INMARSAT > Q1 2018 Results

# Q1 2018 results

2 May 2018

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# Performance review

Rupert Pearce
Chief Executive Officer

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# Operational Review – Q1 2018

## A solid start to the year

- **Group** revenue up 4.8% to $345m, with EBITDA down 4.5% to $175m (both exc. Ligado)
  - GX revenue increased to $50m, (Q1 2017: $32m)
- **Maritime**
  - Continued y-o-y revenue growth, supported by further market traction with Fleet Xpress
- **Government**
  - Lower contracted revenue from Boeing and end of exceptional operational revenue outside the US, as expected in both cases
- **Aviation**
  - Continued ramp-up of installation revenue in In-Flight Connectivity, with first commercial services going live in Q2
  - Further double digit growth in our Core businesses
- **Enterprise**
  - Strong performance mainly driven by double digit growth in satellite phone airtime and handset revenues

# Maritime – progress in Q1 2018

## Revenue growth supported by continued improvement in product revenue mix

### L-band

#### Fleet One

- 3,200+ vessels installed
- Progress made in developing new business pipeline, business models and new distribution channels

#### Fleet BroadBand

- On-going customer migration to Fleet Xpress – ARPU-accretive for the Maritime business
- Pricing strategies to be implemented to nullify low end competitive threat
- ARPU remained stable

### Ka-band

#### Fleet Xpress

- Continued strong pace of installations in VSAT, with around 3,300 FX vessels installed to date
- Consistently high proportion of new customer installations
- Growing share of installations by distribution partners, driving vessel volume
- Further progress in XpressLink migration programme

**Fleet One** medium to long term "upsell" → **FleetBroadband** migration to Fleet Xpress

# Government – progress in Q1 2018

## Strong position maintained in challenging markets

### US

Full quarter contribution from CSSC contract

Lower contribution from Boeing partnership, as anticipated, but underlying revenues steadily increasing

Pipeline continues to strengthen

### International

End of exceptional operational revenue, as previously outlined

GX starting to gain traction

Continuing to develop new markets

# Aviation – progress in Q1 2018

## Further positive momentum across the business

### Core Businesses: Business & General Aviation, Safety & Operational Services

- Continued double digit revenue growth
- c.4,000 aircraft now using SwiftBroadband, with continued improvement in ARPA
- 220+ JetConneX terminals now installed
- Higher customer usage of Classic Aero
- Commercial launch of SwiftBroadband-Safety in April 2018
- Major distribution agreement signed in China for safety products and services

### In-Flight Connectivity services for Commercial Aviation

- L-band-based IFC service delivered 50% revenue growth
- 1,300+ aircraft under signed contract, including Citilink and Kuwait Airways, announced this year
- 245 aircraft now installed with GX terminals
- First commercial services going live in Q2
- Preparations on track for service roll-out of the EAN
- Further contract wins and installation progress expected

# Enterprise – progress in Q1 2018

Strong growth across key product lines

| Renewed efforts to drive key legacy products | Continued focus on "Internet-of-Things" opportunities in the long term |
| --- | --- |
| > Strong growth from Satellite Phone airtime and handsets and BGAN<br>> Fixed to mobile remains impacted by continued migration to VOIP | > Positive growth trajectory continues in M2M<br>> Incubating focused initiatives to capture long term growth opportunities |

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# Q1 2018 performance - summary

## Solid early progress against our key priorities for 2018

### Maritime

Drive FleetBroadband ARPU and value, progress Fleet Xpress migration from Xpress Link, scale Fleet Xpress and Fleet One

### Government

Internationalise, diversify and innovate to deliver further value to key government customers. Deliver WGS and MUOS interoperability

### Asset base

Maintain technology leadership and ensure continued high service and connectivity levels for L-band and GX customers

### Aviation

Continue to grow BGA & SOS services. Drive installation rates, support customers into commercial service and win further customers in IFC. Commercial launch of EAN

### Enterprise

Focus on M2M, innovation and sectorisation. Grow new market segments, address challenging markets and escalate planning for medium to long term opportunities

### Organisational capability

Continue investment in global functional transformation programmes to drive efficiency and effectiveness


# Financial Review

Tony Bates
Chief Financial Officer

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# Group Income statement – Q1 2018

| $m | Q1 2018 | Q1 2017* | Change |
|---|---|---|---|
| **Revenue** | **345.4** | **329.5** | **15.9** |
| Direct costs | (53.0) | (36.1) | (16.9) |
| **Gross margin** | **292.4** | **293.4** | **(1.0)** |
| Indirect costs | (117.5) | (110.3) | (7.2) |
| **EBITDA** | **174.9** | **183.1** | **(8.2)** |
| Depreciation & Amortisation | (116.0) | (97.7) | (18.3) |
| **Operating profit** | **59.4** | **85.8** | **(26.4)** |
| Net financing costs** | (27.6) | (26.2) | (1.4) |
| **Adjusted profit before tax** | **31.8** | **59.6** | **(27.8)** |
| Tax | (2.4) | (6.9) | 4.5 |
| Change in value of derivative | 24.2 | (58.3) | 82.5 |
| **Profit after tax** | **53.6** | **(5.6)** | **59.2** |

* 2017 figures have been restated throughout this presentation to reflect the adoption of IFRS15 and the re-classification of short term deposits.

** Before change in value of derivative in Q1 2018 and Q1 2017.

# Business Unit Summary – Q1 2018

| Maritime ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 142 | | 140 | |
| Direct Costs | 22 | | 19 | |
| Gross Margin | 120 | 85% | 121 | 86% |
| Indirect Costs | 10 | | 9 | |
| EBITDA | 110 | 77% | 112 | 80% |

| Government ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 78 | | 86 | |
| Direct Costs | 14 | | 10 | |
| Gross Margin | 64 | 82% | 76 | 88% |
| Indirect Costs | 11 | | 12 | |
| EBITDA | 53 | 68% | 64 | 74% |

| Aviation ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 56 | | 40 | |
| Direct Costs | 8 | | 1 | |
| Gross Margin | 48 | 86% | 39 | 98% |
| Indirect Costs | 14 | | 14 | |
| EBITDA | 34 | 61% | 25 | 63% |

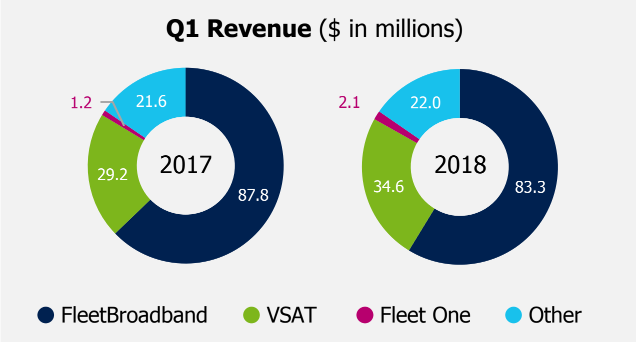
| Enterprise ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 33 | | 29 | |
| Direct Costs | 6 | | 2 | |
| Gross Margin | 27 | 82% | 27 | 93% |
| Indirect Costs | 5 | | 5 | |
| EBITDA | 22 | 67% | 22 | 76% |

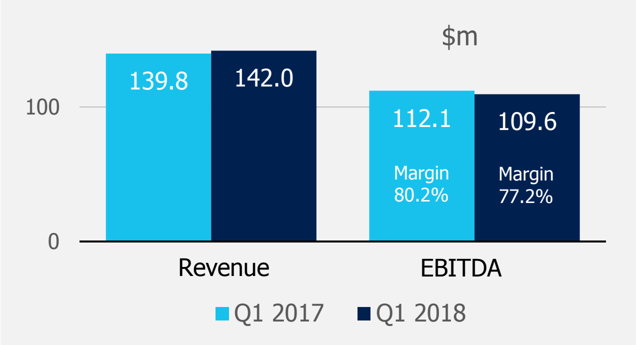
| Central Services ($m) | 2018 | 2017 |
|---|---|---|
| Revenue | 36 | 34 |
| Direct Costs | 3 | 4 |
| Gross Margin | 33 | 30 |
| Indirect Costs | 77 | 70 |
| EBITDA | (44) | (40) |

| Group ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 345 | | 329 | |
| Direct Costs | 53 | | 36 | |
| Gross Margin | 292 | 85% | 293 | 89% |
| Indirect Costs | 117 | | 110 | |
| EBITDA | 175 | 51% | 183 | 56% |

# Maritime Results – Q1 2018

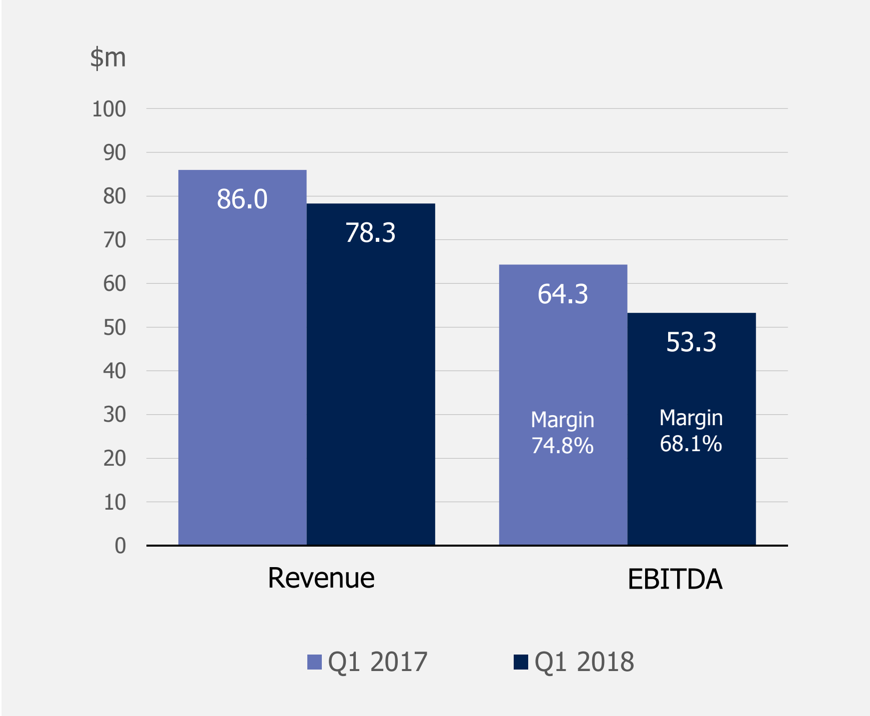
- VSAT revenue up $5.4m, 18.5%, to $34.6m:
  - 4,726 ships on VSAT, including 3,259 on FX, with continued strong FX installation rate
  - ARPU declined to $2,549 per month
- FleetBroadband revenue down $4.5m or 5.1%, to $83.3m:
  - Vessel losses due to migrations to FX, competition and scrappage
  - ARPU stable at $780 per month
- Fleet One revenue up $0.9m to $2.1m
  - c.3,200 vessels installed (Q1 2017: c.1,500)
  - ARPU expected to normalise in coming quarters
- Other maritime products up by $0.4m or 1.9%, to $22.0m:
  - FX terminal sales up $3.8m, to help activate new airtime revenues
- EBITDA down $2.5m, 2.2%
  - Reflecting bad debt provision, which is expected to reverse
- Success-based cash capex little changed at $11.4m



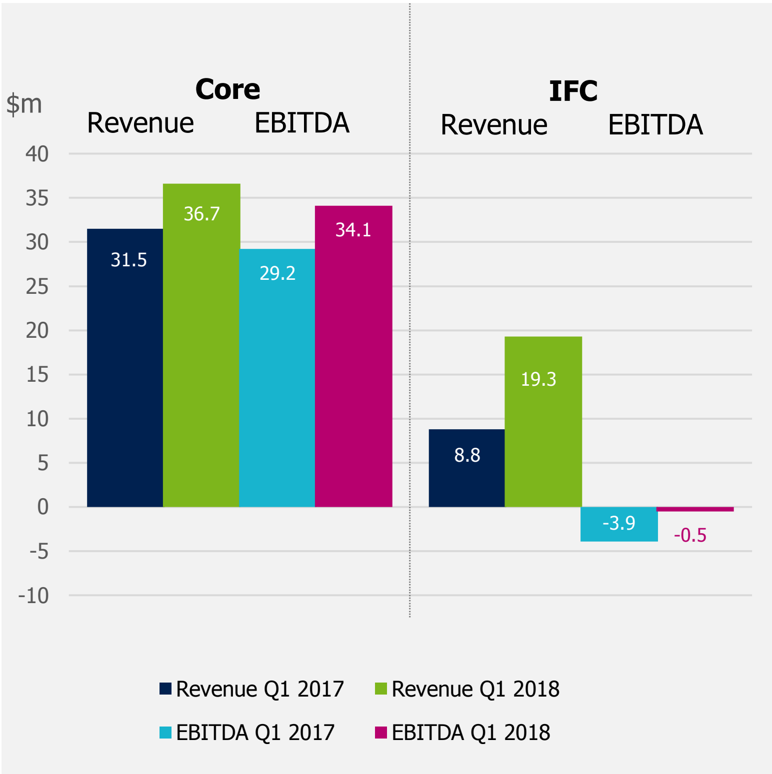
# Government Results – Q1 2018

- US revenue down 3.6%:
  - Lower contracted Boeing ToP revenues
  - Partially offset by full quarter of CSSC revenue
- Revenue down 17.6% outside the US:
  - End of exceptional operational revenue last year
- EBITDA down $11.0m, 17.1%:
  - Lower revenue and changing revenue mix
- Near term growth to remain modest, following recent years of strong growth:
  - Budget and operational tempo headwinds persisting
  - Boeing ToP reducing to normalised levels
  - Exceptional revenues of 2017 not being repeated
  - Contract wins continue to be lumpy and irregular



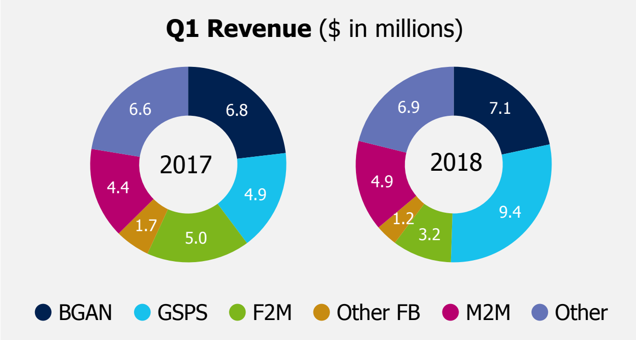
# Aviation Results Q1 2018

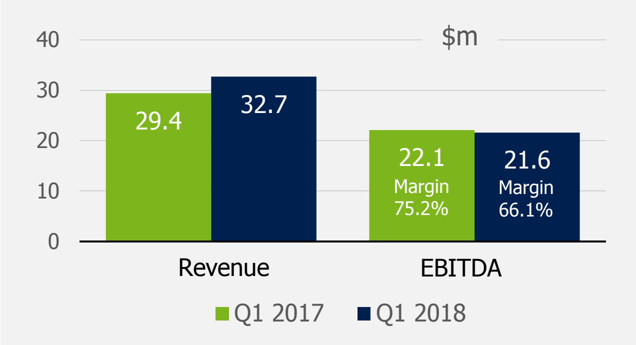
- Aviation revenue up $15.7m, (39.0%) to $56.0m
- Core revenues up $5.2m, (16.5%) to $36.7m
  - 223 JetConneX terminals installed, generating $3.7m in revenue
  - SwiftBroadband up $1.9m, (10.3%) to $20.4m
  - Classic Aero up $1.1m (11.5%) to $10.7m
  - Direct and indirect costs little changed
- In-Flight Connectivity revenues up $10.5m, 119.3%, to $19.3m:
  - L-band (airtime) IFC revenues up $3.9m, 50.0%, to $11.7m
  - GX installation IFC revenues up $6.7m to $7.7m, with 245 aircraft installed with GX
  - Direct costs, relating to installation revenue, increased $6.8m to $7.5m
  - Indirect costs flat at $12.3m
  - Cash capex down $29.2m to $19.8m, reflecting S-band satellite in prior year
  - EBITDA close to breakeven and Operating Cash Flow improved by $32.6m to $20.3m
- EBITDA up $8.3m to $33.6m, 60.0% EBITDA margin (Q1 2017: 62.8%)
  - Margins falling from 60%+ in 2016 to c. 40% in 2018, before returning to 2016 levels



# Enterprise Results – Q1 2018

- Revenue up $3.3m, 11.2%
- GSPS up 91.8% to $9.4m
  - Mainly driven by $3.8m increase in hardware sales
- BGAN up 4.4% to $7.1m
- M2M revenues up 11.4% to $4.9m
  - Increasing terminal numbers
- FB Fixed to Mobile revenues down 36.0% to $3.2m
  - Structural migration to VOIP
- EBITDA down $0.5m, 2.3%
  - Due to changing revenue mix



# Group Cash Flow – Q1 2018

| US$m | Q1 2018 | Q1 2017 | Change |
|---|---|---|---|
| **EBITDA** | **174.9** | **183.1** | **(8.2)** |
| Working capital/non-cash items | (26.9) | 4.1 | (31.0) |
| **Operating cash flow** | **148.0** | **187.2** | **(39.2)** |
| Capital expenditure | (141.3) | (134.4) | (6.9) |
| Interest paid | (21.5) | (21.3) | (0.2) |
| Tax paid | 1.6 | (13.7) | 15.3 |
| **Free cash flow** | **(13.2)** | **17.8** | **(31.0)** |
| Other movements | 0.7 | (1.0) | 1.7 |
| **Net cash flow** | **(12.5)** | **16.8** | **(29.3)** |
| | | | |
| Opening net debt | 2,078.6 | 1,894.8 | (183.8) |
| Net cash flow | 12.5 | (16.8) | (29.3) |
| Non-cash movements | 9.6 | 6.9 | (2.7) |
| **Closing net debt** | **2,100.7** | **1,884.9** | **(215.8)** |
| Leverage | 2.9x | 2.4x | |

At 31 March 2018, the Group had over $910.3m of liquidity, including cash and cash equivalents of $211.5m, short term deposits of $198.3m and available but undrawn borrowing facilities of $500.5m under our Senior Credit Facility.

# Capital Expenditure – Q1 2018

| US$m | Q1 2018 | Q1 2017 | Change |
|---|---|---|---|
| Major infrastructure projects | 110.8 | 76.2 | (34.6) |
| Success-based capex | 55.7 | 34.2 | (21.5) |
| Other | 26.9 | 29.8 | 2.9 |
| Cash flow timing | (52.1) | (5.8) | 46.3 |
| **Total cash capital expenditure** | **141.3** | **134.4** | **(6.9)** |

**Major infrastructure projects**: I-5 F5 and I-6 spend satellite design, build, launch and ground infrastructure costs in Q1 2018.

**Success-based capex**: Equipment installed on customer platforms (e.g. vessels and aircraft) increasing due to installation programmes in IFC and FX.

**Other**: Primarily infrastructure maintenance, IT and capitalised product and service development costs.

This analysis of capital expenditure is on an accruals basis, with the timing adjustment to cash capex being shown separately, and is exclusive of capitalised interest.

# Future Guidance

## Remains unchanged from 9 March 2018

**Medium term revenue, EBITDA & Free Cash Flow** (all excluding Ligado):

> Targeting mid-single digit % increase in revenue growth on average over next 5 years

> EBITDA and Free Cash Flow expected to steadily improve

**Revenue** (excluding Ligado):

> 2018 revenue of $1,300m to $1,500m

> Annual GX revenues at a run rate of $500m by the end of 2020

**Leverage**:

> To normally remain below 3.5x

**Capex**:

> Capex of $500m to $600m pa over 2018 to 2020

> Based on current management plans, infrastructure capex to meaningfully moderate after 2020, reflecting:

- New, lower cost, satellite technologies
- More line-fit in IFC
- XL to FX migration complete

# Q&A

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2 May 2018

## Forward looking Statements

This announcement contains "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those projected in the forward-looking statements. These factors include: general economic and business conditions; changes in technology; timing or delay in signing, commencement, implementation and performance or programmes, or the delivery of products or services under them; structural change in the satellite industry; relationships with customers; competition; and ability to attract personnel. You are cautioned not to rely on these forward-looking statements, which speak only as of the date of this announcement. We undertake no obligation to update or revise any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances.