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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Richard Frank Valera *Needham & Company, LLC, Research Division - Senior Analyst*

Robert Feinstein *Compass Point Research & Trading, LLC - Head of Sales and MD*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Global Eagle Entertainment's First Quarter 2018 Earnings Conference Call. (Operator Instructions) .

Now I'd like to turn the conference over to Peter Lopez, Vice President, Investor Relations. Please go ahead.

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

Thank you, James. Good morning, and welcome to Global Eagle's business update for the first quarter of 2018. Before we start, I would 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, including regarding our expected business and financial performance and the expected impact of our cost-savings initiatives. 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 as well as 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 reconciliation of adjusted EBITDA to its most directly comparable financial measure in the earnings release.

Now I would like to turn the call over to Josh Marks, Chief Executive Officer of Global Eagle.

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

Thank you, Pete. Good afternoon, everyone. Thank you for joining our call today. I'm Josh Marks, the Chief Executive of Global Eagle. I'm joined on the call today by Paul Rainey, our Chief Financial Officer; also Jeff Leddy, our Executive Chairman; Per Norén, our Chief Commercial Officer; and Walé Adepoju, our Chief Strategy Officer will be available later for questions and answers.

Since becoming Chief Executive a month ago on April 1, I've had the opportunity to visit our teams around the world. I've met with several of our customers in Aviation, Maritime and Land, and I've seen how Global Eagle Solutions serve passengers on board aircraft and vessels and workers at remote sites, whether they are enterprise or government. Our mission at Global Eagle is to connect, entertain and inform passengers and remote workers. We help our customers provide solutions to enrich the time that their passengers spend on board with movies, live television, games and mobile applications, whether those are delivered via a seat-back screen, on-demand streaming systems or of course, satellite connectivity.

Now with global scale in both content and connectivity, we have many strengths. We're the largest provider by installation count of satellite-based connectivity to single aisle airliners worldwide. We're the largest broadcaster by vessels served of live tv in both Aviation and Maritime. We're the largest content service provider to global aviation. We're a leading provider of connectivity in Maritime, government and enterprise markets, and we have new opportunities to cross-sell our media and entertainment portfolio in those market segments.

Our services touch more than 1 billion travelers each year, and our global network builds on the best technologies for multiple satellite operators. Through scale, we can drive economics for connectivity-enabled entertainment on board, including live tv and media streaming at price points that make sense for our customers and for their passengers.

While the breadth of our connectivity and media portfolio positions us well long term, especially against more narrowly focused competitors in these markets, we do recognize the urgency of short-term execution.

So let me start today by noting that Aviation Connectivity had another strong quarter in both services and equipment sales. On our January call, we announced a new European airline connectivity customer, and this customer has ordered equipment and we continue to expect installations to begin in the third quarter.

We will install our new 3-axis antenna that can deliver 400 megabits plus per plane using Intelsat Epic's HTS capacity. Now on our February call, we also provided an update on Indian in-flight connectivity. At the start of this month, the Indian Telecom Commission approved in-flight connectivity for both Internet and voice services. They approved almost all the recommendations made by the Indian Telecom Regulatory Authority. Now the Indian Department of Transportation must amend the relevant laws to create a separate category of telecom licenses for in-flight connectivity. And in parallel, we need to design compliance methods for lawful interception and system monitoring. I expect this will take through the summer.

On our April call, we discussed our expanded connectivity relationship with Jet Airways. Of course, recent news from the Indian Telecom Commission puts Global Eagle and Jet Airways in great position for live in-flight connectivity services to the passenger before the end of the year.

In April, we also talked about continued installations with Southwest. This quarter, we continued to ramp up performance on the Southwest network with new HTS service. Southwest is an important reference relationship for us, and we are thrilled to partner with Southwest as we proactively invest in new television content and connectivity capabilities.

We're investing in our service to reflect Southwest's consistent and high-value passenger experience. Now even with these investments, we are confident we can increase profitability, while increasing Southwest's return on investment from their in-flight connectivity experience.

Overall, we expect significant growth for in-flight connectivity revenue during 2018, driven by a combination of new and existing customers.

Let's turn to Media & Content. Our content services core business is healthy and the market has profitable growth potential. In 2017, 97% of twin-aisle aircraft deliveries worldwide had seat-back entertainment systems. Almost 40% of single-aisle aircraft are now delivered with seat-back displays or wireless streaming systems. So the market for onboard movies, live television, games, audio and apps is growing, and our services are core to that long-haul passenger experience.

On both our February and April calls, we discussed why we saw a minor decline in Media & Content revenue in 2017 that continued into the first quarter of 2018. In the first quarter of 2018, the underlying improvement in Media & Content was masked by 3 things: First was revenue recognition due to ASC 606 implementation versus the prior ASC 605 accounting standard: second, was the timing of revenue from new contracts. Now we previously announced new business with Gulf Air and China Airlines as well as the retention of Air France and All Nippon airlines. Those new and expanded relationships scaled up during the first quarter, and we expect that to be reflected in our second quarter 2018 performance.

Now some airlines have also deferred digital media purchasing decisions by a quarter as well. The third factor was that in the first quarter of 2017, we had a uniquely good content distribution portfolio. And again in the first quarter 2017, we had several award-winning titles in our slate. This year, we're back to a more normal distribution slate.

Looking forward, our pipeline is strong. We have recently been selected for a major new content services account in North America, and we expect this award to impact Media & Content services revenue later in 2018.

We do see airlines continuing to demand higher title volume and more complex edits. So to meet this demand, we are working to transition this year to a digital content supply chain. We're redesigning our technology and operational processes to manage content editing and delivery in a fully digital environment from studio to seat-back.

Digital content processing should also enable new digital media services, content curation and content targeting across Aviation, Maritime and Land markets. It should also help us optimize our licensing spend and increase our margin for Media & Content services. We expect our Media & Content segment to progress towards approximately 3% to 5% top line growth and approximately 30% gross margin plus or minus 200- basis points in 2018.

Let's turn to our Maritime and Land segments. Now we outlined our cruise, yacht and government business segments in the April call. Since the beginning of the year, we've increased our count of Wi-Fi connected cruise ships and our government and military installations. We continue to expect revenue growth of about 5% across Maritime and Land this year. We are disciplined about the opportunities we pursue to effectively manage both our bandwidth and our CapEx exposure. And that discipline is core to how we define our objectives.

First, we continue to prioritize running a healthy core business, ensuring our customers are strong references and that we have a cost foundation that reflects our global scale and our purchasing power. Second, we focus on driving profitable growth. We plan to accelerate growth this year by winning deals on our portfolio strength and at economic terms that support our forecasted improvement in profitability. Our recent wins continue to demonstrate the value from combining travel-centric media services with a global distribution network of satellite connectivity.

Third, we are aggressively transforming our business to drive both top line growth and margin improvement. We've taken important first steps since our last call to increase our margin and bolster cash flow. Now in an environment where many of our competitors are struggling, it's imperative that we have a lean cost structure and a strong technology portfolio to expand our business.

Our actions thus far fall into 2 categories: technological innovation; and overhead reduction. I'll start with technology innovation, where we're investing. Now these investments are part of our 2018 CapEx plan.

In Media & Content, the digital content transformation I mentioned earlier should improve and increase our scalability, enable new products and drive a more efficient production environment with higher margins. In connectivity, we're making new modem investments that should increase our bandwidth efficiency. We're realizing value now from our proprietary technology for network management. Since the EMC acquisition in 2016, we've reduced our average cost per megabit by more than 60% in significant part through our proprietary technology. Now we're deploying application-level traffic routing and hybrid network technologies that combine satellite and terrestrial wireless networks.

For example, last week, we delivered service on a new cruise ship using our latest technology that routes traffic concurrently over multiple satellites. In live customer conditions, we've shown sustained performance of over 800 megabits per second with 2,000 concurrent users and peak rates are consistently well over a gigabit. We focus on maintaining a high quality of experience across multiple ships in a given region with consistency across cruise itineraries from the Caribbean to Alaska and Scandinavia. The technologies we've built in Maritime can also be used in Aviation, where many of the same principles apply.

So we continue to bolster our technology leadership. In fact, today, Global Eagle and Telesat announced that we'll work together to test and integrate their new Low Earth Orbit satellite technology in Aviation and cruise markets. We are persuaded that Telesat's consistent global coverage over the open ocean, polar regions and on high latitude routes, their industry leading latency of sub-50 milliseconds and their open architecture business model can make Telesat LEO platform a valuable solution component for our customers. So we'll collaborate with Telesat on both the technology and commercial models for their new LEO platform.

Turning now to overhead reduction. Jeff outlined our goal on our February call. We targeted 10% to 15% reduction in operating expenses by the end of 2018. Restructuring actions taken this quarter already totaled more than $15 million of annual run rate cost-savings impact. Those steps focus on the integration of our commercial teams across Media & Content and Connectivity and reduction in our overhead expense. At the beginning of April, we consolidated all go-to-market activity across Media & Content and Connectivity into one team under the leadership of Per Norén as Chief Commercial Officer.

Airlines and cruise lines want a compelling passenger entertainment and connectivity experience that's consistent across their network. We've organized ourselves accordingly and flattened our customer-facing organization taking out significant annualized cost, while increasing and enhancing our ability to serve customers. We've also eliminated many roles that were duplicative or did not fit our strategic objectives. You will start to see the positive impact of these changes on our cost structure starting in the second quarter.

I'd now like to pass the call to Paul to discuss our first quarter results.

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

Thank you, Josh. As Josh outlined, in the past several weeks, we have taken significant steps toward meaningful cost savings that should be visible starting in our second quarter numbers and beyond.

Today, I'll focus on the first quarter numbers as well as the impact of ASC 606 new revenue recognition accounting standard on our business. Total revenue for the first quarter of 2018 was $156.5 million. This is a 2.6% increase over the prior year period, driven by connectivity growth. We saw an increase in both connectivity service revenue from new aircraft, vessels and land sites and in addition to equipment revenue.

Our Media & Content revenue was down about $1.5 million. As Josh mentioned, for the first quarter of 2018, the underlying improving fundamentals in our Media & Content was negatively impacted by revenue recognition, primarily related to the ASC 606 implementation, as well as our distribution slate versus the prior year and some digital media contract awards being pushed out of the quarter.

We expect to see new benefit from our recent contract wins later in 2018, as those programming cycles ramp up. Let me provide more specifics about ASC 606.

During the first quarter, we implemented the new revenue recognition accounting standard. The total impact of applying the new standard for the quarter ended March 31, 2018, versus applying the prior ASC 605 accounting standard was a decrease in revenue of $0.7 million, a decrease in cost of goods sold of $0.4 million, and an immaterial adverse impact on adjusted EBITDA of less than $0.1 million. We recommend that you review the disclosures in our first quarter 2018 Form 10-Q for information regarding the impact of ASC 606.

Adjusted EBITDA for the first quarter of 2018 was $17.3 million, which was a slight increase over the prior year period, a year-over-year increase of 4.1% or $0.7 million. Adjusted EBITDA benefited from the growth in our Connectivity segment's service and equipment revenue that I spoke about earlier, including sales of higher-margin spares and lines-bit ship sets.

Now looking to the full year of 2018, we reiterate our belief that Global Eagle will grow adjusted EBITDA in 2018 by a minimum of 25% year-over-year versus 2017. We expect adjusted EBITDA to shift to a higher growth beginning in the second quarter. We have already initiated our plan to improving operating expenses. In addition, Josh told you to expect the previously announced wins in Connectivity will start to benefit us in the second half of the year. These 2 factors in addition to further improvement in our Media & Content segment that we just discussed underpin our confidence in achieving our adjusted EBITDA growth target for 2018.

We also made progress in improving cash generation during the first quarter of 2018, driven by multiple factors, including improved collections of receivables. Capital expenditures during the first quarter of 2018 were $15.2 million. It is important to note that approximately $7.5 million was related to the final installment payment for the SES transponder purchase. Excluding the final transponder payment, we spent approximately $7.7 million on recurring capital expenditures for the quarter, which includes both maintenance and growth-related CapEx. We continue to expect capital expenditures to be less than $42 million in 2018.

We also closed on our investments from Searchlight Capital Partners during the first quarter of 2018. During the second quarter, we used approximately $78 million of the proceeds to pay down our revolving credit facility. As of today, the current availability on this facility is approximately $79 million, which is $85 million less approximately $6 million for letters of credit outstanding.

Now I will turn the call back over to Josh for final comments.

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

Thanks, Paul. I want to emphasize our focus on improving adjusted EBITDA and cash flow during 2018 that should enable faster growth. We have the right portfolio of media, connectivity and technology to compete and win. And now we've accelerated the integration of past acquisitions. We have started taking cost out of the organization. New restructuring actions taken this quarter totaled more than $15 million of annual run rate cost savings. Now despite the somewhat slower growth in the first quarter, we're still expecting to generate a minimum of 25% adjusted EBITDA growth this year.

In our Aviation Connectivity business, we expect to see the benefit of new airlines coming online. And of course, we're well positioned in India to capitalize on new in-flight connectivity regulations. In Media & Content, we're making progress on gross margins and we're converting our pipeline to wins to drive new growth this year. I look forward to sharing additional news with you in coming months as we drive profitable growth and transform our business.

I'll now pass it back to Pete for questions and answers.

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

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

QUESTIONS AND ANSWERS

Operator

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

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

First question just on the equipment gross margins, which were pretty exceptionally high this quarter, I think, 39%. Could you provide any commentary on them and sort of what drove that? And how should we think about those gross margins going forward?

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

This is Paul speaking. Yes, as we mentioned a little bit earlier, that's really around the mix of it, more lines-bit and spare parts in the quarter. As we move throughout the year, we'll see this moving more to the normative kind of volumes and mix that we've seen in the past.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. And then, Josh, in terms of the second half installs that you're looking to start ramping. I know you've mentioned your European -- your new European win sounds like they're ready to go pretty much in Q3. And what you are you thinking about in terms of the Indian situation? Do you think that's a Q3 start? Or do you think that's more likely a Q4, given sort of the regulatory time line there?

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

I'd model that as Q4. If possible, we could launch test aircraft towards the end of Q3, but realistically we're looking at Q4.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. And then just in terms of the expense trajectory, it sounds like you are expecting some decent sequential improvement, I guess, on the OpEx. Is there any kind of color you can give us in terms of magnitude of how much we might think about that dropping in Q2 versus Q1? Or should we just think about that as on a more annualized basis?

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

Yes. As Josh said, we started those actions early in the quarter, so we won't have the full quarter impact, but we will get to the 10% to 15% from an annualized year-over-year drop from the run rate that we mentioned before.

Operator

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

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

If you go back into the cost saves in terms of -- is my math right in terms of, is the midpoint roughly $20 million of annual cost savings, and if you're -- and just taking your $15 million run rate, is that -- is my math right, that you're about 20% done with that number?

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

No. Your midpoint is about right. As we previously talked about, on a normalized basis, we're about $40 million a quarter, $160 million a year. So that's the baseline for the 10% to 15% out. And the $15 million on an -- at an annualized basis, so you are little bit off in that we're talking annualized that 10% to 15% your midpoint number, you're talking about the number we'd expect to see this year.

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

I understand. And with all that, when you put it all in the blender, your 11% adjusted EBITDA margins, where can those go? Where -- any color there?

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

As we said, we feel like we'll get a minimum 25% year-over-year growth this year, and that's kind of where we're guiding to at this point.

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

Okay. And then switching gears in terms of your auditor and third-party fees, they were quite high for the quarter about $8.5 million year-over-year increase. With my understanding that the new audit team had a less -- with a more favorable contract and can you just give color in terms of where you expect that to stabilize for the full year?

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

Yes. I think the year-over-year comparison was again a little bit apples and oranges in that in the last year, there were no filings and the actual audit expense was only about 30% for the entire year. But this year, we completed the 2017 audit in addition to working on the other filings that we're working towards as well. So I think we just need significant more work in the audit work that was performed this year versus last year. So we do intend to see the auditing fees continue to tail off at a much lower rate as we move throughout the year to get to more normative, not to the 4 filings that we produced in the first quarter of this year.

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

Great. And it was my understanding that you -- senior management and the board was precluded from buying back stock until you had updated financials and you had Q1 earnings in the rearview. Is it fair to assume that you guys are now free to buy back stock?

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

Yes. Just that we've been blocked out for over a year here. So we do think as we get through this first quarter, within this month, we will be open for us, the management, to participate.

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

And then last question, just a high-level question for Josh. Just in terms of the competitive landscape, maybe give us a feel for some of the RFP environment out there and especially, in light of a main international competitor being potentially less active in the marketplace. Maybe just give us a feel for how you're seeing the marketplace today.

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

I think we're in a robust environment right now for opportunities in the connectivity world. I think that applies in both the Aviation and Maritime and Land. In Aviation, in particular, we are an inflection point where there are both new fleets that are being installed as well as airlines that are now looking at the next-generation of technology. Programs like our new Telesat partnership demonstrate that we are investing both in the current platform as well as in new technologies that we think are going to be very important to providing the rich sort of connectivity enabled entertainment that really we think is core to how we win in in-flight connectivity going forward. Again, our view is that connectivity is more than a pipe. You want to push streaming-class Internet, of course, to passengers, but you also have to provide television, movies, games, other solutions that create the engagement on board and drive the take rate that you need in order to make in-flight connectivity profitable for the airline and deliver at a price point the passengers want to pay. We feel that message is getting through in terms of current industry RFPs and our selection in sequential rounds of these programs. So I'm feeling optimistic about the current environment. And again, I think we have a unique portfolio, a unique approach to the market in terms of bringing connectivity together with entertainment that's different than what our more narrowly focused competitors are doing.

Operator

(Operator Instructions) I'm not showing any further questions in queue. So I'll turn it back over to Mr. Lopez for closing remarks. Apologize, actually, we do have one question from Bob Feinstein with Compass Point.

Robert Feinstein - *Compass Point Research & Trading, LLC - Head of Sales and MD*

I really just have one question, and that is the stock market is telling -- I mean, the call sounds great. It sounds like a lot of good things are happening. The stock market has not seen it. What's the stock market telling us that we're not seeing?

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

That's a great question. It's something we're thinking about closely as well. I think at this point, we have to execute, right? We have -- I can talk all I want about opportunities in the market and the way we're positioned. I could talk about the progress we're making in RFPs. What matters are wins and the strength of the portfolio to drive profitable growth. And until I think we have evidence that we are making progress on that front. I think there are going to be skeptics. Now I feel very confident in our positioning in the market. I feel very confident about where we are relative to our competitors both in terms of the portfolio we have and the fact that we're making tough decisions, we're being decisive in terms of our approach to our cost structure, to the products that we're going to invest in. And again, we look at driving efficiency and reducing waste in the business as what's going to enable the investments we then need to make to serve our customers. Now I think that message is the right one for customers. I think we have to articulate that value to investors as well, but ultimately, we have to show how that translates back through the financials. So as Paul said, I think you'll see inside of the second quarter, the initial benefit of the actions we've taken. Really the proof now sits in the third and fourth quarter and our ability to deliver on what we've talked about and to show that we have the combination of a healthy core that we're able to drive profitable growth and that we're well through the transformation process we need to undergo as a company. I think, deliver on those 3 and you'll see that there is a lot of future value in terms of what we are putting together here.

Robert Feinstein - *Compass Point Research & Trading, LLC - Head of Sales and MD*

And just a follow-up. I want to make sure I understand. If I heard correctly, you think management will be -- management is: A, allowed; and B, you think they will be active in the stock by the end of this month of May?

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

The trading window will open.

Operator

Thank you. As there are no further questions in queue, I'll turn it back over to Mr. Lopez for closing remarks.

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

Thank you, James, and thank you, everyone, for joining our call. Hopefully, you heard a lot optimism and enthusiasm from our team. We look forward to giving you an update next quarter.

Operator

Thank you. Ladies and gentlemen, that does conclude today's conference. Thank you very much for your participation. You may all disconnect. Have a wonderful evening.
