Interim Results > August 2016

# 2016 First Half Results

4th August 2016

The mobile satellite company

# Disclaimer

## Inmarsat 2016

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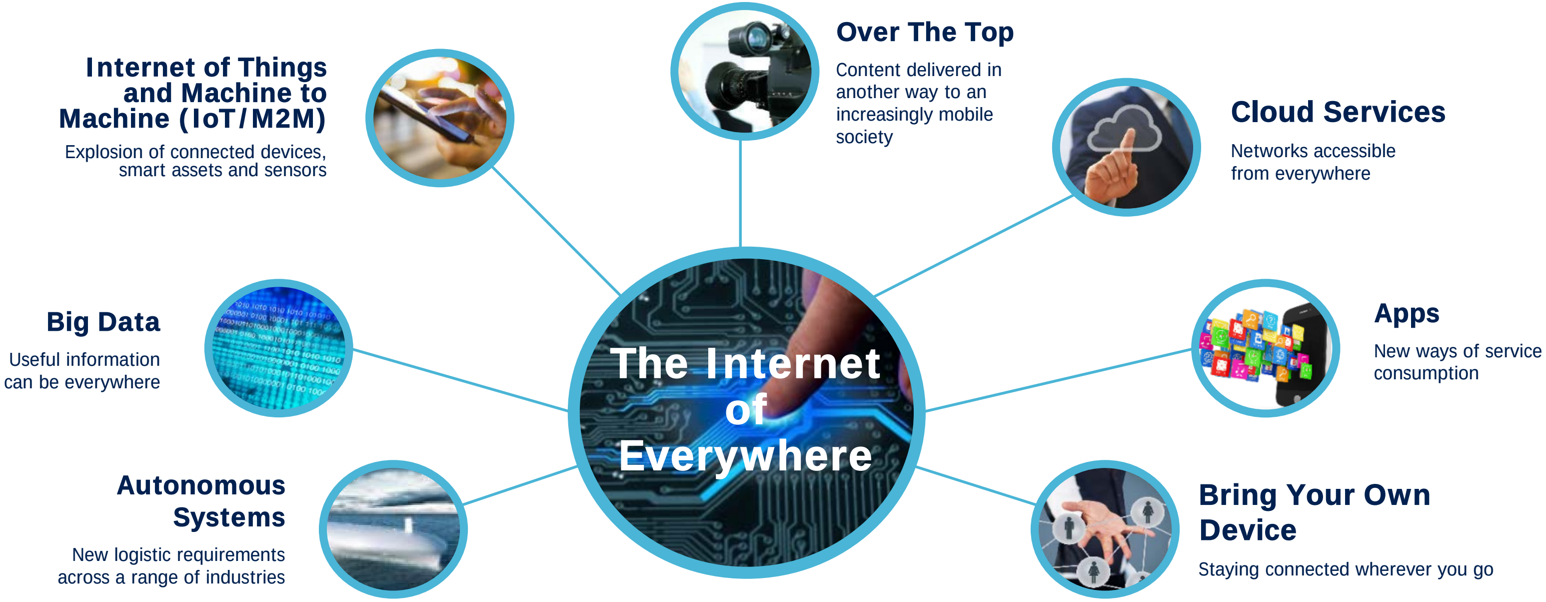
# Business Overview

Rupert Pearce
Chief Executive Officer

inmarsat
The mobile satellite company

# Massive transformation underway for telecommunications

## Inexorable rising demand towards ubiquitous connectivity and global mobility




Our core customers are embracing transformative power of connectivity
(smart ships, connected aircraft & unmanned aviation systems, net centric warfare, smart oil fields)

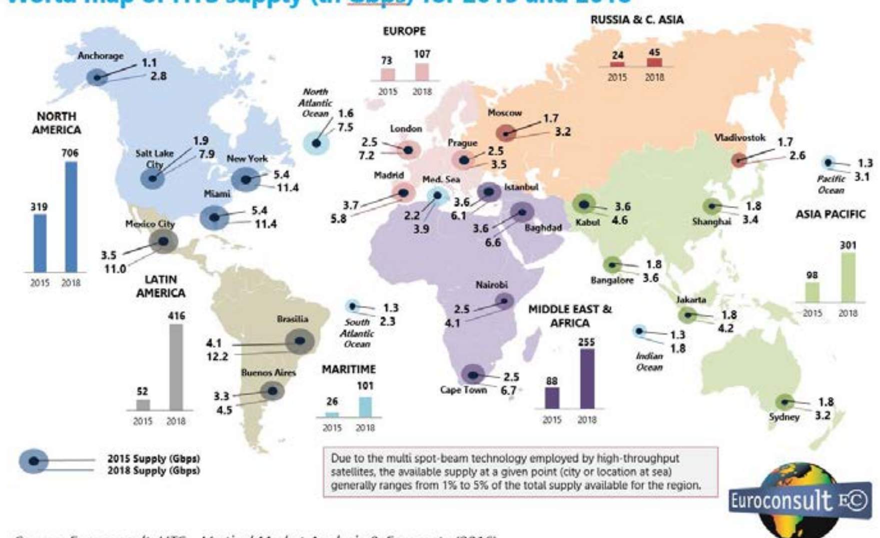
New customers with pervasive connectivity needs to be met by augmented satellite coverage & reliability
(smart cities, intelligent transport systems, smart agriculture, tele-education & healthcare, smart grids & control systems, aviation passenger connectivity)

# Capacity rising in response to demand growth

## Significant amounts of capacity being launched…potential oversupply in certain regions and markets

- HTS capacity to grow from <700 Gbps in 2015 to ~3,000 Gbps 2020, while demand by 2020 not expected to exceed ~1,000 Gbps*
- >20 operators launching HTS satellites and/or payloads over the next 3 years but few focusing on mobility markets that require global coverage*

World map of HTS supply (in Gbps) for 2015 and 2018*




*Source: Euroconsult; HTS – Vertical Market Analysis & Forecasts (2016)*

- Most satellite operators devote the vast majority of their available HTS capacity to address fixed applications and regional demand
- Capacity heavily concentrated on North America and Latin America each accounting for ~30% of net capacity additions over 2015-2020
- Europe (a key region for maritime and aviation traffic) with marginal HTS capacity additions over 2015-20
- Capacity over ocean regions remains moderate with HTS supply for maritime regions remaining at no more than 5-8% of total supply over 2016 to 2020
- Spectrum efficiencies for mobility applications lower than for FSS markets (less bps/Hz) reducing actual useable capacity for mobility
- Due to small spot beam architecture supply at a given location will be limited

**Due to the specific user requirements (high and consistent power levels, network management) and the nature of traffic distribution (global but with high concentration in hot spots) there will likely be a capacity shortage for mobility markets**


*Source: Euroconsult 2016

Source: Inmarsat analysis of Euroconsult and NSR 

# Inmarsat overview

## Mobility is different...and getting more different

> 37 years market leadership, premium brand, strong reputation and proven track record in Mobile Satellite Services

> Global, seamless, fully-integrated, mobility-tailored broadband (Ka/S-band) & narrowband (L-band) networks in place, with full in-orbit redundancy

> Diversified global product & service portfolio across multiple sectors & verticals

> Powerful global direct & indirect distribution network across all markets and geographies

> Mature, proven business model delivering E2E dynamic QoS, not just bits, to industrials & governments supporting peripatetic customer base

> Powerful solutions platform leveraging supply side economics & Inmarsat partner ecosystem

> Sustained profitability and strong balance sheet, investments fully funded

> Continued investment in innovation to retain clear leadership in delivering global mobile solutions (EAN, Inmarsat-6, Gateway)

# Our growth rocket

## Core L-band services
Inmarsat-3, 4 & 6
Global, highly mobile, agile and resilient

- Regulation/safety (eg ATM)
- Merchant shipping, fishing, leisure
- Cockpit & aircraft operations
- General aviation
- Mobile WiFi hotspots
- IoT[1]/M2M/BFT
- Media newsgathering & Aid
- E-borders & security
- Intelligent transportation systems
- Smart agriculture
- Smart cities
- Government COTM & UAS
- Back-up for broadband services

L-band provides a solid business foundation, steady cash flows and some unique new growth opportunities...

... to accelerate cross-selling of products and market & technology developments

**Wild Cards**
- Connected cars
- Events – Govt. operational tempo
- China & India

**Spectrum**
- Ligado Networks

**Solutions**
- Inmarsat Gateway platform
- Solutions - Applications - Services
- Digital Enablement

**S-band EAN Regional ultra-high throughput hybrid network**
- European aviation passenger connectivity

**Milsatcoms** including global military Ka-band capabilities
- WGS[2]/MUOS[3] gap filler and augmentation
- ISR[4]/large UAVs[5]

**Ka-band services (Global Xpress) Inmarsat-5 & Inmarsat-6 Global, high capacity, high speed**
- Airline passenger connectivity, Business aviation
- Maritime VSAT[6]
- Energy & resources
- Government comsatcoms (USG & International)

(1) Internet of Things
(2) Wideband Global System
(3) Mobile User Objective System
(4) Intelligence, Surveillance and Reconnaissance
(5) Unmanned Aerial Vehicle
(6) Very Small Aperture Terminal


# Financial Review

Tony Bates
Chief Financial Officer

inmarsat
The mobile satellite company

# Group Income statement

| $m | H1 2016 | H1 2015 | Change | Q2 2016 | Q2 2015 | Change |
|---|---|---|---|---|---|---|
| **Revenue** | **629.0** | **616.2** | **12.8** | **330.4** | **311.4** | **19.0** |
| Operating costs | (260.6) | (273.5) | 12.9 | (128.2) | (145.5) | 17.3 |
| **EBITDA** | **368.4** | **342.7** | **25.7** | **202.2** | **165.9** | **36.3** |
| Depreciation & Amortisation | (174.6) | (150.9) | (23.7) | (84.1) | (75.5) | (8.6) |
| Other | 0.1 | 10.4 | (10.3) | (0.5) | 0.5 | (1.0) |
| **Operating profit** | **193.9** | **202.2** | **(8.3)** | **117.6** | **90.9** | **26.7** |
| Interest payable | (39.5) | (36.3) | (3.2) | (21.7) | (21.3) | (0.4) |
| **Profit before tax** | **154.4** | **165.9** | **(11.5)** | **95.9** | **69.6** | **26.3** |
| Tax | (32.0) | (34.3) | 2.3 | (19.1) | (15.4) | (3.7) |
| **Profit for the period** | **122.4** | **131.6** | **(9.2)** | **76.8** | **54.2** | **22.6** |
| | | | | | | |
| **Free cash flow** | **218.2** | **94.8** | **123.4** | **85.7** | **(21.6)** | **107.3** |
| Basic EPS (cents) | 27.16 | 29.27 | (7.2%) | | | |
| DPS (cents) | 20.59 | 19.61 | 5.0% | | | |

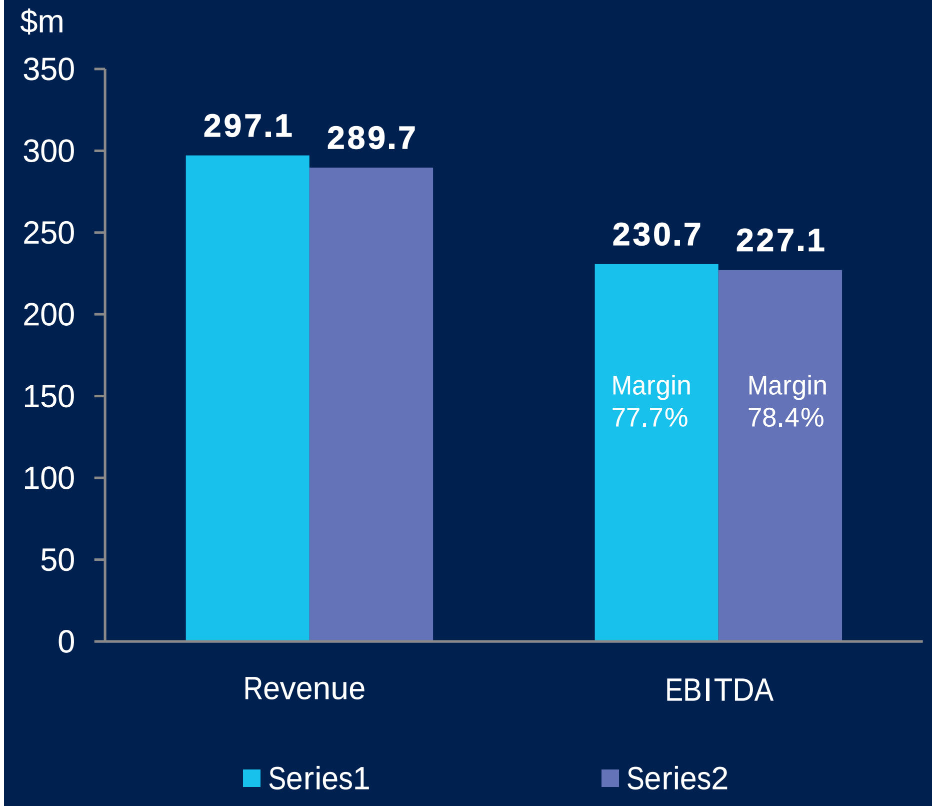
# Revenue & EBITDA

| $m | H1 2016 | H1 2015 | Change | % | Q2 2016 | Q2 2015 | Change | % |
|---|---|---|---|---|---|---|---|---|
| Wholesale MSS revenue | 430.8 | 403.8 | 27.0 | *6.7%* | 223.8 | 205.5 | 18.3 | *8.9%* |
| Other revenue & terminals | 144.8 | 177.4 | (32.6) | *(18.4%)* | 71.0 | 88.4 | (17.4) | *(19.7%)* |
| Ligado | 53.4 | 35.0 | 18.4 | *52.6%* | 35.5 | 17.5 | 18.0 | *102.9%* |
| **Total Revenue** | **629.0** | **616.2** | **12.8** | **2.1%** | **330.3** | **311.4** | **18.9** | ***6.1%*** |
| | | | | | | | | |
| EBITDA ex LN | 315.0 | 307.7 | 7.3 | *2.4%* | 166.7 | 148.4 | 18.3 | *12.3%* |
| Ligado | 53.4 | 35.0 | 18.4 | *52.6%* | 35.5 | 17.5 | 18.0 | *102.9%* |
| **Total EBITDA** | **368.4** | **342.7** | **25.7** | ***7.5%*** | **202.2** | **165.9** | **36.3** | ***21.9%*** |
| | | | | | | | | |
| *EBITDA margin ex LN* | *54.7%* | *52.9%* | | | *56.5%* | *50.5%* | | |
| ***EBITDA margin*** | ***58.6%*** | ***55.6%*** | | | ***61.2%*** | ***53.3%*** | | |

# Maritime

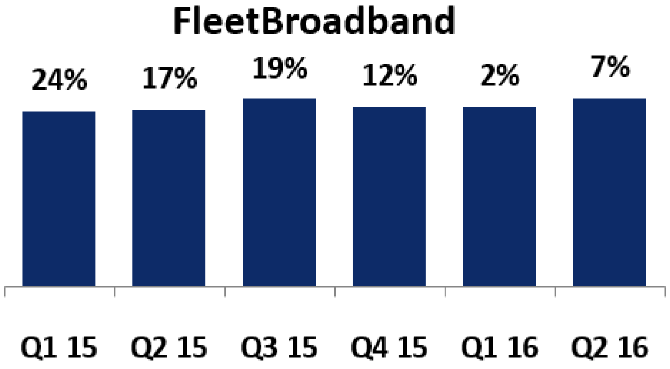
## Business Unit Results – H1

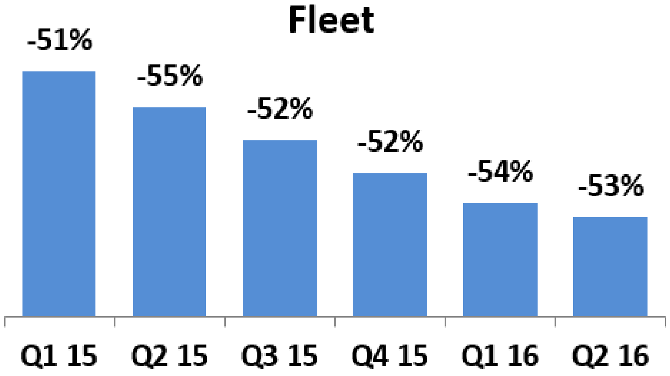
- > Better Q2 in ongoing tough markets
  - Revenue down 0.5% in Q2 (down 4.5% Q1)
  - Sequential growth (143.1m, 146.6m)
- > Growth in FleetBroadband +4%
  - Price increase (fleet little changed)
  - Some migration to VSAT
- > Growth in VSAT +13%
  - Growing fleet, order backlog little changed
  - Fleet Xpress full commercial launch
  - Marlink, SpeedCast, Navarino
  - ARPU lower
- > Legacy product decline unabated
  - Lower margin product
  - Fleet -53%, Other -18%

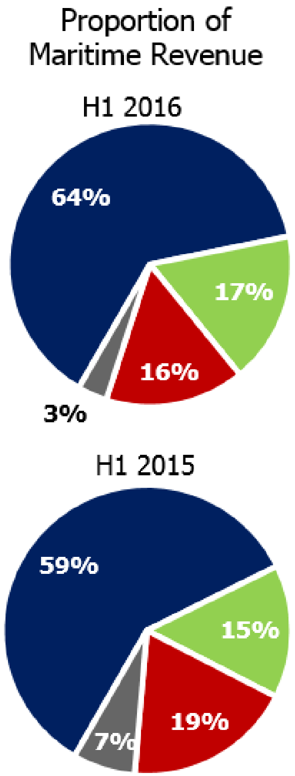


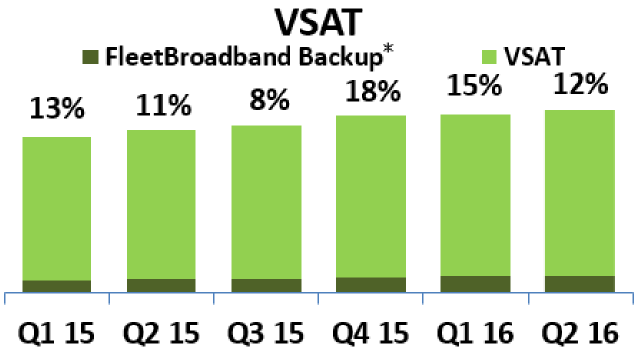
# Maritime

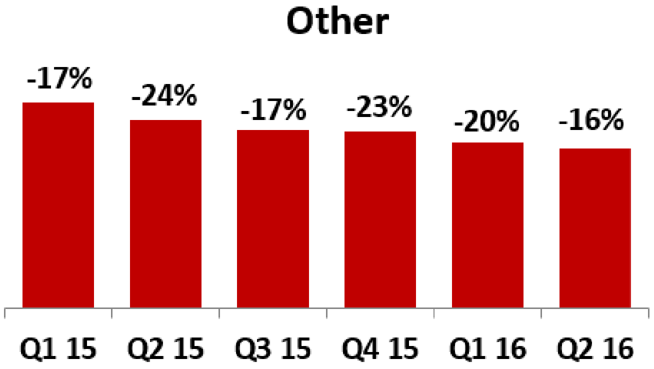
## Quarterly Product Revenue (year-on-year change)




*FleetBroadband Backup is shown to illustrate VSAT revenues which are attributable to the L-band backup service

# Government

## Business Unit Results – H1

- H1 revenue growth for the first time since the BU was created 3 years ago
  - Growth in Q1 and Q2 and sequentially
- US budgetary pressures continue
  - Impact mitigated by initial GX uptake
  - Revenue down 7% (down 16% H1 2015)
- RoW markets also still difficult
  - Budgetary constraints but diversified portfolio
  - Operational tempo driving current results
  - Revenue up 17% (down 12% H1 2015)
- Working on the medium term
  - US Navy contract win (2017-21 impact)
  - I-5 F4 and I6 capabilities

# Enterprise

## Business Unit Results – H1

> Better Q2 in tough ongoing markets
  - Revenue down 4.6% in Q2 (down 12.6% Q1)
  - Sequential growth (38.5m, 34.0m)
  - Margins improved (revenue mix)

> BGAN -22%
  - Continuing decline, Nepal boost in 2015

> M2M +3%
  - Increasing terminal numbers

> Fixed to Mobile +69%
  - Price increases

> FleetBroadband -9%
  - Oil and Gas users and usage lower

> GSPS -4%
  - Airtime up 4%, low terminal sales Q1

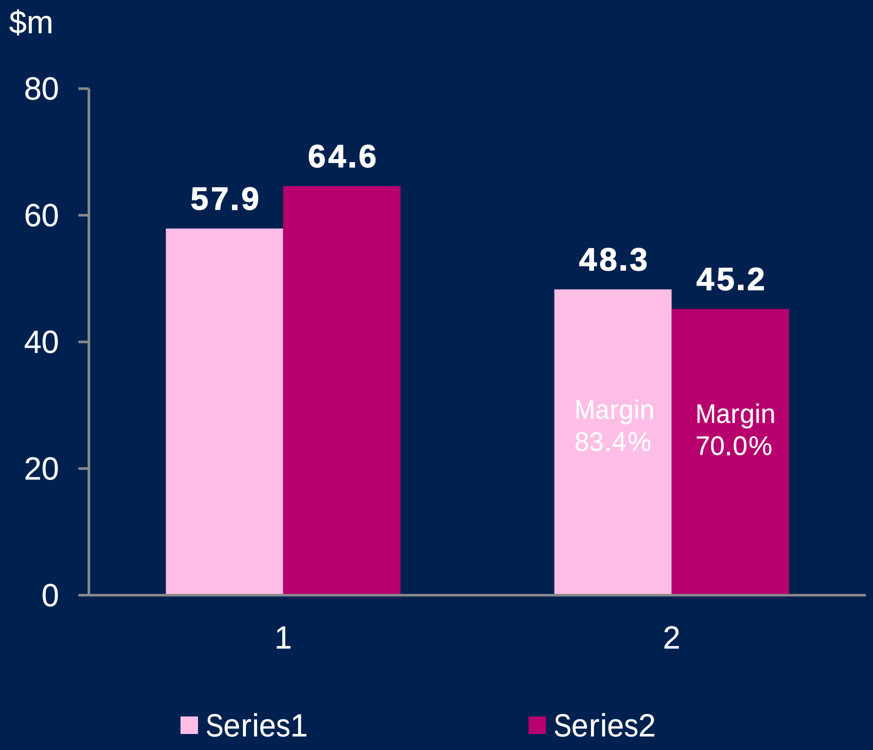
# Aviation

## Business Unit Results – H1

> Continued growth in core business
  - Growth in Q1 and Q2 and sequentially
  - SwiftBroadband +14%
  - Classic Aero +17%

> Passenger connectivity coming slowly
  - 2,800 aircraft now at RFI stage or beyond
  - GX terminal certification progressing well
  - European Ground Network on track
  - DLH first GX aircraft flying in Q4

> Operating costs rising
  - Investment in capability
  - Costs of delivery (people etc, pass through)



# Group Cash Flow

| US$m | H1 2016 | H1 2015 | Change | Q2 2016 | Q2 2015 | Change |
|---|---|---|---|---|---|---|
| **EBITDA** | **368.4** | **342.7** | **25.7** | **202.2** | **165.9** | **36.3** |
| Working capital/non-cash items | 49.0 | 21.2 | 28.5 | 16.3 | 5.2 | (11.1) |
| **Operating cash flow** | **417.4** | **363.9** | **54.2** | **218.5** | **171.1** | **47.4** |
| Capital expenditure | (139.1) | (240.8) | 101.7 | (100.6) | (152.1) | 51.5 |
| Interest paid | (38.5) | (39.0) | 0.2 | (27.7) | (28.2) | 0.5 |
| Tax paid | (21.6) | 10.7 | 32.3 | (4.5) | (12.4) | 7.9 |
| **Free cash flow** | **218.2** | **94.8** | **123.4** | **85.7** | **(21.6)** | **107.3** |
| Disposals | - | 32.9 | (32.9) | - | - | - |
| Dividends | (144.0) | (135.1) | (8.9) | (143.6) | (135.1) | (8.5) |
| Other movements | 2.6 | 1.4 | 1.2 | (0.8) | (0.8) | - |
| **Net cash flow** | **76.8** | **(6.0)** | **82.8** | **(58.7)** | **(157.5)** | **98.8** |
| | | | | | | |
| Opening net debt | 1,985.8 | 1,900.7 | (85.1) | 1,857.8 | 1,754.2 | (103.6) |
| Net cash flow | (76.8) | 6.0 | 82.8 | 58.7 | 157.5 | 98.8 |
| Other | 14.9 | 14.9 | - | 7.4 | 9.9 | 2.5 |
| **Closing net debt** | **1,923.9** | **1,921.6** | **(2.3)** | **1,923.9** | **1,921.6** | **(2.3)** |

# Capital Expenditure

| US$m | H1 2016 | H1 2015 | Change | Q2 2016 | Q2 2015 | Change |
|---|---|---|---|---|---|---|
| Major infrastructure projects | 100.2 | 188.6 | 88.4 | 66.3 | 115.3 | 49.0 |
| Success-based capex | 23.1 | 10.8 | (12.3) | 10.5 | 5.5 | (5.0) |
| Other | 34.2 | 33.0 | (1.2) | 12.8 | 5.7 | (7.1) |
| Cash flow timing | (18.4) | 8.4 | 26.8 | 11.0 | 25.6 | 14.6 |
| **Total cash capital expenditure** | **139.1** | **240.8** | **101.7** | **100.6** | **152.1** | **51.5** |

**Definitions**

**Major infrastructure projects**: Satellite design and build, launch costs and ground infrastructure.

**Success-based capex**: Equipment installed on customer premises (e.g. ships and aircraft). Ties closely to near term new revenues.

**Other**: Primarily 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.

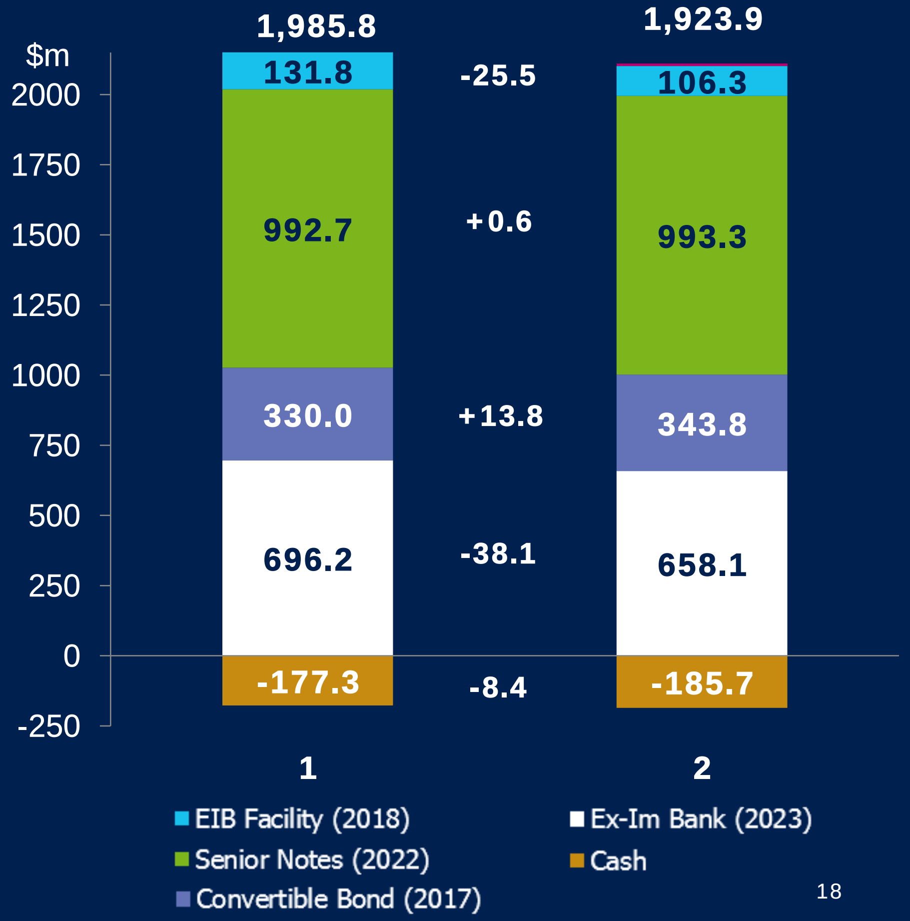
# Net debt

> $898m liquidity at 30 June 2016
  - Revolving Credit Facility $500m
  - Undrawn Ex-Im Facilities $212m
  - Cash $186m

> Leverage well within 3.5x policy level
  - 2.1x excl convert (Dec 2015: 2.2x)
  - 2.6x inc convert (Dec 2015: 2.7x)

> Convertible maturity
  - November 2017 at $387m
  - Converts at GBP equivalent of $16.53

> Average interest rate 4.05%



# Guidance unchanged

> Outlook continues to be positive for the long term (GX, Aviation, Demand growth) but very hard to forecast (new products, competition, price, capacity)

> Revenues (ex Ligado receipts)
  - 2016 - $1,175m-$1,250m
  - 2018 - $1,450m-$1,600m

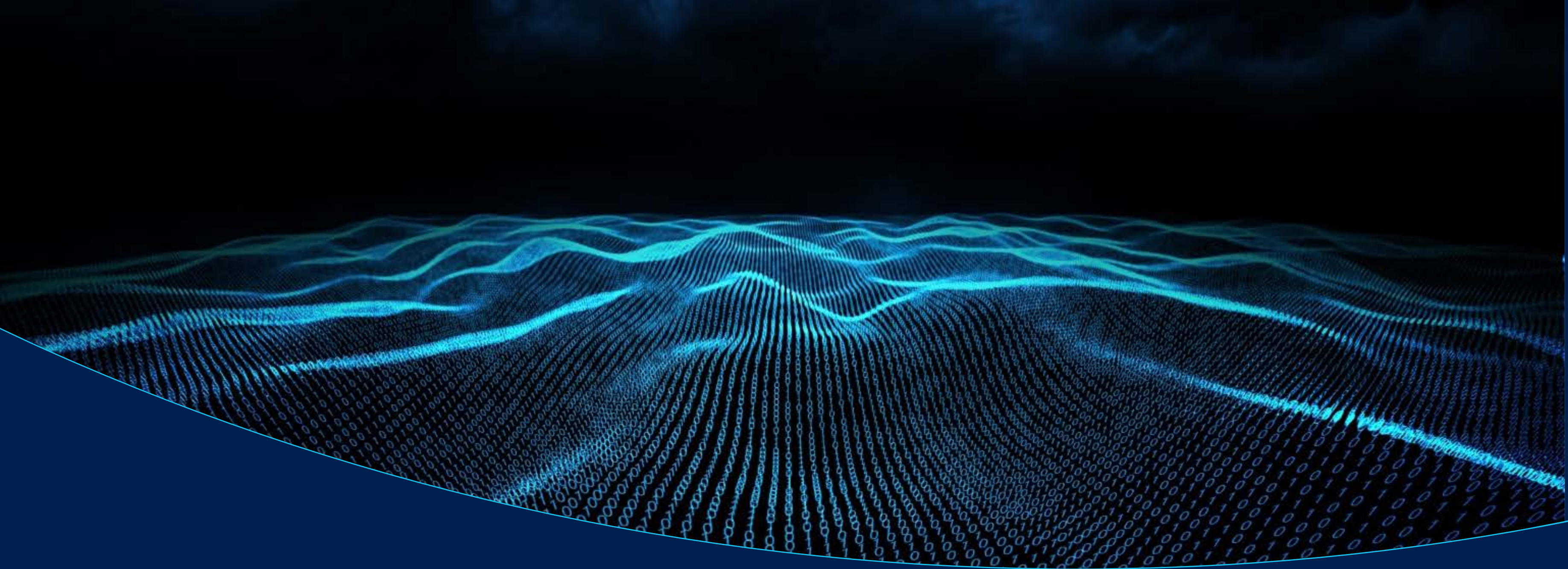
> Ligado receipts
  - $108m (2016), $111m (2017) and $118m (2018)

> GX revenue run-rate $500m pa by the end of 2020 2018 - $1,450m-$1,600m
  - Includes XpressLink migration

> Capex $500m-$600m in each of 2016, 2017, 2018

> Net Debt normally < 3.5x EBITDA

> Dividend levels set by reference to medium term outlook



# Q & A

Interim Results 2016

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