THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ENT - Q4 2017 Global Eagle Entertainment Inc Earnings Call

EVENT DATE/TIME: APRIL 02, 2018 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jeffrey A. Leddy *Global Eagle Entertainment Inc. - CEO & Director*

Joshua Benegal Marks *Global Eagle Entertainment Inc. - EVP of Connectivity*

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

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

Walé Adepoju *Global Eagle Entertainment Inc. - EVP of Media & Content*

CONFERENCE CALL PARTICIPANTS

Greg Gibas

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

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

Richard Hamilton Prentiss *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for your patience. You've joined the Global Eagle Entertainment Financial Results Call for the Fourth Quarter and Full Year 2017. (Operator Instructions) As a reminder, this conference may be recorded. I would now like to turn the call over to your host, Vice President, Investor Relations, Mr. Peter Lopez. Sir, you may begin.

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

Thank you, Latif. Good afternoon, and welcome to Global Eagle's Business Update for the Fourth Quarter and Full Year 2017.

We want to apologize upfront for the timing of the press release. We had technical difficulties with the formatting of our tables. Now before we start, I'd like to remind you that our discussion today may 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 most recent annual report on Form 10-K and in our quarterly reports on Form 10-Q. We disclaim any obligation to update or alter those statements whether as a result of new information, future events or otherwise. Our discussion today will reference adjusted EBITDA, which is a non-GAAP financial measure. For the fourth quarter and full year 2017, we've included a reconciliation of adjusted EBITDA to its most directly comparable GAAP financial measure in the earnings release and the separately furnished Form 8-K. For the 2018 adjusted EBITDA guidance that we will provide, we will not provide a quantitative reconciliation because it is not available without unreasonable efforts. Now I'd like to turn the call over to Jeff Leddy, Executive Chairman of Global Eagle.

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

All right. Thanks, Pete. Good afternoon, everyone, and thank you for joining our call today. I'm Jeff Leddy, Chief Executive Chairman of Global Eagle. I'm joined by Josh Marks, our new Chief Executive Officer; Paul Rainey, our Chief Financial Officer; and Walé Adepoju, our Chief Strategy Officer. Effective yesterday, I became the Executive Chairman and Josh became the CEO.

While last year was challenging in many fronts, as you'll hear from our team today, we have made significant commercial, operational and financial progress. When I became CEO last year, I recognize that Global Eagle needed strategic, financial and organizational changes to increase revenue growth and to enhance profitability. Our first goal is to put our SEC financial reporting back on track. To accomplish this, we had to make substantial changes in our finance team. Due to complex purchase accounting and other issues, our 2016 annual report took far longer than we anticipated. However, since completing the 2016 10-K in November, we have filed our 3 10-Qs for 2017 and now, we filed 2017 10-K.

I want to thank Paul Rainey, our CFO; Sarlina See, our Chief Accounting Officer; and our entire finance team for their extraordinary efforts.

My second goal as CEO is to strengthen our balance sheet. Adequate liquidity is important to demonstrate staying power with our customers and to support the business transformation we are currently implementing. I'm pleased to report that the Searchlight's $150 million investment closed and funded last week. In making this investment, they saw significant potential to create future value for all of Global Eagle stakeholders. We are excited to have Searchlight as a partner. They bring financial acumen, strategic insights and strong industry relationships that will help us drive successful business. And importantly, we now have more resources to continue building our connectivity and content platform.

Of the $142 million of net proceeds from Searchlight's investment, we used about $80 million to pay down our outstanding revolver balance. They'll still have access to redraw the full revolver again if needed in the future. The balance of funds strengthens our balance sheet and enables targeted growth investments. Two Searchlight partners, Eric Zinterhofer and Eric Sondag, have now joined our board. Each brings deep expertise in technology, media and telecommunications.

Our third goal was to strengthen our operational foundation. Last April, we integrated our Aviation, Maritime and Land Connectivity businesses under Josh's leadership. We deployed EMC's proprietary technologies to our Aviation network, significantly improving performance. We also invested in bandwidth capacity to support our current and future customers. And as Josh will discuss shortly, those investments are bearing fruit.

On the Media side of our business, we are leveraging our studio relationships to lower the cost of content provisioning. We have seen the benefits already in more efficient operations and new content customers.

Finally, my fourth goal was to attract a world-class team with both operational and commercial expertise. Key executives from Boeing, General Electric, Harris, Thales, and others have joined our team. We also promoted leaders with deep expertise in Aviation, Maritime and Land markets, including our recent appointment of Per Norén as our EVP and Chief Commercial Officer.

With all these accomplishments and with our new team in place and performing, I felt the time is right to pass day-to-day leadership to Josh. As Executive Chairman, I will focus my time on strategy, partnerships and innovation. As CEO, Josh will lead the company and leverage his expertise in transportation, media and technology. Josh also joined our board effective April 1. Walé now is in an expanded role, driving our strategy and marketing in addition to his ongoing responsibilities in content operations and distribution.

Now for our outlook for 2018. In 2018, we plan to materially improve our adjusted EBITDA by a minimum of 25% versus 2017 with capital expenditures equal to or less than last year. We intend to achieve this through continued organic revenue growth and further integration, including office consolidation, supply chain efficiencies and overhead reduction. Paul will provide more color on this shortly.

As I hand over day-to-day leadership to Josh, I am proud of our accomplishments last year and excited to contribute to our future success. We built a platform of connectivity, entertainment and media that reaches billions of travelers on a global scale. We've attracted world-class executives. The timeliness of our financial reporting has greatly improved, and our balance sheet is strong.

With that, I'd like to turn the call over to Josh to provide further update on our Connectivity business.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Thanks, Jeff, and good afternoon, everyone. Let me start with our commercial, operational and financial objectives.

So first, we are prioritizing a healthy core business. This means ensuring that our customers are strong references for what we do and that we set a cost foundation that reflects our scale and purchasing power.

Second, we're driving profitable growth. Last year, we grew overall Connectivity revenue by about 4% and our service revenue grew 6%. Now in 2018, we plan to accelerate this growth but we aren't going to do so by following our competitors who entice customers with giveaways that don't result in a robust business model. Rather, our recent wins demonstrate the value from our comprehensive and proven Connectivity solutions and from our integrated portfolio of Media services.

Third, we are aggressively transforming our business. Our gross margins in Connectivity are respectable, but they're not where we expect them to the be. And this is due to investments in our network, particularly in the Americas and in Europe. Since the EMC acquisition in mid-2016, we have almost tripled the size of our network while driving down our average cost per megabit by more than 60%. We have accelerated our transition to High Throughput Satellites, referred to as HTS, which resulted in very efficient use of bandwidth. And while we have increased our bandwidth spend, we remain very efficient in how we utilize bandwidth across our customers and our industry verticals. Now we expect our gross margin in Connectivity to bottom out in the second half of 2018 as we complete network build-out and begin to scale up our new accounts. We will start to see a return on our network investment, and that will contribute to margin recovery. We target a 25% gross margin on a long-term basis for our Connectivity segment, but the margin will be pressured in the short term as we pick up new customers.

Now let's take a closer look at each of our Connectivity business units, starting with our Aviation Connectivity group. Aviation represents about 45% of total Connectivity revenue. And our focus has been to strengthen our relationship with our largest customers, Southwest, Norwegian Air Shuttle, while winning new contracts that demonstrate profitable growth. Our substantial capacity investment in HTS transition are paying off with continued Southwest fleet growth on both 737NG and Boeing 737 MAX aircraft. Overall, Aviation Connectivity revenue grew around 5% last year versus 2016 mostly due to mutually agreed contract changes with Southwest and Norwegian. Now this year, we're expecting double-digit revenue growth in Aviation Connectivity due to expansion of existing customers and new customers coming online in the second half of the year.

Now it's important to recognize that Southwest is still the world's largest single fleet with satellite connectivity and there are real operational challenges to providing satellite-based In-Flight Connectivity at this scale and density that we have successfully addressed. This sets us up to win other customers who have the same operational profile and large fleet challenges. New bandwidth has certainly improved Southwest's quality of passenger experience. However, we have also used our proprietary technology that materially reduces our bandwidth requirement, avoiding millions of dollars in cost. With HTS coming online, we are rolling out another step change in Southwest performance by midyear. We have also enhanced our customer service and support by in-sourcing repair services so that our equipment reliability at Southwest is at an all-time high. Southwest has ambitious goals for In-Flight Connectivity. We work very closely with them, and we're making proactive investments that we believe will support their vision. Now those investments are reflected in our financials. We believe they are prudent, and we are thrilled to continue growing with our largest customer.

Turning to Europe. Our Norwegian fleet continues to expand with double-digit aircraft installations during the first quarter. We're also building out our European network for our previously disclosed new European airline. Our commercial program with that new airline is well underway, and we expect to launch service in the third quarter of this year. They will install our new 3-axis antenna along with our new Hughes modem that delivers 400 megabits plus per aircraft. We'll use Intelsat's HTS network as the backbone for this new European customer, overweighting aviation capacity with our mega yacht and cruise business for both scalability and efficiency. With this new customer plus Norwegian Air Shuttle and LOT Polish, we expect to be the largest provider of satellite-based connectivity to single-aisle aircraft in Europe and we're designing our network accordingly.

Now building on our strong foundation in North America and Europe, we are organized and focused on advancing our leadership position in new emerging markets. We are not trying to be all things to all airlines. Our expertise lies in single-aisle fleets that operate within specific geographies where the challenge is scaling the user experience. To serve hundreds of aircraft in a specific region, we integrate capacity from different capacity operators and deploy the best technology for each customer requirement.

And there are many benefits to our approach. First, we drive efficient network utilization and our network has redundancy; second, revenue potential is higher because single-aisle aircraft operate multiple flights per day and each flight brings hundreds of potential customers; third, take rates are generally higher on short-haul flights; and fourth, live television is popular. So our focus is profitable growth in each region we serve, being disciplined about what we pursue.

And I'm pleased to announce new wins that validate our approach. First, in India, we are pleased to announce an MoU that expands our relationship with Jet Airways in preparation for connectivity on domestic flights in India. Jet Airways has the leading market share in the Indian business travel segment. Today, our equipment is installed on about 70 Jet Airways Boeing 737 aircraft. Wireless entertainment is now active and our systems are upgradable to connectivity when In-Flight Connectivity is authorized by the Indian government. Under the new MoU, Jet Airways expects to add an additional 81 Boeing 737 MAX aircraft to our relationship for a total of over 160 aircraft in India when delivered. And we'll work together with Jet Airways to deploy In-Flight Connectivity as soon as the regulatory approvals are in place. This solution leverages our in-flight entertainment capabilities as we're the leading distributor of Indian language content to bridge Jet Airways to a fully connected experience. The Indian government continues to progress In-Flight Connectivity regulatory approval, and we expect to activate In-Flight Connectivity with Jet later this year.

Second, we focused on Southeast Asia as a developing In-Flight Connectivity market. And we are pleased to announce that a major Southeast Asian airline has signed a letter of intent with Global Eagle to deploy our connectivity system on their Boeing 737 and Airbus A330 fleet. This customer is a long-standing Global Eagle content service partner and our new connectivity program validates our strategy to integrate solutions and cross sell our media, advertising, e-commerce and connectivity services. Once installed, this should cement Global Eagle as the leading high-speed connectivity partner for single-aisle fleets in Asia Pacific. The airline will drive the announcement.

So both of these opportunities reflect our focus on profitable growth. We have the right partners, STCs and line-fit capabilities, and we are winning with our broad and deep value proposition. Our content relationships provide the foundation to cross sell our connectivity as we do business with more than 220 scheduled airlines.

Now turning to Maritime and Land. These segments represent about 55% of our Connectivity revenue, and we continue to see stability. Of that 55%, about 1/3 comes from cruise and ferries with the remainder split among yachts, government and enterprise, which includes both terrestrial flights and commercial shipping. In the cruise market, we have a strong WiFi presence with smaller fleets and a foothold with the largest ones through our television platform. We continue our steady execution in cruise. We've renewed key contracts with Crystal, TUI and Pullmantur and we now connect more than 100 cruise ships with WiFi and more than 100 cruise ships with television services. We are focused on driving Maritime growth from new ship installations and from higher take rates on existing ships through media services and revenue share programs.

Now our yacht business is growing and is profitable. We serve the 40-meter plus class. There are about 1,200 of these mega yachts, and we serve about 250 of them now. So there's significant growth opportunity. When we bought EMC, its yacht business was shrinking but our team stabilized the business unit with our white glove PRIVA concierge services. Again, our unique combination of movies, live television, broadband connectivity and terrestrial wireless integration positions us uniquely for these high-value customers.

Our government business is our fastest-growing segment by revenue, where we continue to benefit from new U.S. government and military contracts and growth in our Brazilian business. We've implemented a major new contract with the National Weather Service and renewed a United Nations contract. So today, we have about 2,000 enterprise sites and about 1,800 government sites that are active. In other Maritime and Land sectors, we are disciplined about the opportunities we pursue and effectively manage our bandwidth and CapEx exposure.

So overall, we expect revenue growth of about 5% across all our Maritime and Land verticals this year and that 5% incorporates a decline in our cellular backhaul business. We do expect greater improvement in our gross margins as we drive network efficiency in these sectors.

Now despite the progress of our connectivity programs in Maritime, I do want to explain the headwinds we've been addressing in our Maritime cellular roaming joint venture. WMS performance was negatively impacted in 2017 by a strategic change by one of WMS's key telco roaming partners. The WMS management team is working to remedy this relationship and offset the revenue and margin impact with other meaningful growth initiatives.

Overall, I'm pleased with our positive momentum in Connectivity, particularly at a time when our competitors appear to be retrenching. While our network investments impacted margin in 2017 and into 2018, we have increased our backlog to recover those investments. Our key customers are references and helping us drive new wins.

With that, let me turn the call over to Walé to update you on our Media & Content business.

Walé Adepoju - *Global Eagle Entertainment Inc. - EVP of Media & Content*

Thank you, Josh. On our last earnings webcast in February 2018, we reviewed the challenges Media & Content faced last year and outlined our plan to address these performance issues. I am pleased to share with you that we are executing on our plan, as shown in our fourth quarter numbers, and we expect to see further improvement going forward. I will also share examples of progress we are making in our transmission efforts, particularly in our Digital Media and advertising business lines.

Recent successes continue to validate our strategy and demonstrate our ability to drive future growth. On a full year basis, our Media & Content 2017 revenue was down 6% year-over-year. As we covered on our last call, this was due to 3 factors: first, we had the full year effect of the loss in 2016 of 1 of our largest customers, resulting from a legal dispute relating to music license liabilities; second, 2 of our significant airline customers went bankrupt last year; and third, the delay in our SEC filings had a negative impact on our ability to close new business to offset the first 2 factors.

Gross profit during 2017 was down, driven by the lower revenue and the higher cost of sale resulting from suboptimal video content product mix and increased music license cost following our various settlements with the music labels. Actions to address these issues are well underway, and positive signs are already evident in the fourth quarter results.

In terms of financial performance, fourth quarter 2017 revenue recovered nicely to be broadly flat with the same period in 2016. Gross margin showed significant improvement in the fourth quarter relative to the first 3. After we filed our 2016 10-K in November, our retention of existing client and new business win have returned to normal levels.

As we reported in February, in the fourth quarter, we retained major contracts with Air France, KLM, Finnair and All Nippon Airways. We also won new business with Gulf Air and China Airlines. Most of these events happened late in the fourth quarter so their impact on 2017 result is limited but the wins puts us in a strong position for content growth in 2018.

Turning to our 2018 outlook. We anticipate that the problem of 2017 are behind us and that we will soon be back to our performance prior to 2017. This includes new revenue growth and moderate improvement in our gross margin versus 2017. During the first quarter of 2018, we have secured multiyear renewals with key customers from both Content Services and seat-back applications. We have a robust pipeline, and the Searchlight investment demonstrates long-term stability to our customers.

At the same time, our content supply chain transformation is underway. This transformation effort is a fundamental redesign of operational processes to manage content editing and delivery in a fully digital environment from studio to seat-back. It will deliver a step change in both quality and scalability and provide the foundation for new digital media services across Aviation, Maritime and Land markets. Digital transformation will also increase our control and optimization of license spend, addressing a key business challenge from 2017.

As our Content Services business stabilizes and returns to growth, our attention will now shift to mobile-centric travel entertainment and passenger analytics. Our strategy will now focus on connected entertainment. Connected mobile devices on on-board provide a powerful new platform to target advertising, personalized media and learn more about the travelers and what they want to be entertained and informed during their journey. Our strategy will bring together our connectivity and content platforms to create new opportunities for monetization for our customers and for Global Eagle. We continue to build momentum. Traveler take rates of our content to go mobile application now exceeds 25% with a major customer. And we're powering United's new entertainment website that leverages our marketing and our analytics capabilities.

I want to spend a few minutes updating you on the progress in advertising. Advertising is a single-digit percentage of our overall revenue now but it's growing by double-digit percentage versus 2017 and is a key priority for us. Our advertising business is scaling globally and winning renewals. Advertising growth is critical to maximizing the commercial value of Connectivity Systems for our Aviation and Maritime customers. Advertisers seek access to travelers and travel-related advertising continues to command a price premium relative to social media and traditional print and online channels. This year, we are driving advertising growth by developing our partnership with domestic carriers, including American, Delta and Southwest. I am pleased to announce that we are now the exclusive representative for a major U.S. airline for the sale of the media used in their business lounges.

We also expanded our business outside of the U.S. A major Middle East airline recently asked us to extend our media sales relationship. We continue to partner with Southwest on various advertising and sponsorship opportunities prior to our provision of WiFi, including sponsorship of premium Hollywood movies and IPTV.

Live ad insertion is an integral component of our IPTV offering, benefiting our current connectivity customers and enhancing the commercial value of our platforms for new ones. For every hour of IPTV delivered, there are 3 local and 3 national media slots available. With our integrated media sales and network infrastructure, we replaced local ad spots in real time to deliver contextual, relevant advertising to travelers. Leveraging our connectivity platform, we plan to personalize advertising and confirm that viewers actually saw the advertising. These are exciting developments, and we look forward to updating you on our progress throughout 2018.

To conclude, 2017 was a challenging year but we have responded quickly and see evidence that we have recovered, resumed growth and improving gross margins. The outlook remains strong, and we continue to build momentum in our Digital Media and advertising businesses. This will drive long-term growth and leverage our connectivity platform across Aviation, Maritime and Land.

Integrating all our Media & Content capabilities into one portfolio tied with our connectivity solution that open compelling new connected entertainment services will be essential to our success.

With that, I'd like to turn the call over to Paul for an update on our financials.

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

Thank you, Walé. I would like to begin with selective financial data for our fourth quarter and full year 2017. And as a reminder, our comparative 2016 results included partial period results for our acquisition of EMC on July 27, 2016.

Total revenue for the fourth quarter of 2017 was $160 million, a 1.8% increase over the prior year period. This increase was primarily driven by the growth in service revenue in our Connectivity segment due to new aircraft, vessel and site additions, as Josh mentioned earlier. For the full year, revenue was $619 million, a 16.9% increase over the prior year. This increase was driven by the acquisitions of EMC and growth in service revenue in our Connectivity segment, which was partially offset by a revenue decline in our Media & Content segment. Walé just described earlier how we have turned around the trends in Media & Content since the filings of our 2016 10-K in the second half of the fourth quarter.

Adjusted EBITDA for the fourth quarter of 2017 was $19.7 million, which was a slight increase over the prior year period. Adjusted EBITDA benefited from growth in our Connectivity segment's revenue that I just spoke about. For the full year, adjusted EBITDA was $68 million, up $10.5 million over the prior year, which was an 18.2% year-over-year increase. The increase was driven by the acquisition of EMC in late July 2016 and growth in Connectivity service revenue, which was partially offset by revenue decline in our Media & Content segment.

During the fourth quarter of 2017, the company recorded noncash impairment charges of $89 million related to our Maritime and Land Connectivity and Aviation Connectivity reporting units. The decline in the company's market capitalization during the quarter triggered the assessment during our annual review period. That assessment included reconciling the company's estimates of our reporting units' value recorded on our books with the market capitalization as of December 31, 2017. This resulted, in among other things, our increasing the discount rate and our valuation analysis, which, in turn, negatively impacted the implied fair value of our Aviation and Maritime and Land reporting units.

Our joint venture with WMS also had a noncash impairment charge of $17 million in the fourth quarter of 2017, which was primarily due to lower-than-expected financial results for year ended December 31, 2017. The results were negatively impacted in 2017 by a material change at a key roaming partner that Josh just mentioned. This resulted in a decline in revenue and margin, which is not expected to recover. However, as Josh mentioned earlier, the WMS management team is working to remedy this relationship and offset the revenue and margin impact with other meaningful growth initiatives.

Last week, we closed our investment with Searchlight Capital Partners. In addition to Searchlight's expertise, the investment fortifies our capital structure to support our growth initiatives, positioning us to deliver significant long-term shareholder value.

Earlier, you heard Josh prioritize profitable growth in Connectivity. While there are no giveaways with deals we have announced, growth requires working capital. We sell airlines the equipment required to provide our service. This is a good allocation of capital due to the short payback periods, and the new installations generate a recurring income stream for the business.

Looking forward, we believe that Global Eagle will grow adjusted EBITDA in 2018 by a minimum of 25% year-over-year versus 2017. We plan to achieve this through improved organic revenue growth and lower SG&A expenses while prudently allocating the capital we just raised.

On our February webcast, Jeff mentioned that we're going to cut SG&A throughout 2018. We have already begun executing our plan to achieve these savings. We expect to see the benefit beginning in the second quarter of 2018 and building throughout the year.

For CapEx, we spent $41.9 million in 2017, excluding the onetime SES transponder purchase. We forecast capital expenditures in 2018 to be approximately flat with this $41.9 million while sustaining solid revenue growth. Our business is becoming less capital-intensive as we are not relying on funded deals that give away equipment to generate the revenue.

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

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Thanks, Paul. So it's clear that 2017 was a challenging year where we rebuilt many elements of the company. Under Jeff's leadership, we have our public reporting back on track, we added new team members, we integrated our Connectivity business and we redefined our business model. We secured the financial backing we needed with Searchlight and we're driving customer wins with a differentiated offering that profitably leverages content and connectivity. We've developed momentum when many of our competitors are regrouping, and we're laser-focused on delivery and operational excellence. We're taking steps to drive meaningful growth in our adjusted EBITDA for 2018. I look forward to sharing our progress with you in coming quarters.

Let me turn it back over to Jeff for some final comments.

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

All right. Thanks, Josh, Walé and Paul. As you just heard, our team is focused and committed to delivering improved shareholder value, and we are starting to deliver on that commitment. We are excited about the progress we have made, and we'll continue to work hard for all of our customers and our stakeholders.

With that, we're going to open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Ric Prentiss of Raymond James.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

A couple of questions, if I could. You mentioned Indian regulatory looking at In-Flight Connectivity later in '18. How should we monitor that from here in the United States? And what are kind of the key areas that you're looking for the Indian regulators to work on to get to that point?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

I think the process is quite mature at the moment. We've been through comment periods and advisory periods in India. There are clear guidelines for what the recommended regulations are going to state. However, the final regulations have not yet been published inside of India, and we expect that to happen within the next quarter. Looking forward, I think once those regulations are in place, there will be some setup and contractual processes that need to occur and then we'll be able to start implementing In-Flight Connectivity. So yes, we're not looking at years here, we're looking at something that is at the tail end of the process. So it's exciting to us to be building the footprint of aircraft that we'll be deploying connectivity on in this critical market for us.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

And is there anything physical that has to happen other than the regulatory publishing in the contract or anything physically on the aircraft?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Yes. So the aircraft have our system installed that is upgradable to connectivity, so it's everything except for the antenna and the radome on top of the airplane. So that can be accomplished in an overnight retrofit. We have the regulatory approvals on the aircraft side to execute that so as soon as we have an In-Flight Connectivity regulation that confirms how the contractual processes will work, we'll be in a position to begin those retrofits.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Great. And then you mentioned a couple of times the key roaming partner, WMS with some other initiatives. Can you give us some insight into what they might be looking at to kind of replace that -- those key items for revenue and margins?

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

Yes, I think couple of areas. One is there has been a restructuring of the way that a cruise customer is charged for services on board the ship. Historically, it was more of a pay-per-use model. Today, it's evolved to a bundle approach and what we're seeing is improved take rates and better utilization of the capabilities on board. So that in itself is starting to drive revenue growth. There's other things that WMS is also qualified to do in terms of on-ship services both in the cruise market as well as commercial shipping, so we see some opportunities developing there as well.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay. And the final one for me that is on the Maritime piece. How do you view the opportunity for additional vessels? You mentioned the yachts a little bit, the super yachts that you have but what's kind of the opportunity in Maritime? What's the sales cycle in Maritime? And what do you bring to the table that the competitors don't?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Sure. So I think you can start off with segmenting Maritime into 3 different categories. You have cruise lines, you have yachts, and then you have commercial shippers, which is really an enterprise customer. And the sales cycles and the portfolio mix will differ for each of those. Cruise lines are very similar to major airlines in that they entertain thousands of guests each week with a combination of connectivity, television, movies and other onboard services. And our value-added portfolio is very different in that market. And we think it's increasingly relevant as entertainment experience has converged onboard cruise vessels. People are driving far greater take up onboard cruise ships today in social media, networks need to be more flexible to allow people to video stream up from the ship, not just down for OTT services. And we think that our integration experience (inaudible) is very relevant in terms of being able to support cruise lines across the portfolio of brands of ships and geographies. So in that space, we are confident in our ability to grow our share. We have a foothold, as I said, through our television services at some of the major cruise lines but we think we can pick up share as we go forward. Turning to yachts. Concierge services are key. These customers are very wealthy. They're very particular about the services they want to receive. They want Internet that is scalable and reliable. And it's very important to understand the distribution channels as well in that space. Know who you're selling to, the cruise, the shipbuilders, the other parties that we have developed relationships with over the years. In that space, we are increasingly pushing our television capability as well, which is front and center. As a leading global broadcaster to the off-the-grid segment, we have strength in pushing a wide variety of channels and a wide entertainment services to cruise ship -- to yachts, excuse me. And I think could be more flexible than anybody in terms of how we integrate that with our connectivity service packages. And then finally, on commercial shipping, this is a very early stage market. There's a lot of white space in front of us. We do have a presence in that space today for both operational purposes, ship tracking and basic ship connectivity as well as crew welfare on board. The future there that we see is one driven by increasing investments in operational workflow that's enabled by connectivity. So we're taking our analytics and our operational portfolio that we've developed in Aviation. We're looking at how we can bring that across to the commercial shipping space in order to differentiate what we do and really tailor our connectivity network to power the operational workflows that these commercial shippers are looking for. So in each of those of 3 segments, I think we see significant growth opportunity. There is some product and portfolio tuning that's been required to make sure that we have the right mix for those segments. And I think as we look forward this year, we're going to start to see the benefit in terms of increased sales and increased growth, both in top line revenue and in the diversity of services that we sell to that segment.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Sorry, I'm glad to have '18 behind you and focus on -- glad to have '17 behind you and focus on '18.

Operator

Our next question comes from the line of Paul Penney of Northland Capital.

Greg Gibas

This is Greg on for Paul. First, will the projection for 10 to 15 of ex cuts primarily be coming from the IFC business or across the whole company? Was just wondering if you can provide a little detail on where that reduction is coming from.

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

No, this would certainly be the whole company as we feel like we have opportunities as we continue to integrate and leverage our scale across the business. So this will be in all segments and areas.

Greg Gibas

Got it. And then second, how important is it to have balance sheet support? And how do you think that will help with airline contract wins?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

I think it's important. I think given the noise in the sector today and given the fact that airlines continue to look at making long-term commitments to these platforms, you're installing antennas on aircraft, you want to ensure that the connectivity provider is going to be there to support it, whether it's engineering or services into the future, it's important to demonstrate that you have the staying power. And I think given where this industry is, where competitors are, our ability to show that we have both a portfolio of services that brings together the different value add across the passenger experience as well as now the staying power that demonstrates that we can support over the term of the contract will be critical for us as we look forward. So I do think it's relevant. On the content side of the business, I think it's very similar. For airlines that are looking for suppliers on the Media & Content side, they want parties that have the capability to invest in the right content, to invest in the best distribution and they're having that staying power is also a real differentiator.

Greg Gibas

Great. And then one last one. I know you spoke a little bit about this in your comments but could you provide an update on your positioning with Southwest and how you expect that to grow in 2018?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Sure. As I said, we continue to grow in Southwest. Southwest has 2 providers. There are plenty of articles that you can go read online that will give you an update as to what the aircraft counts are right now. We are -- we have conviction that we have the right network to support Southwest, to support the growth and bandwidth to support their vision for what the passenger experience onboard should be. And as we look towards the middle of 2018 as these new HTS investments come online, we think that the experience that you'll have on Southwest on our aircraft will be not only competitive with the best of the industry but it will be fully scaled. It will be consistent. No matter where you are in the network, it will be consistent as you have hundreds of aircraft operating in core areas like Dallas and Chicago. And we think that's really unique. Our capabilities to bring the right capacity mix together, to blend in the efficiency technologies that I mentioned that we acquired from EMC, to overlay compelling live television, to bring in the media and advertising and other components that Walé talked about, that's a great value proposition. We continue, as I said, to proactively invest in that value proposition to keep growing with our largest partner.

Operator

Our next question comes from the line of Louie Dipalma of William Blair.

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

Jeff, Josh, and Peter, given your qualitative commentary, is it correct to assume that the 3 IFC opportunities in Europe, India and Asia represent greater than 300 aircraft?

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Yes.

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

Okay. And I was also wondering, I'm under the impression that you include your 49% interest in WMS in your adjusted EBITDA. So I was wondering, what was the impact of the negative roaming relationship on your 2017 adjusted EBITDA results?

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

Yes, we do include that in our adjusted EBITDA results. The impact for the year was roughly $5 million to $6 million.

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

Okay. And what was the timing of that changed roaming relationship?

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

It took place in the earlier part of 2017.

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

Okay. Got it. And in term -- there's been a lot of industry talk regarding the impact of bring your own content onto aircraft. And I was wondering if there are meaningful differences from a content service provider perspective for the economics between a wireless IFE system versus the standard seat-back monitor IFE system and your relationship with those 2 different types of IFE systems.

Joshua Benegal Marks - *Global Eagle Entertainment Inc. - EVP of Connectivity*

Sure, it's a complicated question. Let me try to answer in a simple way. We look at wireless in-flight entertainment as a good solution for single-aisle aircraft that are operating in environments where the airline will want an upgrade path to a full connected system. Now we're in an environment today where certain regions are seeing activation of HTS capacity, where they may be ample Ka-band capacity, for example, where people can stream over-the-top or where they may download content from an OTT provider to their local device and then watch it in-flight. In those areas, again, we see a lot of streaming activity. Streaming is prevalent across our network, as I'm sure it is others. And in the short-haul area, we continue to see that being an option that we need to provide for customers and their passengers. Now looking at other developing regions, particularly those in India or China or other points where bandwidth is not at a capacity level that's necessary to support OTT, the presence of both seat-back and bring your own entertainment will be important, right? And I think that our goal really can be summarized by allowing the airline to tailor the passenger experience to the market that it serves, to the bandwidth economics that are in place and its overall vision for how seat-back and personal device entertainment will work together. As I said on the last call, nobody wants to pay $25 to stream Netflix, right? So you have to hit that intersection of having enough capacity so that people can stream and the right economics so that it crosses with the price point people are willing to pay. That's how we think about those 2 pieces. And when you don't have that intersection, when bandwidth is too expensive, when the licensing rights aren't there, when the OTT services aren't fully developed, that's where we see content hosted from the aircraft is a great starting point solution that allows airlines to deliver flexible on-demand entertainment to passenger with a growth path to connectivity.

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

And one final question. You previously indicated, Josh and Jeff, that you acquired the Eagle-1 satellite in January of 2017. From a regulatory perspective, I was wondering if you also acquired Eagle-1's associated spectrum rights or did SES retain those spectrum rights? And I'm thinking about that from a C-band 5G perspective because I believe that the Eagle-1 satellite has C-band transponders on it.

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

Yes. That's again, a complex question that has all sorts of implications. So this is probably not the right time to dig into that topic. We're happy to give you more insights in the future.

Operator

(Operator Instructions) Our next question comes from the line of Rich Valera of Needham.

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

You mentioned that you expected content to return to growth in '18 but I don't think you mentioned how much growth. And I know -- I think historically, you've talked about that business being kind of a mid- to perhaps upper single-digit grower. Any more color on what kind of growth we expect that to return to in '18?

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

No, I think that's still consistent, that mid- to upper single-digit growth rates. I think you'll find that the airline industry as a whole is growing in the 3% to 5% range. We are looking at, obviously, expanding our portfolio of services, winning new contracts. And as Josh and Walé both talked about, new media, digital media is going to be a very important part of our expansion advertising, very directed advertising that all falls into our total scope of content media.

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

Got it. That's helpful. And then there was clearly a lot of noise in the WMS contribution number in '17. Any more color you can give us on what you're expecting in terms of contribution for the WMS JV in your '18 guidance, that 25% EBITDA growth number? How much did that, like, come from WMS?

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

We see no further degradation of the WMS performance. We do expect it to improve a little bit in 2018 but not -- it's not -- will not be a significant amount. In '19 and beyond, I think you'll start to see some potential growth opportunities there but it's not a big factor in our growth assumption for 2018.

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

Got it. And then just looking at the quarterly distribution of the year, is there any type of seasonality we should think about? Anything that's changed? Or is it consistent with historical? And any thoughts on kind of the first quarter relative to, say, the fourth quarter?

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

I think it had been consistent as we've historically experienced. We do get a little bit of a blip there but we'll consistently continue to move forward and improving as we go quarter-to-quarter.

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

So generally speaking, kind of ramp sequentially throughout the year is probably the right way to think about it?

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

Yes.

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

Got it. And then just wanted to circle back on the OpEx reduction target and make sure I kind of understood the baseline there. It's the 10% to 15% reduction in OpEx, sort of quarterly OpEx. And is that off of kind of the fourth quarter baseline? Or is there a baseline you've kind of given us for what that's relative to?

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

Yes, I would say from a normalized perspective, all the noise and all the quarters but it's roughly around approximate $40 million baseline, a quarter run rate is what we're thinking of there.

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

Was the starting baseline?

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

Yes.

Operator

At this time, I'd like to turn the call back over to Executive Chairman, Jeff Leddy, for any closing remarks. Sir?

Jeffrey A. Leddy - *Global Eagle Entertainment Inc. - CEO & Director*

All right. Thank you, and thanks, everyone, for attending our call today. Again, hopefully, you heard a lot of enthusiasm for our team. We're very excited about the future. And we look forward to giving you an update next quarter. Thanks a lot.

Operator

Thank you, sir. Ladies and gentlemen, this does conclude today's conference. Thank you for your participation, and have a wonderful day.
