SES-SES Year-to-Date & Q3Results 2024

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Presentation

Operator: Hello and welcome to the SES Year to Date and Q3 Results 2024. My name is Laura and I will be your coordinator for today's event. Please note this call is being recorded and for the duration of the call, your lines will be on listen-only mode. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question.

If you require assistance at any point, please press star zero and you will be connected to an operator. I will now hand you over to your host, Richard Whiting, Head of Investor Relations, to begin today's conference. Thank you.

Richard Whiteing: Thanks, Laura. Good morning, everyone. Thanks for joining this analyst and investor call for the year-to-date and Q3 2024 results. The presentation was uploaded along with the press release to the Investor Section at ses.com, if you don't already have it. As always, please note the disclaimer at the front of the slides. The agenda today is as usual. In a moment, Adel Al-Saleh, our CEO, will present the main business highlights, followed by Sandeep Jalan, CFO, to cover the financials in more detail. After some closing remarks from Adel, we will take questions. With that, let me hand over to Adel.

Adel Al-Saleh: Thank you, Richard. Good morning, everyone. Starting with the highlights on page three, I'm pleased to report another solid operational and financial performance. We're tracking to the top end of 2024 outlook, supported by a wave of strategic wins and overall strong commercial momentum showcasing the growing demand for our differentiated solutions across all verticals. The deployment of our mPOWER MEO constellation is also on track, and the award of the IRIS² concession will drive the next stage of our MEO growth in the future.

Lastly, the regulatory process to complete the highly value-accretive Intelsat acquisition is proceeding well and is fully on track. Looking at the financial highlights on page number four, revenue and adjusted EBITDA were in line with our expectations with 3% year-on-year growth in the networks, and nearly 4% reduction in our controllable Opex as we continue to drive operational excellence throughout the business. We'll continue to execute and close out Q4, delivering both revenue and adjusted EBITDA at the top end of the full-year targets.

We grew adjusted free cash flow by 5%. We won €900 million of customer contracts, supporting our sizable gross backlog of €4.6 billion. We continue to maintain a sector-leading investment-grade balance sheet and have underscored our commitment to shareholders with €450 million of cash returns in 2024, including the interim dividend and share buyback. Moving to the vertical results, starting on page five with networks, where year-to-date revenue was up 3% year on year.

In government, we grew 7.2%, with strong progress in both US and global government. The mobility growth of 5% included high single-digit expansion in aviation and cruise, including the periodic revenue booked in Q1. In fixed data, year to date is minus 7.4%. The year-on-year comparison is impacted by some periodic revenue last year. However, our third quarter was 16% ahead of second quarter on the back of a new cloud revenue, and we expect fixed data to continue to improve in the following quarters.

I'm also very proud of how our team showed up and supported our customers in re-establishing communication in the aftermath of the hurricanes Helene and Milton in the US. We made available GEO and mPOWER capacity as well our own engineering and operations people to support reconnecting impacted communities within days. We do not typically tend to talk about that, but we're very proud of being part of the team that restores connectivity infrastructure at scale during these difficult times.

Finally, Networks' gross backlog stood at €2.6 billion with €544 million of signings, showcasing the growing demand for our managed multi-orbit solutions, which I will elaborate on later, some of which will already be contributing to revenue acceleration in fourth quarter. Turning to our media business on page six, which has tracked well to our expectations. Year-to-date, our Media business is at -5.5%, with some headwinds in first half being offset by an improved out turn in Q3, where the revenue was -3.1%. We expect fourth quarter to be a similar performance as in Q3, underpinning a full-year outlook mid-single-digit decline.

Breaking down the segments within media, our important DACH business, which serves 18 million direct-to-home households, was flat year on year. Europe, our other core market, continues to perform to expectations. Meanwhile, we continue to see declines in other mature markets as expected. Our sports and events business continues to be our top performer, with double-digit revenue growth and an ever-expanding list of tier-1 global brands.

The revenue and operational performance reflect the robust fundamentals of this business and solid customer demand with over 6,450 TV channels broadcasted with a 3% increase in our high definition TV channels, all supportive of media solid cashflow generation. The Media business gross backlog stood at €2 billion with €355 million of new business signed, including several important multi-year renewals, which you can see on page number seven. Since July, we've announced important multi-year, multi-transponder deals with Sky; Warner Bros. Discovery; ORF, which is a public broadcaster in Austria, Telekom Srbija, and RTO.

In total, we have added €355 million to our backlog, underscoring the solid fundamentals and long-term cash flow generation of our Media business. Across Europe, we'll reach a 172 million TV homes, nearly two-thirds of total households in Europe, and more than 500 million people, giving customers a valuable platform for their commitment. Let me walk you through some of these wins. First, we have renewed a multi-transponder deal with Sky UK and Ireland till the end of the decade.

That's a five-year extension, providing the reliability they need to continue to deliver the market-leading TV content and demonstrating the sustained relevance of our satellite offering for media applications. On Tuesday, we announced a multi-year extension with Warner Bros. Discovery to continue distributing channels such as Eurosport in Germany and Austria. RTL extended their long-term partnership with SES by further five years for audiences across Germany and Austria.

With 50% of Austrian households relying on satellite, the country's largest media provider and public broadcasters, ORS Group, signed an extension with SES, taking services into the next decade. As you can see, we're expanding our services to a comprehensive approach in the media service market, but combining our traditional capacity business with added ground services and managing more of the distribution chain to reduce complexity for our customers. As you can see, with the backup services for Sky and Telekom Srbija, as well as the uplinking and play out services for Warner Bros, Telekom Srbija, and RTL, we're executing on this upsell opportunity across the world.

Moving on to our fast-growing government segment on page eight, commercial satellite-based solutions with multi-orbit access are an increasingly critical component to the needs of governments, and we have a strong right to win in this area, as well as shown by the important €200 million NATO MGS contract and IRIS² awards. The NATO MGS contract is the first government commitment to mPOWER, which will consume much of the total near-term capacity to provide secure, resilient, and high-performance MEO connectivity for NATO members.

The contract is for the initial three years with an option to extend up to two more years. This is also the first contract within the partnership between NATO, Luxembourg, and the US, which makes it easier for NATO allies and partners to participate in a multinational and multi-year procurement, realising synergies and economies of scale. Equally, I'm delighted that SES, as part of SpaceRISE Consortium, has been awarded a strategic IRIS² Secured Sovereign Government Connectivity tender.

The SES-led consortium will design, deliver, and operate a multi-orbit system expected to be in service from early 2030. This will bring value to the EU and its members who will be the anchor customer from the start of the service. IRIS² will allow us to expand SES's differentiated MEO offering to keep pace with the rapidly expanding demand, where we're constrained today and gives us access to MEO constellation with owner economics when needed.

It further strengthens our offering by delivering a truly global media experience of guaranteed high throughput and low latency connectivity anywhere on land, at sea, or in the air, including the pulse, further expanding our total addressable market. Cash flow and final investment levels will be finalised over the next few weeks as we negotiate the final contract with the European Commission. The contract will have an IRR in line with our target thresholds.

Our commitment to investment-grade metrics and the dividend is maintained, with most of the SES Capex investment expected to start ramping in 2027 with a majority in 2028 and 2029, when the combined SES plus Intelsat company will be generating significant levels of free cash flow. Given that government institutions around the world have increased their demand for secure, reliable multi-orbit connectivity to enhance their capabilities, SES is well positioned to capture the strong demand and deliver sophisticated space-based solutions and be a partner of choice to governments worldwide.

Moving on to our fast-growing segment of mobility on page number nine, first, I'd highlight our notable wins in Aviation business with our first airline customers secured for our in-flight connectivity offering. Open Orbits, which is a partnership between SES, NEO Space, AeroSat, and Hughes. Through Open Orbits, we and our partners will provide seamless multi-orbit connectivity across the skies with uninterrupted coverage from east to west, and delivering internet speeds of up to 300 megabits per second.

Thai Airlines, the national carrier of Thailand, will become the first airline in Southeast Asia using the Open Orbits to offer free Wi-Fi streaming while Turkish Airlines will integrate Open Orbits on its new fleet. SES is equipping aircrafts across the fleets with highly sophisticated multi-orbit antennas that can seamlessly support the switch between gateways in under 20 seconds and support both line-fit and retrofit installations and the best integrated solutions.

In Cruise, we're continuing to expand our portfolio of business, which now stands at around a 100 ocean ships with major brands like Carnival, MSC, Virgin, Ritz-Carlton, and others, driving double-digit year-on-year growth. 2024 is an important year with the anticipated introduction of mPOWER, where we will have deployed services to around 70% of contracted ships by the end of the year. In combination with the MGS contract, this accounts for much of the mPOWER available capacity.

I'm especially pleased with our continued success in winning new builds with the majority of the ships wanting to have our managed MEO-based solutions as the cornerstone of their passenger connectivity experience. It's successes like these that have driven 11% growth annually over the past three years, and which will drive our future expected growth in both cruise and aviation, where our ability to deliver managed multi-orbit solution is a source of strength anchoring our right to win, even in this competitive segment.

Moving to page ten. As the demand continues to grow, the deployment of mPOWER will allow us to sustain the revenue growth. The entry of mPOWER into commercial services earlier this year was a key milestone for SES, with customers now on board and benefiting from our MEO offering. We remain on track to expand the initial constellation starting with the next launch of Satellites 7 and 8 confirmed for December this year, with expected in-service date of Q1 2025, adding meaningful increase in much-needed incremental capacity where we have more demand from customers than we have available supply to support them today.

These two satellites will be followed in mid-2025 by Satellites 9, 10, and 11, with a service expected at the beginning of 2026. Finally, with Satellites 12 and 13 launching at the end of 2026, further increasing our capacity meaningfully by approximately three times compared to today. From 2027, we will have triple the available capacity and we'll have a powerful constellation with seven fully capable satellites plus the initial six impaired satellites as spares.

One of the attractions of operating in MEO is the scalability of that network, where we can incrementally add a relatively small number of satellites on a regular basis to continue to keep available capacity in step with customer needs while maintaining a healthy tension between supply and demand as well as being Capex efficient. With every new satellite added into the constellation, the overall capacity and efficiency of the network is improved, supporting profitable long-term growth trajectory.

IRIS² is well timed with 2030 start of service, when mPOWER is expected to be at steady state. And by then, and the combination will allow us to keep up expanding demand well into the next decade. Furthermore, IRIS² will provide coverage where mPOWER does not reach today, delivering the ability to provide and address demand for MEO-based services in regions not possible today, including pole-to-pole coverage.

Finally, an update on our transformational agreement to acquire Intelsat on page 11. On the regulatory front, we're making good progress with filing processes. I'm delighted to report that we have already secured multiple regulatory clearances, including CFIUS in the US and from several other FDI, antitrust and telecom clearances. Although these are relatively smaller clearances, it is nonetheless encouraging and underpins our conviction in closing the deal. There's still some way to go, but the major long-lead clearances are proceeding to our initial expectations.

You will have seen that the FCC public notice period has now concluded with only a handful of comments, with closing of the acquisition on track to complete in during second half of 2025. We're also making strong progress in terms of detailed integration plan, while respecting all of the legal and regulatory requirements as we continue to operate fully independently. Notably, both teams have now fully validated the target synergies of €2.4 billion and MPV and the execution timeline of 70% of these synergies by the end of year three.

The combined multi-orbit company will be well positioned to compete with competitive end-to-end solutions in valuable growth markets where we have the right to win. Underpinned by a strong balance sheet and sustained cash flow growth, to drive value for our customers, employees, and shareholders, creating a strong competitor with ability to invest while maintaining our investment-grade metrics and attractive shareholder returns. With that, I'll hand to Sandeep to take you through the financial highlights.

Sandeep Jalan: Thanks, Adel, and good morning, everybody. We are pleased with our financial performance over the past nine months. This demonstrates a disciplined execution with good contract signings, revenue and EBITDA being in line with our expectations, solid cash generation, and commitment to shareholder returns.

I'll start with the income statement on page 13. Revenue of €1.475 billion, it was broadly stable compared with the year-to-date 2023 at the constant foreign exchange rates. Adjusted EBITDA of €775 million was lower year over year by about 2%. This is a much improved trend versus last year's decline, which was 5.2%. The main drivers were growth in Networks of 2.9%, which was offset by a decline in Media of 5.5%. Media had a much improved third quarter, with revenues at minus 3.1% versus the prior year.

Total Opex was flat year over year. Cost of sales, it increased in line with the Network revenue increase. However, it was fully offset by the continued drive on our cost efficiency actions, which resulted in 4% savings in our SG&A, Opex as I highlighted earlier. Adjusted net profit was €116 million, including impact from higher depreciation and amortisation, some Forex losses, and high tax expenses partly offset by €90 million of interest income that we received on significant cash balances that we are holding, which is above €3 billion.

The increase in depreciation and amortisation arise primarily from a change in accounting to treat indefinite life intangibles as definite life amortisable intangibles, as we had already flagged in August. Finally, on the slide, the difference between adjusted and reported net profit is explained by significant special items of €39 million. This comprises a net impairment expense of €24 million that was booked in quarter two, €41 million were other exceptional expenses of a non-recurring nature.

And these two effects were partly offset by €26 million of related net income tax benefits. €41 million exception expenses primarily pertain to cost of restructuring and M&A related costs. I will move now to the cash flow on the balance sheet on page 14. Adjusted free cash flow of €262 million. It was 5% higher year on year. It was mainly due to lower Capex expense and high amount of cash interest that we earn on our cash balances.

Including the interim dividend that we paid in October and also the share buyback of €150 million, which is now completed, we have paid €450 million to our shareholders during this year in line with our commitment of shareholder returns. This takes total cash return to shareholders since 2021 to now €1.2 billion, which is almost equivalent to approximately 100% of the adjusted free cash flow that we generated over that same period.

Our investment grade balance sheet continues to be industry leading, with net leverage of 1.1 times at the end of September, and including €3.2 billion of cash and cash equivalents. We have also repaid €700 million of gross debt maturities in this year to date. We are very happy with the successful €1 billion hybrid dual tranche bond offering. This was more than four times oversubscribed and we completed this at very competitive terms at the beginning of September this year.

We continue to make progress on C-Band reimbursements and have received about $310 million so far this year. We expect to receive a portion of the remaining approximately $150 million during the coming quarter. So this is very good progress. We are moving much faster on this now. Our strong adjusted free cash flow generation profile and growth outlook will also benefit from the accretive Intelsat acquisition, which is fully funded now.

And it is well on track to complete during second half of next year. As such, the combined company is expected to generate growing levels of adjusted free cash flow, including from ramp-up of significant synergies. This gives us financial flexibility to create value for shareholders through the combination of strong balance sheet, cash returns, and disciplined profitable investments, including the Capex for IRIS², which we expect to be mostly from year 2027 onwards.

Lastly, moving now to the financial outlook on page 15. As mentioned by Adel, we now expect revenue as well as adjusted EBITDA for this year toward the top end of the outlook range that we had given for 2024. With this, we would have delivered now for the last four years business performance within our outlook range. Especially 2024 is a milestone year showing stable revenue and EBITDA compared to prior year at the top end of our outlook range.

Capex also remains within the range of €500 million to €550 million for this year. We are currently working through, as usual, our annual business planning exercise. Our ambition is to have 2025 with at least a stable year-on-year performance as compared with that of 2024. Of course, we'll provide a full outlook, as usual, at the end of February with our full year results. Now, I would like to hand back to Adel to conclude.

Adel Al-Saleh: Thank you, Sandeep. On page 17, I will conclude by reemphasising our differentiating strategy in the context of what we see in customer requirements being bifurcated between simple, standard solutions, on one hand, where the competition is very intense, and on the other hand, there's a growing demand for more sophisticated solutions, where we can deliver value by reducing complexity at the customer level and combining multiple orbits to bring the best service for the customer in those segments.

In these segments, in the green zones, I'm a 100% convinced that no single orbit and no single player will be able to deliver all of the demand and customer needs on their own. The network performance and commercial deals I shared with you earlier are evidence of where we have the right to win, and where it is the strongest, and where we expect to be competitive.

Through our continued expansion of mPOWER and investment in innovative new technologies, we'll ensure our versatile solutions remain one step ahead, meeting evolving needs of users who require more than standard connectivity and deliver a clear path to sustained growth and cash generation, as can be seen on page 18. The SES of tomorrow, combined with Intelsat, with a successful and highly-accretive integration, will be a stronger multi-orbit competitor, delivering sustainable growth in revenue, adjusted EBITDA, and free cash flows, while delivering value to our shareholders.

Underpinned by a growing Networks business, which is now more than 50% of our overall portfolio, and a valuable cash-generating media business where our year-on-year performance is consistent with our midterm expectations, with laser focus on cost efficiency as shown by 4% reduction in controllable Opex year to date. Positive free cash flows, up 5% year on year in these nine months supported continued iterative investment to strengthen our solutions, our industry-leading balance sheet, and a commitment to shareholders' returns, as shown by almost half a billion million EUR paid

paid this year. With that, we're happy to take your questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will now take our first question from Nick Dempsey of Barclays. The line is open. Please go ahead.

Nick Dempsey (Barclays): Good morning, guys. So first question, given some of the better trends you're seeing in this quarter and your raised guidance, are you building more confidence now that you can get SES to organic revenue growth stability broadly in 2025 as consensus expects? Second question, you've guided to €600 million to €650 million of Capex for SES and Intelsat combined as a standard number.

In the years towards the end of the decade when IRIS² Capex will be heaviest, I guess, could you be notably above that €650 million? And third question, within the significant special items of €21 million in Q3, can you give an indication of how much of that was paid out in cash? And can you break it down somewhat between M&A-related costs and restructuring?

Adel Al-Saleh: Sandeep, I'll let you answer the last one, but let me just take, Nick, the first two points of your question. So, first of all, our confidence in getting to a stable business and then growing that business, our confidence is high, right. We're driving to stability this year, right. You've seen the results. We're guiding towards the top end of our guidance. We feel very confident about that. And our focus is to make sure that we don't fall behind in 2025.

There were some concerns in the last call that we had with Oi bankruptcy. We assured everybody that we have ways to mitigate it, and we have mitigated the EBITDA impact of that, and we're well underway to mitigate the revenue impact of that particular situation. So yes, our confidence is growing. We're not going to give you guidance for 2025 today, but the direction of travel is exactly how you described, right. And that's our goal and that's what we're focused on.

On the second part, yes, our guidance for the combined company is between €600 million and €650 million of Capex sustained, right. So we feel with that level, we're able to invest in what we need. Now, as I said, we haven't finished the work on IRIS². IRIS² is not part of our plan today. It's an incremental element, both from a revenue, from a profit, from a cash flow perspective. We're working on negotiating the final contract.

And as I described, our financial discipline is very, very strict here. We want to make sure whatever that contract looks like, it falls within our guidelines in terms of IRR, in terms of our ability to maintain investment grade and invest in terms of our ability to continue with our dividend payments and progressively improve them. So that's as much as I can say right now, Nick, on that one until we finalise because this is, the European Commission has a budget.

They are clearly going to be funding the front end of it. And there's a lot of work that's underway to figure out how does that actually land. But we're very confident in that, right. And that's why it took us some time to get to a point where we could be awarded. On the third bullet, the third point, Sandeep, please.

Sandeep Jalan: Hi, Nick. So on your question regarding these other exceptional expenses, it comprised of two costs. Number one was the M&A related cost. And you may recall when we announced the transaction, we announced €285 million of M&A cost, just the cost until closing. So these are the costs that we are starting to incur already. And the other part pertained to the cost of restructuring.

So the total of these exception costs during this year so far, nine months, was about €41 million. And a major part pertained to the M&A related costs. But it also included certain restructuring costs.

Adel Al-Saleh: Nick, did we answer the three points?

Nick Dempsey: Yes, that's great. Thank you very much.

Adel Al-Saleh: Thank you.

Operator: Thank you. And we will now move on to our next question from Roshan Ranjit of Deutsche Bank. Your line is open. Please go ahead.

Roshan Ranjit (Deutsche Bank): Morning, everyone. Thanks for the questions. I've got three as well, please. It's good to see the aero win with those two large carriers. Can I just get your thoughts around potentially extending or furthering your partnership agreements? You clearly have one in maritime with Starlink. Given their recent wins, is there potential scope forward to do something similar in aviation or with any other partners? It'd interesting to hear on that, please.

Secondly, I know you mentioned the scope for stable revenues in 2025. Given we've got the incremental capacity being launched from mPOWER in addition to the existing ramp-up of 5 and 6 and taking that in conjunction with your mid-single-digit decline for video, should we be expecting growth in 2025? I guess is stability a bit conservative, given the pickup in potential government contract wins in 2025?

And lastly, is it possible to just get an update on the insurance process with Boeing? Where are we with that, please, and any timeframe for any potential cash to be received? Thank you.

Adel Al-Saleh: Thank you, Roshan. I'll let, again, Sandeep answer that third point on the insurance proceedings and where we're going. Look, on Aero wins, Open Orbits is getting incredible traction, right. We've announced two airlines that are on board. We have a pipeline of several airlines. And look, all of them are looking for an east to west, west to east. So think of it, a plane flying from Japan across China into Europe and then continue into US or from Beijing to New York, to have continuous connectivity, home-like connectivity with 300 megabits per second, continuous, right.

And we designed this architecture where we're able to switch between different satellites, different gateways as the plane progresses east to west. That's quite unique, I would say with the technology that we've built. So there are a lot of partners that are beginning to take note and are asking us to look into it. We have big airlines that are talking to us, trying to understand how can they get on board as well.

The airplane manufacturers, both Boeing and Airbus, are interested. As I said, they're looking for including these antennas in their line fits and compatible with our technology, so all of that is underway. And, as we see the need for additional partners, right now we're focused on getting the right partners in Middle East and Asia, where it's a little tricky in terms of connectivity. So we've done that, and as we see the need to do that, we will add more of it, right.

And, as I said, look, we are well-positioned with multi-orbit because we have owner economics both for GEO and for MEO, and MEO, as you already highlighted, is expanding. And we use LEO when we think it's necessary to complement our solution. So I see absolutely opportunities for other partners to come on board in order to provide that very compelling, seamless experience for our customers and their passengers in the plane. So more to come on that.

I'm looking forward to announcing a few more things in the next call in the beginning of next year. Look, in terms of revenue, I think it's too early to give 2025 guidance, but the momentum is with us, right. We have a portfolio that's now 53% of growing segment and a very valuable media component that, as you've seen is performing where we expect it to be. And we expect fourth quarter to be exactly the same. So with that combination, like I said, we're getting more and more confident that we will stabilise the business and beginning to see the clear path to growth.

But it's too early for me to tell you what the guidance should be for 2025. We will tend to be more conservative, if you will, right, because we're coming from years and years of decline, which we want to stop and we're committed to stop. And we're focused on getting this company back to growth, which is looking quite good for us as we look forward. On the third item, on insurance, Sandeep?

Sandeep Jalan: Yeah, so hi, Roshan. So on insurance claim that they filed beginning this year, this is a total claim of $472 million, just to remind everybody. As we said at the time of informing that to the market, it's a large claim. It's not a straight loss claim, so it's a little bit more complex than that. Good thing is that we are making progress, right. It takes a little bit more time than an normal straight claim because the satellites are functioning, but they are not functioning at the originally intended design and the capacity.

They are far inferior, and that's why we have to take impairment, and that whole insurance claim is geared towards that. Good thing is we are making progress. There are a few smaller settlements which have already come in, nothing substantial. There is still work to do, and we will keep informing the market as we keep progressing on this.

Adel Al-Saleh: Roshan, did we answer your question?

Roshan Ranjit: Yes, that's great. Thanks, guys.

Adel Al-Saleh: Thank you.

Operator: Thank you. And we will now move on to our next question from Alexander Peterc of Bernstein. Your line is open. Please go ahead.

Alexander Peterc (Bernstein): Yes, good morning, and thank you for taking my question. The first one would just be on the video improvement. Was there any particular strength in professional video there or was it across the board that you saw strength that helped this fairly positive result in the third quarter? And then looking into next year, you say that you have mitigations in place, including on the revenue side for the shortfall of Oi. Going to 2025, should we expect this to happen as of the beginning of next year?

Or is it going to be more gradual throughout the year? And then my second question would be on the IRIS² plans. Do you have a timeline to give us when you will give us more precise details on related Capex and potential revenue streams from this project? Thank you.

Adel Al-Saleh: Thank you, Alexander. So let me tackle them one by one. Look, the video improvement, the fundamental of our video business was strong, right. We were hurt in the first half of the year with some of the headwinds around OA, which we had to treat in certain accounting ways that diverged from where we see this business performing. So it masked the fundamentals that continue to perform exactly how we see them. And third quarter is a good example, right, and we see the fourth quarter to be exactly the same. So, and it's across the board, right.

And then we also have a very exciting growth segment within video, which is our sports and events. Double digit growth for the first nine months, we continue to see that demand growing. And although, yes, we are driven by events, but the events continue to grow, right. There's incredible portfolio of events happening around the world. Some years have bigger events than others, like the Olympics is an example. But every year there's championships games. Every year there's Super Bowl. Every year there is major leagues that are doing their things, champions leagues.

So for us, that business continues to be very, very exciting. We're also seeing early traction for us in free-to-air neighbourhoods, right. So we're beginning to build free-to-air neighbourhoods where it's a complement to streaming and others, especially for countries and individuals that cannot afford to pay $20 or $30 or $50 per month for streaming. So the fundamentals for that business is quite strong. And what we're seeing, Alexander, which is what I wanted to highlight, is our customers are beginning to ask us to do more managed services for them, right.

It should take over their uplink capability. In the past, a lot of broadcasters will build their own uplink, meaning their own teleports and gateways and they're asking us, can you do that for us. It's not our business. So that's another opportunity for us to expand. And in all of these big renewals you've seen, we're beginning to get more than our pure capacity set. And it's good margins. It's not that it's low margin business. It's a very good margin. It's not as good as capacity, but it's very good margin for us that we will continue to expand and leverage that playbook globally.

So the fundamentals are pretty good. The improvement is across the board. And like I said, there's two neighbourhoods that are very critical for us for the bulk of our businesses, which is the DACH region and Europe in general. These represent a big, big percentage of our business. And both of these businesses, DACH, as I said, is stable. It's actually flat year on year. It's not declining. And Europe is performing exactly to our model, right, as we have laid out. So we feel pretty good about the fundamentals.

Now, for next year, we've mitigated, we will mitigate the profit. We will mitigate the revenue, not necessarily in video, but our total portfolio, right. So our total portfolio will mitigate the impact of the OA that we'll have, because it's very difficult to mitigate it within the video business, right. So, but we're lucky to have this portfolio that we're able to do that. Now, on the second question on how is this mitigation going to look like, whether we're going to be declining in the first half of the year, I'm assuming that's what you were saying, Alexander, and then we cover in the second half of the year.

Look, it's still early to say, right. We're working through our budget. We're right in the middle of finalising the budget. And we'll be able to share that with you, of course, in the beginning of next year when we give guidance. But for the full year, I want to reiterate, we are not confused. We know where we need to take the business. We know that stability is step number one. And we want to go beyond that. But let's talk about that in February, when we have the complete picture of the skew of the numbers.

By the way, IRIS², which is your third point, without having to spend a lot of money upfront, we actually have revenue coming in next year because we're doing work next year, assuming we will get the signature of the contract done, which we're highly confident we will, where it does not require Capex yet. It's engineering work, which we will get paid for, right, in the next year. So there is incremental revenue streams coming in. Now, from IRIS² specifically, look, we will be able to share with you the entire picture and an update to our plans in February when we do the full year 2024 and give you guidance for 2025.

We'll spend time with you guys, all the analysts, and give you good data in order for you to understand how to model our projections. And again, I want to repeat what I said earlier. IRIS² is a very, very good opportunity for us. It took a long time to get it to where we are. Why is it a good opportunity? This is a commitment from Europe to build a sovereign, highly competitive constellation. They are the anchor customer. All of the nations in Europe are anchor customer for this constellation.

So the demand is not an issue because in addition to the government demand, we have commercial demand, right, where a lot of the European companies are going to look at it as the network of choice, if you will, right, going forward. It's also a contract where the government is willing to co-invest in a big way. How many times do we get an opportunity when a government is willing to invest at least 50% of the requirement investment in a contract like this?

Being the anchor customer, being adamant that they will drive demand across the nations. So for us, the tricky part was not the concept. The concept makes a lot of sense because every country in the world is looking at having a sovereign capability while they use global capabilities. It doesn't mean that they will only use this concept. They will lose multiple constellations, but this will be their constellation. This will be their network that they will push the traffic to. Our focus has been, can we get it into an envelope that we accept, that our shareholders will accept?

That's what we've been working on. The right IRR, the right cash profile, no risk to our investment grade, no risk to our dividend commitments, right. That's what we've been focused on, right. And we got there. Now what we need to do is translate it into a contract, which is what we're doing in the commission. And by the way, the commission fully understands this, right, and very supportive for us to get there. So, Alexander, I didn't give you the exact answers you were looking for, but look, I'm giving you as much as I can at this point in time, but a lot more to come when we have the details and close the contract.

Alexander Peterc: That's great. Thank you very much for the color. Thank you.

Operator: Thank you. And our last question is from Sami Kassab of Exane. Your line is open. Please go ahead.

Sami Kassab (Exane): Thank you very much, and good morning, gentlemen. Adel, you've just given us thoughts on IRIS², so forgive me for asking two more questions on that, even at the risk of being a bit premature. The first one, would you expect capacity revenues from IRIS² before 2030 on other, say, mPOWER satellites, or is all the capacity revenue going to come in the next decade? And second question, can you say whether the EU Commission is going to guarantee a minimum IRR level for your investment on IRIS²?

And the last thing is back to your slide 17 on market bifurcation. Could you please explain the technical differences between mPOWER and Starlink, and how these differences are commercially relevant. So not just tech stuff, but how the tech differences drive the relative market positioning, the relative market segmentation, and so on. Thank you, Adel.

Adel Al-Saleh: Okay, very good, Sami. Thank you. Very tough question, Sami. Thank you for that. Okay, look, on IRIS², the pure capacity revenue on the constellation will come after the satellites are launched, right, so 2030 and beyond. Before that, there will be buildup of revenues that the SpaceRise Consortium will see as we build up the ground equipment, as we build up the capabilities, as we progress through our milestones of development, right.

Because again, the good news about this contract is we have milestones with the government that we get paid for every time we pass those milestones. So therefore, those will be revenues that will be flowing before that. But the pure capacity revenue will only start when the constellation goes into effect, which is either late 2029 or early 2030. So that's the first question. Now, will the EU Commission guarantee amendments? So EU Commission guarantees will take, EU Commission will take a portion of that capacity as guaranteed, especially the governmental specific, what we call hard government capacity.

Where the Commission will take it as theirs, right, and they will use it and they will pay for it, whether they use it or they do not use it. So that is definitely the case. Now, whether or not – now, I can't comment a lot on the IRR question, which is a very good question, but what I can tell you is the following. The contract, if you look at the general government, especially commission contracts, concession contracts, there are mechanisms built into these contracts that create protection for IRR.

I don't want to say anything more, Sami, but you can look it up, right. You can go and look some, and you can use that as a proxy to what would be in this contract. Of course, every contract is negotiated separately, and the customer decides at the end. But there is that type of logic in that contract that we are working on to finalise in this final negotiations. And then your final question is around our view of the world, right, this bifurcation of demand, the green zones, if you will, that we described.

And you specifically said, well, look, what's the difference between you and Starlink? Here's how I see it, right. Starlink has developed an incredible, powerful Leo constellation that is simple, standard. You take it as it is. You deploy it as it is, and so on. Yes, of course, they're going into other areas, into the verticals, like the airlines, etc, which are considered to be in the green zones. However, their approach to the market is a very well-defined set of services that they will do.

And we know this because we partner with them, including the government in the US, where we are used to provide certain services that Starlink does not, that the government of the US needs in combination of capacity. That applies to other verticals as well, where Starlink has a very specific model, they're very good at that model. They scale that model. You see the success that they're having.

But there's a very big part of the market that requires more. They require managed service. They require installation capabilities. They require certain security, cybersecurity that needs to come on top of what our normal constellation has. And you can see in the video business, I showed some examples. We provide the managed service end-to-end, where we take the uplink services, we provide the distribution of content. We manage the network quality, both space and terrestrial, right. Because our network doesn't stop from a satellite beaming information down to Earth.

We need to deliver that content to the customers. And some customers are very highly demanding in how that content is delivered. So that's the difference between our proposition with a multi-orbit solution versus Starlink. And as you can see from the links, we're getting traction. And including customers, where we are coexisting with Starlink. Cruise, we're growing double digits. I'm not sure what Starlink is growing, but I wouldn't be surprised if they're growing quite high in cruise as well because we coexist in the ships together.

And today, the ships need both of us for various reasons, either backup or actually complementary or taking prime in certain areas where the other network is unable to provide the type of service that's required. So that's what we mean about that bifurcation of the world. And I don't believe it will stop. I don't think it's so simple to say, well, eventually every customer is going to want a standard product. Look, I've lived in the IT industry for the last 35 years.

I've seen this. I've seen standard products take very large part of the market share, but I've never seen where one solution dominates everything. It's just not possible. Not because one solution is inferior to others because the demand varies. The demand of the customers varies from application to application. And the good news for us is the space capability is growing, right. So we're able to actually deliver new applications that before people didn't think about.

And by the way, I have a lot to thank Starlink for opening this application. Like agriculture, we're talking to so many agriculture companies. They're saying, I want to have smart agriculture, right. I need to have sensors in the ground, not just tracking my equipment. I want to see the moistures in the ground. I want to know when should I harvest. And that type of solution is built in a combination of capacity, managed services, technology on the ground, big data, and that's what we're able to provide. Sorry for going a little bit long, but that's how we see the world, right.

Sami Kassab: Adel, this is very useful, so please forgive me for abusing with one last question. Can you help me understand why Starlink is only providing a best effort service and do not commit to an information rate? Is that strategic, commercial, or are there technical limitations in the architecture of the system that prevents Starlink from providing a committed information rate?

Adel Al-Saleh: So, Sami, look, the best thing is to ask Starlink that question, to ask Gwynne and the team, but here's my perspective on it, right. Like I said, Starlink built a very formidable, very successful model. That model is standard, right, and they scale it. And I'm sure they will eventually be able to provide service guarantees, but it's not easy for them to do it.

I'm sure that it's possible, but if they start violating their approach to the market and how they do it, they're just going to start changing the model, right. And that's why I think they believe that the market is still big enough. The market of standard solutions is quite big. Our picture it's a little bit deceiving, right because we say the green market is bigger.

I don't know. Both markets are very large, right, in terms of demand. So I believe their limitation is the model that they chose deliberately that they chose and it's successful. So that's why they're doing what they're doing versus our model where we're able to provide more services. Look, our mPOWER is the most sophisticated, the most powerful constellation in space, it is.

Each satellite can generate 5,000 beams, and you can programme each beam, right. You can follow an object from one end of the Earth to the other end of the Earth with one beam. That's not the design of Starlink. That's the design of our satellites and how we're driving, right. So there are sophistication differences in how we build the capabilities, and we like the fact that we want to take complexity away from our client and give them a simple solution, right.

But hide all that complexity in order for them to be able to apply it into their business. So, Sami, again, sorry if we've gone long, but that's my perspective.

Sami Kassab: Excellent. Thank you very much, Adel. Very good answers. Thank you.

Operator: Thank you. That was the last question, and I'm handing it back to Richard for closing remarks.

Richard Whiteing: Thanks all for joining. Thanks for being here, as always. If there's any questions, feel free to reach out to me and the team for any follow-ups. Thank you, and have a great day.

Adel Al-Saleh: Thanks, everybody.

Sandeep Jalan: Thank you.

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

[END OF TRANSCRIPT]