SES Q3 2022 Results

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SES Nine Months 2022 Results

Operator: Hello, and welcome to the SES Year-To-Date 2022 Results Nine months ended 30th September 2022 Call. Please note this call is being recorded. You will be in a listen-only mode throughout the call and have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad to register your question.

I will now hand you over to your host, Richard Whiteing, Head of Investor Relations, to begin today's conference. Please go ahead.

Richard Whiteing: Thanks. Good morning, everyone. Thanks for joining this analyst and investor call for our results for nine months ended 30th September 2022. This morning's presentation was uploaded along with the press release to the Investors section of the website at ses.com, if you don't already have it. And as always, please note the disclaimer at the back of the document.

In a moment, Steve Collar, our CEO, will present the main business highlights, followed by Sandeep Jalan, our CFO, to cover the financials in a bit more detail. After some closing remarks from Steve, we will take questions.

With that, I hand over to Steve.

Steve Collar: Great. Thanks, Richard. Good morning, everyone. I will start on page three of the deck with the highlights of another quarter of strong execution across the business and robust year-to-date financial performance.

Revenue stands at €1.4 billion and EBITDA at €829 million year-to-date. These numbers include the first contributions from DRS GES business, which we acquired at the beginning of August, and is now integrated and as part of an expanded SES Government Solutions business. Excluding GES, both revenue and adjusted EBITDA are fully in line with our expectations and consistent with the outlook that we provided at the beginning of the year.

Our Networks business is continuing to grow, up 4% this quarter versus last year and almost 3% year-to-date. Mobility being the standout performer with cruise and aviation and commercial maritime, all posting strong growth.

On the Video side, we're also executing well with a number of long-term renewals signed at our core neighbourhoods, pricing stable to increasing and almost all video renewals secured for the end of the year.

Turning to our growth drivers. SES-17 has been in service now since June, and that's translating backlog into reported revenue as our anchor customer, Thales, transitions aircraft from our bridge network onto the satellite. Feedback on the service performance continues to be strong. We have excellent commercial momentum in our Fixed Data segment with 13 customers signed across eight countries in the Americas, driven by enterprise and rural inclusion.

I'm super excited to announce that our first O3b mPOWER launch is now locked in for 15th December, with the first two satellites completing their final checks ahead of dispatch to the launch base at the end of this month. The performance that we've measured on the ground is stunning and will transform our ability to deliver unique carrier-grade connectivity to a significantly expanded customer base.

With two launches – two further launches planned in Q1 next year, we expect to begin services with the six satellite constellation in Q3 2023. Importantly, the first O3b mPOWER gateways are already commissioned, and the full grand technology stack has been deployed on the current O3b constellation, allowing us to start deploying enhanced MEO services to existing customers in early 2023. The combined gross backlog for SES-17 and O3b mPOWER now stands at $955 million, an increase year-on-year of 22% and that despite the fact that SES-17 is now operational and consuming backlog.

We have a strong deal pipeline and expect to sign further deals for both SES-17 and O3b mPOWER in the coming quarters.

And lastly, I couldn't be happier with where we are on C-band having made great strides in the last quarter. We now have SES-20, SES-21 and SES-22 in orbit following the successful dual launch in October of '20 and '21. And these three satellites allow us to proceed with the installation of filters that will protect our customers' networks and clear the lower portion of the C-band spectrum. We're probably two months ahead of where we expected to be and have direct line of sight to the $3 billion in clearing proceeds that we will earn as a result of successful second phase clearing.

As announced previously, we've also separately agreed with Verizon to implement additional clearing for them, and that activity is also nearing completion. As a result, we expect to receive $155 million before the end of the year with the balance to come in early 2023.

So turning to page four, and more detail on the performance of our Networks business. As I mentioned, Mobility is rebounding strongly following recovery from COVID with both aviation and cruise businesses performing well. Fixed Data and Enterprise is also up year-on-year with the increasing influence from data networks being built on SES-17.

Government is lower year-on-year with the rapid withdrawal from Afghanistan in Q3 last year impacting the comparison, but some very good news with the renewal of our TROJAN network in the middle of the year supporting the Army, a significant win in the CSSC II recompete for the Navy secured by the government team as a major subcontractor to Inmarsat and seven recompete task orders and new business contracts secured with government end users over the last two months alone.

As promised last time, we're also now showing the contribution from the acquisition of DRS GES, €32 million in revenue in the two months since completion of the acquisition. And with the combined businesses already operating under a single management team, we're also starting to deliver on the synergies expected from the combination.

Finally, on this page, we furthered our multi-orbit credentials underlining the use of the right orbit for the right application with the announcement in September that we're working with the European Commission, ESA, the Luxembourg government and more than 20 other agencies and companies across Europe to deliver the Eagle-1 project, a low earth orbit system aimed at the development and demonstration of quantum key distribution technologies.

In an environment where secure connectivity and data sovereignty is permanent, this project highlights SES' capabilities in delivering an ambitious sovereign network to deliver innovative and advanced secure communications to Europe.

The Eagle-1 satellite will launch in 2024 and then complete three years of in-orbit demonstrations supported by the European Commission. And during this operational phase for satellite, we'll allow European Union governments and institutions early access to long distance ultra-secure data transmissions important in the context of the EU's wider space ambitions.

Now turning to Video on page five and performance fully in line with expectations. Revenues are down 5.6% year-on-year, including the termination payment from Nordic Entertainment booked in Q1, which keeps us whole from a revenue perspective in the Nordic region for 2022. The end of our wholesale agreement with DISH in the US in November last year is the other key driver in the year-on-year comparisons and will wash through by the end of this year.

And excluding these two one-off type impacts, the core business run rate is more like 3% down year-on-year. Pricing on renewals continues to be stable to increasing, reflecting the pricing power earned from having the largest video neighbourhoods in the industry and leading penetration of high definition. More than 20% of our video contracts and revenues benefit from indexation clauses. And as I've said previously, we've got a lot of good work done earlier in the year with €230 million of renewals and new business added to backlog so far in 2022.

The performance of our Consumer business, HD+ in Germany, has been robust and helped by the price increases that we implemented in March this year and the launch of our HD+ IP and HD+ ToGo products. We're staying vigilant to consumer trends in Germany with a broader macroeconomic climate worsening while looking ahead to the winter World Cap to lend support.

A tailwind for us in Video has been the introduction of a new Sports & Events, pan-European distribution platform at our core neighbourhood at 19.2 East, and this has already generated traction with almost all of our traditional Sports & Events customers, particularly for news. And I expect this platform to factor in the modest growth projections for our Sports & Events businesses or business going forward.

So then briefly on to page six. And as I mentioned already, you can see the evidence in better performance, the success that we're having with the SES-17 satellite across the Americas with deals in most regions and opportunities being pursued and close to closing in others.

With the first O3b mPOWER launch, a little more than a month away and start of service in Q3 2023 with the six satellite constellation, preparations on the ground are moving ahead at a fast pace. The first gateway has already been activated with others to follow in the coming months. Smaller high performance affordable customer terminals are fully validated on the network and are shipping to customers as we speak. And we'll begin deploying the O3b mPOWER service environment from early in the new year in our O3b mPOWER classic – sorry, the O3b Classic constellation.

One other important milestone this month was the first end-to-end validation of our ARC system, the space brain for O3b mPOWER and also at the heart of our multi-orbit architecture. ARC will deliver massive operational efficiency and deploying power and bandwidth across the system, monitoring performance and adjusting power and bandwidth autonomously.

The combined backlog continues to progress nicely, standing at $955 million, not only reflecting a positive quarter-on-quarter performance but a double-digit year-on-year performance and that despite SES-17 consuming backlog.

Finally, for me on page seven. We've added more ticks as promised in a year of incredible execution for SES and look forward to showing you the final version at our year-end results with this page fully completed. And 2022 really is a landmark year for us, providing the critical platform to secure our industry-leading balance sheet through the delivery of more than $3 billion in C-band proceeds, while the launch of SES-17 and O3b mPower establishes the platform for profitable long-term growth, fuelled by next-generation multi-orbit network architecture that's differentiated from any other on the market, delivering carrier-grade services and solutions that no one else in the market can support.

So with that, I'll hand over to Sandeep.

Sandeep Jalan: Thanks, Steve. Good morning, everybody. Turning now to the financial highlights on page nine.

We are really pleased with an overall solid financial performance in the first nine months of this year. Reported revenue was 6% up year-over-year to €1.4 billion. This reflects a robust underlying revenue performance, including growth of about 3% in Network revenues, the positive effects of the stronger US dollars and two months contribution of the DRS GES acquisition, which we completed ahead of our expectation on 1st August.

We are excited with this acquisition, which will accelerate both revenue and EBITDA growth, plus capture also about $25 million of annual synergies. Adjusted EBITDA of €829 million was slightly above year-to-date 2021 on a reported basis and benefited also from positive effect of stronger US dollar and represented a robust margin of 59%.

While we continue to focus on maintaining a strong balance sheet metrics, leverage temporarily increased to 4.0x, as expected. This is purely timing related with significant cash outflows in quarter three for the GES acquisition but also for the growth CapEx for 2022 and further some C-band related spend. Looking ahead, we expect 2022 year-end leverage to close around 3.5x, as we expect receipt of further C-band disbursements, as well as Verizon proceeds of $155 million.

To date, we have submitted close to $1.3 billion of claims to clearinghouse for which – out of which $575 million has so far been reimbursed by the clearinghouse. Our leverage is expected to further normalise within the next few quarters to our long-term financial policy target of below 3.3x as we will receive these pending C-band reimbursements. Besides, we also have now de-risked C-band clearing with the first three satellites successfully in orbit and now have a clear line of sight for capturing the $3 billion incentives linked to FCC December '23 clearing milestone.

With a solid year-to-date performance and good visibility of the coming quarter, we are fully on track to deliver our full year outlook for 2022. On top, we expect some $85 million to $90 million of revenue from GES for the period August to December.

Looking now at page 10 and the net profit bridge. Adjusted EBITDA performance was driven by the following main components. First positive effect was coming from the stronger USD versus euro, which is beneficial for SES, as we have discussed in the previous calls. It contributed €50 million.

Second positive effect was the return to growth in Networks, where we saw revenues up year-over-year by 2.7%. What is also important to highlight that both in quarter two and quarter three, Networks business recorded a growth of 4% year-over-year, including a strong rebound in Mobility business, which recorded over 20% year-over-year growth, both in quarter two as well as in quarter three.

Third positive effect was coming from €10 million periodic revenues from Video pertaining to Nordic services as we explained during quarter one results. These positive effects were partly offset by Video revenue decline and higher recurring OpEx, as expected.

Finally, DRS GES added €32 million of revenue and €4 million EBITDA for the two months ended September. Below adjusted EBITDA, the main positive effect leading to an increase of €52 million or 23% year-over-year in adjusted net profit was a forex gain of €87 million, which compared with a gain of €24 million in the prior year.

Increase of €19 million in tax over year-to-date 2022 pertains mostly to a non-cash DTA accounting-related treatment. The difference of €79 million between adjusted net profit of €277 million and reported net profit of €198 million is explained by three major exceptional items: first, net C-band expenses of €18 million; other significant special items of €35 million, which included an impairment of €24 million; and tax on special items, including C-band, amounted to €26 million.

On page 11 now. We remain on track to deliver our full year outlook, thanks to the solid execution across the business. As Steve has mentioned, we are two months away from close of the year and have great visibility for our revenue outlook range of €1.75 billion to €1.81 billion and our adjusted EBITDA range of €1.03 billion to €1.07 billion. The standalone outlook excludes the revenue contribution from DRS GES acquisition, which comes on top. And for the five months from August to December, we expect it to be in the range of €85 million to €90[?] million revenues.

The CapEx is also unchanged and detailed in the appendices. As Steve highlighted, we are close to the cash registered now for $170 million of gross payments from Verizon, including $155 million, which will be coming in during coming months within quarter four, and $3 billion of gross proceeds from Phase 2 C-band clearing linked to December '23 milestone.

Finally, the continued stronger US dollar will also benefit the upcoming significant US dollar proceeds related to C-band besides positive effects on EBITDA. Each cent movement impacts on the C-band net proceeds by about €23 million and implies a cash uplift of about €300 million if we consider a parity rate compared to our previous guidance rate of $1.13. Overall, we feel really good about solid financial performance for 2022, which is fully in line with expectation and huge progress made on the C-band clearing, SES-17 now being in service and the GES acquisition having been completed. And we are now looking ahead to execute our growth programmes.

With that, I will hand over now to Steve to conclude.

Steve Collar: Great. Thanks, Sandeep. So there you have it, another solid set of numbers with the year-to-date performance fully on track to deliver our outlook for the year and great execution across the business. We closed the acquisition of DRS GES ahead of schedule and well advanced to the integration. The result is a best-in-class US government end-to-end solutions provider and system integrator at a time when we're bringing to the market game-changing space-based capabilities for governments around the world.

Excellent progress, both technically and commercially on SES-17 and O3b mPOWER. We're growing backlog, strategic new customers, SES-17 in service ahead of the competition and the first O3b mPOWER launch six weeks away. While C-band has left forward with launches of 2021 and '22, allowing us to crack on with the reconfiguration and protection of customer networks and a final push towards the $3 billion in accelerated clearing proceeds.

Much to do between now and the end of the year. So no letup in the pace, but we've put in place the key drivers of revenue growth, EBITDA growth and expanding cash flows at SES for the years ahead.

And with that, we are available and open for questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypads. Our first question today comes from Ben Lyons of Credit Suisse. Please go ahead.

Ben Lyons (Credit Suisse): Good morning. Thank you for taking my questions. I have a few, if that's okay. So the first one will just be maybe looking through to next year. I think a lot of investors will be doing that. Do you mind some sort of high level going through the moving parts for revenues and EBITDA? So I think there's GES, any renewals in Video and obviously, mPOWER?

My next question would just be on C-band actually. When can we expect more concrete plans and what you plan to do with the C-band path? I appreciate there's a bit of guidance at the end of the presentation. I assume you'll have something a little bit more concrete at some point.

And my last one is a little bit off piece, but I believe you signed a letter of understanding with Airbus around the HBCplus IFC product. I'm just wondering if this is a change of strategy and given sort of the managed solutions type product. And it looks to be KA-band. I mean, is this more aimed at SES-17 or are you looking to integrate mPOWER as well? Thank you.

Steve Collar: Thanks, Ben. Maybe I'll take the last one first because in some respects, it's the easiest one to answer. So, look, I think an alignment with one of the OE and large airfreight manufacturers, as we think about how we position SES in aviation connectivity is significant. The answer to the question is this 17 or mPOWER is both. And in particular, kind of the antenna development and the overall configuration is consistent with all of our deployments in KA-band.

And so it's pretty exciting, as you say, it's still an LOI. This has been something that Airbus has been driving in the industry for some time, and we're very happy to be sort of part of that overall approach. And we think that it is an important step in delivering coherence across networks for airlines. It's been a fairly confusing industry for a while with a number of different offerings out there. And we think this is a positive step forward in creating kind of coherent networks for the aviation industry.

I'll take your first question and then hand to Sandeep for the second. And look, we're not going to provide guidance for 2023. Obviously, that's a job for our year-end results in February. But the trends that we've been talking to you about are fully intact, and that means that double-digit growth in Networks following the in-orbit commissioning of O3b mPOWER and driven by SES-17 and mPOWER and sort of the flattening the curve in Video.

So more than that, we'll have to wait till February. But the trend is very much consistent with everything that we said to you over the last several quarters, and frankly, several years. Sandeep?

Sandeep Jalan: Yeah. So, on C-band proceeds, it's clear that now we have a great visibility on the C-band proceeds, which now amount to almost $3.2 billion, including the Verizon proceeds on a gross basis. And it's – the second phase clearing, which is about $3 billion, it's still about a year away. And as we have said previously as well, these proceeds will be used in the best interest of our shareholders.

Our balance sheet should continue to remain very strong, even from the stand-alone business without the C-band proceeds as well. And we will remain fully financially disciplined in using the proceeds in the best interest of shareholders, including cash return to shareholders, but also any investment potential that we see in the core business.

And as we move into 2023, clearly with our annual results, this will be a topic on the agenda of our Board and with us that we'll be looking much closely as to how to give more clarity around this.

Ben Lyons: Very clear. Thank you.

Sandeep Jalan: Thanks, Ben.

Operator: Thank you. We now move on to our next questioner, which is Roshan Ranjit of Deutsche Bank. Please go ahead.

Roshan Ranjit (Deutsche Bank): Morning, everyone. Thank you for the questions. Just got two, please. We've seen another delay in the O3b mPOWER launches. So this is clearly satellites three to six. Can you just provide any detail there? Is it the same kind of issue as before or is something new popping up? And as a result of that, I guess, the service start has been pushed out by a quarter. Is there scope for, I don't know, a faster ramp-up of the revenue base there to kind of, I guess, catch up the absolute contribution that you had anticipated for fiscal year '23?

And second question, on the operational trends on Mobility. So, as you guys alluded to, a big pickup this quarter. Was there any contract wins this quarter? Obviously, we've got the underlying increase in travel volumes, but was there anything specific this quarter to see that material pickup? Thank you.

Steve Collar: Thanks, Roshan. Look, I mean, as far as mPOWER is concerned, could not be more positive about the fact that we're now – we're locked in on our first launch, and that's obviously very significant news, the first two satellites at the end of their sort of not just manufacturing but testing process and getting buttoned up and ready to be transported to the launch base. So that feels like fantastic news and really clear visibility, I would say.

And the next two launches will follow very shortly behind. So in answer to your question, no new issues, nothing happening other than just getting the six satellites through the factory, tested and to the launch base. And so I think that's just the time that it takes to effectively get the next two launches. We think that launch three and four will be in the first part of January, and the second will be in Q1, probably in February, but that's still – we're still getting finalised on the last launch.

And look, service introduction, the fact that we've got all of the sort of O3b mPOWER environment already being deployed on Classic is really, really positive. It means that we will be kind of generating revenues from day one with the O3b mPOWER satellites launch, fully derisking all of the technology. And that's how we're able to use the existing constellation to completely derisk the O3b mPOWER service.

And with ARC as the final piece, the fact that we've got a demonstration of ARC now happened and we've seen that work and deploy frequency plans and power and bandwidth across the system, I'm feeling super, super positive about the O3b mPOWER capability. We've got a lot of good traction in the market. So yeah, I mean, I think from last time, we've moved the insat introduction from Q2 to Q3.

But look, what we're seeing from the performance of the system, the progress we're making, the lock-in of the first launch, the fact that the other satellites are following along, the story on O3b mPOWER is positive.

And then on operational trends in Mobility, yeah, look, I think cruise is a big performer and a big driver of that number, and that reflects the fact that we've got the best cruise product in the market. It's no wins in the quarter. These were wins that effectively happened back several months, even several quarters ago that effectively have rolled through. We've deployed on ships and we've now rolled out and we're generating revenue. So there's always a little delay between sort of signing deals and starting to generate revenues from the deals. But the fact that cruise is so robust and moving forward is great news.

But we've also seen a good – kind of good rebound in aviation. And as you know, we tend to sit behind the large service providers in aviation, such as Thales. And so Thales rolling out on SES-17 has been very good during the last quarter, I would say. But not only we've seen our other service provider customers also acquiring new bandwidth because they're seeing demand picking up from an aviation standpoint.

And last but not least, commercial maritime. We've got a very strong partnership with Marlink and a number of other customers and that market is also, excuse the pun, that buoyant at the moment. And so yeah, I think all Mobility segments are performing well and all contributing to the numbers that you see.

Roshan Ranjit: Great. That's very helpful. Thank you.

Operator: Thank you. Up next, we have Nick Dempsey of Barclays. Please go ahead.

Nick Dempsey (Barclays): Yeah. Good morning, guys. I've got three questions. So the first one, just thinking about mPOWER and governments, where we know that will be an important application. Do they have extra testing requirements and a different kind of process that means that their revenues won't be kicking in at the beginning to be a more gradual ramp as they test that? I think in reporting to net debt EBITDA at 3.5 times in '22 ink 50% of [inaudible] bond, I think essentially that 3.1% to 3.2% on the same basis. Your CapEx guidance is not changing. So is the difference here coming from a timing issue related to C-band expenditure or FX? Or we just – are we just [inaudible]?

Third question, when you're having conversations with customers about capacity on mPOWER, can you give us a flavour of where and how you're convincing them to pay more when there are existing customers [inaudible] so that we're not just seeing cannibalisation, which is a risk and [inaudible]?

Steve Collar: Thanks, Nick. Some good questions there. mPOWER and government, the first thing I'd say is we really feel good about the role that mPOWER is going to play in government networks. It's a critical layer in Medium Earth Orbit. We can do things from Medium Earth Orbit that can't be done from either GEO or LEO. And we've seen – we've announced and talked about some of those, including relay, including the visibility that we have from MEO, including the fact that the gateways. We're further away from the earth, from a gateway to satellite standpoint and so the reach of the network is superior. But also the fact that we have a completely reconfigurable network. We can carry high return throughput services in a way that a bunch of the other networks struggle to do. So I think whether you think tactically or strategically the role that mPOWER will play in government networks will be significant.

Now in terms of the way that the government contracts, I would say there's nothing to see from a technology standpoint where we've sort of developed the technologies that need to be developed to support government communications on O3b mPOWER. I think the government contracting process tends to be relatively unique, not just in the US, but I would say everywhere. And again, we've made important strides there in terms of making sure that O3b mPOWER can be acquired through the procurement structures that exist in the US and in other government markets.

So don't expect any particular delay. I think we've said before that government doesn't typically show up in backlog ahead of launch and demonstration of servicing orbit. We're working hard to see if we can buck that trend. But certainly, once in service, we think the government business will flow onto the O3b mPOWER system.

And then I'll address the – your question on why we have confidence that mPOWER is sort of additional and meaningfully additional to the revenues that we currently generate from MEO. And that's fairly simply explained by the fact that with the current O3b constellation, we're limited to ten beams per satellite. So we have to pick and choose which customers we say yes to. And so we're turning away customers effectively on the current O3b constellation because we have a limited number of places that we can serve simultaneously.

That limitation goes away with mPOWER. And so there are whole parts of industries and segments that we're not able to address with our current constellation. But with 5,000 beams per satellite with more than 40,000 beams across the constellation with probably 10 times the throughput available on O3b mPOWER, we can now not only serve the top of the marketing crews, but the whole market, commercial maritime, aviation, government in a very meaningful way rather than just kind of very specific endpoints.

We've got great momentum with navies, which sort of replicates the kinds of services that we deliver in our industry-leading cruise product today. So yeah, I mean, the market expansion possible from mPOWER versus Classic is very significant, and that's why this isn't just replacement. This is very much growth.

Sandeep, do you want to take that?

Sandeep Jalan: Yeah. So, on leverage, what I would say you can see that we are continuing to maintain a strong balance sheet. What you see the impacts in quarter three and quarter four, it is basically timing related. In quarter three, first of all, the impact that you see here, it comes from GES acquisition, which is about $450 million acquisition, plus also a very important part of our growth CapEx and mPOWER going out in quarter three, about $700 million. So this is a huge lumpy cash out of close to $1.15 billion going out in quarter three.

And going ahead, as we receive some of the proceeds from Verizon as well as from C-band reimbursements, plus some seasonal effect in quarter four, we see a normalisation back to 3.5x. And on C-band reimbursement, we have received by now close to $575 million of reimbursement, but the total claims that we have submitted are close to $1.3 billion. So of course, the process is not as fast as we would expect, but we are making good progress, and there is a timing difference between the – between when we submit the claims vis-à-vis when we receive.

So the situation should normalise in the current few quarters. And then we expect the leverage to go back towards below 3.3x level. And please recall also that when we announced GES acquisition as well in the beginning of the year, we have said that for temporary period, we might have a slight uplift in the leverage. So I think we are really tracking a lot fully in line with our guidance, and we expect to come back through 3.3x of build up within next couple of quarters.

And when we receive the C-band $3 billion proceeds, in fact, there would be a meaningful strengthening of the balance sheet and the discretionary proceeds, which will be available for benefit of shareholders on top.

Nick Dempsey: Sorry, just a quick follow-up and the last one for me. So you're saying that the claim is $1.3 billion, and you have $575 million reimbursement. But you're saying the difference is close to – is still to come in cash, and that would be beyond '22 or some of it will be in '22?

Sandeep Jalan: Yeah. Some part of that should already come in quarter four, but not all. And that's why, I mean, it will be coming over the next few quarters, most importantly, within quarter four and quarter one. And that should be taking us back towards 3.3x or below.

Nick Dempsey: Okay. Thank you.

Sandeep Jalan: And please recall also our total guidance, right? On the C-band, we have said that the total spend is about $1.6 billion, of which we would expect reimbursement of $1.5 billion. So that guidance remains intact. And these are timing issues between the moment we incur the cost, they hurt our cash flow and the leverage, but we continue to get the reimbursements as we go along.

Nick Dempsey: Great. Thanks.

Operator: Thank you. And our last question for today comes from Carl Murdock-Smith of Berenberg. Please go ahead.

Carl Murdock-Smith (Berenberg): Thanks very much. Two from me, please. Firstly, can you just provide an update on inflation and kind of inflationary cost pressures, but also the extent to which you build inflation into your contracts, and whether in new contracts, you're now trying to put in inflation linked to pricing going forwards?

And then second, I was just wondering if you could provide a bit more commentary on the DRS GES acquisition since that's completed. How has the initial kind of a consolidation of that gone? How is the integration going? And have you seen any response or change from other customers given the fact that you are pushing more into vertical integration with government customers? Thank you.

Sandeep Jalan: So first, just speaking about inflation. So there are several dynamics there, most importantly being on the revenue side. On the revenue side, inflation indexation is something we factor for – only for longer-term contracts, not for a yearly contract there. It's only a pricing discussion when we are having those conversation.

And then the good point is, as Steve also highlighted earlier on Video side, almost 20% of our contracts do have indexation loss. So they would try and recover part of this inflation. And so far as our cost is concerned, number one, our level of cost is low due to our high margins of EBITDA about 60%, so 40% is OpEx. Energy cost is a very small percentage of our total cost.

Clearly, we have some impact from inflation on staff cost and cost of sales. And that is already we factored as part of our guidance for the year. We don't see any impact on 2022. But clearly, as we move ahead, we will see challenges as the whole world is facing, and we will try and offset that to the extent feasible.

And third, very importantly, the cost of debt is predominantly fixed in our case. We have really average healthy maturities. We don't see any near-term impact from increasing rates. And what you also see is quite a healthy and positive effect from the stronger US dollars. I mean, compared to our guidance of $1.13, we are trading around parity. And as you have seen in the first nine months of this year, we had positive €50 million impact on EBITDA, but also on revenue, which was about €80 million.

If the exchange rate remains around parity, we'll continue to see those positive effects. Because majority – I mean, almost more than 50% of our revenue as well as EBITDA is denominated in dollars, and that's very positive for our revenue results.

Steve Collar: Yeah, Carl, I'll take the second question around the GES acquisition. So yeah, I couldn't be happier about it. We got that closed in a little over four months, I think, versus sort of six to nine months was the expectation. So the fact that we were able to deliver on that so quickly was very, very good news. The integration is going well. We've selected the leader that they feel very, very well respected and energetic leader of the combined DRS GES and SES-GES business.

We've got a unified leadership team already in place and executing. We're – the main focus is obviously not dropping the ball with respect to our customers, and our customers are entirely settled and happy and actually looking forward to the sort of enhanced capabilities and value proposition that we can deliver as a combined business. And so nothing but positive things to say. And I think the answer – have we seen anything negative or from other partners? No.

Actually, the reverse. I think what we've seen is a greater engagement given the broader set of capabilities that we can deliver. And I think that's nothing but positive. And again, we've now got a very, very capable organisation able to carry the value proposition of, in particular, O3b mPOWER but the combined multi-orbit strategy that we've laid out to the market and to the various end users that we serve today as a business. And so I think that's very exciting.

Carl Murdock-Smith: That's great. Thanks very much.

Sandeep Jalan: Thanks, Carl.

Operator: Thank you. That concludes today's question and answer session. So I'd now like to hand the call back over to you, Mr Collar, for any additional comments or closing remarks.

Steve Collar: Well. Thanks very much, everyone, for joining and looking forward to speaking to you with our great year-end results in February. So thanks for joining us this morning. All the best.

Sandeep Jalan: Thanks, everyone.

Steve Collar: Thank you.

Operator: Thank you. That concludes today's call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]