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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Global Eagle Entertainment Inc. Third Quarter 2018 Earnings Conference. (Operator Instructions) I would now like to turn the conference over to your host, Peter Lopez, Vice President of Investor Relations. You may begin, sir.

Peter A. Lopez - *Global Eagle Entertainment Inc. - VP of IR*

Thank you, Nicole. Good afternoon, and welcome to Global Eagle's earnings call for the third quarter of 2018. Before we start, I'd like to remind you that our discussion today will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those forward-looking statements due to various factors that we discussed in our earnings release issued earlier today as well as in our most recent annual report on Form 10-K and our subsequent quarterly report on Form 10-Q. We disclaim any obligation to update those statements whether as a result of new information, future events or otherwise. Our discussion today will also reference adjusted EBITDA, which is a non-GAAP financial measure. We have included a definition of adjusted EBITDA as well as a reconciliation to its most directly comparable GAAP financial measure in the earnings release and in the slide presentation accompanying this webcast.

We will also use the term free cash flow, which we define later in our presentation.

Now I'd like to turn the call over to Josh Marks, CEO, Global Eagle. Josh is recovering from laryngitis, so he will keep his comments brief to save his voice for Q&A after our prepared remarks. Josh?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

Thank you, Pete. Good afternoon, everyone. Thank you for joining our call.

Starting on Slide 3. Today, I'm joined by Paul Rainey, our Chief Financial Officer; Per Norén, our new President; and Jeff Leddy, our Executive Chairman. Paul, Per, Jeff and myself will be available for Q&A after our prepared remarks today.

Turning to Slide 4. Today, we're going to review our third quarter performance. Our revenue of $164 million reflects an 8.2% year-over-year increase. Our adjusted EBITDA of $18.4 million reflects a 22% year-over-year increase. We continue to show progress with solid growth across our segments, including an unplanned 50 aircraft order from an existing customer and significant operating expense reductions that are now reflected in our adjusted EBITDA.

We've achieved a major milestone in our ERP consolidation, and our digital content supply chain efforts are tracking to launch in the first quarter. Our Media & Content business is showing strong revenue growth while sustaining margin. And while our Connectivity growth is pressuring adjusted EBITDA in the second half of 2018, we are bullish about our traction in Aviation Connectivity. While our competitors are retrenching, we've delivered our new 3-axis antenna. We've strengthened relationships with airlines with robust order books, and we're innovating with a real in-flight testing of lower orbit satellite technology. We have a strong trajectory driven by Aviation Connectivity and cruise line growth; traction in new segments, such as government and digital media; advances in our network technology; and progress in internal operating expense reduction. We are focused on achieving positive cash flow from operations next year. Longer term, we have a goal of generating over $200 million of adjusted EBITDA annually by the end of 2022.

I'm going to handoff now to Per, but before I do, I want to explain why Per's appointment is a milestone for us. We have 3 management pillars: first, run a healthy core business; second, drive profitable growth; and third, transform. Under Per's leadership, our healthy core is evidenced in expanding leaderships with existing customers and successful delivery of new customers. Our profitable growth is showing with 2 consecutive quarters of double-digit growth in our Media & Content business and strong growth in key connectivity business. Our transformation is resulting in lower operating expense, as Paul will cover in his comments. Per, over to you.

Per Norén - *Global Eagle Entertainment Inc. - President*

Thank you, Josh. Slide 5, please. And good afternoon, everyone. In my remarks, I'll start with a review of our business strategy. I'll then turn to the results and analysis by each segment. First, overview of our business.

Global Eagle provides both media, content and connectivity solutions. We serve aviation, maritime, enterprise and government customers. Our mission is to connect, entertain and inform passengers and remote workers, and we provide solutions that enrich the time passengers spend on board with fast Internet, movies, live television, games and mobile applications.

We deliver entertainment via seatback screens, wireless onboard entertainment systems and satellite connectivity.

Slide 6, please. Our broad and deep capabilities are essential to deliver tomorrow's passenger experience. We're the leading provider of satellite-based connectivity to single-aisle aircraft. The leading independent distributor of global content session, the leading LiveTV broadcaster to both Maritime and Aviation and the leading in-flight games and seatback IFE interface company.

We are the entertainment partner for SKYTRAX's top 5 brands, and our connectivity and TV reach is driving new advertising and sponsorship opportunities.

I think it's important to note that our entertainment capabilities are significantly enhancing the profitable connectivity execution. Let me explain that a bit further. First, we can cross-sell. Our Media & Content segment has relationships with more than 200 global airlines. As airlines seek an integrated passenger experience, our content relationship allows us to expand our connectivity and wireless streaming business lines. The seatback market continues to grow at 5% per year, so our majority market share position translates to a stable revenue base into the future and a long-term foothold for connectivity cross-sell. Since most IFC vendors, including Global Eagle, provide a streaming media server as part of their connectivity platforms. We're actually seeing new growth in the Media & Content market from these newly connected aircraft. Of course, our connectivity system brings unique capabilities for media and television that have been key drivers of recent awards.

The story is actually very similar in the cruise ship segment, where we are the leading provider of both entertainment and connectivity. We're seeing year-over-year revenue growth of 70% on our top 5 cruise customers, driven by both entertainment and connectivity. Increasingly, guests on these cruise ships are live streaming and playing games on board. That's why, we've been so aggressive about partnering with future low earth orbits, or LEO, satellite operators. We have unique know-how to integrate LEO capacity into global mobility network.

This year Global Eagle brought our new hybrid network technology to market, using multiple antennas on each ship to simultaneously access different satellite systems, orbits and frequencies and fuse the pipes to maximize throughput.

With recent renewed key contracts and fast revenue growth year-over-year, we're in a strong position to introduce new technologies into our current customer relationships.

Slide 8, please. Let's now turn to execution, starting with Aviation. Our Aviation Connectivity business had revenue in the third quarter of $31.1 million, a 14.8% year-over-year increase. At the end of the third quarter, we had 1,011 aircraft online. Our ARPA across all aircraft was about 120,000 per year through the third quarter of 2018 with significant ARPA increase in several non-U. S. fleets due to ongoing sponsorship and promotional activities designed to boost take rates.

As Josh said on our last call, our IFC business makes money. This is because we have a differentiated strategy. We focus on providing connected entertainment with LiveTV, movies and portals, thus influencing the demand on our connectivity network. We focus on single-aisle aircraft because they carry multiple daily passenger loads and stay within specific geographies so we can optimize the use of our network and do so with high reliability. We also have significant flexibility as the only IFC provider with Ku and Ka solutions, and on the Boeing 737 MAX, with the only IFC provider certified for both retrofit and line-fit installations.

All of these elements provide the economics, the scalability and the reliability our airline customers need and support the price points that airline passengers will take.

In the third quarter, we were proud to announce that our previously unnamed new European Aviation customer was the Air France Group. We signed a long-term contract that initially includes 113 Airbus A320 family aircraft. The collaboration between Global Eagle and Orange business services will deliver high-speed Internet, industry-leading passenger portal entertainment services, innovated billing and passenger data analytics supporting Air France, ambitious digital transformation initiatives and its progressive customer experience vision. This was a major success for us because it validated our entertainment-centric connectivity approach and demonstrated that our strategy with Media & Content relationships could be expanded to connectivity services while creating value on all fronts.

To launch Air France, we certified over 3-axis global Ku antenna, which is capable of more than 400 megabits. That system is flying, and we're thrilled with what we're seeing in spectral efficiency and reliability. The 3-axis system builds on the proven 2-axis system, so we have a limited entry into service risks compared to competitors who have launched clean-sheet

designs. We completed certification and installed our first aircraft in September, and we expect an additional 10 aircraft to activate with Air France during the fourth quarter. Also, in the third quarter, we announced the launch customer for our Airconnect Go wireless IFE system. In the fourth quarter, we'll start service on Canadian North. Airconnect Go is an ideal solution for small fleets or regional aircraft where satellite connectivity may not be cost-effective. Again, we took an accelerated path from product announcement to first service this year, leveraging our unique capabilities.

I'm now turning to Southwest Airlines. Through 2017 and 2018, we delivered a step change in network performance. We launched free messaging and free movies on Southwest this fall. Our investment in their product and their willingness to innovate with us signals the strength of our relationship. They have hundreds of Boeing 737 aircraft on order. So it's very important that we invest to support their growth and passenger experience so we can serve those aircraft.

Southwest continues as our flagship partner, and we're thrilled to see the impact our investments are having on Southwest passenger experience. Their connectivity experience is now among the best in the industry, and we're proud to be the partner that powers that experience.

Our other Aviation Connectivity accounts are progressing well. We expect to activate passenger service on LOT Polish earlier in 2019. All LOT Polish installations are line fit. We're now approaching critical mass to launch service, which will benefit our service revenues in the first half of 2019.

Also, Norwegian Air Shuttle transferred a set of aircraft to Argentina. We have shifted our network to support them, leveraging our network footprint with Avianca Brasil.

Finally, and this is very exciting, we secured an unplanned opportunity to increase the number of planes with a top customer by more than 50 aircraft, installing quickly over the next year. These are firm orders. These new aircraft are in addition to already scheduled installs with this customers.

To support this unplanned ramp-up, we've made a strategic decision in late August and September to prepare for this. First, we increased our engineering spend and placed significant additional equipment orders with associated deposits to meet the demand. Second, we proactively increased our bandwidth spend to ensure we could serve the aircraft as they come online in the fourth quarter and the first half of 2019. Installations of the additional aircraft began in October. This ramp-up drove a multimillion dollar impact on engineering inventory and working capital, which will translate to equipment revenue in the fourth quarter and during the first half of 2019. This short-term impact will lower profitability by a few million in the third and fourth quarter of this year, some of which is already reflected in the third quarter results, but benefit will be a significant increase to our recurring revenue base in 2019.

Looking more broadly at the Aviation Connectivity market. Our sales teams are active with major RFPs in process. We focus on regional single-aisle fleets where we can be highly efficient in our network provisioning and delivery. Our sales pipeline is growing, but with fleets that will receive connectivity for the first time as well as new sectors like cargo airlines that are taking a new interest in connectivity for operational efficiency.

On our last earnings call, we said that we expected some airlines may choose to rebid their connectivity awards. We now see that happening, and we're in a great position to win some of those accounts.

Our new 3-axis antenna is certified and in operation. We have a global network footprint to build on, and as our recent live in-flight test with Telesat shows, we can deploy LEO future technology with outstanding performance using our current generation antennas. We have linefit and retrofit options, with a proven reliability. And we're leveraging our Media & Content relationship to differentiate our connectivity system.

In our 4-year goals, we project that more than 1,100 new installations will occur. Of those, about half can come from existing orders with Boeing 737 and Airbus A320 that will be delivered to our current customer base. In addition, our sales pipeline even before considering connectivity awards that maybe rebid by certain airlines provides additional support for our goals.

As we grow, we expect to maintain ARPA at near current levels, recognizing that advertising and sponsorship will be important to supporting connectivity in regions outside the U.S. and Europe, and our tight focus on single-aisle operations provides the bandwidth efficiency to sustain and grow our gross margins over time.

I'm now turning to Media and -- our Media & Content business. Our Media & Content business saw period-over-period revenue growth of 13% or $9.3 million while maintaining gross margin at 29.7%. Revenue growth in the third quarter was driven by previously announced new wins and contract renewals. Margin growth was a direct result of our ongoing plan to optimize content utilization. In fact, the third quarter was the second consecutive quarter of double-digit growth, pacing well ahead of our long-term estimates for Media & Content revenue growth of 3% to 5% on average.

Our growth trajectory in Media & Content remains strong. Global Eagle serves more than 50% of APEX' top-rated airlines. In September, our flagship customers won multiple passenger choice awards in many categories. Emirates won for best entertainment, Singapore Airlines for best personalization innovation and Air New Zealand for best original audio and video.

During the third quarter, we expanded our content relationships with Kuwait Airlines and were awarded the CSP business for a fast-growing Southeast Asian carrier.

We'll start our expanded contract for United Airlines starting in January, which will become one of our largest Media & Content customers, as we manage content purchasing and services for them.

In addition, a major Middle Eastern airline has awarded Global Eagle content services business starting in the first quarter. Given the complexity of editing content and language for this market, this is an important revenue driver for us in 2019 and beyond. It will also help sustain our margins.

As we near completion of our digital content supply chain initiative, we're starting to shape our content services workflow to the cloud. This is a significant undertaking given the volume of content we process. This year alone, we'll book over 17,000 movie titles and 15,000 hours of television. We'll process metadata for 1.8 million variants and encode 130,000 video files. We've now entered a training phase for our personnel, and the first airlines will go live on the new platform beginning in the first quarter. A modernized platform like this creates additional cost and quality advantages over our competition and further improves our digital editing and integration capabilities. It will help drive innovation with our customers as they drive their digital and personalization initiatives. I am very pleased with the progress we've made here.

It's been a solid year for Media & Content, and we're in a strong position to continue both revenue growth and margin improvement during 2019. As more airlines install wireless streaming systems to peripheral devices and as we begin installations of our Airconnect Go wireless IFE service later this year, we'll see additional growth in the accessible markets for our content business.

Slide 9, please. I'm now turning to our Maritime market. We had $31.5 million of revenue in the third quarter. Our Cruise & Ferry business continues to deliver solid revenue growth. Third quarter Cruise & Ferry revenue was up 16.6% period-over-period to $18.9 million, and we expanded our ship count to 280 cruise and large ferry vessels.

Our average revenue per cruise ship increased 7% sequentially versus the second quarter. This performance comes from both strong revenue share on connectivity services as well as new television contracts for cruise ships. We're seeing the benefits from the expanded channel lineup that we discussed on our last call.

Our land business has stabilized as we continue to wind down our legacy cellular backhaul business and ramp up installations in Brazil and for the U.S. government. Our land business, which consists of our enterprise and government verticals, had third quarter revenue of $14.3 million, a minor decrease year-over-year that reflects the wind-down of our African cellular backhaul business, offset by fast growth in our enterprise and government sites. In the second half of 2018, we expect total government sites to increase more than 30% to more than 300 facilities now driving over $14 million of annual revenue and growing quickly. U.S. government and military spending caps were raised by $300 billion to fund modernization projects over the next 2 years. We are well positioned to capitalize on this growth through our relationship with prime contractor. And as we drive scale, we're also seeing growth in our gross margin.

Our Brazilian footprint continues to grow as we connect educational, government and business facilities and was up 33% year-over-year. Our United Nations installations are tracking to 8% year-over-year top line growth, driven by new sites and expanded bandwidth.

We will complete the wind-down of our African cellular backhaul business in Q1 2019. You'll see our growth rate increase from the first quarter.

Let me conclude. We're extremely execution-focused. We believe that fourth quarter will be the strongest quarter of the year for us. Our Aviation and media business continues to build top line momentum while maintaining its margins. Our in-flight connectivity business is profitable and focused. Our cruise business is growing with long-term revenue visibility. Our Other Maritime & Land businesses are transitioning to faster growth opportunities. As our revenue grows, we expect our Connectivity gross margin to bottom out in the second half of 2018 as we complete network build-out and begin to scale up our new customers. Our commercial performance is continuing to fuel the long-term growth of the business.

To discuss our cost actions and provide more color on cash, I'll hand the call over to Paul Rainey, our Chief Financial Officer. Paul, over to you.

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

Thank you, Per. Starting with Slide 10, we'll move into the financial section. Our third quarter results demonstrate 2 factors: first, continued revenue growth that illustrates our commercial progress; and second, continued impact of cost reduction steps, which will continue to build in the fourth quarter.

Today, I want to provide the details in 4 areas. First, I want to dive into the third quarter performance, and specifically, the $18.4 million adjusted EBITDA for the third quarter. This was about $2 million lower than the second quarter, and it's important to note that the decrease wasn't due to a deterioration of the business. In fact, as Per outlined, a major contributing factor was our elective decision to spool up to handle additional aircraft at a major customer. Second, I want to address our restructuring and update you on our transformation efforts. Third, I want to discuss liquidity and capital expenditures. And fourth, I want to provide some color around our long-term goal on both revenue growth and earnings, based on the progress that we've made this year.

As you turn to Slide 11, let's start with the third quarter performance. Total revenue was $164 million, which is 8.2% growth year-over-year, driven by both Media & Content and by Connectivity. Our Content Services business is performing very well and winning high-value accounts from our competitors. We're also expanding the portfolio of services we offer to our content customers, something that will accelerate in 2019 as our digital infrastructure goes online.

We continue to believe that over the long term, we can maintain gross margin of approximately 30% while growing this segment's revenue by 3% to 5% per year.

In our Connectivity segment, we saw growth in service revenue as we brought new aircraft, vessels and land sites online. Note that our third quarter growth did not include the previously mentioned additional aircraft at the existing customer or the Air France installations this year, which will increase revenue starting in the fourth quarter.

Adjusted EBITDA was $18.4 million. Note, this is a 22% increase over the prior year period, driven by revenue growth. The adjusted EBITDA results also benefited $3 million from transformations and ongoing reductions in our operating expenses, but offset by several factors that contributed to the modest decline versus second quarter. That gives us comfort on the strong trajectory as we move forward. First, as Per outlined, when the opportunity for the additional 50 aircraft arose in the middle of the third quarter, we increased our bandwidth available for this fleet to proactively demonstrate that we could support the fleet growth. We also encouraged engineering and supply chain-related costs to meet the accelerated installation time lines. This negatively impacted our third quarter adjusted EBITDA and will have a negative impact on the fourth quarter as well, as we have begun the installations.

Given the rapid installation schedule now underway, this fleet growth creates significant tailwind for our 2019 revenue and margin growth. Second, given the pressure on our supply chain and service delivery teams that was created as we prepared to ramp up for this previously mentioned new install at the existing customer, on top of the complex program delivery with Air France, Norwegian and others, we elected to delay certain operating expense cost reductions that could have negatively impacted our ability for timely delivery to our customers. Now that we've met these delivery hurdles, we're taking those cost actions during the fourth quarter. We'll get the partial benefit in the fourth quarter, and we'll aim to see the full benefit in the first quarter of 2019. Third, we materially adjusted our bad debt reserves in the quarter. We have a midsize content customer on a long-term contract that is experiencing financial distress. We continue to receive payments from that airline, although they have an increasing aging balance. This customer is currently restructuring, aided by top-tier investment banks, and we are optimistic that we can recover that aging balance in early 2019. Also, we've increased our bad debt reserve to cover a South American land customer. As with the airlines, we view this as an unusual event where recovery is likely. However, we've been conservative with our accounting treatment on these receivables.

Looking at the fourth quarter adjusted EBITDA. We do expect a result more in line with the second quarter. And based on the cost actions underway, we are confident that we'll exit the year at a run rate that supports continued growth and profitability that will support positive cash flow from operating activities in 2019.

As we turn to Slide 12, this is a good point to touch on the progress of our operating expense savings initiatives and how it has significantly derisked profitability improvements. As a reminder, we've guided that we'll cut our operating expenses by 10% to 15% on a run-rate basis by the end of 2018. This equates to savings of $16 million to $24 million annually. We are lowering our OpEx by rationalizing our facility's footprint, reducing headcount, in-sourcing work streams and implementing technology that will make us more efficient, and we are on track to achieve these savings.

Our IT transformation programs were also a key priority during 2018, and we're completing the biggest pieces. Last week, we sunset the legacy ERP system from our EMC acquisition, which now allows us to advance remediation of several material weaknesses related to that acquisition. We're also in the final phase of completing the digital content supply chain initiatives that will modernize our Content Services platform, creating new scalability and cost advantages over competition and enabling new revenue growth. This quarter we'll integrate our ERP and HR systems, automate more of our financial processes and eliminate improved -- and implement improve management reporting and data analytics.

Turning to liquidity. We ended the quarter with total liquidity of more than $80 million. During the quarter, we used cash to invest in working capital for the growth Per mentioned earlier, and we had approximately $7 million of cash used in operating activities. We expect our cash used to improve materially in the fourth quarter as the IT projects that I just mentioned are completed and the next phase of cost actions are implemented. We continue to expect our CapEx to be less than $42 million in 2018.

As a reminder, during the first quarter of 2018, our CapEx included $8 million of CapEx related to our Eagle-1 transponder purchase. Excluding this $8 million item, our third quarter year-to-date CapEx is approximately $25 million. In the past 2 quarters, we've had a significant ramp in working capital that we don't expect to repeat. The recent ramp has been related to our supply chain for the previously mentioned existing customer and other near-term opportunities and will reduce as we ship hardware to our customers and start collecting service revenue.

Looking forward, we believe our business will continue to become less capital-intensive over time. We have now completed all Aviation Connectivity programs where we subsidized a significant portion of antenna costs. We have either wound down or reduced our exposure in Maritime & Land segments that were capital intensive. And in Content Services, our new cloud-based IT infrastructure materially reduces upfront hardware investments.

For these reasons, we have significantly derisked our goal of positive free cash flow during 2019, driven by the previously discussed top line growth, operating expense reductions and the elimination of cash charges related to delayed audit fees.

Let me define how we calculate free cash flow. Cash Flow from operating activities less purchases of property and equipment. We think positive free cash flow can be achieved with our existing customer base, particularly since we received a third aircraft installations and attractive new content service awards.

In the second half of 2018, we're seeing that growth can require a temporary use of working capital. Nevertheless, we have sufficient liquidity to navigate growth obligations and our ongoing restructuring and transformation activities.

Finally, as you turn to Slide 13, I want to provide some long-term color about our goals for both revenue and earnings.

We've indicated that we expect our traditional Content Services business to grow at 3% to 5% per year, generating about 30% gross margins over the long term. We've had a strong 2018 in that business and we see indications that 2019 will be strong as well.

What about Connectivity? We'll see significant service revenue growth in 2019 from existing customers that are already under contract. As Per discussed, our goal is to install 1,100 net new aircraft over the next 4 years with our Connectivity Systems, with well over 1/2 could come from existing customers. We are very positive about our opportunities and believe we can more than double our Aviation Connectivity business in this time frame.

In our Maritime business, we don't think we can double in the next 4 years, but our goal is to maintain the 10% to 15% annual growth rate we've recently seen in our cruise business, particularly as we focus our attention on cruise ships, ferries and yachts, where our combination of entertainment and connectivity is most valuable. And in government, our goal is strong revenue growth, driven by increased U.S. government spending.

How does this top line growth translate to margin growth? First, our bandwidth cost per megabit continues to decline, driven by both market conditions and by our deployment of proprietary performance-enhancing technologies.

In coming years, a significant portion of our bandwidth contract will expire, offering us the chance to renew at market rate. That alone will create a significant tailwind to our gross margins even as we expect service levels per vessel or aircraft to increase to support higher end-user consumption. Second, we're making real progress this year on operating expense reduction. As our IT transformation initiatives are completed, we'll get new productivity from our workforce in coming months that will translate to higher margins as well.

Overall, over the next 4 years, our goal is to maintain revenue growth rate of 10% to 15% per year, continuing our current trajectory. We expect to continue leveraging bandwidth, operating expense reduction and IT transformations to drive significant increases in annual adjusted EBITDA, with a goal to receive more than $200 million in the next 4 years. We have built the strong customer relationships that are now translating to expanded contracts.

We started our IT transformation a year ago and are now seeing the benefits as the projects complete. Our newest generation antenna system for aviation is now certified, flying and showing the same strong reliability of our last generation system. And most importantly, our entertainment and connectivity converge our capabilities across media development, licensing, distribution to seatback screens or over satellite networks that are optimized for media transmissions provide a critical advantage for us.

With that, I'll turn the call back to Pete for Q&A.

Peter A. Lopez - *Global Eagle Entertainment Inc. - VP of IR*

Thank you, Paul. Nicole, we would now like to open it up for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Paul Penney from Northland Capital.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

You seem to have some real IFC momentum in the marketplace. A few questions there. Are you seeing any movement array from an undisciplined competitor in the marketplace? And if so, like what kind of range of planes are we looking at in terms of RFPs? And can you give more -- secondly, can you give more color on the cadence -- the installed cadence for the next 2 to 4 quarters? It's a little fuzzy there. And then third, love an update on India and your potential to convert Jet Airways into a full-paying IFC customer?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

Sure. Thank you, Paul. That's a great set of 3 questions. So let me start off with the question of RFPs that were previously awarded to a competitor and might be coming back. As I said during our comments, we -- as Per said as well, we are seeing that happen. The RFPs are being prepared now. We've been invited in for meetings in preparation. These are not small fleets that we're talking about. These are not small opportunities. Again, as airlines look into reality of now needing to pay for the equipment, it levels the playing field, and it creates a real question in the airlines' mind around how they're going to make money from the solution. How can they use entertainment to drive take rate on board, how can they use entertainment over the Connectivity System to drive sponsorships. Our solution, as a holistic entertainment and connected platform, provides credibility behind airlines that are looking to how to justify CapEx. And our antenna system, now in 10 years of operation, has a combination of very high-speed throughput and reliability so the airline knows that the CapEx they're going to be spending is going to drive a solid reliability and return on investment. Now I should note, there are multiple connectivity providers that are retrenching today. So this is not one particular competitor that's having the issue. It is a great time for us to have executed successfully on Air France to deliver the solution, to be showing the performance levels that we wanted to see from the 3-axis antenna. And frankly, with our major customers like Southwest, continued enhancement of products like free messaging, free movies, enhanced television, expanded route network, all this demonstrates our credibility in execution because right now I think the most important factor for airlines that are considering either replacement or augmentation of the existing connectivity vendors is who can they rely on. And that's why our focus is 100% on reliability and execution. Per, is there anything to add to that?

Per Norén - *Global Eagle Entertainment Inc. - President*

No, we've used a method, I think, we've talked about before, every customer is a reference, which talks to Josh's point about the reliability in that this is not only reliability of the system and the performance of the system, it's reliability of an entire value chain. Your supply chain, your inventory, your parts, your network, the antenna, the understanding of what each of these airlines need in terms of capacity, I think, are honing on one thing.

For us, it is being very, very disciplined about our strategy of going with a single-aisle aircraft. We know we have a strength there. We know we can hit that very hard. We know we have an organization now set up to deliver on that. I think that's the reference point we are in the industry with Southwest, with Norwegian, now with Air France, with LOT that is picking things up. So I think that is a very, very critical aspect of what we do. We diverge away from that to say that we're going to be everything for everyone. You're going to -- we would not be so bullish as we were on this call about that. So I think that's what we see. The installation based question, I'm looking at Paul here or looking at Josh.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

I can take it.

Per Norén - *Global Eagle Entertainment Inc. - President*

You can take it.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

If you need the answer.

Per Norén - *Global Eagle Entertainment Inc. - President*

Yes.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

We're not going to provide guidance on that right now.

Per Norén - *Global Eagle Entertainment Inc. - President*

Exactly.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

Per mentioned the incremental additional aircraft order that we received is confidential in nature, and we simply can't go beyond that at the moment other than Per's guidance these aircraft will install over a very short time period will show in our financials over the course of the next couple of quarters. And then finally, you had asked a question about India. So I know this seems like a never-ending soap opera, but I am confident having just been in India last week that we are finally at the end of the regulatory process. The Standards Body of the Indian Department of Telecom meets on November 15, and they will release the final version of the interface requirements, document for in-flight connectivity and for maritime. In parallel, the Indian Space Research Organization is continuing its work. What we know at this point in time is that the service will very likely require a local gateway in India. That favors us and our partners in India and that we have infrastructure that's readily accessible, with compliance on local Indian gateway and the intercept requirements. We've been working with Jet Airways to be the first to activate in India. As we've talked about in the past, we'll be taking the existing wireless IFE system on Jet Airways Boeing 737NG fleets and upgrading those first. So we do expect to be able to launch dozens of aircraft during 2019 as the in-flight connectivity systems ramp up. In parallel, we're working with Jet Airways and with sponsorship partners to assemble a business arrangement that's compliant with the regulation and works for the Indian passenger base. We're very focused right now in ensuring that when we launch the service, we can get access to the customers and that the retail take rates are going to be successful for the program. And I should note that we are tracking Jet's restructuring efforts. We are in very close touch with them, and we're very confident that they'll complete that process on a timely basis. So that's where we stand in India right now.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Great. Lots of good color. Moving to your topic, flagship customer. Anything you can share in terms of performance metrics versus your contractual SLAs? And specifically, maybe give more color on how you're relatively positioned versus your smaller dual-source IFE provider, Panasonic for go-forward business?

Per Norén - *Global Eagle Entertainment Inc. - President*

This is Per, Paul. I would answer it the following way. I don't think we want to disclose any of what we're doing. Our network performance is very, very high. If you've flown on Southwest now, on airplanes that are equipped with our solutions, it's very high. And -- so I would say, you should ask Southwest what they think about the performance both from an SLA perspective as well as from a passenger satisfaction perspective. But I don't think we -- we're in a position to disclose it. Josh?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

I won't get into the specifics. I will say that the SLAs are getting much better as we migrate more the Southwest network on to SES-14 and SES-15, which are the high-throughput satellites that deliver really outstanding performance across the network. So we're simply getting performance benefits now, coming both from scale in the installations and from the simplification of the satellite network as we bring the newest technologies online. A combination of those factors has delivered very strong performance of the Internet connectivity on board plus now we have enhanced television services, free movies, free messaging, all of the components of passenger experience that differentiate what Southwest does in the market.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Great. And last question, I fully understand and appreciate your agnostic approach to satellite capacity, and especially, with the new real additions. Two questions. How many different satellite providers are you guys getting capacity from today? And secondly, can you give us a feel for what kind of contractual -- contracts lost in the coming years? And what could be the magnitude of potential cost savings with lower capacity costs.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

The answer is almost all of them. I can name one exception, which you can probably guess as well that we don't work with. In terms of the roll-off of capacity, look, it's not -- when we sign capacity contracts for our network, we sign deal terms that are designed to meet our current requirements, provides some assurance that capacity will be available in coming years to us, but we don't over-commit, right? So we don't go into contracts on long-term basis except an extraordinary circumstance is where it's important to be an anchor tenant or we think that the capacity is going to be highly competed by other partners. What that means is that in a given year, we might roll off a small amount of capacity each year maybe, call it, 10%, but then we have threshold points where a much larger amount of that capacity rolls off. So as you're thinking order of magnitude, you can basically assume that over the course of the next 5 years, the majority of the current network capacity in our system is going to come out. Now as we look forward, right, we're looking at how we take advantage of that. And some of that is simply optimization of the network, right. How do we build a next-generation baseband that really unlocks new efficiencies across Aviation and Maritime? We build an active development program around that. How do we take assets that holds it are currently on C-band and look at whether they should stay on C-band or move to Ku-band where they can share infrastructure in our aviation space. So in all, it's not just about market price, it's about how you take the global footprint that we have today across aviation, maritime, enterprise and government; optimize which band those aircraft, vessels and land sites are on and then use that to bid the right kind of partnerships with satellite operators. Our view is that satellite operators know how to build satellites, right? We're not in that market. That's not what we do. We know how to distribute satellite capacity. So it has to be a partnership between the satellite operator and Global Eagle in a way that builds value for both parties. And that's why we want to participate in programs like Telesat LEO at the very beginning so that we can engineer in the ground segment, technology, so we can help them understand where to focus capacity and have a say in how the system is designed so that when it launches, we can maximize the efficiency and utility of that platform around the world and around our vertical markets. That's how we think about it.

Operator

(Operator Instructions) And our next question comes from [Taran Koshy] from (inaudible).

Unidentified Analyst

Can you hear me?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

We can.

Unidentified Analyst

Two questions. First was looking at the income statement here. So you had quarter over -- year-over-year for the quarter, you had higher revenue, but the gross margin dollars declined a little bit. So I know you mentioned that the Media & Content margins have been strong. So is this part of the -- was this effect due to the investment in the connectivity that you said bottomed out in the second half?

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

Yes, absolutely. We've been making investments in connectivity for our existing customers, ramping up the capacity there and also for our newer customers. As we've mentioned before, this is going to trough here in the second half of this year.

Unidentified Analyst

Got it. And then my next question was regarding the debt. So the biggest chunk of it is revolving -- or is a floating rate, as you know. And with interest rates moving up, have you guys kind of thought about -- I don't know if the primary focus right now is operational, but as far as treasury function, have you guys looked in any way to sort of hedge rising interest expense due to rates moving up?

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

No, absolutely, we continuously assessed the environment. As you know, the environment and interest rates are changing and moving. But, no, certainly, we're very keen on how we can best reduce that risk as we move out into the future.

Unidentified Analyst

Got it. Would you be able to elaborate on any ways you explored as far as minimizing that risk?

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

No. We look at the different hedging dynamics and currently, the way things are moving right now, we've decided to kind of hold part our current strategy. But, no, we continuously assessed it every quarter as interest rates move up, also looking at the structure of our debt and where we could have other options and what we could do with that debt and seeing if that timing lines up and it makes sense for us to do something or ways to look at other options that we can do on some of the interest rates and the debt.

Unidentified Analyst

Okay. Got it. And one last question. So I saw that in this quarter, you had originally paid off the revolver using the funds from the sell-side investment, correct?

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

Yes.

Unidentified Analyst

And then I believe this quarter, it looks you guys tapped into the revolver again. Was that to fund some of this working capital that you'd mentioned on the call? So I assume, hopefully, that will be paid off in the near future? Or...

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

Yes, absolutely, that was solely to fund the short-term needs that we had as our commercial growth continues to have a surge here. And obviously, we want to pay that down as quickly as we can and reduce our interest expense, but yes, we'll continue to manage that in the best interest of the business and the commercial opportunities that arise.

Unidentified Analyst

Got it. And as far as the term loan facility, it seems like you guys are -- aside from the mandatory interest payments, it looks like you're paying down roughly about $1 million a month towards the principal. Is that -- would you say it's roughly accurate?

Paul Rainey - *Global Eagle Entertainment Inc. - Executive VP & CFO*

Yes, that is accurate.

Operator

And our next question comes from Louie Dipalma from William Blair.

Louie Dipalma - *William Blair & Company L.L.C., Research Division - Analyst*

Two years ago, on this exact day, you announced a major deal in China. I'm sure with that deal, you established some highly strategic relationships with Chinese Aviation regulators. China has the most potential growth for the single-aisle segment of the market for in-flight connectivity out of all of the geographic regions. So I was wondering if China at all factors into your plan to add 1,000 tails over the next 4 years?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

It's not the significant driver of that growth. I will be careful how I say the following. We did announce 2 years ago a significant deal in China. And if I recall correctly, with also on election day, where a new President came into office and in pursuit of what I would call geopolitical complexity to the equation. We have been continuing our efforts in China, but also trying to figure out what the implications of the geopolitical environment are for us as we go forward. So in terms of -- let me start with where we are with the business. We recently concluded a trial with 9 Air, which is a low-cost carrier on a Boeing 737NG, right? That aircraft is still the only single-aisle plane equipped with IFC flying domestically inside of China. And we demonstrated everything we needed to demonstrate: high-capacity throughput to the aircraft, consistent coverage around China, we served 50%-plus take rates on board. So we curved the markets there. The Chinese want access that the take rates are going to be there when it launches. And now we proceed to the next phase having collected the data, which is coordinating with government agencies to set for long-term agenda for our in-flight connectivity we rolled out. The process continues to be slow inside of China, slower, frankly, than we thought. And a lot of that is driven by the geopolitical risk, and you're dealing with global suppliers, American suppliers that need to navigate the political environment very carefully. But one glimmer of hope is that after yesterday's -- or Tuesday's elections, I think we're seeing chatter that there may be pressure to get a deal done with China that we can't exist in this environment much longer. And I will say when that happens, we are positioned as well as we could to take advantage of it. We have a head start on everybody else. We've been patient on how we approach the market. We've done our homework. We've demonstrated our capability. We've proven the market is there. Now it's a matter of making sure that the internal process in China lines up to the geopolitical assets and geopolitical agenda between China and the United States. That's where things stand right now.

Louie Dipalma - *William Blair & Company L.L.C., Research Division - Analyst*

Great. And in terms of your costs, I know that bandwidth costs are often front-end loaded as need to put the satellite capacity in the air before the planes are activated. According to your 10-Q, I think right now you have a run rate of $100 million per year in third-party satellite bandwidth cost. Do you see this $100 million your number as a near term peak that covers Air France and Jet Airways and those additional 50 aircraft for your current customer? Or do you think that there's a $100 million number going to continue to trend higher even as bandwidth cost on a per-gigahertz basis come down?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

Yes, it's a good question. And as we look at our growth curve, I think we will see an increase in bandwidth spend over time, but we should see much faster growth in the aggregate amount of capacity that we offer from that spend to both of these and to the reduction in per-megahertz pricing and through the increased efficiency of our network, proprietary technology, new modems, again, our OpEx installation is rolling out on the huge HT network, which has significant efficiency benefits over our current platforms, et cetera. So I think the right way to think about this is on a percentage of our connectivity revenue, right, were probably high right now -- were probably at peak. I expect that percentage to come down, but it's not going to come down dramatically because we want to keep winning deals and in order to do that we have to deliver the best faster experience and really use the efficiencies of what we do to drive that from a combination of bandwidth purchasing, bandwidth efficiency around the world and the unique technologies that we have to convert satellite power to data throughput to the end-user.

Unidentified Analyst

Okay, great. Last one, you already talked about M&A in the Maritime satcom industry with SpeedCast acquisition of Globecomm continuing the trend that's existed for the past 3 years and whether that's resulting in better pricing environment for you?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - CEO & Director*

I mean, I don't have any particular comment on the M&A environment. I will say that as consolidation occurs in the government space, that's a Tier 1 for us, particularly when companies are acquired by non-U. S. entities. (inaudible) is not based in the U.S. That creates a tailwind for deals that are sensitive, secure, classified operations on our U.S. government side. As Per said, the U.S. government has authorized significant increase in spending over the next couple of years to modernize infrastructure. And I think through our partnerships with a variety of prime contractors on those deals, we're in a very good shape to take advantage of those task orders.

Per Norén - *Global Eagle Entertainment Inc. - President*

And in essence, I'll add to what Josh said. While what you're discussing is going on in the marketplace, we have doubled down on both protecting and expanding both our current customer base and our new customer base. So we -- as I said, we feel very strongly about what we have with more up-sell, cross-sell and also showcasing our capabilities in it. So I think that, that's actually helped us with our performance, to be quite honest.

Operator

Thank you. And I'm showing no further questions at this time. I would now like to turn the call back to Peter Lopez, Vice President of Investor Relations, for any further remarks.

Peter A. Lopez - *Global Eagle Entertainment Inc. - VP of IR*

Thank you, Nicole. And thank you all for participating on our third quarter 2018 earnings call. We look forward to updating you on our continued progress next quarter. Nicole?

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.
