. Good morning, everyone, and thanks for joining our half year 2020 results call. This morning's presentation was uploaded to the Investor section at ses.com, along with the press release, if you don't already have it. And as always, please note the disclaimer at the back.

In a moment, Steve Collar, CEO, will present the main business highlights, followed by Sandeep Jalan, CFO, to cover the financials in more detail. After some closing remarks from Steve, we'll be happy to take your questions where we're also joined by JP Hemingway, CEO of SES Networks.

So with that, let me hand over to Steve.

Steve Collar: Thanks Richard. Good morning, everyone, and thanks for joining us. Hope you're all keeping safe and well. And so I'm going to jump straight into the business highlights for the first half on page three.

We've delivered a good set of results for the first half of the year with numbers fully in line, including another strong performance in Networks, up 7% on an underlying basis and over 25% over the last three years. We've not seen a significant impact from the global pandemic on our results to-date, reflecting the resilience of our business. We are expecting remote COVID-related headwinds in the second half. But it was in anticipation of that, that we implemented early an exceptional cost mitigation actions to protect the bottom line. We've updated our outlook for the year, given the likely COVID impacts are now more clear.

It's been a transformational six months in the crystallisation of our C-Band initiatives in the US, with firstly, the FCC report an order and the subsequent election of SES and all other eligible operators to adopt accelerated clearing. This clears the path for us to execute a transition plan that's been more than two years in development to protect our customers and the neighbourhoods that they serve and capture the almost $4 billion of accelerated relocation payments attributable to SES at the end of 2023. The C-Band project is now fully included in our financial projections for the first time.

Today, we're also enacting an augmentation to the state-of-the-art NGSO constellation O3b mPOWER. We've added four satellites, increasing the constellation to 11 once fully deployed. This will meaningfully increase the constellation throughput and capability, improve launch cadence and resilience and edexpand coverage. And we've done all of this while maintaining our CapEx from 2020 to 2024 broadly flat versus the 2019 outlook.

With the expansion of the constellation, we're also excited to announce the collaboration with Boeing, the builders of the O3b mPOWER constellation, and the largest defence contractors in the US, aimed at developing commercially-based solutions for government customers. And more of that in a little while.

In the last quarter, we substantially progressed our Simplify & Amplify initiative, which is a broad-based transformation programme that we introduced at the beginning of the year. We're on track to deliver EBITDA optimisation of $40 million in 2021 and $50 million in 2022 and beyond, with significant steps taken in the quarter to reduce our footprint, to de-layer the organisation, to increase our efficiency and remove positions across the team.

And lastly, as Sandeep will cover shortly, we have a strong balance, liquidity of €1.6 billion and a first commitment of maintaining our investment-grade rating, something that we've leveraged to good effect over the last nine months in financing at the same SES more than €30 million per annum in financing charges from early 2021, and we retire all senior debt maturities until 2023.

So now turning to page four and drilling into these highlights in a little more detail. Our financial performance for the first six months is shown on the page. Good revenues. Group revenues of €948 million, with Networks growing 7.1% on an underlying basis, shows that our business has held up well, including in Mobility, which benefited from the full six months of the good work that we did in 2019.

Video was also in line with expectation and was flat quarter-on-quarter following a sponsor renewal in Europe and a reduction in the US wholesale and distribution business at the end of last year, which impacts the year-on-year comparison. The measures that we've implemented to control spending and variabilise our costs wherever possible, have led to adjusted EBITDA of €562 million, which represents a margin of 61.5%. Recurring operating expenses were lower year-on-year as a result of our actions.

Lastly, we reduced net debt by 6% and leveraged to 3.3 times, consistent with our commitment to investment grade. Overall, a pleasing set of results through the end of June.

So page five. And here, we have a little commentary on each of our businesses, starting with Video. So really encouraging fundamental, I would say, for Video, with viewing durations up during the pandemic period and the average age of viewers of linear content coming down to encouraging things. Sky also recently reported that their subscriber numbers, and in particular, customer loyalty benchmarks have held up well, and that's despite the absence of sports over the last several months.

Turning to SES. Our channel count has grown to 8,200 channels, and we now carry more than 3,000 high definition and ultra-high-definition channels across our fleet. This is industry-leading and almost 1,200 more than anyone else. We've extended our global reach to more than 367 million households to a staggering worldwide count and one that means that the billion people, or 15% of the world's population rely on SES for their video programming and entertainment.

The German and Austrian market is the most important video market for SES, with total revenues of more than €400 million, one in which we serve 17.5 million households with our unique combination of infrastructure, uplinking, marketing plan and content management as well as a brand leading B2C consumer business in HD+.

HD+ delivered services to more than two million subscribers and has generated more than €1 billion in revenue for SES since its inception, with both an exceptional net promoter score and with B2C investment a fraction of its competitors, we secured partnerships with Samsung and Panasonic, such that HD+ operator offer functionality is built directly into CTV sets now being sold throughout Germany.

For the first time, we've combined all elements of our business in Germany and Austria into a single business segment with a unified strategy, and I'm really excited by the prospects that we can sustain and indeed grow our business in this market. And that's evidenced by the recent extension of our relationship with ProSieben in both the Austrian and German markets.

More broadly, our focus is on continuing to reduce our exposure to low-margin commoditised third-party capacity services, but continue to develop and deliver services that our broadcast and DTH customers want and need. A good example of this quarter is with the BBC, where we're providing solutions beyond state segment for more than 50 channels, including playout, content processing, distribution and video-on-demand services, delivering BBC and UK TV content to affiliates across the UK and indeed globally.

Turning to page six on our Networks business. This has been a source of continued growth over the past three years, as I mentioned, up 25% over that last period and now representing 40% of our overall revenue. It's a clear differentiator for SES over its peers, a segment in which we've consistently invested and one in which we've developed significant competence, unique value propositions and trust from the customers that we serve.

A good example of this in the last quarter is with the US government, for whom we've been recently contracted to deliver a new and innovative solution, combining our Medium Earth orbit and Geostationary assets. We believe that this use case can and will be replicated, both on current LEO constellation and to even greater effect, on O3b mPOWER. This deal also forms a part of the flurry of awards and renewals made to our dedicated US government team and the SES recently in a strong start for the second half of the year.

Another feature of networks over the last several quarters has been a strong performance in fixed data, up 4.6% on an underlying basis year-on-year, with rural inclusion projects across Colombia, Indonesia, Alaska and Europe, and most recently Panama strongly to the fall. In Panama, we're working with a new partner, Cable & Wireless, to deliver managed connectivity solutions to the Ministry of Education, to schools across the country, something that we're very proud of.

I mentioned the competencies that we've built with our network group over the past several years. Northern Sky's research forecasts 52 exabytes of cloud data traffic transported by satellite by 2029, an estimated cumulative 16 billion service opportunity through that period, in addition to revenues that we will generate across our capacity. Those revenue is being driven through cloud adoption. We booked our first cloud revenues earlier this year, and we partnered with Microsoft as an Azure ExpressRoute provider.

I strongly believe that we're in the leading position in automation, in network virtualisation, in dynamic resource control and in the integration of cloud technologies. Our architecture is multi-orbit, intelligent and application-aware. And crucially, it's also open, and that means that we can coherently add and interoperate with other networks and architectures to form multi-orbit partnerships and networks, and that's something that's really pretty unique to SES.

With SES-17 and O3b mPOWER a little more than a year away from launch, we're building a really powerful network capable of sustaining our growth into the foreseeable future.

So now turning to page seven and our almost three-year project to date to repurpose C-band in the US. I mentioned upfront, the last six months have been transformational for this project. In that time, you've seen the FCC publish the final reporting order, mandating the clearing of 300 megahertz of C-Band spectrum and providing the opportunity for operators to elect to earn accelerated relocation payments.

In SES' case, this amounts to almost $4 billion that we now have a very clear line of sight to. The election of all eligible operators in May has cleared the path to execution of our transition plan, and that now has our full focus. Given this process and a number of interested party, litigation was inevitable, but the litigation landscape is also now clear and modest. While the process continues full speed ahead with the selection of the clearing heads, the relocation coordinator and the publishing of the cost catalogue all provides transparency on the allowable expenses.

For our part, you will see a flurry of announcements with satellites to support our clearing already under manufacturers. And more recently, the launch services procured the time lines fully consistent with the accelerated clearing. Of course, this is an incredible opportunity for SES shareholders through the $4 billion of relocation payments as well as clearing costs. We can be more focused on this as a business with a team of more than 300 people and 70 full-time equivalents working on the project already.

So turning to page eight. I mentioned upfront that we've added satellites to our O3b mPOWER constellation. And this slide provides context as to the why we consistently invested in our unique networks architecture over the last several years and why we're excited about the future. This is a chart from NSR that projects the future revenues expected from the leasing of satellite last year and the next 10 years. It amounts to cumulative revenue of $122 billion over that period and total revenue of $26 billion annually by 2029.

As you can see, the majority of the revenue will be derived from growth in Networks, and in particular, from the kind of high throughput capabilities and services that we've been building for the last several years. This trend is borne out by our results, investments that we've made over the last several years, including the only broadband NGSO constellation are allowing us to grow our productivity business consistently today, while investments such as those that we announced this morning allow us to capture the accelerating growth opportunity from the middle of the decade and onwards.

So on page nine. Page nine explains why we believe our approach will allow us to capture a disproportionate share of this opportunity. We've established beachfront property with the deployment of O3b back at the turn of the decade, with more than two gigahertz of prime Ka-band spectrum that we have priority for, and we're now in a position to build out our orbit and scale our infrastructure as the market develops.

O3b mPOWER builds on the successful legacy of O3b. And these additional satellites provide launch resilience, increased constellation efficiency and a 90% increase in the overall system capability, meaningfully improving our cost per CapEx. As Sandeep will cover, we've managed to do this and still keep our CapEx over the next five years broadly within the guidance we gave at the start of the year.

Importantly, to add to the commitments that we've already secured with major telcos and cruise lines and the growing pipeline, we're announcing this morning that we'll be collaborating with Boeing in a development of capabilities and services of interest to government customers. Given the unique capabilities of O3b mPOWER, its flexibility, its ability to move bandwidths and capability across the fleet dynamically and the resilience of Medium Earth Orbit, the government market representing a little more than a third of our Networks business today, is one that we expect to be very well represented on O3b mPOWER going forward.

It's intended that the collaboration with Boeing will include establishing multi-orbit interoperability between systems and also leveraging mPOWER's open platform to support waveforms and architectures of interest to government users.

And lastly for me for now, Page 10 and our transformation programme, Simplify & Amplify. As I mentioned, we've made substantial progress over the last couple of months towards delivering on a recurring EBITDA optimisation of €40 million to €50 million per year from 2021 onwards. We've implemented a number of changes across the organisation, flattening and removing management layers. We've announced the closure of a number of offices, reducing our footprint and increasing the efficiency of our operation.

Through this process, between 10% and 15% of our employee base were impacted, a good number of those through voluntary phased retirement programmes. In parallel, we're configuring ourselves for the future, having launched an innovation hub to co-create products and solutions together with our customers. And given the importance of cloud across our business, we've launched a client practice to unify our approach to cloud and to allow us to capture the internal and external benefits of being a client-first organisation.

So with that, I'll hand over to Sandeep to go over the financial highlights.

Sandeep Jalan: Thanks, Steve. And good morning, everybody. My first three months at SES have been full of action, excitement and learning. After 30 years in a tough metals and mining industry, I'm enjoying this new phase of learning in the satellite sector. I'm very happy to be part of the great team at SES.

Over the coming periods, my key focus is to work together with the rest of the management team on execution and delivery of value, cash generation and enforce greater financial discipline to ensure a sustainable, profitable SES. We have significant value to be unlocked from very important and exciting projects, including C-Band, network growth projects of mPOWER and SES that Steve just briefed about and S&A programmes. And we are keeping a high focus and making good progress on successful execution on those to create more value for our shareholders.

So moving on to page 12. I will now walk you through the main financial highlights. So starting with the page 12, as Steve mentioned, our financial performance was resilient and in line with our expectations. Total Group revenue of €948 million in first half of this year was 1.5% lower on a reported basis than the prior year and 2.6% lower on a constant forex basis.

Our quarter two revenues have started to see some impacts from COVID with quarter-on-quarter revenues being minus 2%. We are happy with this performance considering the current COVID economic environment that we are living in. Excluding the one-off charge related to Luxembourg net wealth tax of €8 million and the adjustments for the exceptional expenses of

€35 million pertaining to C-Band and restructuring expenses, we saw a positive trend in our recurring operating expenses, which reduced 2% year-on-year.

Starting from this quarter, we are starting to provide you with new alternate performance measures of adjusted EBITDA and adjusted leverage for a better visibility regarding the exceptional expenses from C-band and restructuring, which will continue to have some important effects on our financial results.

We are happy with our first half adjusted EBITDA at €582 million, which represents a margin of 61.4%, in line with the previous year. And it excludes a restructuring charge of €42 million and C-Band expenses of €40 million in the first half.

As mentioned in quarter one already, we have implemented exceptional COVID-19-related cost mitigation measures for 2020 to protect our bottom line. These actions, the rent savings of about €40 million to €50 million compared to our operational estimates, and we are fully on track on these savings. Depreciation and amortisation in the first half decreased by 2% based on some asset life extensions and absence of prior year impairment charge of €5 million. And this is also partly offset by the effect of new satellites, which have entered services since 2019.

Net interest expenses during this first half reduced to €80 million, representing a year-on-year decline of 10%, and this was driven by achieving favourable conditions for the Eurobond financing in November 2019. And higher overall net financing cost was mainly due to lower capitalisation of interest charges and certain forex impacts.

Net profit in first half of the year was €86 million, mainly due to the effects from lower EBITDA year-on-year, income tax benefit in the first half of last year and the higher net financing cost. SES achieved an operating free cash flow of €412 million, year-on-year reduction is mostly due to effects from the receivable securitisation with a net cash outflow of €38 million during this first half of this year compared to net cash inflow of €59 million during the first half of last year.

You can find more details in our 2019 Annual Report regarding this. We did have some increases in overdues due to COVID effects. However, total receivables, as you can see on the balance sheet during the first half of the year, is lower than the year-end 2019. The focus for the remainder of the year is to protect our bottom line and apply proactive working capital management to offset COVID-19 impacts on our bottom line.

So moving on to page 13. As you can see, the revenue developments in the first half of 2019 is mainly driven by growth in Networks, offset by short-term impacts on Video. Total Group revenue amounted to €948 million, which was a decline of 1.5% year-on-year on a reported basis and minus 2.4% on an underlying basis.

Total Video declined 8% year-on-year, which was impacted by DTH and cable customers rightsizing capacities in mature markets, mainly in Europe and North America, and also SES' decision to withdraw some low-margin businesses at the end of last year. Thanks to a double-digit growth in Mobility and a return to growth in Fixed Data, Networks grew by 7.1% year-on-year. Our Government businesses remain behind our expectations, but we expect second half of this year to benefit from some recent and some new business wins.

Our quarter two revenue was €469 million compared to €479 million in quarter one. However, when excluding COVID-19-related impacts, the quarter-on-quarter development was relatively flat.

Moving on to page 14 about our debt and liquidity. We continue to maintain a strong balance sheet, fully consistent with SES commitment to investment grade. Based on a strong liability management, reported net debt reduced by 6% year-on-year, driven by both a reduction in total borrowings and cash generated in the business, resulting in a cash and cash equivalents position of €367 million.

Adjusted net debt to adjusted EBITDA ratio of 3.3x year-on-year, thanks to the net debt reduction and remains stable quarter-on-quarter. Further, our liquidity position remains very strong at over €1.67 billion, including RCF of €1.2 billion. We have made some good progress in extending our maturity profile and also reducing the cost of interest. This June, we have taken a prudent and proactive approach to issue €400 million Eurobond, which is maturing in 2028, with an attractive coupon of 2%. This is to refinance the upcoming Eurobond maturity in March 2021 for €650 million, which were at a coupon of 4.75%.

The residual €250 million will be financed on continued cash generations and cash balances. Together with the rate of previous Eurobond 2027, €500 million back in November at 0.875% to repay the Eurobonds 2020 in March 2020, this has allowed to substantially reduce our cost of interest by over €30 billion recurrent savings and also improve our debt maturity profile.

On a pro forma basis, post payment of 2021 bond in March 2021 compared to quarter three of last year, financing cost of senior debt is reduced from 3.7% to 2.45% with over €30 million recurrent annual savings per annum, and average maturity profile is now extended to eight years. This really shows a very strong liquidity and financial profile for SES.

Moving on to a view of CapEx outlook on slide 15. We have made significant CapEx optimisation by reprofiling the CapEx 2020 to '24. But the main impact that, number one, we have substantially deferred over €550 million of CapEx from 2021 to latter years. And with our quarter one results, as you have seen previously, we have removed non-critical CapEx of €180 million.

And to deal with the O3b mPOWER projects and to enhance conservation efficiency, total throughput and coverage, it has been decided to invest in additional four O3b mPOWER satellites. The cost of this investment amounts to €480 million, of which €250 million will be spent in 2020 to '24, which is our guidance period. This represents a net decrease in investment of €70 million compared to our full year numbers in March 2020.

Out of the total investment outlook of €2.9 billion for the year 2020 to 2024, over 60% is growth CapEx, which equals €1.8 billion of CapEx and almost 40% remaining, €1.1 billion, is replacement CapEx, which is about €220 million per year of sustaining replacement CapEx. Currently, no further growth CapEx investments are foreseen.

As you can also see from the chart, the return to a more normalised level of CapEx after 2022, along with the rising contribution from the important growth investments in O3b mPOWER and SES-17, this underpins SES' future and strong free cash flow generation capabilities.

Moving on to page 16. As Steve mentioned, we now have a strong visibility to capture significant value from C-Band clearing process in the United States. We also aim to provide more clarity and transparency concerning the financial estimates and projections with the project milestones and cash flows, cash inflows and outflows.

First, about the main outflows. Total clearing cost is expected to be about $1.6 billion, of which over $1.5 billion will be reimbursed. The difference of US$80 million is non-reimbursable OpEx cost, which will be split across 2020 to 2023, with about US$30 billion impacting in 2020, and that's slightly decreasing over next years. These costs will also impact our reported EBITDA.

However, the impacts will be disclosed and normalised as part of adjusted EBITDA. Having agreed deferred payment terms with CapEx lenders gives us possibility to limit our cash outflow ahead of C-Band reimbursements, which are expected to start in the second half of 2021, as depicted on this chart. We expect to incur a net total cash outflow of US$170 million over next 12 months.

Now about the inflows. With a strong dedicated team of more than 70 full-time equivalent people supporting this project with a strong focus on execution, we expect to realize a C-Band value of US$4 billion. The first success milestone for clearing is in quarter four 2021, and the second one is in quarter four 2023. As mentioned before, we will use the first relocation incentive of nearly US$1 billion to strengthen our balance sheet. And the second relocation incentive of nearly $3 billion will be used for a mix of cash return to shareholders, strong balance sheet and any disciplined value-accretive investments.

Moving on to page 17. As mentioned with quarter one results, we promised to give you an update on the outlook for the year once we have more clarity on the impact of the pandemic on our business. H1 2020 financials underscore the resilience and robustness of our business model with H1 financial results largely unaffected by COVID-19 impacts. We continue to have a fully protected contract backlog of €5.9 billion as of end of June.

For the second half of 2020, as expected, headwinds from the global pandemic will continue to impact our performance. And therefore, we have updated the financial outlook for the year. On the basis of an exchange rate of Euro/US dollar at 1.15, we now expect Group revenue in the range of €1.86 billion to €1.9 billion. More than 95% of the updated 2020 includes revenue outlook is already contractually committed.

Video is expected to amount to €1.09 billion to €1.11 billion, and Network is expected to generate revenues between €770 million to €790 million. To protect our bottom line, we have implemented COVID-specific one-off cost-mitigation actions from €40 billion to €60 billion range. Thanks to these litigation measures, we expect our adjusted EBITDA to be in the range of €1.12 billion to €1.16 billion.

This adjusted EBITDA also excludes the one-off restructuring costs of about €40 million as announced earlier and about €25 million for the C-Band non-reimbursable cost, as I indicated in the previous slide.

Moving on to the last slide on page 18. We, at SES, are committed to driving sustained and profitable growth and creating value for our shareholders, and therefore, are confirming our disciplined financial policy framework, which focuses on growth, prudence and value creation for our shareholders. This policy, as you can see, is based on four main priorities. First, disciplined investments including select growth projects. As you can see, our replacement CapEx, also to sustain the business portfolio, is very low at €220 million over 2020 to 2024. Value-accretive projects have to follow a minimum IRR threshold of more than 10%. And the total Group CapEx being around €1.8 billion.

Second, maintaining our strong balance sheet to ensure access to diverse sources of funding and competitive costs. Thereof, we continue to maintain our strong balance sheet ratio consistent with the investment-grade ratios with adjusted net EBITDA – net-debt to adjusted EBITDA being at 3.3x.

Third pillar, cash return to shareholders. We maintain a base dividend to our shareholders. For this year, Board has announced dividend of €0.4 per A-shares. €182 million was paid during April 2020. Fourth pillar, we plan to utilise any excess cash in the most optimal way for the benefit of our shareholders. And for C-Band, we have indicated the priorities that we will use the first tranche being used to strengthen the balance sheet, and the second tranche being used for a mix between return to shareholders, strengthening balance sheet and disciplined value-accretive investments.

So with that, I'll conclude and hand back to Steve.

Steve Collar: Thanks Sandeep. So in conclusion, we're pleased with our results and with the resilience the business has shown in the first half. We continue to position ourselves to capture significant opportunity in network and connectivity, while at the same time being disciplined and thoughtful in our investments. And after almost three years of work and engagement, we've made a clear path to generate very substantial value for SES and its shareholders through the execution of accelerated C-Band clearing. And with that.

Richard Whiteing: Thanks Steve. Thanks Sandeep. Val, I think we can go ahead and take questions.

Questions and Answers

Operator: Okay. Perfect. Thank you very much. So as a reminder, if you'd like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. Please make sure your line remains unmuted locally. You'll be advised when to ask your question. And we do have a few questions in the queue. The first one comes from the line of Nick Dempsey from Barclays. Please go ahead.

Nick Dempsey (Barclays): Yeah. Good morning guys. I've got three questions. So first of all, when you're renegotiating your contracts with service providers like Gogo, Global Eagle impacted by COVID-19. First of all, is that process all done now, so you have very good visibility on the impact of that in the second half? And secondly, are you recouping what you lose this year within those contracts in the outer years of the contract as you're structuring it? Second question. When you're thinking about EBITDA margins in 2021, you have some restructuring spend dropping out, benefits of the Simplify & Amplify programme. You've got some of the savings related to COVID-19, which probably has to go back in, and we've probably got a negative margin mix from Networks growth, Video decline. Now when we're putting all that together, can you maybe help us out in thinking very directionally about how we should be planning for EBITDA margins in '21 versus 2020? And then the third question. Can you give us any update on how you're thinking about tax rates you're likely to pay on the C-Band payments when those come in '21 and '23?

Steve Collar: Yeah. Thanks Nick. Good morning. So on the sort of the customers impacted by COVID, I would say, obviously the fact that we've updated our outlook suggests that we've got much better – a much better understanding, a much better visibility of what's going on in the market and sort of the discussions with our customers. Some of the expectation of the second half of the year, it fits with lower expectations of new business, but some of it is certainly reflected in sort of renegotiations and discussions with our customers to support them through the period.

I would say, are we completely done? I wouldn't say we're completely done. But we have – we understand, let's say, the basis for those discussions, and that's reflected. And yes, in general, I think what we're looking for is long-term partnerships. And that means that kind of by accepting that the environment is tough today, we are sort of looking to build longer partnerships off into the future with those that are impacted.

So hopefully, that is responsive to your question. On margins, Sandeep?

Sandeep Jalan: Yeah. Hi Nick. So regarding the EBITDA margin, clearly, I mean, we are not giving any EBITDA margin guidance for 2021. Our focus remains to continue to protect our bottom line. And as you have seen that from our COVID-19, we have significant mitigation actions, €40 million to €60 million. The situation remains difficult. And some of the Mobility customers heavily impacted by the COVID-19.

And we will continue to track that and continue to also ensure that if there are any impacts on top of that and again, which will start accruing fully from next year, which are in €40 million to €50 million ranges. But if COVID-19 impacts continue, we will try and further top off with further action.

But at this moment, there's not enough visibility going into next year, as you can see with all these customers. So we are not giving any guidance. But clearly, our intention is quite clear. We will continue to protect our bottom line in line with the evolution of the market conditions.

On your third question on the tax rate on C-Band proceeds, we had guided earlier that we would expect a tax rate – effective tax rate on the C-Band proceeds between 20% to 25%. And to be honest, we expect to be at the low range of this guidance as we speak.

Nick Dempsey: That's great. Thanks guys.

Steve Collar: Thanks Nick.

Operator: Thank you. The next question comes from the line of Paul Sidney from Credit Suisse. Please go ahead.

Paul Sidney (Credit Suisse): Yeah. Thank you. Good morning everyone. I just had two questions, please. Sort of both sort of quite big picture. Firstly, you're investing €3 billion over the next five years. You just announced four new mPOWER satellites. I was just wondering should we view this as a real sign of confidence in the top line trajectory of the business and do you believe that SES can return to sustainable top line growth finally in 2021? I understand there's obviously maybe a bit of COVID-19 impacts in '21, but maybe just looking at '21 and beyond. And the second question on your shareholder return commentary, particularly relating to tranche two of the C-Band proceeds. You talked about disciplined value-accretive investment. I was just wondering if you could give us some examples of how you're thinking about that. Is it mainly internally building more satellites to generate organic growth? Or is it

– is there any M&A opportunities out there that you think will become available over the next few years?

Steve Collar: Yeah. Thanks, Paul. So I mean, clearly, the fact that we are investing in our business and sort of the announcement today of an augmentation to our O3b mPOWER constellation signals confidence in the market, signals confidence in the growth projections that we talked about, the NSR have sort of put out there, is consistent with the growth that we're seeing in our Networks business. And indeed, that's something that we feel we can not only deliver on but accelerate with SES-17, O3b mPOWER and now the augmented O3b mPOWER coming to the market.

So yeah, I think absolutely, we're confident. We feel like we – as you know, we invested early in non-geostationary. We're still the only broadband on geostationary constellation out there and that does give us meaningful advantages in the market. But it's not just the sort of the low latency and the performance benefits that come. It's also, that we've spent the last several years learning how to deploy those services, learning what's important to customers.

We can deliver more throughput from our constellation already today than any of the planned constellations to an individual user or site. And that's hugely valuable for a number of the services that we're providing today, and indeed, that we'll provide into the future. So we have a number of competitive advantages on the network side of our business that we deal, and I think is evidenced, can drive very significant growth for SES out into the future from a big picture standpoint.

And then I guess the question on shareholder return. Sandeep, do you want to take that?

Sandeep Jalan: Yeah. So Paul, as you asked regarding the uses of the surplus cash, clearly we have given as much clarity as possible. As of this stage, the first tranche of the C-Band proceeds will be used fully to deliver, strengthen the balance sheet. Second tranche, as you know, it is an outcome which is expected in 3.5 years' time with 44 of 2023. We're quite significantly ahead.

Clearly, whatever actions will be done, it will be an action with a lot of prudence and for benefit of shareholders, and they will take whatever is most appropriate from that mindset, whether it is for cash return to shareholders or strengthening balance sheet or any value-accretive investments, always, always focusing on prudence and shareholders' interest.

Paul Sidney: That's great. Thank you very much.

Operator: Thank you. The next question comes from the line of Alexander Peterc from Société Générale. Please go ahead.

Alexander Peterc (Société Générale): Yes. Good morning, and thank you for taking my question. I'd just like to clarify a few things on the EBITDA underlying margin front. So just first of all, you have this €40 million to €60 million cost that was incurred in the first half on the various COVID measures. So I just want to know what that is more precisely if it's already passed, if it's already in your accounts for the first half. And then the question is really, what are the underlying margins here, because if I look at your adjusted EBITDA as on slide 12, you have 61.4% margin, but that includes the €40 million to €60 million COVID charges that are on here. So is the underlying EBITDA margin then is lot higher, something like 66.7%, is that correct or am I getting the calculation wrong here? And then the same then applies for full year as well because your full year target includes that COVID charge as well. So if I back that out, that would mean that your underlying EBITDA margins are actually increasing in the current year versus last year. And that – I mean, if you could just explain what are the mechanics behind that given the negative mixed effects of Networks versus Video, which has higher margins? Thanks.

Sandeep Jalan: Yeah. So Alexander, thanks very much for your question. So as you can see on slide 12, there are several impacts there, right? So there are three separate items that we are talking about in this year. Number one, COVID-19 impact, which impacts our revenue line, but we have launched actions of €40 million to €60 million due to the number that they expect to see in our full year numbers. And in fact, you will continue to see this number and for – through our operating expense line there, excluding the restructuring on the C-Band expenses, they would expect to see these gains.

Second impact, you can see that the restructuring and the US C-Band expenses, these have been excluded to provide you with better visibility for adjusted EBITDA, which is the recurrent and normalised level of EBITDA that we should expect to see, excluding the one-off impact coming from restructuring and the new C-Band expenses.

Thirdly, clearly on top, what we expect from next year is the [inaudible] to continue to ramp up. There, we are expecting savings, which are €40 million to €50 million range, and that should continue to allow us to maintain a healthy level of adjusted EBITDA margins going forward. So I hope these impacts are clearer. There are three separate impacts. The restructuring and US C-Band expenses already adjusted to provide you as a form of adjusted EBITDA, COVID-19 mitigations fully reflecting in the operating expenses, but we have known these actions only three months earlier. So you will see more of these actions continue to unfold through the operating expenses and S&A expenses. S&A again, they are continuing to ramp up. We have made significant progress during quarter two, and we will see more ramp-up of these savings during the rest of the year and next year with the full impact, €40 million to €50 million.

Alexander Peterc: Okay. Thank you. Can I have just a quick follow-up as well then on CapEx. As you're deferring some of the CapEx into outer years, should we therefore also moderate our Networks growth assumptions accordingly to outer years as well, so a bit softer growth next year and the year after and then reaccelerating? Thanks.

Sandeep Jalan: Yeah. It doesn't affect the growth projections at all because we have done it in a very thoughtful way. We have basically reduced the non-critical CapEx. We have basically reduced the front-end cash CapEx spend on those projects. We have tried to ensure that there are no negative impacts on the top line. And this is basically a phasing, which is optimising a substantial amount of our upfront CapEx, which is over €0.5 billion, €550 million, to be precise. And this is being done without any major impacts on our revenue line.

Alexander Peterc: Thanks a lot.

Operator: Thank you. Your next question comes from the line of Michael Bishop from Goldman Sachs. Please go ahead.

Michael Bishop (Goldman Sachs): Thanks very much. Good morning, everyone. Just a couple of questions from my side. Firstly, the extra CapEx on Networks and the four mPOWER

O3b satellites. Does this now effectively draw a line under the total CapEx for at least the first round of mPOWER[?] satellites? And could you just expand a little bit more on the rationale for the extra four satellites? I definitely picked up that your thinking this will give you more resilience and then secondly picked up a better focus on the government division. But any extra colour would be really useful. And as a small follow-up to that, could you give us an indication on what you think the overall sort of useful economic life of mPOWER would be? And at what point in time, given everything you know about the industry as a whole, this would potentially need replacing? And my third question is just a quick Video question as to whether you had any insight from recent customer conversations, because I think on one hand, billing is up as you highlight, but obviously, on the other hand, some of these end customers are seeing quite a lot of financial pressure and that's reflecting some weak share prices out there? Thanks.

Steve Collar: Yeah. Thanks, Michael. So yeah, look, I think as far as CapEx – again, I think we've done this incremental augmentation of mPOWER in a pretty intelligent way by removing kind of other CapEx, and so living within the overall envelope that we established for ourselves, but it does bring pretty meaningful benefits.

And so the deal, perhaps the first question, yeah, we have no further growth CapEx plan. We're obviously investing substantially in SES-17 and O3b mPOWER along with the augmentation. And so that's our sort of growth CapEx allocated. No further plans beyond that.

In terms of the rationale, yeah, definitely resilient. The reprofiling of CapEx also reflects reprofiling of launch cadence, which is a very good thing. So we're now able to launch three satellites at a time. So we'll actually be able to start the constellation with six satellites, which reflects why we don't see any impact despite the fact we're able to push out CapEx from 2020 and 2021. We don't see any impact to the launch day of the constellation, and therefore we don't see any impact to the revenue generation. So we're able to match the constellation capability much more closely to the market, which is something that's unique to us with a MEO constellation you can't do that with LEO.

You effectively have to deploy the full constellation all at once. And so that's something. We've got now a smooth and better launch cadence. We obviously add 90% more throughput to the constellation for only the addition of four more satellites. And so what you see there is significant improvement in overall constellation efficiency. That also speaks to lower cost per bit of the network, so a more competitive and sort of, yeah, a better constellation as we think about how we will position ourselves in the future.

And then, yeah, last but not least, I think we've really done a lot of work on the government side of our business. The capabilities that we have on O3b mPOWER and indeed the work that we've done in honing our network in the cloud, in automation, in dynamic resource management and in sort of our multi-orbit strategy, that has real relevance both being multi-orbit within our network, but also multi-orbit with respect to other's networks that we can then interoperate with it.

And that's a fundamentally important part of the announcement that we're going to collaborate with Boeing on some of these specific commercially driven but nevertheless government interesting capabilities that include sort of looking at waveforms and systems and architectures that are interesting to governments around the world. And we really feel that mPOWER has some very significant benefits over other constellations, in particular, that are largely targeting residential broadband, not a market that we have a significant interest in.

In terms of useful life, I can tell you that from a satellite perspective, each of these satellites will last a minimum of 12 years. In terms of the life of the constellation, now obviously we expect it to be very, very much beyond that, right? And you could always think about this as a continuum between the deployment of O3b intermediate back in 2013 right the way through to ongoing deployments of mPOWER.

Again, this is a scalable network. So if the market continues to grow at the rate that we would expect and if we continue to capture that market opportunity, then we can continue to scale the network. But for now, we certainly feel like the investment that we've made will allow us to capture a very significant opportunity there.

And then lastly on the Video slide. Yeah, look, I think it's – what I would say is we have seen some good fundamentals in the Video business with, as I said, increased viewing hours with subscribers holding up well. And so I think there's no question that COVID has sort of impacted the consumption of video. It's certainly driven a significant amount of OTT. And that's also a part of our business that we're looking hard at. We're collaborating with our customers to develop solutions for them that can offer them not just service over DTH, but also through online video platforms and OTT.

And yeah, I would say, in general, we're reasonably happy with what we're seeing within our Video business over the last couple of months and through the COVID period. We're flat quarter-on-quarter with respect to Video with leaving aside the impact from the sports and events. And so yes, I think nothing in the Video business that would cause us to have concern as it relates to COVID-19.

Michael Bishop: Thanks. So much helpful.

Operator: Thank you. The next question comes from the line of Sarah Simon from Berenberg. Please go ahead.

Sarah Simon (Berenberg): Yeah. Morning. I've got three questions. First one was on the renegotiated Mobility contract. Is there – are we going to see any kind of deferral of the actual cash payment of the revenues? I'm just thinking in terms of you mentioned delay in the receivable securitisation in the cash flow. Are you going to be securitising the – are we going to see more of that, essentially more securitisation of receivables from the IFCs who aren't paying, or are they paying cash in line with the revenues that you're booking? That's the first one. Second one would be, I think, if we go back to when you announced mPOWER, you said it was a mammoth increase on the capacity of the existing O3b fleet, and obviously, you're now expanding it. So can you give us an idea of what the overall utilisation rate is of the existing O3b fleet today, just so we can understand kind of what more you're going after? And the final question was, I know you don't disclose information on individual contracts and customers. But the BBC contract that you announced a few weeks ago, is that significant, as in should we be adjusting Video expectations for that or is it sort of in the mix? Thanks.

Sandeep Jalan: So I'll start with the first question. So yeah, clearly for the Mobility payments, we are seeing some impacts on delay of payments from the Mobility customers during quarter two. It's not a dramatic impact, but the impact on securitisation that I was mentioning in my speech was mainly concerning the securitisations, which is not concerning the Mobility customers. This is basically a reversal of the securitisation, a large securitisation, which was done in the first half of last year, which was close to €60 million. And there is a big, let's say, payment out of that, which is almost €38 million. So as a delta, it creates a ramp of close to €100 million. And that explains our working capital variations and also our free cash flow.

Now clearly, the discussion with the Mobility customers are one-to-one. And there are sometimes – I mean, as you know, that these customers are struggling with the overall impact on Mobility, with the airlines, with the cruise not being there. And clearly, with them being in this difficult period, we are protecting our long-term business partnership with them, and case by case, of course.

In some cases, we have to accept delays. But clearly, there is then a subsequent extension of contracts. And these are clearly one-to-one negotiation. And we cannot accommodate a full waiver of revenue or the cash. But case by case, I think we are able to find good solutions which protect our long-term partnership, but also allow our customers to sail through these very, very difficult periods.

So yes, as you have seen on our balance sheet, our core of account receivables have, in fact, come down compared to the end of last year. But some of the overdues with the Mobility customers we have seen to the tune of lows and double-digit build up. And we will continue to monitor the situation very, very closely during rest of the year and make sure that the impacts on our bottom line and cash is fully mitigated.

Steve Collar: And JP, why don't you take the question on mPOWER and O3b?

John-Paul Hemingway: Yeah, absolutely. Thanks, Steve. Good morning, everyone. Yeah, absolutely. So the O3b mPOWER system obviously does provide a significant increase in capacity. Clearly, we're building that to match the demands that we expect to see. As Steve has said, significant demand from government, but also Fixed Data and Mobility going forward. So that's something we're keenly anticipating and building a really nice pipeline to retire that capacity.

Obviously, one of the drivers that Steve spoke about adding to that capacity with the four new satellites is indeed to get extra throughputs, extra capacity, but also the amount of throughput that we can get to any one single site, which will be simply unmatched with any of the systems that we have knowledge of today in NGSO or beyond.

In terms of the existing O3b system, won't go in particular fill rates, but the demand has been excellent for that. One of the things we've looked at is that across various countries or certain demand areas, the utilisation is exceptionally high to the point where we've got very proficient at looking at regrooming capacity and making the very best efficient use of those beams that we have.

In other parts of the world, they're obviously less used, so you tend to look at where you move those beams and make them most effective. One of the advantages of O3b mPOWER though is that you don't have to worry where you land the beams. The classic one has a beam, you land it in a certain area, then you drive the fill rate of where that beam is until such time that you move it. And that's what we've got. Again, very proficient at regrooming to get the very most out of those beams.

O3b mPOWER completely changes that game. It allows us to have capacity wherever you need it. You don't have to fix a beam in one place and then fill that beam. You just need the capacity wherever you have to. So one of the big advantages of O3b mPOWER is the flexibility about where we provide that capability, how much that capacity is and where will we need to move it to. So yes, keenly anticipating the extra capacity and we're building a really good pipeline towards.

Steve Collar: And Sarah, I'll take the question on BBC. So obviously, a significant contract for us. It's a multiyear commitment. It deepens our partnership with a very strategic customer, and it sort of broadens what we do for them beyond sort of [inaudible] the bandwidth into a number of other services. And I kind of talked to not only playout, content processing and distribution and also video-on-demand services.

So very important for us in terms of our strategy, which is deepening and broadening our relationship with our top customers. I wouldn't say it's a contract that should necessarily change your expectation or sort of modelling as far as the Video business is concerned. But very important for us from a sort of strategic standpoint and pointing into the direction of our Video business going forward.

Sarah Simon: Great. Thank you very much.

Operator: Thank you. Our last question for today comes from the line of Sami Kassab from Exane. Please go ahead.

Sami Kassab (Exane BNP Paribas): Yes. Good morning, everyone. Three questions. How do you see Video services revenues trending in H2 now that the sports events are resuming? Now that you've seen the BBC contract was due to the trough there? Secondly, can you comment on the upcoming video distribution renewals? Is H2 a normalised period of renewal, or are you seeing larger contracts up for renewal in H2? And lastly, based on what you can see in the market, can you compare the CapEx per gig per year of mPOWER to your main LEO competitors? Do you think mPOWER CapEx per gig per year will be lower or higher than the ones of OneWeb or Starlink? Thank you, Steve.

Steve Collar: Thanks Sami. So Video service revenue, I would say, there's quite a lot going on in Video services. So on one hand, we're being successful in winning business such as BBC. And I would say we have another couple of sort of interesting projects that we're working that we're optimistic about in that area.

At the same time, we are reducing our exposure to, what I would call more, sort of legacy, certainly lower-margin services that are typically run on other people's bandwidth and other people's facilities. And so those services are not services that we intend to run going forward. So you will see and we will see sort of revenues coming out of video services as a result of us sort of proactively reducing our exposure to those services.

And that's going to continue through the second half of the year and I would say into 2021 as we sort of reduce those services. The good news is that there's also a significant amount of variable costs associated with those services, too. So at the same time, you're seeing revenues reducing, we'll see the cost of those services reducing.

And then I would say the last component is HD+. In HD+, we've seen being pretty resilient through the COVID period, where we've introduced some new features and new capabilities within HD+ and obviously, the deal with TV manufacturers to include HD+ within the operator environment such that if you buy a TV in Germany, you fire it up and you see HD+. We think that, that is going to drive more adoption, but we're cautious about our expectations for that business.

We sort of expect that, that will be relatively flat through the second half of the year. So a few different impacts that we're expecting in Video services. Some positive developments from new business. Some developments where we're removing business and also some relative stability within HD+.

On Video renewals, I would say the second half is relatively modest as far as Video renewals. We don't have significant renewals in our core European markets. We have some renewals in the international part of our business. We're relatively well advanced with those renewals, and so we don't expect any surprises with respect to renewals in our Video distribution business.

And then, yeah, look, we definitely spend a lot of time looking at the competitiveness of O3b and O3b mPOWER versus I would say all of the competition, not just the LEOs. And you mentioned our LEO competitors. We don't have any today. OneWeb has been building for six years, invested 2.5 billion and is no closer to launch than it was at the start as far as I see it.

So I think as of right now and today, we feel very good about not only the platform and the portfolio that we've built on O3b, but then looking ahead to the competitiveness of O3b mPOWER. And obviously, these four initial satellites helped fairly significantly in that regard, right, because we have again a unique constellation that allows us to scale it as we see the demand developing.

And as we scale, we improve our cost efficiency and cost effectiveness and whichever metrics you sort of use to frame. What I will say is we feel very confident in our ability to compete in all the markets that we're targeting. We're – as I mentioned, we're not focused on residential broadband, but in pretty much every other market, fixed data, Mobility and government. We feel very, very good about the capabilities that we're developing, not only from a price competitivity standpoint, but also the additional features that we have on O3b mPOWER that other constellations that are typically sort of lower cost per satellite not able to deliver.

Sami Kassab: Thank you very much, Steve.

Steve Collar: Thanks Sami.

Operator: Thank you. That was our last question for today. So I'll hand the call back to our hosts for any closing remarks. Thank you.

Steve Collar: Perfect. Well, thanks very much, everyone. Really appreciate you joining. Thanks for all your questions. Again, happy with the results from this morning and look forward to engaging you as we go forward into the rest the year.

Richard Whiteing: Thanks Steve. Thanks, everybody. As usual, the IR team and myself are available if you want any kind follow-up questions. If not, thanks and enjoy the summer.

Operator: Thank you for joining today's call. You may now disconnect.

[END OF TRANSCRIPT]