

Eutelsat Communications
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Chaired by Michel De Rosen

Michel De Rosen

Thank you, Sarah. Welcome, everyone, and thank you for joining us today for Eutelsat's First Quarter 2012-2013 Revenue update. I am Michel De Rosen, CEO of Eutelsat Communications. I am here with Michel Azibert, Deputy CEO, and Catherine Guillouard, CFO, as well as the IR team, Lisa Finas and Léonard Wapler.

I will start by presenting the highlights of the quarter. Michel Azibert will walk you through the revenue performance for each of our business activities and I will conclude with the outlook for the remainder of the year. Michel, Catherine and I will follow on with the Q&A session. Please feel free to direct your questions to any of us.

Ladies and gentlemen, Eutelsat once again delivered solid top-line growth in this quarter. The excellent performance of Video Applications, plus 9%, reflects the strong uptake of capacity, added to the high-growth regions of the Middle East and North Africa last year. Data and Value-Added Services revenues were underpinned by the growing contribution from Value-Added Services, up 44% in the quarter. The Multi-usage business was down by around 6%. The year-on-year decrease in these activities was anticipated for reasons you are already familiar with, but more on this shortly.

Let me highlight three important achievements of the quarter. On September 25, we closed the acquisition of GE-23 for US\$228mn in cash. This high quality asset will extend our reach further into the Asia Pacific region. The acquisition will be accretive to earnings in the first year. GE-23 has been renamed EUTELSAT 172A and integrated into our fleet. In keeping with our normal practice, in the future we will not be communicating on the performance of this satellite individually.

We recently selected the manufacturer (second achievement) Thales Alenia Space to build the satellite EUTELSAT 8 West B. This satellite will support future development by significantly reinforcing our presence in the dynamic 7°/8°West video neighbourhood covering the Middle East and North Africa. Thirdly, we successfully issued a new 10-year bond, taking advantage of attractive market conditions. This new bond, which further reinforces our financial position, is the longest-dated debt instrument in our financial debt structure, with the lowest coupon 3.125%.

Michel Azibert will now comment in more detail on the revenue performance of each activity.

Michel Azibert

Thank you, Michel. Starting with Video Applications, our largest activity representing nearly 70% of total revenues, Q1 performance delivered a strong 9% growth, reflecting the robust take-up of capacity added in 2011-2012, to satisfy high demand in the MENA region, mainly via the satellite EUTELSAT 7 West A. The procurement of EUTELSAT 8 West B and refinements to the deployment plan means further capacity at this dynamic video neighbourhood as early as 2013. Two other key video neighbourhoods, 13°East and 36°East, both saw an acceleration in high definition, helping to boost the fleet's overall HD penetration to close to 9%, with a total of 379 HD channels.

Turning now to Data and Value-Added Services, the 7% decline in Data Services revenues reflects the full-year impact of factors observed in 2011/2012, notably competitive pricing pressure in Africa as well as capacity limitations at established orbital positions. Data Services will benefit from the capacity added over the fastest-growing regions by EUTELSAT 21B and EUTELSAT 70B, to be launched in the coming weeks. These two satellites will increase our ability to take advantage of the areas of highest demand, notably for corporate networks and mobility in these fast-growing markets. The newly-acquired satellite, EUTELSAT 172A, will also complement Data Services revenues going forward.

Value-Added Services revenues grew by nearly 44%. Tooway services for consumers and broadband services for SOHOs have both been ramping up on KA-SAT since June 2011. We described in July a number of actions implemented to boost the KA-SAT business, notably a new management team and organisation, revamped product offering and enhanced distribution network, and these actions have started to bear fruit. We will be able to report more fully on our progress at H1.

The IP Easy services, providing broadband for SOHOs in Africa, are now enhancing the lower end of the DStar offering. Finally, maritime mobility applications revenues are ramping up at a rapid pace for internet connectivity on ships.

Turning to Multi-usage, the 6% decline reflects the loss of contract volumes during the renewal cycle earlier this calendar year, due in particular to the restricted capacity in regions where demand was high. We already flagged this to you at previous quarters. We are now in the process of completing the second renewal cycle, September/October, and based on currently available information the campaign went as expected. The upcoming launches of EUTELSAT 21B and EUTELSAT 70B, and the integration of EUTELSAT 172A, will address the capacity limitation.

I'll now hand back over to Michel, who will conclude with the outlook.

Michel De Rosen

Thank you, Michel.

Our fleet development plan, with the launch of 7 new satellites between now and 2015, together with the redeployment of some existing in-orbit resources, will significantly increase our capacity, focused primarily on fast-growing markets. The next two scheduled satellites have now arrived at the respective launch facilities and are readying for launch. EUTELSAT 21B is scheduled for launch on November 9 from Kourou in French Guiana

and EUTELSAT 70B is on track for an early December launch from Sea Launch in the Pacific Ocean.

Based on this positive first quarter, we confirm all our one and three-year objectives published in July 2012: For revenues current year to June 2013, 3-4% growth, and three years to June 2015 CAGR of 5-6%. With the acquisition of EUTELSAT 172A, the revenue target has been adjusted to reflect the mechanical impact of the integration of this satellite into the fleet. Henceforth, they stand at: current year to June 2013, 5-6% growth and three years to June 2015 CAGR of 6-7%.

All the targets relating to the period to June 2015 are confirmed and remain unchanged. EBITDA margin around 77%; average Capex of €500mn/year – these exclude EUTELSAT 172A. Net debt to EBITDA below 3.3X, for a solid investment grade rating, and 65-75% of net income payout ratio – I have just confirmed and reminded you of the other targets related to the period to June 2015.

Ladies and gentlemen, our focus in the current quarter is of course the November launch of the EUTELSAT 21B satellite, which will be followed in December by EUTELSAT 70B. These two satellites will significantly increase our resources for markets in the Middle East, Africa and Asia, where demand remains robust for Data Services and Multi-usage. I will now be happy to open the call to questions.

Questions and Answers

Tania Valiente - Citigroup

I have two questions, please, and the first one is on your overall revenue growth rate - if we look at it on a constant FX basis, we see a sequential slowdown, so you grew by 3.8% versus 5.7 last quarter. I was wondering, given the lack of incremental capacity in the second fiscal quarter, should we expect a further slowdown and does that mean that your revenue guidance is more back-end loaded towards the second half? Then a more specific question on Video – I was wondering if you still had some Video capacity for sale until the redeployment at 8 West and the launch of Eutelsat 3D? Thank you.

On the second question, yes, we have some additional capacity for Video but not much. Obviously the marketing of 7 West A has been quite good and we don't have much capacity left on our hotspots, 36A and 36B covering Russia and Africa, but there is still some capacity. Just to give you an example, for instance, on the 9° East orbital slot we still have capacity, but of course in the coming months the satellites that we will bring into orbit are more Data and Multiusage satellites.

The growth to answer your first question will yes, be backend loaded, because obviously the satellites will come in service based on the launches basically in the first half of the calendar year, meaning the second part of the fiscal year so mechanically yes, the growth will be more in the second half.

Laurie Davison – DB London

Hi there. Can you update us on the Media Broadcast contract? Obviously you've filed for arbitration there very recently. Can you update us on whether we could potentially see a revenue drop-out there from late October in your fiscal Q2? The second question is just on your net interest – given the refinancing, what would your net interest guidance now be for fiscal 2013-2014? Thanks

Michel De Rosen

Laurie, I will address the first question and Catherine will address the second one. We had, in recent days, some questions on what's going on at 28.5, so I want to take this opportunity to summarise what is going on regarding some of our operations in 28.5.

- (1) We took the initiative to enter into arbitration when SES, via the International Chamber of Commerce Paris on October 16 2012, grounded on a breach by SES of the Inter-system Coordination Agreement signed with Eutelsat in 1999.
- (2) The Inter-system Coordination Agreement includes coordination at various orbital positions and frequencies, not just 28.5 East, and it has no limitation in time.
- (3) The Agreement signed between SES and Media Broadcast 7 years ago and made public only on October 1 2012, violates the terms of the Inter-system Coordination Agreement.
- (4) Independent from the ongoing arbitration against Deutsche Telekom Media Broadcast under the Inter-system Coordination Agreement as yet has to respect Eutelsat's operations at 28.5 East and, therefore, cannot operate in these frequencies from October 2013 while Eutelsat can and will in full compliance with ITU rules.
- (5) The arbitration with Deutsche Telekom Media Broadcast concerns the usage right of the German filing. The arbitration against SES concerns Eutelsat and SES' respective rights of use of the frequencies at 28.5 28.2 East, as defined in the Inter-system Coordination Agreement. It is not related to the question of who has the right to use the German filing.
- (6) We do not believe SES will use the capacity from October 2013 as this would preempt decisions in both ongoing arbitrations.

We will not comment further on this topic because, now that we have two arbitrations going on, we believe that this is where most of the energy on these two topics should be focused.

Catherine Guillouard

On the question around the interest, we do not guide on this interest; I think your question is more around the French Government's tax discussion because they are discussing a new tax on financial expenses, but it is too early to say what will be the impact for us. Essentially it is still before Parliament, so we will give you some clarity on that for the H1 financial account.

Laurie Davison – DB London

Just to come back on those questions, can you confirm now that you will carry on booking revenues from the Media Broadcast contracts from next quarter. Then, just on the net interest point and the potential change in French Tax Law, when do you think you will have clarity on the actual plans there?

Catherine Guillouard

On the French tax it is in Parliament now, so we think that by the end of this calendar year we will know what the Government finally decides. Again, probably for H1, knowing we will issue in February, we will have some clarity around that. Again it is not in our hands. It is a Parliament process so it must be in our H1 Account.

Michel De Rosen

Laurie, on your other question the answer is yes.

Laurie Davison – DB London

Thank you.

Torsten Achtmann – JPM – London

Good afternoon. Could you give an update on your general pricing, as this has been the topic of debate about pricing in Africa and some of the pricing on the Balkans – has anything changed and have there been other regions where you have seen more pricing pressure coming through? The second part would be on Value-Added Services which have started to grow very nicely, driven by KA-SAT. Are you ready to give some more indication how much of these revenues are from KA-SAT and how quickly now you think the Enterprise business in KA-SAT will start to ramp up? Thank you.

On the pricing, of course the situation in Africa is based on supply and demand, market trends and competitive environment, so the competitive pressure is still there. At the same time the demand is growing very fast for corporate networks in particular, so the trend is more-or-less the same as previous, except the business is actively marketed and we hope we will sell much more additional capacity with 21B and 70B, with the very specific features of this satellites (in particular 70B). In the Balkans the situation is the same. It is a mix of pricing pressure, competition from different operators and a little bit of economic slowdown in the region which delay certain projects from Telcos in particular.

With regards to KA-SAT, yes, of course a significant part of the year-on-year increase is obviously due to KA-SAT. There is a small contribution from Mobility Services, Maritime Services that we have mentioned, but the bulk is obviously KA-SAT and the bulk year-on-year is KA-SAT Residential Services, because of the growth of number of distributors and number of countries. Having said that, we see a good start for new Professional Services and we have enhanced, in a way, the technical features of the Corporate Services for small companies. We are also starting the sale of the Professional Video Services with the News Portal Service, so we bet that in the next quarter these will start contributing more significantly to the growth of the whole KA-SAT business.

Back on the Video pricing question, have you seen similar trends of increasing pricing pressure in any other regions or is it still only these two where you can see it?

No, I think the trend on Video is generally good – in fact, in terms of average revenue per transponder, we continue to see a slight growth quarter-on-quarter and year-on-year, so that is positive and we don't believe there will be a change in this, going forward.

Thank you.

Henrik Nyblom – Nomura London

A couple of questions – I do respect your situation at 28.5, but I just wanted to ask about the EUTELSAT 48B – you obviously are positioning it there to make sure that you are looking after the frequency rights that you have in that position, etc; is that all the way we should look at it or is there actually an incremental commercial opportunity there and, related to that, how many transponders would you argue that you could operate if you saw a commercial opportunity on this relatively limping deal with WQM? That is my first question.

The second question is on Video – you saw a sequential decline in Video, despite the fact that you had the Olympics during the quarter – can you give us an idea of how much contribution you would argue came from Olympics and therefore will fall away in Q2? Thirdly, and finally, can you give us an update of where you are with the Birds that you are looking into, building together with the Russian RSCC, as we have not had an update for a while.

If we take the first one, EUTELSAT 48B repositioned at 28.5 East, this is because we see at this position a commercial opportunity for markets outside of Europe and we hope that out of the transponders we have on the satellite, we will probably sell some in the coming year. As you know, we have 8 transponders on this satellite.

Secondly, regarding the prospects for Russia, we are confident that we will find a way to extend our capacity to serve the Russian market at 36 East. We are in advance discussions with our Russian partners and we will communicate on that hopefully in the next weeks or months, but there are positive developments there.

Third, with regard to the comparison quarter-to-quarter on a sequential basis, you are correct to say that let's say the Olympics explain a small growth of the Professional Video and specifically of the occasional use business. There is a slight decrease of the recurring broadcasting business, but you have to know that this does not show any trend because there is a specific one-off in the revenue of Q4 fiscal year 2012, so in fact net of this there is a modest but slight increase on the broadcasting side.

How much, roughly, is the Olympic effect? We can't count on next quarter – is it about two million, roughly?

No. It is much less. I'll not say the figure but it is much less.

Thank you.

Nick Dempsey – Barclays

Just going back to the French proposed tax changes, do you know if those will be back-dated and therefore would affect you for the year that you are currently in? The second question is around the 7-8 West slot; do you know when in 2013 you'll be able to move capacity there, to capture the good opportunities you have been talking about?

Catherine Guillouard

On the tax part, again, the law is through Parliament and the decision around when it will be applied is not properly fixed. There are two elements, the non-deductibility of financial expenses and the accounting treatment, or the 3% new French Tax on dividends. This is also still pending and, notably, in terms of accounting rules it is not clear today where it will be and that it will impact the P&L with a new Corporate Tax Expense, or a reduction in shareholder equity. We are waiting for the finalisation of this French Law in order to be able to give clarity on that on our account, so more to come. We will follow this very carefully and we think that, due to the Government process, this must be fixed again before the end of this calendar year.

Michel De Rosen

With regard to 7 and 8 West, first I'll start with the second one, 8 West B, since we have just ordered the satellite and we hope it will be operational in the first half of 2015. As a gap-filler yes, we will have capacity coming in 2013, which will be in the second half of 2013 because for this we need to have a cascade of operations which would be triggered by the release of certain capacity linked with the coming of new satellites, so basically it will be Q3 or Q4 2013.

Can you tell us how many transponders you have available on the new capacity you move there?

It will be 5 transponders in KU.

Thank you.

Jean-Michel Koster – CM-CIC Securities – Paris

Hello. My question has already been answered.

Thank you, Jean-Michel, you are a visionary!

Matthew Robilliard – BNP Paribas Paris

I have two questions, please, first with regard to Multi-usage. I understand why Multi-usage is down, year-on-year, but I wanted to understand why it is down quarter-on-quarter, because my sense was that the renegotiation had taken place in Q2/Q3, so Q4 is possibly the low point and in fact also Forex has been a support so, maybe understanding that, why it declined between Q4 and Q1. As a follow-up to that, during the presentation you mentioned that the renegotiation of the capacity for that client has gone as expected, so should we understand that as the fact that the Q1 number is a bottom in terms of absolute revenues.

Then, just as a last question, you announced that you stopped broadcasting some channels for Iran and I wanted to know if there was any material revenue impact linked to that? Thank you.

Michel De Rosen

Matthew, I will address the first one and Michel will take the second one. On the first one the change from Q4 last year to Q1 is really not significant. It is not nothing, but it is not significant. Yes, you are right, you can consider this figure as a bottom, and for those of you who follow Multi-usage less than you do, of course we remind them that the two satellites that will provide additional capacity will only be launched, as expected, in Q2 fiscal year and therefore will only start providing additional revenues in Q3.

Michel, the question on Iran?

Michel Azibert

The question is related to the recent – oh, I was thinking you would answer the other questions... but what happened is, following the European Union Council's restrictive measures and the fact that we had repeated requests from France's CSA for the permanent switch off of one channel, Sahar 1, which is an Iranian channel. Those restrictive measures decided by the EU in January and March of this year are specifically directed towards the Head of the Public Channel IRIB, and we have taken the joint decision between Eutelsat and our distributor, Arqiva, to switch off this IRIB channel on October 15. We have notified in advance IRIB of the termination of their programmes and we believe this decision is well-grounded, on the basis of International Law and the EU regulation.

Michel De Rosen

The other part of Matthew's question was, if I heard him well, how could that impact our revenues?

Michel Azibert

Well, IRIB is on Hot Bird, and the average revenue on Hot Bird is 3.5, so let's assume that it is not so far from this figure, the revenue that we would lose from IRIB if we are not able to replace this client with another one. This is what would be the immediate effect.

As you heard, Matthew, we are today confirming our guidance for the year.

Would it be fair to say there is quite a bit of pent-up demand for Hot Bird capacity – I mean it should not be too difficult to replace that?

It should not be too difficult; yes, there is a lot of demand for Hot Bird.

Thank you.

Eric Beaudet – Natixis Paris

My question was already answered, so have a good night.

And you have a good evening.

Giles Thorne – Jeffries London

Two questions please – you have decided to highlight how you are doing in Maritime Mobile Services and I don't imagine it's a particularly big part of your business, but it would be interesting to hear why customers are choosing to go with you over the competition and, in turn, what you think the outlook for competition is in that market, given the impending launch of EpicNG from Intelsat and of course Global Express from Inmarsat?

The second question is, you reported growth in the first quarter of 6.5% and the underlying growth or constant currency growth was 3.8%, and this was with minimal impact from GE-23 in this quarter, so you are running it close to the top end of the old guidance. Can we expect, given the fact you said earlier that growth will be backend loaded this year, we are going to have further upside pressure to guidance come through, or are you expecting a very big slowdown in Q2, if that makes sense?

Let me address your second question, Giles, and Michel will address the first one. This quarter's strong performance is mainly related to the full-year effect of capacity that has come into service in the previous fiscal year, and our revenue outlook set in July took this into account. The outlook we set three months ago was for one year and three years, and we have no reason to upgrade the organic guidance at this early stage of the year.

Michel Azibert

The Maritime business that we have is a small mobility business, on a few million euros of revenue, so of course we cannot compare ourselves at this point of time with Inmarsat or big mobility NSS operators. Of course we will add to the mobility services provided by EUTELSAT 172A over the Pacific, which will increase this, but at this point in time it's still a niche market for us. It has a very nice growth and will provide, I think, quite interesting mobility services to ships, especially with our subsidiary wins.

Can I just have one clarification, please, on the guidance point, because the wording is not explicit – your guidance of 3-4% or 5-6% is based on the constant currency growth rate that you report, rather than the actual reported-

Catherine Guillouard

Our current year and 3-year revenue outlook is derived from our 5-year plan and budget, and we prepare both elements, budget and 5-year plan, with €6(?) and after we use aging instrument in order to cover those risks, so it is the way we proceed.

Thank you.

Closing Comments

I understand there are no more questions. I thank you all for attending this late call and we look forward to speaking to you or meeting with you pretty soon. Good evening to all, and thank you, Sarah.