# Q3 2018 results

8 November 2018

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# Performance review

Rupert Pearce
Chief Executive Officer

# Operational Review – Q3 2018

## Inmarsat's diversified growth portfolio continues to drive improved results

> **Robust growth** - in Revenue and EBITDA from diversified growth portfolio

> **Maritime** - highly competitive market, as fast-growing VSAT segment develops – well-placed to win

> **Government** - strong revenue growth, particularly from non-US business

> **Aviation** - material strategic, operational and financial progress

> **Enterprise** - best quarter so far this year, against tough comparator

**Further delivery against key strategic roadmap**

# Maritime – Q3 2018 performance

## Market remains highly competitive, as fast-growing VSAT segment develops – well-placed to win

| L-band | | Ka-band |
|---|---|---|
| **Fleet One** | **Fleet BroadBand** | **Fleet Xpress** |
| > c.4,000 vessels installed<br>> Further building new business pipeline | > Rapid migration of vessels from mid-market to VSAT (inc.FX) – impacting FB revenues<br>> 1,400+ migrations from FB to FX in YTD<br>> Competitive pressures, principally from Ku-band VSAT, especially low-end crew VSAT<br>> Responding with enhanced product offerings, targeted incentives and new sales strategies – in FB and FX<br>> L-band competition remains modest | > 25% market share in VSAT today (2016: 15%)<br>> 60% of all new industry VSAT installations are FX<br>> Continued high proportion of new customer installations<br>> Growing share of installations by distribution partners<br>> On-going efforts to capture market share across all verticals<br>> FX remains the fundamental driver of long term value in Maritime |

**Inmarsat remains well positioned to win leading market share in $2.6 billion emerging Maritime market**

# Government – Q3 2018 performance

## Strong growth performance, particularly from non-US business

### US

Higher underlying revenues from Boeing partnership

New major customer win in Q3 - further validation of our market leadership position

On-going sectoral diversification, e.g. FirstNet

### International

Increased product usage from key customers – particularly in L-band

Continued success in geographic & service diversification

**Further progress in building long term contracted revenue base**

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# Aviation – Q3 2018 performance

## Material strategic, operational and financial progress

| Core business | In-flight Connectivity |
|---|---|
| > Higher customer usage in SwiftBroadband<br>> JetConneX achieving material market penetration in BGA<br>> Further strong underlying performance from Classic Aero<br>> Progress on launch of SB-Safety<br>> Double digit improvement in revenue and cash flow | > 321 aircraft installed, including first for EAN<br>> Further increase in aircraft in service<br>> On track for several customer launches in the coming quarters, including over the European Aviation Network<br>> GX Aviation selected by a number of new customers<br>> Double digit improvement in revenue and cash flow |

**Further market share gains in IFC**
**and improved market position in Core business**

# Aviation: Panasonic strategic partnership

## Strengthens drive to create global leadership position in IFC

| inmarsat | Panasonic |
| --- | --- |
| **Leading global mobile satellite provider** | **Market leader in IFC and IFE** |

### Key benefits for Inmarsat

- Exclusive provider of Ka-band IFC capacity to Panasonic
- GX the priority service for all future Panasonic IFC installations
- Access to Panasonic's downstream IFE & IFC presence, relationships and capabilities
- Major validation of Ka-band and GX

# Enterprise – Q3 2018 performance

## Best quarter so far this year, against tough comparator

**Legacy business performed well**

- Strong performance in BGAN and satellite phones, against tough comparator
- Fixed-to-mobile impacted by on-going VOIP migration

**New growth foundations being established around "Internet-of-Things"**

- Further growth in M2M
- Initial progress on "proof-of-concept" IoT projects in Mining and Agritech

**Inmarsat remains well positioned for future long term growth opportunities**

# Diversified portfolio to drive Revenue, EBITDA and FCF growth

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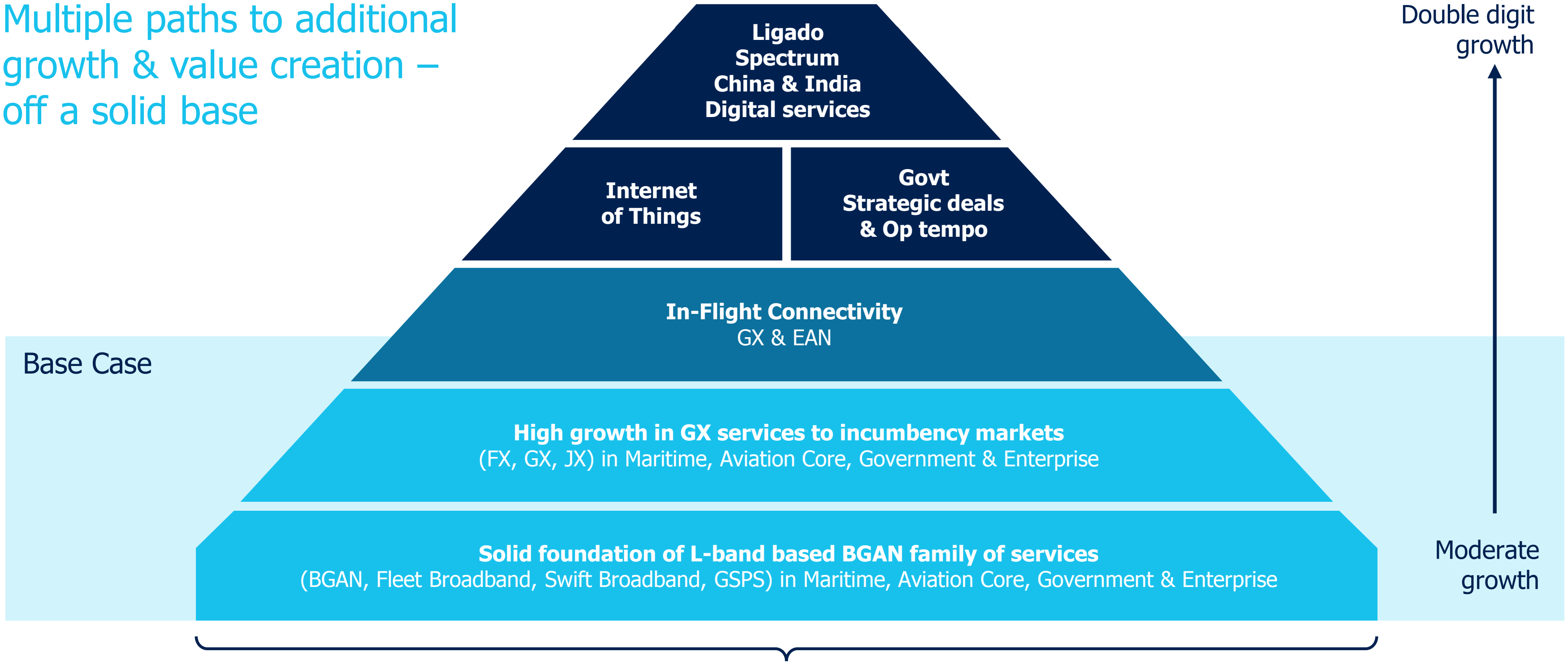
## Multiple paths to additional growth & value creation – off a solid base




**Enables meaningful moderation in infrastructure capex after 2020**


# Financial Review

Tony Bates
Chief Financial Officer

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# Group Income statement – Q3 and YTD 2018

| $m | Q3 2018 | Q3 2017 | Change | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|---|---|---|
| **Revenue** | **369.3** | **356.2** | **13.1** | **1,086.5** | **1,039.9** | **46.6** |
| Direct costs | (61.4) | (47.2) | (14.2) | (179.6) | (133.7) | (45.9) |
| **Gross margin** | **307.9** | **309.0** | **(1.1)** | **906.9** | **906.2** | **0.7** |
| Indirect costs | (101.4) | (115.7) | 14.3 | (327.4) | (333.2) | 5.8 |
| **EBITDA** | **206.5** | **193.3** | **13.2** | **579.5** | **573.0** | **6.5** |
| Depreciation & Amortisation | (115.0) | (103.4) | (11.6) | (347.5) | (297.5) | (50.0) |
| Asset impairments | (6.6) | (3.0) | (3.6) | (6.4) | (3.4) | (3.0) |
| Net financing costs* | (26.7) | (19.8) | (6.9) | (79.2) | (69.4) | (9.8) |
| **Adjusted profit before tax** | **58.2** | **67.1** | **(8.9)** | **146.4** | **202.7** | **(56.3)** |
| Tax | (11.7) | (10.8) | (0.9) | (24.4) | (35.4) | 11.0 |
| Change in value of derivative | 181.2 | 56.4 | 124.8 | (26.1) | (15.8) | (10.3) |
| **Statutory profit after tax** | **227.7** | **112.7** | **115.0** | **95.9** | **151.5** | **(55.6)** |

* Before change in value of derivative

# Business Unit Summary – Q3 2018

| Maritime ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 135.0 | | 143.1 | |
| Direct Costs | (17.8) | | (19.7) | |
| Gross Margin | 117.2 | 86.8% | 123.4 | 86.2% |
| Indirect Costs | (8.5) | | (9.1) | |
| EBITDA | 108.7 | 80.5% | 114.3 | 79.9% |

| Government ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 95.2 | | 88.4 | |
| Direct Costs | (14.9) | | (12.4) | |
| Gross Margin | 80.3 | 84.3% | 76.0 | 85.9% |
| Indirect Costs | (10.4) | | (11.4) | |
| EBITDA | 69.9 | 73.4% | 64.6 | 73.1% |

| Aviation - IFC ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 26.2 | | 18.6 | |
| Direct Costs | (15.8) | | (5.8) | |
| Gross Margin | 10.4 | 39.7% | 12.8 | 69.4% |
| Indirect Costs | (13.3) | | (16.5) | |
| EBITDA | (2.9) | | (3.7) | |

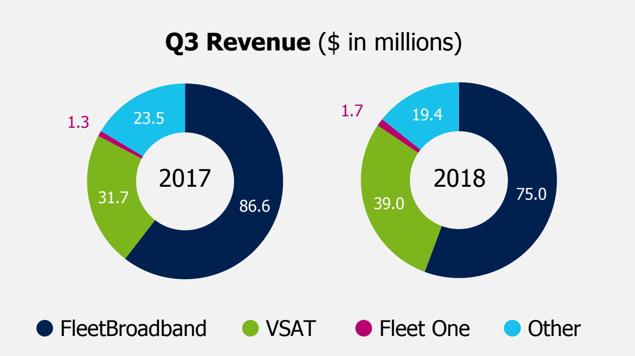
| Enterprise ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 34.6 | | 38.2 | |
| Direct Costs | (7.3) | | (7.4) | |
| Gross Margin | 27.3 | 78.9% | 30.8 | 80.6% |
| Indirect Costs | (5.4) | | (4.2) | |
| EBITDA | 21.9 | 63.3% | 26.6 | 69.6% |

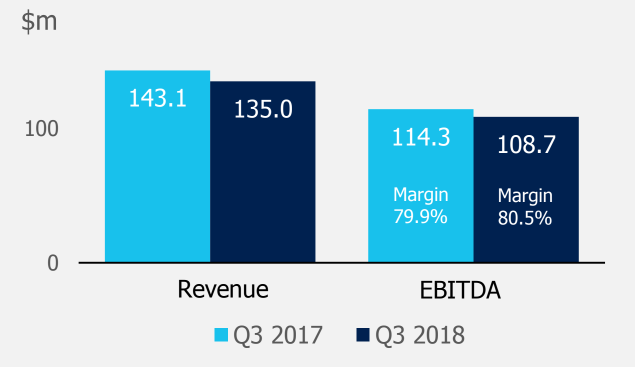
| Central Services ($m) | 2018 | 2017 |
|---|---|---|
| Revenue | 36.3 | 35.6 |
| Direct Costs | (5.3) | (1.7) |
| Gross Margin | 31.0 | 33.9 |
| Indirect Costs | (61.5) | (71.6) |
| EBITDA | (30.5) | (37.7) |

| Aviation - Core ($m) | 2018 | | 2017 | |
|---|---|---|---|---|
| Revenue | 42.0 | | 32.3 | |
| Direct Costs | (0.3) | | (0.2) | |
| Gross Margin | 41.7 | 99.3% | 32.1 | 99.4% |
| Indirect Costs | (2.3) | | (2.9) | |
| EBITDA | 39.4 | 93.8% | 29.2 | 90.4% |

# Maritime Results – Q3 2018

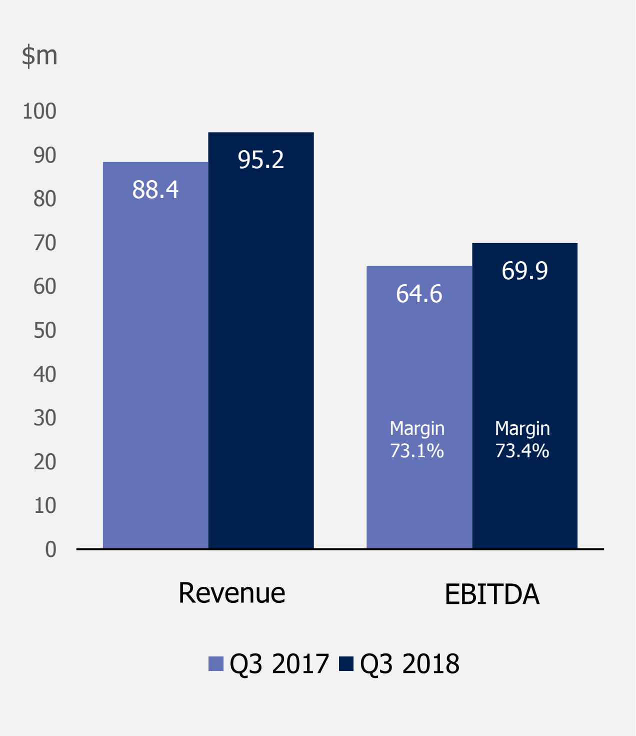
- VSAT revenue up $7.3m, 23.0%, to $39.0m
  - Market share gains continue
  - Vessels up 1,812 to 5,772
  - ARPU impacted by channel mix and market capture strategy
- FleetBroadband revenue down $11.6m, 13.4%, to $75.0m
  - FB vessels down 3,300 – principally due to VSAT migrations
  - Increased pressure from competitive VSAT being addressed by product and service enhancements
  - ARPU impacted by high end customers moving to VSAT
- Fleet One revenue up to $1.7m
  - Annualised run rate of c.$8m (FY 2017: $5.0m)
- Other product revenue down $4.1m, 17.5% to $19.4m
- Improved Gross Margin % (due to mix) and lower indirect costs
- EBITDA $5.6m, 4.9%, lower to $108.7m
- Success-based cash capex up slightly to $13.0m



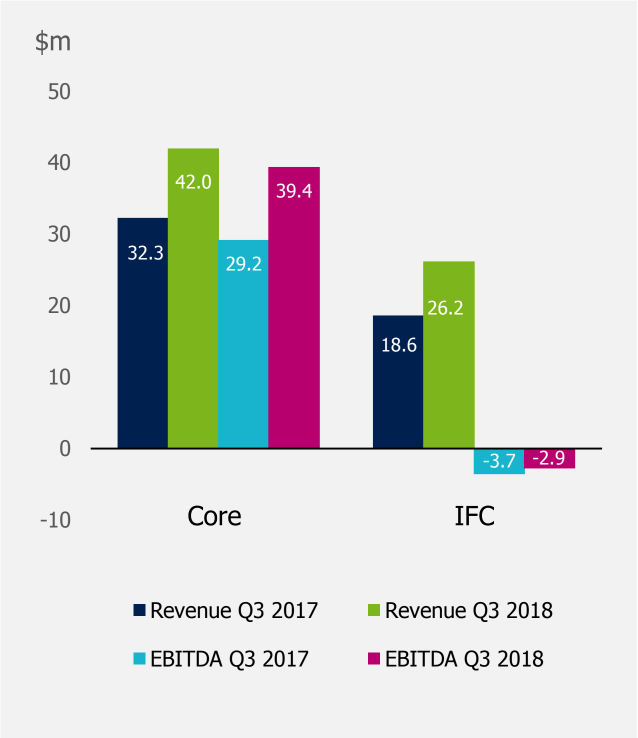
# Government Results – Q3 2018

- US revenue up 1.5%:
  - Large contract renewed on more favourable terms earlier in 2018
- Revenue up 21.1% outside the US:
  - Increased product usage across key customers
- Slightly lower Gross Margin % (due to mix) but lower indirect costs
- EBITDA up $5.3m, 8.2%



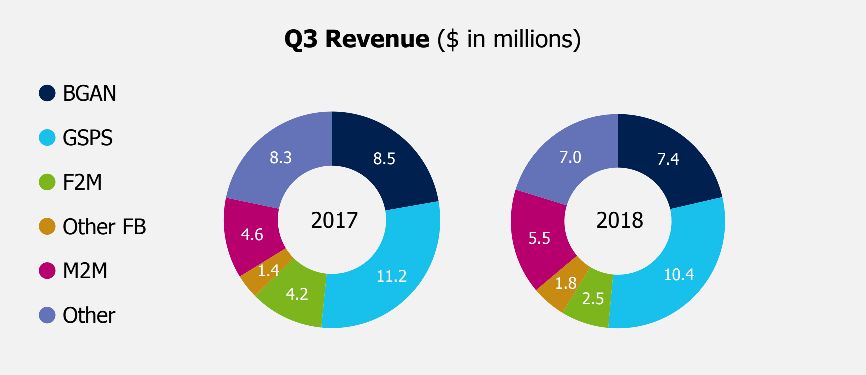
# Aviation Results Q3 2018

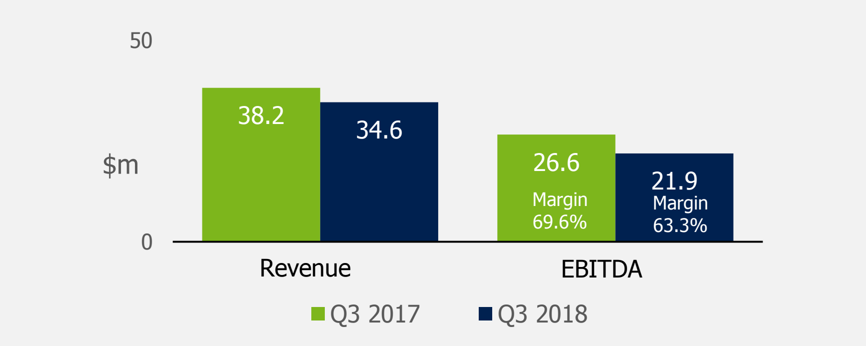
- Aviation revenue up $17.3m, 34.0%, to $68.2m
- Core revenues up $9.7m, 30.0%, to $42.0m
  - SwiftBroadband up 9.4%
  - JetConneX up by factor of 4x
  - Classic Aero up 16.9%
- IFC revenues up $7.6m, 40.9%, to $26.2m
  - Including $3.3m of GX airtime revenue
  - Lower gross margin % due to mix and some contractual start-up costs
- Indirect costs down $3.8m to $15.6m
  - Mainly due to lower IFC marketing spend
- EBITDA up $11.0m to $36.5m, EBITDA % margin of 53.5% (Q3 2017: 50.1%)
  - Margins expected to be no less than 45% in 2018, (from previous guidance of c.40%) before returning to at least 2016 levels of c.60% in 2021
- Cash capex down $19.7m to $10.7m
  - Lower spend on on-board equipment for customers



# Enterprise Results – Q3 2018

- Revenue down $3.6m, 9.4%, to $34.6m
  - Best quarter in 2018
  - Tough 2017 comparator (due to hurricane activity)
- BGAN down 12.9% to $7.4m, Satellite phones down 7.1% to $10.4m
  - Timing of customer spend on event-driven activity
- Fixed to Mobile down 40.4% to $2.5m
- M2M revenues up 19.6% to $5.5m
- Indirect costs up $1.2m to $5.4m, due to legal fees
- EBITDA declined $4.7m, 17.7%, to $21.9m



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# Group Cash Flow – Q3 & YTD 2018

| US$m | Q3 2018 | Q3 2017 | Change | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|---|---|---|
| **EBITDA** | **206.5** | **193.3** | **13.2** | **579.5** | **573.0** | **6.5** |
| Working capital/non-cash items | 3.2 | (5.6) | 8.8 | (58.4) | 16.4 | (74.8) |
| **Operating cash flow** | **209.7** | **187.7** | **22.0** | **521.1** | **589.4** | **(68.3)** |
| Capital expenditure | (157.5) | (101.0) | (56.5) | (415.3) | (409.2) | (6.1) |
| Interest paid | (17.9) | (22.7) | (4.8) | (77.6) | (77.5) | (0.1) |
| Tax paid* | 2.5 | (1.5) | 4.0 | 3.9 | (18.1) | 22.0 |
| **Free cash flow** | **36.8** | **62.5** | **(25.7)** | **32.1** | **84.6** | **(52.5)** |
| Dividends paid | (1.1) | (0.1) | (1.0) | (40.0) | (118.0) | 78.0 |
| Other movements | - | (5.1) | (5.1) | 1.4 | (7.7) | 9.1 |
| **Net cash flow** | **35.7** | **57.3** | **(21.6)** | **(6.5)** | **(41.1)** | **34.6** |
| | | | | | | |
| Opening net debt | 2,139.5 | 2,005.7 | (133.8) | 2,078.6 | 1,894.8 | (183.8) |
| Net cash flow | (35.7) | (58.2) | 22.5 | 6.5 | 41.1 | (34.6) |
| Other | 11.9 | 4.5 | 8.4 | 30.6 | 16.1 | 14.5 |
| **Closing net debt** | **2,115.7** | **1,952.0** | **(163.7)** | **2,115.7** | **1,952.0** | **(163.7)** |

* Legacy tax issue remains open

# Capital Expenditure – Q3 and YTD 2018

| US$m | Q3 2018 | Q3 2017 | Change | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|---|---|---|
| Major infrastructure projects | 88.1 | 40.7 | (47.4) | 225.8 | 244.2 | 18.4 |
| Success-based capex | 16.2 | 32.2 | 16.0 | 61.3 | 93.0 | 31.7 |
| Other | 20.8 | 36.3 | 15.5 | 68.3 | 95.1 | 26.8 |
| Cash flow timing | 32.4 | (8.2) | (40.6) | 59.9 | (23.1) | (83.0) |
| **Total cash capital expenditure** | **157.5** | **101.0** | **(56.5)** | **415.3** | **409.2** | **(6.1)** |

**Major infrastructure projects**: Relates to GX-5 and I-6 spend satellite design, build, launch and ground infrastructure costs.

**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.

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# Future Guidance

## Medium term guidance unchanged, updated revenue & EBITDA guidance for 2018

**2018 Revenue & EBITDA** (excluding Ligado):

> Expected to be at least in line with current market consensus

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

> Targeting mid-single digit % increase in revenue on average over 2018 to 2022

> EBITDA and Free Cash Flow expected to steadily improve

**GX revenues**:

> 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

Constellation cycle, including completion of I-6 programme

More line-fit in IFC

XL to FX migration complete

# Q&A

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