# SES SA Full Year 2019 Results

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# SES SA Full Year 2019 Results Call

**Operator:** Hello, and welcome to the Investor and Analyst Conference Call for SES FY 2019 Financial Results. My name is Rosie, and I'll for your coordinator for today's event. Please note, this conference is being recorded. And for the duration, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad to register your question at any time. If you require assistance, please press star zero and you'll be connected to an operator.

I will now hand you over to Richard Whiteing, Head of Investor Relations at SES to begin today's conference. Thank you.

**Richard Whiteing:** Thanks very much, Rosie. Good morning, everyone, and thanks for joining the full year results investor call. This morning's presentation and other results documents were uploaded to our website this morning, and hope you had a chance to look at them already.

As always, please note the disclaimer in the back. The agenda is outlined on page 2. In a moment, Steve Collar, CEO, will present the main business highlights, then hand over to Ferdinand Kayser and JP Hemingway, the CEOs of SES Video and SES Networks, who will cover the main developments in their respective businesses. Afterwards, Adrien Bull, Head of Financial Operations, will then cover the financial results in a bit more detail. And then the presentation will conclude with closing remarks from Steve, after which, we will be happy to take your questions.

And so on that note, let me hand over to Steve.

**Steve Collar:** Thanks, Richard. Morning, everyone. So, look, to kick this off today feels like an important day for SES. We've got, what I think is, some exciting news to share with you, that I think will shape the future of SES and set out – set our business up to be a global leader in the industry for years and potentially decades to come.

We're going to focus on three main areas over the next hour with you. Firstly, obviously, our financial performance. Secondly, our views on the important C-band developments over the last week or so. And then thirdly, to introduce the next phase in our strategic transformation, Simplify & Amplify.

So starting on page 4. We're satisfied with our financial performance in 2019. It now reflects eight successive quarters of results in line with expectation. Strong focus on execution and control over discretionary spending ensured that we were able for a second successive year to deliver on our EBITDA numbers. It's also important that we've met our leverage targets, consistent with our commitment to investment grade.

Our Networks business delivered strong – another strong year of growth, building on the momentum for its breakout year in 2018. And this now reflects more than 20% growth within Networks across the two years. We're getting closer and closer to the launch of both SES-17 and O3b mPOWER, and we've made real progress in the development of our seamless cloud-scaled, multi-orbit, automated network through our partnerships with Microsoft to extend Azure across our network and ops to build an automated and orchestration layer in ONAP and Kythera on the development of our system brain, our adaptive resource control.

Pleasingly, we've signed our first three customers on O3b mPOWER, one in maritime and two in fixed data. We've meaningfully expanded our strategic relationship with Carnival to all Princess Cruise Lines, and we've also got an important agreement with Orange in Africa.

As I mentioned earlier, the FCC took a significant step on Friday in voting to clear 280 megahertz of C-band spectrum, but in so doing, protecting the 120 million US households and critical broadcast customers and communities that fully use the C-band today. This is a really important milestone in the win-win that SES and other members of the CBA have advocated for and supported for nearly three years. And we really thank Chairman Ajit Pai and the rest of the FCC for their tireless work on this proceeding.

We're yet to see the final order, but we're fully supportive of the plan outlined by the Chairman, and our focus now is in working diligently with our customers to protect and enhance our services through the largest and most complex spectrum repurposing effort ever undertaken. While we've been consistently saying that we've not been trending on proceeds until we have further progressed, the order does provide for up to 9.7 billion in accelerated relocation payments available to the industry, and we will use any proceeds to enhance value through pragmatic delevering, targeted investments focused on our fast-growing Networks business and return to our shareholders.

And then lastly, but no less significantly, we announced this morning the next phase in our strategic transformation that started back in 2017 with the establishment of business units for Video and Networks. It's clear that we have two businesses under one roof and that both businesses have different needs in terms of investment, have different profiles in terms of investors and also different demands for skills and capabilities as far as our customers and our markets are concerned.

We've established a unique and non-replicable value proposition within our Networks business with verticals such as aeronautical, cruise and government offering strong growth opportunities that demand both focus and scale. We intend to consider the separation of our networks business within SES and potentially provide it with access to external capital to accelerate growth and scale. We expect that this will provide us with operational and strategic focus within each business, provide the external market with greater visibility into our fast-growing Networks business and provide us strategic flexibility and optionality in the future.

We're becoming more focused and agile across the company, and this includes at Board level, where the AGM will be asked to approve the streamlining of the board to 12 and including the adoption of new members that will contribute strong executive and strategic insights.

Main, Simplify & Amplify, our overarching programme of transformation includes a recommitment to innovation that we believe will be important to SES in the future, but also an alignment of our resources to simplify operations, focus on our core segments and maximise efficiency across the Group. We expect these plans to generate EBITDA optimisation and improvement ramping to €40 million to €50 million annually from 2021.

So, look, having spent quite some time on the first slide, I'm going to be a little bit more rapid as we go through the next slides before handing over to Ferd and JP, who will talk to the Video and Networks segments, respectively.

Turning to page 5, revenue of €1,984 million was 1.3% lower on reported basis and 3.8% at constant FX. On an underlying basis, Networks grew 4.5%, which largely offset decline of 7.8% in Video. EBITDA of €1,217 million represented a margin of 62.4%, excluding restructuring charges. Net debt to EBITDA of 3.22 times was consistent with our firm commitment to maintaining our investment grade status, which was recently reaffirmed by the rating agencies. And also pleasingly, net profit increased 1.3% to almost €300 million.

Slide 6 and comparing 2019 performance with the financial outlook that we gave the market 12 months ago. Three of the four, Networks revenue, EBITDA and leverage were in line, while Video was slightly below our expectations on the revenue line. As I mentioned, in Q3, we had a number of important contracts that we needed to sign, and unfortunately, one didn't close.

However, we mitigated this impact at the EBITDA line through sensible and improving cost control and delivered EBITDA fully in line with expectations. I mentioned net debt to EBITDA of 3.22 times, consistent with our commitment to investment grade, the benefits of which were underscored by the highly successful Eurobond that we executed at the end of 2019, the lowest coupon that we've ever achieved in the business.

Finally, CapEx of €308 million was more than 30% lower than our guidance of €450 million, and we've been able to essentially defer expected outflows to later years.

On page 7, I've already spoken about C-band, so I'll be brief here. But Friday's FCC vote marked a significant milestone and really is the win-win-win outcome that the CBA has been working hard at for almost three years. It's a transformational opportunity for SES, and it's worth reflecting a little on what it's taken to get here, aligning the impact of the FCC to promote the highest and best use of spectrum, ensuring continued leadership in US and 5G, protecting critical broadcast services and promoting digital equality across the US.

We've yet to see the final order, and we look forward to doing so, but the Chairman's speech on Friday provides a platform for us to shift our focus to working diligently with our customers to protect and enhance our services to the nearly 120 million households that rely on our satellites and our neighbourhoods today.

On page 8, I mention the next phase in our strategic transformation, Simplify & Amplify. It's an important day, and I'll come back and talk more about this at the end. But with that, I'll pass over to Ferd, who will talk you through our Video highlights.

**Ferdinand Kayser:** Thank you, Steve, and good morning, everyone. So starting with the highlights for the SES Video on Slide 10.

Given the various developments in the OTT area and the emergence of new players, resulting in a change of the viewing habits, many of our broadcast customers are under pressure, and some of them are reducing the capacity on their contract, which in certain cases, is translating to lower revenues for our Video business.

In 2019, the Video generated revenues of €1,213 million, with underlying revenues being 7.8% lower compared with 2018. This was below our expectations as we did not bring over the line one important contract, as Steve mentioned. Nevertheless, Video continues to be a highly profitable and cash generative business within the SES Group and creates tremendous value for our customers.

Our technical reach and the related access to TV homes is an extremely strong currency and 2019 was another year during which we succeeded growing this basis. We are still in the process of finalising the analysis of the survey for 2019. But I can share with you already today that the number of TV homes relying on SES satellites for the reception of their TV programmes now stands at more than 365 million.

This represents the important increase from 2018 and demonstrates the long-term attractiveness of SES' industry-leading DTH neighbourhoods. By monetising their content, our customers, whether commercial Free-TV operators, public service operators or Pay-TV platforms, do appreciate the competitive advantage of satellite as a distribution infrastructure, in particular when it is about technical reliability, picture quality, distribution economics and the direct access to the end consumer.

Accordingly, the total number of channels being distributed by SES at the end of last year has increased to 8,324. And out of this total number, the number of HD channels delivered by SES has grown by 6% to nearly 3,000. This is some 1,300 HD channels more than the next operator having the second most important market share, again, demonstrating the strength of our platforms and relationships with the world's leading broadcaster platform operators and content distributors.

We have also continued to extend this leadership when it is about the viewing experience as we now distribute almost 50 commercial Ultra HD channels around the world. As such, we continue to see our customers taking long-term commitments when finding renewals or rates with sometimes less capacity as this is reflected in our fully protected contract backlog of €3.9 billion at the end of 2019.

In 2019, we concluded some important contracts, and we were able to offer new products and solutions to our customers. We concluded some key extensions in Germany, our most important markets, where we extended contracts with ProSiebenSat.1, and more recently, we announced the extension of the RCN distribution in standard definition until end of 2024.

Some important new business contracts also. We have mentioned some of those on slide 11. We signed an agreement with Nex Parabola, a free-to-view platform operator in Indonesia, aggregating various channels on SES-9 and having secured the Champions League and the Europa League rights is developing an attractive neighbourhood on SES-9.

In the US, besides the extension of the switch networks from the Discovery Group, I should mention the agreement with RCN, a major cable operator working for SES for the distribution of seven Ultra HD channels. Important events, as mentioned before, is a market segment where we see some solid growth. And given the capabilities we have developed in this area, we were entrusted by the EBU to handle the global distribution of the 2019 Eurovision Song Contest live broadcast.

I also would like to mention our partnership with Microsoft for the development of a broadcast-grade managed cloud service all this in order to offer broadcasters the flexibility and the scalability, which are essential in today's rapidly changing media environment.

Let us now move to the individual Video segments in more detail, starting with the Video distribution on slide 12. Underlying revenue was 7.9% lower than last year, whereas the key factor was the lower revenue from our US wholesale business.

In Europe, we experienced some of the volume reductions, especially with some long-term renewals secured at the end of 2018, and which I referred to in previous results. Trading conditions in the international markets continue to be challenging, but I'm happy to see the effect of some recent contract signatures, albeit not yet completely offsetting the challenges in specific other markets.

Turning to the services on slide 13, where revenues were 7.2% lower than last year. So while the number of HD+ subscribers remain stable, the shift towards a software-driven approach and away from sales of hardware led to HD+ revenue being somewhat lower. In the past, I have spoken about the success in partnering with manufacturers such as Samsung and Panasonic, who are now integrating HD+ directly in their TV sets. We have been working with other big name TV set manufacturers, and we will have more news on this one during 2020, the objective being to ensure that in the near future, more than 50% to 60% of the new TV sets sold in Germany have the software-based conditional access and operator app of HD+ installed in the TV set.

Regarding MX1, revenues were lower as we continued to shift our portfolio and exit certain low-margin contracts. On the positive side, we continue to see momentum in the sports and events business, and having completed in September, the combination of the video infrastructure and services teams in the regions, we are now in a position to offer optimised solutions to our customers.

Overall, changing consumer viewing behaviour and demand for content anywhere, anytime and on any device is continuing to influence our customer business models. We believe that thanks to our unparalleled reach and the large, profitable and resilient neighbour - video neighbourhoods, we can continue to drive value and modernise satellite by offering, in parallel, IP delivery solutions, maximising operational efficiency and offering best possible customer solutions.

And with that, I hand over to JP.

**JP Hemingway:** Thank you, Ferd, and a warm welcome from my side. So on slide 15, starting with the highlights for SES Networks.

Our priority is to expand our addressable market by strong execution on demand within our traditional market segments and to develop growth by making our cloud-enabled, satellite-based intelligent connectivity solutions part of the mainstream network ecosystem.

In 2019, Networks, again, delivered a strong revenue performance in line with our financial outlook. We grew underlying revenue by 4.5% in 2019. Now if you bridge it across the last two years, underlying networks have grown by 21%, a level which is consistent with our double-digit growth ambition over the medium to long-term. In addition, our backlog has grown by around 9% year-on-year in 2019.

2019 was another standout year for both aero and cruise, where we achieved double-digit revenue growth in each segment, underscoring our market-leading position. We're also building great commercial momentum for the future in aero, notably from the world's most seamless, GEO and MEO in-flight demonstration with speeds up to 265 megabits per second in partnership with Thales. We believe this is disruptive and reset to the industry's expectation of in-flight service and experiences that only we can deliver now and in the future with O3b mPOWER.

Arguably, this disruption has already happened with NEO in cruise lines and the pass to O3b mPOWER keenly anticipated there also. On land, we've continued to help our customers expand their network reach throughout the globe, notably for important government-sponsored rural initiatives and with major telcos and mobile network operators.

I've talked previously about the excitement of customers regarding O3b mPOWER, and I'm delighted to report that we've secured three customer commitments, including those from Carnival and Orange that I will talk to you today. We are a little more than one year ahead of launching the initial satellites for this network and both of our dedicated O3b mPOWER team, in conjunction with the broader business, are tirelessly working on full operational readiness and further customer opportunities.

So now I'd like to move to slide 16 and look at some of our recent customer and partner successes. First, our long-standing partnership with Gogo has continued to go from strength to strength in 2019, with significant increases of business together in support of the growth of airline internet consumption over the Americas. Gogo's investment in their 2Ku antenna technology remains a key differentiator for them, and we have built a tight relationship to leverage that leadership.

I am particularly excited to talk about the elevation of our role as a premier innovation partner to Carnival's global experience and innovation team, and with this, their adoption – their early adoption of O3b mPOWER. What Princess Cruise Lines and SES already created with MedallionNet can be taken to the next level of floating smart cities and cloud-enabled customer experiences with O3b mPOWER's flexibility and performance.

And staying with cruise briefly, the widely publicised launch of the new vessel Scarlet Lady from Virgin Voyages, and it's amazing pretty fly for a Wi-Fi service is again something I'm pleased to announce that SES Networks is enabling.

Staying with O3b mPOWER, I am very pleased with our expanded relationship with Orange and their commitment to adopt this system into their network of the future, further enabling their goals to bridge the digital divide in Africa. This comes on the back of significant upgrades on our existing MEO system, both directly in CAR and through our partners Gilat in DRC, which recently played a key role in restoring the internet to that country following a submarine cable failure.

Lastly, with Microsoft, as we have previously discussed, this continues to be a strong and growing partnership, and we are building a growing pipeline of co-created customer opportunities that leverage Microsoft Azure Express Route over a multi-order satellite for cloud connectivity and intelligent edge applications, such as IoT.

So now I'll briefly run through some of the individual vertical performances, starting with government on slide 17. We are reporting 4.9% underlying revenue growth compared to the prior year with a strong year in both of our government businesses. Revenue from the US government continued to grow supported by MEO projects and a solid base of GEO-enabled network solutions. Some delays were experienced around a few key programmes, but further growth is still expected as we progress through 2020.

Growth across the global government portfolio was driven by the expansion of our managed services for government-funded connectivity projects, humanitarian programmes and through strong execution in our institutional projects.

So moving on to fixed data on slide 18. In 2019, underlying revenue was 4.2% lower year-on-year. For comparison, it's worth remembering that we had a particularly strong Q4 in 2018. And in general, 2019 was a good performance in the context of what remains a challenging market environment. Some of our revenue compression can be gained from wholesale capacity in Europe, the Middle East and Africa and certain services in the Pacific region. In Americas and in Asia, revenues developed positively.

Growth was mainly supported by new and incremental managed services to the tier 1 telcos, mobile network operators and government-funded rural initiatives, rolling out 4G and Wi-Fi backhaul. Some key projects were concluded in 2019 and will indeed deliver a full year revenue in 2020. Energy services also expanded with ongoing adoption of MEO-enabled connectivity to the leading service providers in that industry.

Finally, on slide 19, for mobility, we continued our high-growth path with underlying revenue expansion of 16.6%. Aero once again delivered a very strong growth based on the expansion of solutions supporting our service provider customers and leveraging our SES-15 and SES-14 assets in North and Latin America. This growth was further strengthened by the SES' new Ka-based network, our new business aviation service, LuxStream and with the restoration of services on behalf of Intelsat activated during Q2 2019.

Lastly, our significant growth in Maritime was driven by the expansion of agreements with both existing and new group customers.

And with that, I'll hand over to Adrien.

**Adrien Bull:** Thanks very much, JP, and good morning, everyone. Turning to the financial highlights on page 21 first.

As Steve already mentioned, our 2019 financial performance reflects EBITDA net debt to EBITDA and CapEx metrics, all in line with outlook provided back in February of last year. In terms of 2019 revenues, this totalled €1,983.9 million, which when compared to 2018 is 1.3% lower, where the variance was partly mitigated by a stronger US dollar, with the average FX rate being 1.12 in 2019 as compared to 1.18 in 2018.

As a result, at constant FX, total revenue, including periodic and other was 3.8% lower than the prior year. EBITDA of €1,216.6 million, reflected both the revenue performance and our continued focus on costs, discretionary spending and on delivering operational efficiencies, while still supporting the expansion of our network business. The EBITDA margin was 61.3% or 62.4% when excluding a €20.6 million restructuring expense that we incurred during the year.

During 2019, we recorded an impairment expense of €96.8 million. This charge largely relates to MX1 goodwill and reflects the input of a more prudent financial outlook that has been adopted and that Steve has already mentioned. This charge was partly offset by positive tax benefit arises from investment tax credits, secured on our mPOWER and SES-17 satellite procurement programmes, and to some extent, the impairments as these are tax deductible in some jurisdictions.

Net profit was €296.2 million, which was €3.8 million, or 1.3% higher than the prior year. Free cash flow before financing activities was €826.3 million, with operating cash flow representing 93.2% of EBITDA, and cash flows used in investing activities, down €13 million or 4.1% year-on-year.

If we now turn to page 22, overall net debt reduced only €202.8 million, or 5.8% compared to 2018, and the net debt to EBITDA ratio stood at 3.22 times at year-end, down from 3.29 times this time last year and consistent with the company's commitment to maintaining its investment-grade credit rating.

We also renewed our committed revolving credit facility for a further five years at 40 basis points over Euribor, which is 5 basis points lower than the previous facility and successfully priced a new eight-year €500 million Eurobond at 0.875% per annum. We've also updated our 2020 outlook, and Steve will walk you through this a bit later.

So turning quickly to the remaining pages and starting with page 23. The change in FX, as you can see, accounted for €51.8 million of the total movement on a reported basis. At constant FX, the underlying business was €69.9 million or 3.5% lower, reflecting both the growth in networks and a further reduction in our Video revenue, as highlighted by both JP and Ferd.

Total revenue at a constant FX was €39.8 million - which includes, sorry, €39.8 million of periodic and other compared with €48.1 million of periodic and other in the same period of last year.

Turning to slide 24 on EBITDA. EBITDA was €1,216.6 million at constant FX and reflected the revenue performance previously discussed, together with a 2.3% reduction in operating expenses.

In addition, we booked, as what was mentioned previously, a €20.6 million restructuring cost, which is up on last year by €9.5 million despite our ongoing programme to optimise our overall operating structure and operations across the Group. Accordingly, the EBITDA margin was 61.3%, and, excluding restructuring, was 62.4%.

On the next slide, we'll talk about net profit, which was €296.2 million. Depreciation and amortisation reflects the impact of new satellites entering service, as I previously mentioned, an impairment expense of €96.8 million compared to €156.4 million recorded last year. This chart comprises €64 million in relation to the MX1 goodwill and a further €32 million relating to certain GEO satellites.

Net financing costs grew over the prior year, primarily due to a reduction in the amount of interest that we capitalised on our ongoing satellite procurement programme in 2019. Otherwise, excluding FX gains and losses, the net interest expense would have fallen by 1.9%. The income tax benefit for the year is primarily as a result of investment tax credits received on our satellite procurement programmes and deductions arising from impairments.

Looking at cash flows now on page 26. Net cash generated by operating activities was €1,134 million for the 12 months ended December 31, 2019, consistent with the EBITDA development, and this was slightly below last year, but nonetheless represented a cash conversion ratio of 93.2%, reflecting the strong focus on cash generation.

Similarly, net cash used in investing activities was 4.1% less than the prior year. And as Steve mentioned, we're only 30% below our forecast. As a result, free cash flow before financing activities for 2019 was €826.3 million.

Looking at CapEx on slide 27. For 2019, investing activities or CapEx totalled €308 million, which, as I just mentioned, was 30% below our planned level of expenditure for that year. And again, evidencing our commitment to closely controlling the level of our expenditures. Our latest outlook shows €22 million. This shortfall will result in permanent CapEx saving with the vast majority of the remainder being deferred for a couple of years.

Although, we have a noticeable CapEx spike in 2021 relating to our mPOWER and SES-17 satellite procurement programmes, on average, over the seven-year period presented, the CapEx profile, actually close to around €500 million per annum over this period.

On slide 28, you can see our leverage development. Overall, net debt of €3,273 million was 5.8% or €203 million lower than last year. To be consistent with the methodology applied by our rating agencies, 50% of our hybrid bonds, which are treated as equity under IFRS are added to our net debt total for the purpose of calculating our net debt to EBITDA calculation. The resulting net debt to EBITDA ratio is 3.22 times at year-end compared to 3.29 times at Q4 2018 and 3.5 times at the end of Q2 '19.

As Steve mentioned, the Board is committed to maintaining the investment-grade rating, and our investment-grade status was recently reaffirmed by both Moody's and S&P. This rating helps us to secure our most successful Eurobond pricing in October. This transaction, which was oversubscribed by more than 5 times, resulted in an annual coupon rate of 0.875% and allows us to repay our $650 million Eurobond, which is due to mature at end of March of next year with a coupon of almost 5%.

So with that, I will conclude and hand back to Steve to talk about our 2020 outlook.

**Steve Collar:** Thanks, Adrien. So turning to the outlook on page 29. As I've said earlier, we delivered 2019 EBITDA in line with our targets for the second consecutive year, but revenues were below where we wanted them to be. And as we've discussed in the past, how we exit any given year has an impact on the following year.

We've updated our revenue outlook for 2020 guidance that we first provided in the middle of 2019 to between €1,920 million and €2 billion. This incorporates a more prudent view of Video revenue development in view of our customers rightsizing their capacity commitments and a somewhat lower growth trajectory than we expected exiting 2019 on the Networks side. Nevertheless, this guidance represents double-digit growth in our Networks business.

Translating to EBITDA, an outlook of €1,150 million to €1,210 million excludes the impact of the one-time restructuring associated with our initiatives to simplify and streamline our business, and also excludes any future impact from C-band. We expect to generate EBITDA optimisation, ramping from €40 million to €50 million annually from 2021 as a result of focusing on core strengths and simplification of our business.

And then lastly, with respect to the 2019 dividend, the Board is proposing to pay €0.40 per A share, which will be payable at the end of April. This level underscores our continued and firm commitment to maintaining SES's investment grade credit rating, providing a solid return to shareholders, whilst supporting the short-term investment peak in our fast-growing networks business that occurs in 2021.

So now I'm going to say a few more words about Simplify & Amplify. And turning to page 31, we have spent the last few months really defining our purpose and our ambitions and they're laid out on page 31. And our purpose that we frame as we do the extraordinary in space to deliver amazing experiences everywhere on earth incorporates three important ideas: the extraordinary things that we have to do to deliver the services to our customers; the amazing experience that we - the amazing experiences that we create; and referring to the superpower of satellite, which is really our ability to deliver those services everywhere on earth.

And you see on this slide also articulated our ambition. This is the direction of travel for our company. And everything that you hear about with respect to the strategic transformation points towards these ambitions.

So if we turn to page 32, it's certainly not a quiet time in our industry right now with significant disruption happening across our business, both in Video and Networks, and some of the important drivers of that disruption shown here on the Video side with shifts in media consumption patterns with big media brands driving consolidation and mega constellations, cloud is becoming an increasing factor on the Video side, something that we're also looking to leverage and also access technologies are broadening the number of ways that people consume and enjoy video.

And similarly, on the Networks side, it's no less exciting. We see competition coming from new systems and new entrants. Cloud, again, a big feature on the Network side, which we've taken an industry-leading position in. Strong demand, huge demand across multiple segments, notably mobility, but the need for both solutions to close the business cases of our customers and also telco technologies that are being built into satellite architectures.

That said, as we think about disruption and we reflect at our business, on the Video side, we have the largest and strongest and most robust Video business available. We have the largest technical reach with 365 million TV households connected in some way to the SES network and almost a billion people, therefore, that enjoy Video service delivered by SES. We're a leader in HD and UHD, and we're also availing ourselves all cloud-type technologies, including in playout and distribution of video, both over the satellite and terrestrially.

And on the Network side, we've spoken a lot about our global multi-orbit, multi-frequency network, and we're unique there. We're unique in the ability to manage our customers' networks across our GEO and MEO constellations. We're unique in the development of cloud capabilities with Microsoft, in the development of orchestration and in the development of a system that will allow us to dynamically manage the resources across our satellite architecture.

And if we then speak a little bit about Simplify & Amplify. So this is a really important transformation project that incorporates four main ideas. Firstly, on the left hand side, you see create pure-play market verticals. And we spoke about this upfront with the company, enhancing its intention to explore the creation of two pure-play market verticals in Video and Networks through the potential separation of our Networks business. That will provide us with strategic and operational focus and increased visibility to the market, which we feel is important. And we will also consider a separate capital structure and indeed, external – or access to external capital for our Networks business in an environment, where I personally believe the scale will be very, very important going forward.

We've also incorporated, in this, our full focus on C-band and our initiative to establish a dedicated team that will continue to pursue the C-band project and deliver on the very, very important milestones associated with the FCC order. The second idea is around focusing on core strengths. It's not revolutionary. But certainly, it's very important that we double down on what we're great at. And then we stop doing some of the things that others can do as well as we can. And that's an important part of how we think about 2020 and what we're going to deliver through our Simplify & Amplify programme.

That also reflects into simplifying our operations. Part of this is making us great to do business with, maximise efficiency, delayer our organisation. We will review the SES global footprint. We are present in more than 30 countries right now, and we will investigate and look at that under the Simplify & Amplify programme. And ultimately, those two combined will deliver longer-term EBITDA improvements ramping to €40 million to €50 million annually from 2021.

And then last but not least, an important part of this programme is around innovation. Cloud is an increased – plays an increasing role in our industry, both on the Video side and on the Network side, and we will develop and put in place a cloud practice that will serve our entire business. We also intend to establish an innovation hub, invest in architectures and enabling technologies, develop a dedicated cross-functional team to look the delivery of linear video into mobile and Wi-Fi networks and also look at increasing our exposure to new technologies through corporate venturing.

It's a really, really important programme for us. It's been a long time coming, and articulating in this way, I think, will set SES up for leadership in the future.

So last but not least, and thanks for your patience. This has been – we've had a lot of stuff to cover with you this morning. But on page 34, we try and bring it all together, a good, solid performance in 2019, networks delivering on its growth trajectory, sharpening focus on the Video side of our business, launching the next phase of our strategic transformation and a very, very important decision and vote from the FCC on Friday that is delivering on the win-win that we set out to achieve almost three years ago.

So with that, we'll hand back for questions.

**Richard Whiteing:** Thanks Steve. Rosie, I think we can have the questions.

## Questions and Answers

**Operator:** Thank you. So as a reminder, if you would like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star two. You will be advised when to go ahead. So our first question comes from the line of Paul Sidney from Credit Suisse. Please go ahead.

**Paul Sidney (Credit Suisse):** Yeah. Thank you. Good morning, everyone. Just a couple of questions for me, please. Firstly, on the full year '20 guidance, particularly for revenues. Just looking at Video and Networks. I mean, for Video, is it just the lack of the contract closure that you're adjusting for here? I mean, the size of downgrade suggests potentially you're a bit more negative on the outlook for the underlying Video business excluding what you potentially expected on the contract closure? And then just in Networks, is there any particular area of Networks that you're less optimistic about in '20? And then just secondly, your guidance implies effectively no growth – no revenue growth full year '20. You're spending €2.5 billion over the next four years in terms of CapEx. So are you needing to spend that money to stand still, or are you confident that those investments are eventually going to see you return to growth, perhaps in '21 or even beyond '21? Thank you.

**Steve Collar:** Thanks Paul. Yeah. So I'll take a shot and, obviously, Ferd and JB can fill in wherever I missed. Look, on the Video side, obviously, the contract at the back-end of last year has an impact on 2020. But I would say that this is a more general view looking at our customer's rightsizing their commitments in important markets. We have some headwinds in the US that we reflect through both our wholesale business and, indeed, in our C-band neighbourhoods.

And so I would say it's certainly not just specifically tied to that one contract. In fact, that was really to do with 2019 revenue. It's a broader picture of looking at our customers as they right-size their platforms in view of increased competition that they're seeing in their markets.

On the Networks side, look, I think as we said, we had a somewhat lower trajectory out of '19 than we'd hoped. That said, I think we had a strong December in terms of contracts signed, and the 2020 guidance reflects double-digit growth in Network. So 20% growth over the last two years, double-digit Networks expected in 2020. Certainly, we don't see any slowdown there. And that's a theme that's been reasonably consistent, I would say, in terms of what we've spoken to you about over the last, sort of, several quarters.

And then in terms of looking forward to growth in the business. Obviously, as we've said, we've got two businesses under the same roof, which look and feel pretty different. One, we have great visibility of future cash flows, very strong profitability but no growth and limited need for investment, whereas on the Network side, we've got this huge growth opportunity. We're delivering on that growth opportunity. We've got two very, very exciting investments coming to the market in 2021. We've specifically structured those programmes such that payments associated with them are very, very close to the launch, which is ultimately a good thing to do, but it does create this CapEx sort of investment spike in 2021.

But we're really excited about the growth that we're seeing in the Networks business and that we're able to deliver. And as I mentioned, scale in this part of our business is very important.

**Paul Sidney:** Okay. Maybe just a quick follow-up, Steve. So does that imply that you expect to return to growth at some point? I mean, I know it's, obviously, talking a long way off, but just looking to the big picture?

**Steve Collar:** Yeah. No, 100%. And we're obviously – we're not guiding beyond 2020.

**Paul Sidney:** Sure.

**Steve Collar:** But 100%, that's the whole basis for our investment. We still have a way to go. As you can see in Networks, we're not bringing new capacity to the market in 2020, and yet we're still forecasting double-digit growth from our Networks business. So a lot of confidence there, and we see that rolling out through the rest of the plan.

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

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

**Giles Thorne (Jefferies):** Thank you. I have three, please. Simplify & Amplify and the creation of the pure-play market verticals. The release today makes reference to, and I quote, "Facilitating a sharp focus on the cash generating and value sustaining priorities within the Video business." I paraphrased a little bit at the end there. My question is what could Simplify & Amplify achieve in that regard that can't be done now or couldn't be done before? Hopefully, that makes sense. Secondly, coming to the objectives for giving Networks access to outside capital, inevitably, there's going to be some kind of underlying objectives that you've not written explicitly on the page today. I could think of a few of them myself, but rather than put words in your mouth, what exactly is it that you're trying to achieve by giving Networks access to outside capital? And then third question is really linked to the second question. Is there any implicit statement on pursuing outside capital for networks? Is there any kind of implicit statement that the Video business, which for so long has been a good source of capital for funding growth in Networks, is that relationship or that ability or that capital generation coming through an end? Thank you.

**Steve Collar:** Thanks Giles. So I wouldn't say there's anything – you asked sort of what will Simplify & Amplify achieve that couldn't be achieved before. Look, I think under the programme, we talked about focus and simplification, and that actually applies across our business, certainly not just the Video. But we've also talked – we've also spoken about there, stopping doing things that are not profitable that other people can do as well as we can. And that definitely does apply to our Video business. And that's an important part of the focus of Simplify & Amplify. It's also an important way that we deliver significant EBITDA improvements across the plan.

In terms of what exactly we're trying to achieve with respect to the potential separation of Networks, so the first thing is to say, it is potential at this point and we – what we're announcing here is that we're going to go and sort of really drive into this now and explore the separation of the Networks business. And in terms of – if there is an explicit statement about when – how we capitalise that business? I would say, no. But we think in the separation of our Networks business, what we're going to be able to do is provide ourselves with significant strategic and operational flexibility going forward. And we think that that's going to be important in the context of an industry that's continuing to evolve.

**Giles Thorne:** Thanks, Steve. Very clear. Just to follow up on that latter point. Is an IPO of the Networks business one of the options on the long list of potential things?

**Steve Collar:** Well, look, I mean, again, what we said is we're going to go explore this. We've said we're going to go explore the Networks business, having access to external capital that will clearly be one of the options. But I wouldn't want to get too far ahead of ourselves. What we've said here is, we're going to look at this, and we're going to study it, and we'll be able to come back and tell you more as we go through.

**Giles Thorne:** Thank you very much.

**Operator:** The next question comes from the line of Laurie Davison from Deutsche Bank. Please go ahead.

**Laurie Davison (Deutsche Bank):** Morning everyone. It's Laurie here from Deutsche. First question, does create – does creating separate legal entities for Networks and Video make it easier to merge the Video business with Eutelsat? Second question, you've added returns to shareholders in your comment about use of proceeds from C-band. Should we read into that, that you are feeling differently about the balance of investment to return to shareholders on C-band proceeds as a result of the revenue downgrade you've just put through? And then final question on normalised CapEx. You spent, on the average, over the four-year period as being €500 million. Is that a good guide to normalised CapEx, because you've now added in a future year in 2023 at €250 million. So I'd just be interested in your views now what we should be using as normalised CapEx? Thank you.

**Steve Collar:** Great. Thanks, Laurie. So first question, separate legal entity. Look, what it gives us, we think, is strategic flexibility, and that means both on the Video side of our business and on the Network side of our business. And I think that is going to be important for us. So clearly, we're sort of preparing ourselves for the future. We're creating the future of SES. And we think flexibility and optionality in the future, particularly given the disruption in the industry is important.

Return to shareholders. Look, nothing has really changed here. We've been pretty consistent in saying we're not going to spend money that we don't have. Obviously, we feel like the events of Friday, really are significant in a project that's been running for three years that we've been talking about for three years, but now has been adopted by the FCC. And that is obviously a substantial step forward. That gives us much more visibility. The €9.7 billion in accelerated – opportunity for accelerated payments is now in the document and adopted by the FCC.

And so clearly, that opportunity is now a little bit more crystallised. We haven't seen the full over yet. And so before we get too far ahead of ourselves, we'll obviously want to see that.

And in terms of priorities, the priorities that we have are the same ones that we've talked about previously. So some prudent delevering, looking at investments in our Networks business. And as we think even in the context of a separate Networks business within SES, that obviously reflects an opportunity for us to prudently invest in that business. And then we'll also consider return to shareholders. So nothing really changed there, Laurie, with respect to the position that we've taken.

And then on the CapEx, I think the short answer is yes. Yes, that's a reason. Sorry, just – that's a reasonable proxy for CapEx going forward.

**Laurie Davison:** Okay. And just a follow-up on flexibility and optionality. Does that include mergers with other parties on the Video business?

**Steve Collar:** So, look, I wouldn't say it's a focus. I wouldn't say it's something that is in our plan in any way, shape or form. But I do think that consolidation in our industry is not going to be – it is going to be helpful. It's been something that's been speculated about for a while. But really, this is a about configuring our business for the future and giving us flexibility and optionality in all areas, I would say.

**Laurie Davison:** Okay. Thank you.

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

**Nick Dempsey (Barclays):** Hi. Good morning guys. I've got three. So first one, in your comments on the strategy, you referred to, in the focus on core strength part, exiting and reducing exposure to some market segments. So can I assume that, that process will represent a drag on organic growth for the next few years as you gradually get yourself out of some corners of your business and maybe help us understand, which corners are in focus there? Second question, when we're thinking about 2021 EBITDA, I know you're not guiding for that, should we have €40 million of 2020 restructuring charges dropping out, then the first part of the restructuring-driven savings washing in. So therefore – I know you won't be precise, but a notably higher EBITDA margin in 2021 than 2020? And the third question on C-band. Can you just give us your latest thinking on the tax rate on the accelerated payments there? And yeah, can you confirm that you would definitely return some of that cash to shareholders in the event that the numbers in the draft order turn out to be the final ones?

**Steve Collar:** Thanks Nick. So drag on organic growth. I mean, look, what I would say is, yes, we will be – we are not going to be all things to all people in the future, and we are going to selectively exit markets, which are either unprofitable or where we would better serve those markets through partnership, which is not exiting, it's just changing the way in which we serve those markets.

We've incorporated some of those ideas into the 2020 guidance and outlook. And so I wouldn't say it necessarily represents a big drag on organic growth. And certainly, we're not going to exit anything that drives EBITDA and profitability. And so we're going to be sensible in the way that we do that. But I would say disruption has come to the entire industry, right, and the entire value chain. That includes both our infrastructure, but also our services business.

And so we need to make sure that we are embracing that disruption, and we're using the right sort of technologies and solutions to serve our customers in the future. And that's also an important part of what we say when we say focus on core strengths, but also simplify our operations.

In as far as 2021, you're right, we're not going to be giving any more guidance, but I would say what you sort of articulated upfront was about right. So in 2021, we don't expect meaningful restructuring charges. We expect to be pretty much done by the end of 2020. And the benefits of that – of the programme will expand as we go into 2020 and into – sorry, into '21 and '22 and beyond that we've talked about €40 million to €50 million in sort of EBITDA improvements across that plan.

And then lastly on C-band, for as far as tax rates. I think we previously talked about between 20% and 25%. And that's – nothing's changed there meaningfully. And I've outlined our priorities as far as any potential C-band proceeds. So we'll be leaving that there.

**Nick Dempsey:** Thank you.

**Steve Collar:** Thanks Nick.

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

**Alexander Peterc (Société Générale):** Yes. Good morning. And thanks for question. So first of all, on the dividend cut. Can you help us understand if this is just temporary for this year and next as you digest your CapEx spike and then we're going to go back to previous levels, or is this the new rebased level from which you would implement a progressive dividend policy, which one of the two is it? And then secondly, when you talk about your CapEx being that €250 million longer term, is that an average that includes the kind of spike that we're going to have in 2021? And how often in the future we're going to have over €1 billion annual CapEx kind of spiking here and there? Thanks.

**Steve Collar:** Great. So on the first, look, the dividend is a decision for 2020 for 2019 obviously results. And really, it kind of reflects what I said, which is a solid return to shareholders, solid commitment to investment grade, in view of what is a pretty unusual investment cycle and a pretty unusual investment spike in 2021. We're not providing sort of guidance on what future dividends may be. But obviously, we, as a company, are committed to dividends and have been consistently for the past. But we're not going to sort of talk to what future dividend might be.

In terms of the CapEx spike, okay, it's worth sort of highlighting that O3b mPOWER and then O3b mPOWER combined with SES-17, really represents a state of the art constellation of satellites that other providers are happy to fund meaningfully externally with significant equity, whether that be – if you take on any of the LEO constellations. And we're financing this within SES and paying a dividend at the same time, and that in and of itself is pretty significant.

So you're right in what you say that this investment in O3b mPOWER and SES-17 is pretty atypical. We don't invest in new constellations every year. And so without question, our average CapEx reduces, even with that investment, if you kind of spread it across the five-year period, our average is €500 million. And my guess is that when we start to get beyond the impact of that CapEx spike, will that be back to a sort of a lower normalised level. We talked about €500 million.

My guess is, it could be lower. But it is worth making the point that this – we're launching a new state of the art constellation that's going to take our capability to a completely different level and we're doing that effectively, externally, while still support – internally, while still supporting a solid dividend to shareholders.

**Alexander Peterc:** Okay. Thanks.

**Operator:** The next question comes from the line of Sami Kassab from Exane. Please go ahead.

**Sami Kassab (Exane BNP Paribas):** Yes. Thank you very much. two questions. First of all, on SES Video. You are arguing that your guidance includes the effect of market exit. Can you quantify how much of the €100 million shortfall or revenue change refers to market exit? And if not, more generally, can you perhaps provide more guidance at the granular level with how we see distribution versus services trending in 2020? Is European Video distribution faring better than US for instance, any more colour on that, please? And secondly, on the government [inaudible].

**Operator:** Apologies, Steve. The line has just disconnected. Would you like to go onto the next question?

**Steve Collar:** Yeah. Let's go to the next question. We can come back to Sami, if he rejoins.

**Operator:** Of course. So the next question is from the line of Sarah Simon from Berenberg. Please go ahead.

**Sarah Simon (Berenberg):** Yes. Hi. I've got two questions. First of all, probably not a normal one, but quite current. With your cruise contracts, do you have – is it entirely variable? So if the cruise industry collapses or has a very significant weakness because of coronavirus, how does that infect – so infect or effect your revenue generation? And then the second one was just can you clarify a bit on the savings from Simplify & Amplify, you're talking about €40 million to €50 million. Is that the number you're expecting in 2021 as a benefit, or that's the number you'll be ramping towards with the benefits starting in 2021? Thanks.

**Steve Collar:** Thanks Sarah. So, look, on coronavirus in general, obviously, it's a concerning situation for all, including the market. And so far, we don't see any specific impacts on our business. Our mobility customers are obviously the ones who are most likely to be impacted, and we're working with them pretty closely.

Our cruise contracts are not variable in principle, so we don't expect to see meaningful impact. But obviously, we're working with our customers. We're also – we have critical contingency plans in place as a business ourselves and we're providing guidance to our employees, which is obviously consistent with the rest of the market and the rest of the industry.

With respect to the €40 million to €50 million. So you're right. So essentially, what we expect to see in 2021 is €40 million. And we're then ramping sort of towards €50 million in 2022 and sort of long-term. So that's just sort of the way that the sort of EBITDA optimisation works through our plan.

**Sarah Simon:** Okay, very clear. Thanks.

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

**Michael Bishop (Goldman Sachs):** Yes. Thanks. Good morning. Just a couple of questions, please. Firstly, you've lowered the EBITDA margin guidance quite considerably again. So could you just give us an insight as to what's driving that further downgrade towards 60% or so? Is that just the usual mix impact of guiding lower on Video and with Networks growing faster relative? And then a second question around the - well, two questions around the potential separation of Networks. Firstly, just internally, could you give us a guide on what margin Networks did in 2019, so EBITDA margin? And then thirdly, it sounds like if I piece out together all of the answers so far, you're essentially looking at the Network separation to potentially drive strategic M&A or to improve the balance sheet, because I'm sort of struggling to see why it would lead to a better capital structure, given you raised a €500 million bond at 85 basis points. That's much cheaper than equity funding. Thanks very much.

**Steve Collar:** Sure. So Michael, I'll give it a go. And obviously, if I'm not answering the question, you let me know.

So in terms of EBITDA margin, I think we talked about kind of low 60s as being the right place for our business, and that kind of incorporates obviously higher profitability and higher EBITDA margin within the Video side and a little bit lower on the Networks side. We haven't provided specific guidance, I think, around what Video and Networks are respectively. But that – so I think we're at sort of mid sort of 60.5%, in that kind of range.

And we think that that's the right range. And it reflects the fact that our Networks business is an end-to-end managed solutions business. And so it's pretty capitally intensive, but it's also pretty OpEx intensive as well. That said, that's part of what our EBIDTA optimisation plan is about. It's sort of taking some cost out of the business. It's selectively deciding where we should sort of stop some activity, looking at our global footprint. So there's a lot of focus, I would say, on business that is genuinely EBITDA generative and that's a big part of that plan.

On strategic M&A, I wouldn't say so. So that's not really – if that's the impression you get from the answers, then that's happened to kind of correct that. I think what we're saying is we see it's going to be important for us to think about our Video business and our Networks business somewhat separately. We think it's going to be important to provide even more visibility into our Networks business.

I mean, you were asking questions there about the Networks business. Today, it's a business unit. Tomorrow, it could be a separate legal structure, and we would be able to provide a lot more visibility obviously to the market. It gives us flexibility as to how we fund that business going forward.

And, look, we feel like we've got a really unique value proposition, which is very scalable and non-replicable. And we want to give ourselves the opportunity and put ourselves in a position where we can continue to drive growth from our networks business and even potentially accelerate growth given those fundamentals.

**Michael Bishop:** Thanks. Perhaps maybe if I could just follow-up. So you're saying today that basically there's no de-synergies from separating the businesses, because if we go back a few years, clearly there was a big drive to remove the Networks and Video disclosure. Obviously, I appreciate this was a year or two before your time. And then as we came through the last couple of years, you've really pushed the MEO and GEO synergies. Now I appreciate that a lot of those GEO satellites are data only, but would there not be some de-synergies across the company from separating?

**Steve Collar:** Yes. Well, look, one of reasons we're saying we're going to look at this is we're going to look at that specifically and minimise any de-synergies associated with this. I'm pretty confident actually. We've done a lot of work over the last sort of 12, 18 months, to bring together the important areas of our business to essentially put us in a position that we can contemplate this and that we can look at this.

And we will, obviously – as we've said, Networks will – in any of the future outcomes, will remain a fundamental strategic part of SES and will continue to be served by SES with respect to the sort of the common functions within the business. So that will help to minimise any potential de-synergies. Obviously, we expect any de-synergies to be completely offset by the value that we think that we can create in thinking about Networks as a separate business.

**Michael Bishop:** Great. Thanks very much.

**Operator:** We have now Sami Kassab from Exane back on the line. So Sami, please continue with your question.

**Sami Kassab:** Yes, I'm sorry, gentlemen. My phone run out of batteries. I'm not sure you've already answered the questions. If so, please do interrupt me. But if you haven't yet answered the question. My two questions were, first, on government, whether you could quantify the impact of the delays that you referred to? How many points of growth were lost to those delays? And more generally, on government, whether Steve, you can elaborate on the changes that we've seen at the DoD with the creation of the US Space Force and how changes in concept cum procurement may impact the business short and long-term? And the second question was on SES Video. And it was around more granularity into 2020 trends, distribution versus services. You said your exiting services segment within the Services business. What's the impact of that market exits? Is European distribution faring better than US distribution? Any more granular colour would be helpful. Thank you.

**Steve Collar:** Great. JP?

**JP Hemingway:** Yeah, sure. So Sami, I'll take your government questions. I think there was in two parts there. So the change to the US Space Force in terms of running procurement. No, we have not seen that to be a challenge. It's been very clearly communicated. Our team have certainly got across those changes and know exactly who to work with. So I think we're very well embedded in those changes. So we have not seen any significant change from that perspective.

As indicated, we did undergo some programme delays around certain projects. Those are, for a variety of reasons, including the government, will change its priorities based on world affairs, etc., that come on to this. I can't share any more specific details than that. But yeah, we exited just shy of 5% growth in the government. Will like to be slightly higher, but I won't quantify specific points. But certainly, it would have been nearer to the higher single digits rather than these mid-single digits, but that's what I'd say on government.

**Ferdinand Kayser:** Probably on the Video side, the assumption is that about one-third of the implied reduction for 2020 is coming from lower margin service activities, which we will not extend or renew. And the remainder is basically on the infrastructure renewals being reduced, but this is coming more from the volumes than from the pricing. So, as Steve mentioned before, some operators, rightsizing the capacity being used.

**Sami Kassab:** And is the volume reduction spread across geographies? Is it better in Europe and worse in the US? Can you do a – provide any comment on that, Ferd, please?

**Ferdinand Kayser:** It's basically between US and one of the other European markets.

**Sami Kassab:** Thank you.

**Operator:** We have no further questions in the queue. So I'll now hand the call back to Richard for any concluding remarks.

**Steve Collar:** Yeah. Look, I would just say thank you very much, first of all, for your sort of patience. Obviously, we went through a lot of material this morning. And so thank you for that. And Richard, back to you.

**Richard Whiteing:** Thanks Steve. Thanks, everyone, for joining. As ever, the IR team are available for any follow-ups should you have any. So we look forward to speaking with you in the future. Thanks very much, and have a great day.

**Operator:** Thank you for joining today's conference. You may now disconnect your lines.

[END OF TRANSCRIPT]