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Corporate Speakers

- Peter Lopez; Global Eagle Entertainment Inc.; VP of Investor Relations
- Josh Marks; Global Eagle Entertainment Inc.; CEO & Director
- Paul Rainey; Global Eagle Entertainment Inc.; EVP & CFO

Participants

- Roger Boyd; Needham & Company; Analyst
- Paul Penney; Northland Capital Markets; Analyst

PRESENTATION

Operator: Good day, ladies and gentlemen, and welcome to the Global Eagle Entertainment Inc. Fourth Quarter and Full Year 2018 Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to your host, Mr. Peter Lopez. Sir, you may begin.

Peter Lopez: Thank you, Valerie. Good afternoon and welcome to Global Eagle's fourth quarter and full year earnings update. Please note that our press release -- our earnings press release is available on our investor relations website.

Now 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 circumstances that may change. 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 our 2017 annual report on Form 10-K and our subsequent quarterly reports on Form 10-Q. Additional information will be in our 2018 annual report on Form 10-K, which we expect to file in coming days.

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.

Now I'd like to turn it over to Josh Marks, CEO of Global Eagle. Josh?

Josh Marks: Thanks, Pete. Good afternoon, everyone. Thank you for joining our call. Let's start with Slide 3 of the presentation. I'm here with Pete Lopez; and Paul Rainey, our CFO. Jeff Leddy, our Executive Chairman, and Per Norén, our President, will all be available with me for Q&A after our prepared remarks.

Let's turn to Slide 5. We have had a lot going on in the fourth quarter and this year-to-date that Paul and I are excited to share with you. Of course, we'll discuss our 2018 fourth quarter and full year results, which somewhat mask the substantial improvements made in our business. I would like to touch on the strong commercial momentum across many of our businesses, the key technologies driving this momentum, some trade-offs that we have chosen to make, phase 2 of our cost actions, and finally, our path to generating positive free cash flow in the fourth quarter of 2019. And let me be clear, our top priority for 2019 is to achieve positive free cash flow no later than the fourth quarter, while continuing to deliver quality and reliability to our customers.

Let's turn to Slide 6 to cover inflight connectivity. From the fourth quarter of 2018 to the first quarter of 2019, our aircraft installation pace doubled. We expect additional acceleration in the second quarter pace, led by Air France and Southwest.

Turning to Air France, we are executing well. In January, we launched commercial service. As of today, we have 15 Air France aircraft in live service. We launched free messaging alongside paid browsing packages, all driven by our proprietary Network Resource Management software-defined networking platform, which we call NRM. This is one of our key technologies that is driving our momentum across connectivity business units as we'll discuss later.

In addition, on Air France, we offer more than 300 movies and TV episodes on board each aircraft, updated touch-free via our satellite network. Our Air France portal has advanced digital rights management and complies with stringent European net neutrality regulations.

Thus far, the response from Air France passengers has been terrific. On flights with free service, we're seeing 100-plus active connected devices. We'll be launching new packages designed for streaming shortly. Air France had wanted to wait until a critical massive aircraft were online. And importantly, we are seeing strong performance across our network. We have the broad regulatory approvals, and we're not dependent on narrow beams in Europe with major service gaps of our competitors. So we are confident that Air France's solution is best-in-class.

Turning to Southwest. We continue to focus on improving our service. In fact, last week, we launched a new captive portal enhancement that proactively invites Wi-Fi connected devices to access movies, television, and Internet. Overnight, we saw a 40% jump in devices accessing our portal, with most devices choosing our TV, movies, and audio services. We plan to launch Apple Pay in coming months, so passengers with Apple devices can use biometrics to purchase Wi-Fi access. And also this weekend, we'll be launching Wi-Fi and TV to support Southwest new Hawaii routes.

Our focus continues to be on operational excellence. Dark aircraft are under 1% of our active fleet. We believe this reliability leads the industry, and we are laser-focused on performance scalability in peak areas. As new aircrafts come online, we will grow into the bandwidth we have procured, and we'll be strategic about the acquisition of new bandwidth. As our flagship customer, every Southwest flight is a reference check on our capabilities.

At Norwegian Air Shuttle in the fourth quarter, we launched premium paid services alongside the existing free services. Again, we utilized our proprietary NRM technology to efficiently operate three service tiers: a free tier, a social media tier, and a streaming-class tier. Of the passengers who elect to upgrade to a higher tier, about 40% choose social media and 60% choose streaming. That's more streaming than we thought. So we now expect a 10% increase in [ARPU] from Norwegian net of our rev share. Through NRM, we've been able to manage streaming-class services using existing bandwidth. So this will contribute to our inflight connectivity margin recovery. We'll also bring these capabilities to LOT Polish Airlines as we launch with them soon, further increasing the utilization of our European network.

Finally, a word on the unfortunate situation around the Boeing 737 MAX aircraft type. Several regulatory agencies and major airlines have temporarily grounded Boeing 737 MAX aircraft. Now to give you a reference point, on December 31st of 2018, Global Eagle provided connectivity and Wi-Fi-enabled entertainment services to 1,022 aircrafts worldwide. And as of today, we provide connectivity and Wi-Fi-enabled entertainment services to 26 MAX aircraft and have installed equipment on an additional 6 MAX aircraft, which await entry in the service. So MAX aircraft represent about 1% of our total connectivity service revenue with a significant majority of these MAX aircraft on monthly recurring revenue models, which are not dependent on flight segments operated or on passenger session. We anticipate an additional 40 to 50 MAX installations this year with the majority in the second half of the year. And as of today, we have not been informed of any changes to shipment dates related to Boeing lines of program.

Turning now to Media & Content. During our last call, we announced new or expanded deals with several major global airlines. These all kicked in from January 1, so you'll see the benefit in our first quarter numbers. These contracts will more than offset the fourth quarter loss of Middle Eastern Airlines that chose to economize on content spend.

Driven by our new technology innovations, our momentum in Media & Content is strong. In fact, we have recently been awarded a major new contract from a premium global airline. In fact, we've captured one of the largest CSP accounts in the world. We will use our technology to realize this airline's ambitious vision of media personalization, quality, and timeliness. We'll be announcing more details of this award shortly, and we expect this contract to start in mid-2019.

Combined with our previously announced wins, our 2019 Media & Content revenue growth is trending ahead of our previous long-term guidance. As a reminder, our

Aviation business, including inflight connectivity and Media & Content, accounts for approximately 75% of our total revenue.

Let's turn to Slide 7 to cover the other 25% of revenue, which is our maritime, enterprise, and government business or MEG as we call it. In the fourth quarter, we signed important new long-term contracts with our key cruise customers, Norwegian and Disney. Now we won both contracts on four factors, which I want to detail now. First, during 2018, we invested in bandwidth to demonstrate that our quality of experience, enabled by our NRM technology was best-in-class. While this impacted our cost of sales, it showcased our capabilities. Second, we enhanced our portal and onboard retail combining our best capabilities from our Aviation business and bringing new premium service options to Maritime.

Third, through our satellite partnership, we showed consistent capabilities across latitudes, important for Scandinavian and Alaskan cruises, where passengers share on social media and expect seamless connectivity. This has also included live testing of low-earth orbit satellites or LEOs, which will be critical to meeting cruise ship demand in the next decade.

Fourth, recognizing that the cruise connectivity market has changed since our last round of contracts were signed, we did reset our contract economics to market realities. When we finalized and signed NCL at the end of November 2018, with DCL following in mid-December, we agreed in both cases to retroactively apply contract rates and service credits to the start of the fourth quarter. Driven primarily by these rates and discounts, our fourth quarter cruise revenue from Wi-Fi services declined about $3 million year-over-year, partially offset by growth in our cruise television business.

Now post renewals, our relationships with these major cruise lines are strong and growing. We have long-term agreements in place with Norwegian, Disney, and TUI. We serve smaller fleets, such as Mercy Ships. And we have upside, as our customers add ships and from our revenue share agreements and bandwidth upgrades. Our new contracts do backload revenue. We'll expect to see more revenue in 2020, and again, more in 2021, primarily from bandwidth services. So we are optimistic that with this long-term visibility in hand, we can drive margin recovery.

So now that our long-term visibility is set, this allows us to get the right cost structure and focus on taking share from our competitors. Our competitors do have major contracts that will expire this year and next year, and in many cases, we already served these fleets with television, giving us an opportunity to upsell connectivity. We have reference customers in Norwegian Cruise Line and Disney Cruise Line that showcase both our strong network and our onboard execution, and we are very well positioned technologically, as LEO satellites dovetail nicely with NRM, which provides us with the platform flexibility to route latency-sensitive traffic over LEO, while segmenting lower priority traffics over geostationary satellites.

Let's turn to Slide 8. Taking a step back, I want to reiterate how important these new technologies are to our future. We've developed complementary technologies that are driving our commercial momentum today, but they have yet to be fully exploited. First, our three-axis aviation antenna is now in commercial service. It's operating with reliability and high throughput. Our program execution with Air France is a strong reference for us in ongoing aviation connectivity RFPs that we do expect to award this year. The three-axis antenna has best-in-class capabilities and consistent performance from the equator to the highest latitudes.

Second, our NRM technology optimizes how data flows over our network, routing traffic by cost, latency and application profile, and therefore, allowing us to efficiently deliver entertainment over our connectivity pipe, while maintaining system performance under high demand. NRM is driving new revenue in Aviation, and it was critical to our cruise line renewals in the fourth quarter.

Third, we've introduced our next-generation guest portal in both Aviation and Maritime. It drives high take rates, making entertainment and connectivity simpler to find, to buy and to consume. With full integration with both NRM and our Connectivity platform, we provide touch-free portal updates, and we can prioritize traffic efficiently for premium service models.

And fourth, we are launching commercial operations on our new digital content supply chain, which is already processing thousands of media files per month. We recognized that our content processing infrastructure had to keep pace with new media, passenger preferences, and seat-back capabilities. For example, premium airlines worldwide want 4K video. They recognize that today's supply chain technology is critical to meeting their budgets and pass-through experience requirements. And that's why we've built our new digital content supply chain.

So what does our digital content infrastructure really mean for us? Our new infrastructure helps us operate more efficiently, simplifying our content service workflow and our editing for faster delivery to customers. It also simplifies our back office from licensing, to programming and invoicing, so that we could be more efficient and targeted in our procurements. This is very important to achieving our 30% gross margin targets for Media & Content.

So for our customers, digital infrastructure improves both service quality and reliability, now including 4K video. We can also move beyond monthly content cycles. Now we hear frustration from frequent fliers often, who have watched the movies they want to see on flights by the end of the month, and nobody likes waiting for the next content cycle. That's the world we're disrupting with our new technology.

Our digital backbone can push content from studios to cabins. Airlines can use these capabilities to keep their onboard libraries fresh, to customize content by time, and to use analytics to target their content spend. So now we're in the first phase of deployment, and we expect to move airlines across out of this new platform starting this year.

So looking across the board, we're using technology to serve content, manage traffic, and operate our complex network with stability. And this is driving customer retention and operating efficiency that can drive margin growth. And as we look at new wins, we have strong reference customers and long-term relationships with MEG. We have technology differentiations and unique capabilities, like 4K video and aviation content.

And in Aviation Connectivity, we have the proven execution at Air France, while we remain very focused on single-aisle opportunities. And as a reminder, we focus on Boeing 737s and A320s for inflight connectivity. We do that because they carry multiple passenger loads each day. They generally don't have seat-back systems, so they are right for connected entertainment. They generate advertising and sponsorship, and they drive efficient use of satellite capacity. So we're in the later stages of several procurement processes with airlines now, and I do note that we're seeing rational competition with limited giveaways.

Now let's turn to Slide 9. As you can see, our revenue momentum is strong. We have the vast majority of our 2019 revenue already under multiyear contracts, and we built a healthy pipeline. Now locking in that revenue did require trade-off that impacted the second half of 2018 by causing delays in our cost actions and incurring temporary costs ahead of our revenue growth. So our focus now turns to how we get the appropriate cost structure underneath our contracted revenue to generate positive free cash flow no later than the fourth quarter. To ensure this, we are implementing Phase 2 of our cost actions in this first quarter of 2019.

Now a bit on process first. In January, we rebuilt our 2019 forecast ground up. We reviewed revenue at a unit level across the business. We reviewed every cost line benefiting from our integrated Oracle ERP platform, which provides new visibility into our product lines. We set ambitious goals to improve EBITDA generations and ensure that EBITDA converts to cash generation, and of course, to increase the overall liquidity profile of the business.

Second, in February, we took major steps in improving our cost structure. You may have seen our 8-K filing, where we outlined headcount changes. We've simplified our management structure by eliminating 20-plus leadership roles. Based on role eliminations that we've already announced to our employees, we're on target to reduce our salaried workforce by 15% between mid-February and the end of June. Now at that time, we will have reduced full-time roles in the company by more than 25% over the last 12 months. Also, we've reduced our contingent workforce, and we’ve reallocated resources to areas of the business that are growing, especially inflight connectivity, digital contents, portals, and NRM initiatives. We do not see nor do we anticipate negative impact to either our service quality or to our business operations.

In parallel, we have tightened spend on professional services and temporary labor, which were elevated last year due to various project initiatives. Of course, now that we have completed key programs in Aviation Connectivity, content technology, and corporate IT, we should see a natural decline of professional services this year.

We're also accelerating our global footprint consolidation. We exited eight facilities last year, and we're on track to exit another 10 during 2019. Through headcount reduction, facilities consolidation and stricter booking policies, we've already seen a significant decrease in our travel and entertainment spend, which we expect to be down at least $5 million year-over-year. We have significant opportunities as well in both content and bandwidth spend to reduce our cost.

In 2018, we spent approximately $200 million on content that we distributed to airlines and to third parties. Now as we capture new accounts and we build scales, our digital content supply chain technology helps us analyze and buy content more efficiently. In our Connectivity segment, last year, we spent over $100 million on bandwidth to support aviation, maritime, enterprise and government contracts. The majority of our bandwidth service orders will expire in coming years. As these contracts reset to market and reflect our purchasing scale, we have real opportunities to both reduce spend and set win-win partnerships with satellite operators.

Turning to CapEx. We have completed a number of key growth projects in 2018 that we do not expect to recur in 2019. As you remember, we were one of the first IFC providers to step back from funded deals. We have been diligent in commercial shipping and enterprise deals to only fund equipment where we can generate favorable cash returns. We wound down our exposure in capital-intensive segments. And last year, we funded the build out of teleports and network capacity to support high throughput satellites on Southwest and our new high speed network for Air France. With these investments largely complete and with new Aviation Connectivity opportunities coming in geographies that we already serve, we can leverage a portion of the investments we've already made.

Finally, as we roll out cloud-based content and IT infrastructure, we're materially reducing our upfront hardware investments. Last year, our CapEx was $45 million, including $8 million of satellite transponder purchases. This year, we expect CapEx to be less than half that, expect under $20 million in 2019, which we expect is plenty to drive continued growth and meet our key objectives.

So in 2018, we guided that we cut operating expenses by 10% to 15% run rate by the end of 2018, equating to between $16 million and $24 million annually. We did this. However, this improvement was offset by a previously disclosed but greater-than-expected temporary decline in Connectivity gross margin in the second half of 2018. We expect our Phase 2 cost actions to build on our operating expense savings and reduce our cost of sales. As we mentioned on previous calls, we continue to expect Connectivity gross margins to begin to improve in the first quarter of 2019 with an ultimate goal of 25%. We expect the improvement to be driven by additional IFC aircraft activation and market rate resets for bandwidth pricing throughout the year. We set a goal of positive free cash flow no later than the fourth quarter, and we are being decisive with Phase 2 in order to hit this goal. We believe that Phase 2 will have a positive impact of over $25 million in 2019.

Now I'd like Paul to walk us through our headline numbers and provide more detail about our positive free cash flow goal. Over to you, Paul.

Paul Rainey: Thank you, Josh. Let's turn to Slide 11 and review full year 2018 and fourth quarter performance. In the fourth quarter, we had revenue of $160.6 million and adjusted EBITDA of $17 million. On a full year basis, our revenue was $647 million, reflecting a 4.5% growth year-over-year. And our adjusted EBITDA was $73.1 million, reflecting a 7.5% growth year-over-year. We're pleased with both continued growth in both our revenue and adjusted EBITDA, although the results fell short of our expectations.

I'd like to review the key reasons why fourth quarter revenue and adjusted EBITDA came in below our expectations. A faster-than-expected decline in the MNO business impacted revenue by $0.5 million. Previously scheduled IFC activations that shifted from the fourth quarter to the first half of 2019 due to aircraft availability impacted revenue also by $0.5 million.

Media & Content contract wind down and customer restructuring impacted revenue by $2 million. Cruise renewals impacted revenue by $3 million and yacht layouts impacted revenue by $2 million as well. The collective impact on revenue was approximately $8 million. But I would like to highlight that approximately half of this was expected to be temporary adjustments.

Adjusted EBITDA in the fourth quarter was impacted approximately by $4 million, driven by primarily the discounts in retroactive credits related to our new cruise contracts. In Connectivity, equipment sales were as expected, reflecting 34.5% growth year-over-year. As mentioned, some aircraft installs shifted from the fourth quarter of 2018 to the first half of 2019. To support the original schedule, we had bandwidth procured for a faster pace of activations, and we had accelerated engineering programs. Therefore, our Aviation Connectivity revenue and margins were lower than expected. We have a clear path to recovery as airlines install the chipsets they have now purchased and received in the coming months.

Overall, we forecast at least 150 new aircraft installations for the full year of 2019, with a potential for significantly more based on aircraft availability and our current backlog. This is a significantly higher number than in past years. This is only our backlog and does not include new wins. These aircraft will be installed sequentially throughout the year.

In Aviation Content, in the fourth quarter, we ended a contract with a Middle Eastern airline a quarter earlier than expected and stopped accruing revenue for a customer that is in the process of a restructuring. Our four new major contracts all started in January. In total, these four contracts equate to more than $20 million in revenue annually. So there was a gap in November and December, which we recovered from in January. This impacted revenue, but we partially mitigated the margin impact by reducing our cost of content.

Our Media & Content segment is poised for a strong 2019, bolstered by the major new awards we just received, which will begin to generate revenue in the third quarter.

Finally, in our MEG unit, the discounts and retroactive credits we applied in cruise and yacht represented the largest variance to our forecast. In MNO, we experienced a slightly faster exit than expected during the quarter, but we expect to have this -- completely exited this business by the end of the first quarter.

Turning to liquidity. We finished 2018 with liquidity of $64 million. We expect to finish the first quarter close to this level as well. We expect current liquidity and cash flow from operations for 2019 to be adequate to provide the required cash to service our debt and to support our capital expenditures. Our existing cash and the remaining balance on our credit line will be available to support any working capital needs and any taxes or other below-the-line expenses that we will incur.

As we discussed on the last earnings call, we had a significant ramp in working capital during the third quarter as we prepared to double our aircraft installation rate. In the fourth quarter, we were able to recycle some of that working capital as installations were completed and our customers paid us before we reinvested that working capital into the next set of installations. This is a temporary use of our working capital, which drives an increase in our long-term recurring revenue. Going forward, we expect normal fluctuations in working capital, driven by the timing of these aircraft installations.

Let's turn to Slide 12. Now I would like to discuss our path to positive free cash flow generation in the fourth quarter of 2019 and the steps we have taken to secure that goal. There are 4 key factors driving positive free cash flow generation: revenue growth, lower cost structure, lower non-core below-the-line expenses, and lower CapEx. As we mentioned earlier, the majority of 2019 revenues have been contracted with very limited go-get necessary to achieve our forecast. Growth will be led by Aviation Connectivity service and equipment revenue as installations continue to accelerate.

I want to note that installation timing can vary, particularly for retrofits on aircraft already in service, which depends on the maintenance windows of those aircraft. Importantly, we have assumed no additional wins here despite a robust pipeline. Our Media & Content growth is expected to be above our normal 3% to 5% range. Again, we have assumed no incremental wins for this business aside from the large global airlines we have already won.

We also assume a normal level of churn. We expect our MEG business to be down modestly, primarily driven by the new economics of our renewed cruise contracts and the last phase of our MNO wind-down. Our lower cost structure will be driven by the annualized 2018 OpEx savings combined with our Phase 2 cost actions, announced and initiated in February.

Lower non-core expenses are expected to improve as our audit costs decline combined with a wind down of integration work from our prior acquisitions based on projects completed in the fourth quarter of 2019.

And finally, lower CapEx will be driven by the completion of key growth projects in 2018 that will not recur in 2019. Collectively, we expect all of these factors to improve sequentially as we move through the year and actions that we have already initiated are fully implemented.

Given these factors, we believe that we will generate fourth quarter adjusted EBITDA in excess of $25 million, which will equate to positive free cash flow generation. The first half of the year will be lower as we build to that incrementally quarter-by-quarter as installations occur.

New Media & Content contracts ramp, particularly for those starting in July. The Phase 2 cost actions are fully realized, including our bandwidth and content cost savings, already enabled by now deployed technology and completion of integration projects earlier in the year. So we continue to believe that positive free cash flow can be achieved with our existing customer base. Our confidence is increasing as we achieve new wins and accelerate installations, while implementing these cost actions.

To summarize, we continue to be excited about our prospects. And with that, I would like to turn the call back over to Josh.

Josh Marks: Thank you, Paul. So I want to conclude today by first expressing my appreciation to our dedicated team and to our customers. A strong progress has clearly been made in our commercial activities with our key technologies driving momentum. We're showing consistent strength in program delivery even with our ongoing transformation initiatives. And now that our long-term visibility is set, we're focused on getting the right cost structure in place. We've reduced headcount by 25%. We've simplified our management structure. By the end of the year, we'll have closed 18 facilities. We've delivered on the OpEx reduction we guided, and we have significant opportunities still to reduce our cost of sales.

As we've completed large network build-out and key IT programs, we expect our CapEx this year to be at most half of last year. Now to be sure, we made trade-offs in the fourth quarter that will continue to impact our numbers in the first half of this year. But I am convinced those trade-offs were the right decision for medium and long-term value and remain consistent with achieving positive free cash flow no later than the fourth quarter.

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

Peter Lopez: Thank you, Josh. Valerie, let's open it up for Q&A.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from Rich Valera of Needham & Company.

Roger Boyd: This is Roger Boyd on for Rich. So with the 737 MAX stuff, it sounds like that's not going to be negative in terms of service revenue. Maybe positively, does it give you an opportunity to do retrofits if planes are grounded for longer than expected?

Josh Marks: I think there -- this is Josh, thank you for the question. First of all, again, our primary hope here given the unfortunate situation with the MAXs is that the aircraft come back into service quickly as possible. And it is a sobering situation right now given the -- what's happening in the business.

But look, I think as we look at MAX aircraft and installations, what's clear to us at the moment is the following. We've been told to maintain our expectations about equipment delivery and equipment shipments. So at this time, we see no change in terms of equipment service revenue for the year. Second, the grounding of the aircraft has a minimal impact on our inflight connectivity service revenue as we discussed during the call itself. Third, as MAXs are not flying, there is increased utilization on other aircraft in the fleet. Now we do have several customers where we don't service their MAX with inflight connectivity, but where the fleets that we do operate are going to see higher utilization and therefore have opportunities to additional revenue generation. So as we look overall at the picture, just from existing aircraft in service, we look at it as neutral with the potential upside depending on how long the outage lasts and the impact that may have on utilization rates for 737-700s, 800s, and 900s in our fleet now.

Now in terms of retrofit opportunities, as always, this depends on availability of the aircraft and upon supply chain. At this point, we're not changing our view as to overall timing of installations this year. We do, as Paul said, expect 150-plus installations. But we are watching that carefully. And if opportunities do rise to accelerate, particularly with retrofits, we want to be in position to take advantage of that.

Roger Boyd: Okay, makes sense. And then on Content, did you give a Content GM number?

Paul Rainey: For the quarter or for -- going forward?

Roger Boyd: For the quarter, yes.

Josh Marks: Yes, that was --

Paul Rainey: Our current gross margin was around the 27% range in the fourth quarter. And as we talked about, as we continue to get efficiency initiatives with our digital content platform, where we see that normalizing back to around the 30% range.

Roger Boyd: Okay. Is there any potential for it to go above 30% in the back half as those forward contracts come online?

Paul Rainey: No, I would stick with the guidance. We'll continue to make improvements for where we stand today. Obviously as we continue to get into our new platforms, more into the back half, more into the beginning of next year, as we have more on that platform, I think that's where the opportunity is realized. But I think in this year, it's still just getting back to the normalized around the 30% range.

Roger Boyd: Okay, makes sense. And then one last one, if I can. Is there any update to the ongoing situation in India with Jet Airways?

Josh Marks: So let me answer the question first. We are positioned in India for inflight connectivity with our partner. We have the service license required to start service. We do have bandwidth available. So at the point when we are comfortable installing aircraft, we are ready to begin inflight connectivity commercial service there with our partner.

In terms of Jet Airways itself, they're in the midst of a restructuring effort today. Our view is that they are making good progress, and we have confidence in their management team to complete the restructuring. As you can appreciate, given the ongoing conversations between Jet Airways and their aircraft lessors, it is important for us to confirm which aircraft are going to be in the fleet long term before we being putting antennas on the aircraft to complement the in-cabin systems that are already installed. So we are working closely with Jet Airways through the process. Good two-way communication with us and them, and we remain confident that Jet Airways is the right partner for inflight connectivity and to continue our existing inflight entertainment relationship.

Operator: (Operator Instructions) Our next question comes from Paul Penney of Northland Capital.

Paul Penney: Was hoping guys can maybe force rank maybe your two or three factors in terms of how you invigorate the top line just in terms of big picture. How do you get the top line reinvigorated?

Josh Marks: Yes, thanks for the question, Paul. Look, I think that when I look at opportunities today, I see as I talked about during this script, our technology is differentiating us in markets. So when I start with Aviation Connectivity, we are in a strong position in ongoing RFPs now with our demonstration with Air France of program execution, antenna performance, and onboard experience. People can go fly Air France and unlike competitors where service might drop when you go out over the water or over certain regulatory areas, our system is consistent, it delivers the throughput and it delivers the user engagement that drives traffic to the portal and creates upsell onboard. Those are all very important factors now as airlines are thinking about connectivity programs and thinking about how connectivity impacts the passenger experience. So in terms of inflight connectivity, the fact is now we have multiple reference customers that really showcase the best of what we do is very important to us.

Turning now to Media & Content. I mean just the simple contract traction that we have today evidences the fact that we're seeing an acceleration of that business. We had four wins that started the beginning of this year. As we announced now on this call, we've just received a major new award, a take from a competitor that was based on the strength of our technology. Again, they wanted a 4K experience. They wanted to move away from the traditional ways of doing content acquisition. All are enabled by the technology that we've now brought to production. So $20 million plus of additional revenue in Media & Content.

So really the exciting thing about that business is as we continue to take share from others in the market on the basis of our technology, we're beginning to see opportunities to look at how we acquire content in the first place. We're consolidating enough that now we can think creatively about how we work with studios to gain access to the right content, what the economics of those content deals look.

So relevant to the last question, it's not just about revenue growth in Media & Content, it's about how we get more efficient on our cost of sales as well. And all of that starts with the technology and automation and integration that comes from having the right back office platform.

And then finally, Maritime. We had to do what we had to do in Maritime to get the long-term visibility in those contracts. There was fierce competition for those flagship accounts. We got there, as I talked about during the script, from making investments in those customers, and now we're in a position to benefit from those relationships over the long term. But the important thing now is that we're through the renewal windows on our side, while our competitors are coming up to their renewal windows on key accounts. And now we have reference customers that showcase our technical capability, that showcase the strength of our network, that showcase the NRM technology and what that brings to the table and where our platform uniquely gives cruise lines the ability to use today's geostationary satellites with a bridge to lower orbit satellites as they come online. And all of that is strong differentiation from our competitors that showcase our execution and showcase our client and account management. And bluntly, we've taken a lot of what we've learned in Aviation over the past couple of years from rebuilding our relationships with key customers and taking those to Maritime.

So finally as, again, we look at the overall picture of what's growing well in the business, we're seeing growth across segments. I think inflight entertainment is easy to understand. It's the inflight connectivity business that I think is really poised for strong growth. And there it's the fact that we've been able to execute with reliability, with discipline, with cost management and cost efficiency, and with a product that has great fit with passengers today that I think puts us in the best possible position. So we are excited about those growth opportunities for sure.

Paul Penney: And then on your comment on your CapEx being about half of the last year's level, just a conceptual high-level question. Does that imply that, obviously the airlines will be paying more of the front end CapEx. Does that -- how does that affect the install pace for your business and installing planes? And then specifically, thanks for the detail on the Air France 15 planes. Maybe give us a feel for the specific cadence for installs for the rest of, I guess, maybe 120 planes, maybe you can give the total number of planes that are going to go in for Air France?

Josh Marks: Yes, look, let me start with just a point on the competitive dynamics in the inflight connectivity industry today. As we've talked about on prior calls, there was a multiyear period of irrational pricing deals and those major giveaways. As I mentioned in my prepared remarks, we're really seeing that era having essentially closed down. I mean people are being rational in approaching the pricing structures in the business. Now that's not to say that there aren't discounts offered. Some of our competitors still have to discount their equipment quite heavily to bring price parity with us and with others who have more efficient antenna platforms. But for the most part the deals that we're looking at today don't carry the same level of equipment CapEx that you would have seen a couple of years ago.

Turning to the connectivity backbone to the network itself. Last year, we had very significant CapEx as we built out our next generation network technology. It was split roughly half-half in terms of overall network spend between upgrading our North American network for a high throughput satellite and building out our new Hughes HT network in Europe, which is capable of up to 500 megabits per aircraft of throughput.

So that's now done. And while as we expand and as we add new airlines in those regions, we may have to add additional hubs and towers. Those are much -- excuse me, more modems. That's a much more efficient use of capital. It doesn't require the same thing major startup costs that we had last year. So from a program perspective, we're in a much better position with aircraft connectivity programs to leverage the investments we've already made.

Paul, anything else you want to add to that?

Paul Rainey: Yes, certainly. I think, Josh, you laid out our approach to going to the market not having as much from a CapEx funded deal perspective. But I think the key things that you laid out is there are a lot of nonrecurring items that'll be really driving that reduction by half. We talk about the Southwest ramp, the Air France buildout and then also the corporate IT programs that we had to really build out on ERP platform and that foundation. And then there were some investments for productivity initiatives that's really driving the efficiency on the NRM side. So those are onetime nonrecurring projects that really spent a lot of money in last year that will not be recurring in 2019.

Josh Marks: Yes. And just to be clear on definitions, our inflight connectivity antenna discounts, if they're offered, are not going to show up in CapEx. But I know the question you're driving at, which is cash generation. We are seeing an end to those subsidies now, and equipment sales as we look forward are likely to be neutral on margin and provide us with the cash flow that we need as we build these programs up.

Paul Penney: Great. Then last question, and just to be clear, are all the OpEx cuts taken at this point in terms of the personnel standpoint? Seems like they are, but just -- again, just to be clear in terms of other cost rationalizations you have. Is there a percentage of revenues? Or is there anything that you guys are – a metric you guys are looking for in terms of a metric of where you guys want to be when you -- like an aspirational percentage or metric you want to get to?

Josh Marks: Let me start with the question of headcount change. As the 8-K discussed, we announced in mid-February the changes to the organization impacting about 15% of the roles in the business. For the employees that were based in the United States, the relatively quick process and many of those have exited the business. In some regions of the world that we operate, there are notice periods and there are consultation periods as we look at how to reallocate labor inside of the business. All of which will cause us to have a tail of cost savings through the second quarter. And that's why I think the right way to think about it is the majority will be taken in the first quarter, some will be taken in the second and third quarters, as you'll see referenced in the 10-K.

Paul Rainey: Yes. And I would just add to that, we certainly have aspirations to get into the mid-teens as far as the OpEx as a percentage of revenue. We made significant progress to that, but certainly as we continue to integrate our platforms and standardize our processes around the new IT project that just completed, that's going to continue to drive efficiency and optimization in our business that'll reduce our costs.

Operator: (Operator Instructions) I'm showing no further questions from the phone lines. I'd like to turn the call back over to Peter Lopez for any closing remarks.

Peter Lopez: Thank you, Valerie, and thank you all for participating in our fourth quarter and full year 2018 earnings call. We look forward to updating you on our continued progress next quarter. Valerie?

Operator: Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.