

**Global Eagle Entertainment Inc.(Q2 2019 Earnings)**

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**Corporate Speakers:**

- Peter Lopez; Global Eagle Entertainment Inc.; Vice President Investor Relations
- Josh Marks; Global Eagle Entertainment Inc.; CEO
- Christian Mezger; Global Eagle Entertainment Inc.; CFO
- Per Norén; Global Eagle Entertainment Inc.; President

**Participants:**

- Greg Gibas; Northland Securities, Inc; Analyst
- Jay Lee; Haven Global Partners; Analyst

**PRESENTATION**

Operator^ Good day, ladies and gentlemen and welcome to the Global Eagle Entertainment Second Quarter 2019 Earnings Conference Call. (Operator Instructions) Later we will conduct a question and answer session and instructions will follow at that time.

As a reminder, today's conference may be recorded. I'd now like to introduce your host for today's conference, Mr. Peter Lopez, vice president of finance and investor relations. Sir, please go ahead.

Peter Lopez^ Thank you, [Liz] and good afternoon. Welcome to Global Eagle's earnings call for the second quarter of 2019. I'm Peter Lopez, Global Eagle's vice president of finance and investor relations.

I would like to remind you that the forward -- that our discussion today will include forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and are subject to uncertainty and changes in circumstances.

Actual results may vary materially from those forward looking statements due to various factors that we discuss in our earnings release issued earlier today as well as in our 2018 annual report on form 10K and our form 10Q that will be field today.

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 EBITDA, adjusted EBITDA and free cash flow, which are non-GAAP financial measures.

We have included a definition of these non-GAAP financial measures as well as a reconciliation to the most directly comparable GAAP financial measure in the earnings

release and in the slide presentation accompanying this webcast. Now I'd like to turn the call over to Josh Marks, chief executive officer of Global Eagle. Josh.

Josh Marks^ Thank you, Pete. Good afternoon, everyone and thank you for joining our call today. Let's start with slide three. Pete and I are joined by Christian Mezger, our CFO and Per Noran, our president. This is Christian's first call as CFO and we're excited to have him on our team. He's hit the ground running and he's making meaningful progress on both cost controls and process improvement.

After my remarks today, Christian will provide our financial updates and Per will be available for Q&A today as well. Turning to slide four, I'll start today with a review of our business strategy. Global Eagle is a leader in connected passenger entertainment services.

We provide high speed internet, movies, live television, games, advertising and digital media services for air, sea and land markets with expertise across passenger and guest entertainment, we have unparalleled breadth and technical capabilities to serve airlines, cruise ships, yachts, enterprise sites, military and government agencies.

And we've built a strong position in our markets. In aviation, we are the leading provider of media and entertainment for seatback systems and wireless IFE. On single aisle airlines, like the Airbus A320 and Boeing 737 families, we are a leading provider of internet, live television and games.

For cruise ships, we are now the largest integrator of internet and live TV. However and wherever passengers travel, our entertainment and connectivity enriches their time away from home. Turning to slide five, it's obvious that passenger expectations for fast internet and compelling entertainment are rapidly growing and we've put the foundation in place to meet those expectations.

We modernized our connectivity network with new technologies that increase throughput while delivering consistency across aviation and maritime. We've tested and are now in a position to deploy low earth orbit or LEO satellite constellations as they come online.

In parallel, we modernized our technology platform for content services. New aircraft seatback entertainment systems feature 4K resolution and personalization. Global Eagle's cloud-based content platform, called Open, is uniquely suited to power these new high definition seatback systems. It's important to note that seatback market growth continues.

Airlines aren't choosing between seatback IFE and connectivity, they want to coordinate IFE and connectivity to interact with our passengers, to curate and deliver content cost effectively and to drive new ancillary revenues. So our strategy is to connect, entertain and inform passengers.

Entertainment is driving connectivity growth, as passengers watch embedded videos on social media or binge content from streaming services. And connectivity systems also create new distribution points for our traditional media business.

Pulse, our analytics platform for in flight entertainment provides meaningful insight about what passengers want to watch, when and how. In fact, analytics enable airlines to drive more efficient and targeted advertising through out internet portals. Analytics also help airlines identify what content passengers want so they can focus their IFE spending.

As we use cloud technology and connectivity to break the monthly content update cycle, airlines will be able to use feedback systems to personalize their passenger experiences with premium, high definition movies. They can also serve passengers the long tail of content over their high speed connectivity systems.

So we are well positioned in both connectivity and seatback entertainment as they converge. For the past two years we've been building the technology to meet this future. And now to convert our innovation into revenue, we remain focused on execution and customer delivery.

We are ramping our installations with Air France. Our free access antenna and our high speed modems are delivering the speed and customer experience that we and Air France expected. Given the complexity of in flight connectivity implementation, our delivery on Air France and our other major customers creates a strong reference for sales campaigns.

In media and content, airlines are now live on Open, our digital (inaudible) platform, and will bring additional carriers to the digital platform over the next year. So by digitizing our delivery, Open has differentiated Global Eagle against legacy content service providers, or CSPs, that still operate in an analog world.

So let's turn to slide six. As we progress our product transformation and our delivery, we've been focused on operational efficiency. Our goal is to be a cost leader while maintaining an open and future-proof architecture so we can bolt on new technologies like LEO satellites as they come online.

We've taken significant cost actions to reduce our cost to sales and our operating expenses. On our first quarter webcast we discussed the positive cash flow impact we expected from these actions. We guided positive cash flow on a sustained basis in the fourth quarter when the Boeing 737 MAX fleet was back in the air.

And this quarter's results certainly show we're on the right track. I'll provide more information on the MAX grounding shortly in my business update as MAX reactivation is important for sustained positive free cash flow. But our cost actions are clearly showing in our results.

As of June 30, we have achieved about 90% of our targeted savings from our first quarter actions and we see additional cost opportunities across our business. In the second

quarter, we generated record cash flows from operating activities of approximately \$12 million. After capital expenditures, we generated \$8 million of free cash flow.

Note that \$8 million of free cash flow includes severance cost incurred during the quarter. Additionally, gross margin and EBITDA improved sequentially, inclusive of the negative MAX impact.

Our technical differentiation, our delivery expertise and our cost efficiency position us well against key competitors -- or excuse me, against key competitors and with our customers. So we recognize that access to liquidity is critical. Putting the company on the right cash flow trajectory created an opportunity for us to work with our first lien term loan lenders.

Last month we announced a win-win deal with these lenders. We amended our first lien term loan agreement to generate about \$61 million of incremental liquidity, consisting of about \$35 million of upsizing net of fees and a \$26 million reduction in our amortization through 2020.

The proceeds from this transaction are incremental to the approximately \$50 million of existing liquidity at second quarter end. And we used most of the net proceeds to repay our revolver, which is still available for future draws as needed. Let's now turn to a review of our business.

Our commercial strategy is based on running a healthy core business with strong customer relationships driving profitable growth and transforming to be the cost leader and digital innovator in each of our markets, so let's turn to Slide 7.

The Boeing 737 MAX grounding started in March, so our second quarter numbers reflected a full-quarter impact to connectivity service revenue, equipment revenue, and margins.

When we held our first quarter webcast in May, we had expected the MAX to reenter service in August. Now we don't expect MAX reactivation until December of January. We have our connectivity systems on MAX aircraft at Southwest, flydubai, [Locke], and Mauritania.

Prior to the grounding, we served 26 connected MAX aircraft, and in addition our media and content business serves MAX aircraft at global carriers. During the grounding, we're not loading content on those planes or earning royalty revenue, so the MAX issues will impact both connectivity and media an content revenue as well as our margin across multiple areas of our business for this year.

Turning to equipment revenue, we are a Boeing [line fit] supplier for the MAX program. The substantial majority of our MAX installations this year will come through the Boeing [line fit] program where our equipment is installed at the factory.

During the second quarter, Boeing delayed delivery dates for five ship sets which shifted about two million of equipment revenue to the third quarter versus our expectations. Boeing continues to provide us regular updates on shipment dates and we expect – continue to expect an additional 40 to 50 ship set deliveries for Boeing [line fit] through the end of the year.

If Boeing reduced production rates or suspends production for a period of time, we could see shipment dates slip into early 2020. To summarize, when the MAX reenters service, we'll activate several dozen aircraft that are already equipped with our systems.

When this occurs, we expect about \$3 million positive impact in service revenue per quarter and about \$2 million positive EBITDA impact per quarter. Therefore, MAX service revenue is an important factor in our ability to generate sustainable positive free cash flow.

If the MAX grounding were to extend into the first half of 2020, it would impact our cash flow generation. However, we expect to be able to absorb such delays with our accessible liquidity including the additional liquidity that we raised from our first lien deal. And in the meantime, we continue to work with our MAX airline partners and with Boeing to mitigate costs and to plan for the MAX's return to service.

Now let's turn to Slide 8 and discuss our in-flight connectivity programs. Our Air France equipment ship sets and installations continue consistent with our yearend target of about 60 aircraft. We expect to install the remainder of the Air France A320 family fleet by early 2021.

Network and system performance have been strong, and last month we launched live television services. Air France aircraft now have France24, TV5 Monde, and BBC World programming available. As we scale our TV programming across EMEA, these services are available for our other airline customers as well.

Our improvement to the passenger user experience also continues. On our last call, we previewed the roll out of Apple Pay as a core part of our passenger portal. This is now active.

Passengers with Apple devices can use biometrics to automate log on and billing. As we remove the friction from log in and payment, we create new opportunities for our airline partners to upsell other value added services driving new ancillary revenues.

We're also increasing take rates on our system which in turn improves our advertising and sponsorship opportunities. In addition to frictionless payment, we're also rolling out new network technologies that allow us to deliver streaming class experiences over legacy networks.

While our network backed on [rides] on the state of the art high throughput satellites, it is critical to maintain coverage and performance over oceans and remote regions, so we

have built proprietary technology to maintain performance and cost effectiveness when using legacy satellites.

As satellite failures are a fact of life and our network protects our airlines against the loss of any individual satellite or antenna system, our technology is online in Europe and we've seen terrific passenger response.

In fact, average revenue per aircraft at Norwegian has increased over 10 percent with material new revenue share generation for our airline partner. Finally, on our last call we announced that we've been awarded a major connectivity program in EMEA that will leverage our Air France network investments.

We have initiated engineering and certification and we hope to announce the deal soon and start installations at the beginning of 2020. We continue to expect that this will become our second largest fleet serving both Boeing and Airbus single aisle aircraft.

As we build our network and passenger capabilities, we are well-positioned, and our reputation for delivering on our promises is helping us win competitive campaigns. Let's turn to Slide 9 and discuss media and content.

We've now fully implemented our new contract with United, Saudi, Vietnam, and Kuwait airways. Our newest CST airline relationship representing the single largest CST account in the industry started in July. We expect to see that positive impact from the third quarter.

This year we also expect to see increased seasonality in our content revenue that favors the first and the third quarters because several of our larger contracts are on bimonthly deliveries – two each in the first and third quarters and one each in the second and fourth.

Turning to content distribution, our second quarter revenue was down as we focused our at risk distribution activity on fewer higher-quality studio apartments. We did not renew an unprofitable studio deal, and instead we are buying a la carte as needed so we can still access the relevant content without risk. This has resulted in lower content distribution revenue but improved cash flow.

Christian will provide color on what to expect from media and content this year. We do expect low single-digit revenue growth for 2019 with a strong rebound in the third quarter due to revenue timing. Seasonality in the fourth quarter is expected to be moderated by the major new CST contract.

Let's turn to Slide 10 and cover maritime, enterprise, and government, which we call MEG. Our services to MEG include Wi-Fi connectivity, global TV broadcasting, and equipment for guests, cruise, remote workers, and soldiers.

Last fall, we reset our major cruise contracts to lock in multi-year revenue and backlog. These contract changes do impact year-over-year comparisons through the third quarter

of 2019. However, since signing these renewals we've seen better than expected performance as we deliver additional bandwidth and introduce new passenger services.

We finished the second quarter with 121 cruise ships with connectivity. 55 of those 121 also have television services. In addition, we served 169 vessels with TV only for a total cruise ship count of 290 vessels. We are now the number one integrator and reseller of satellite capacity for the cruise market.

Our TV growth continues as well, and we expect that 70% of our cruise revenue will be from connectivity with the remainder from television. As we look at the marketplace, we are seeing a robust pipeline of opportunities ahead of our already contracted growth.

Turning to yachts, at quarter end we served 224 vessels and our active yacht count increased. We saw the seasonal revenue recovery that we expected building to our third quarter seasonal peak for this market.

Finally in our enterprise business we continue to see the final wind down of our cellular back haul business, and in the second quarter we were impacted by a non-paying customer in our Brazil business. Christian will provide more details on our MEG revenue shortly.

Now, on our first quarter webcast, I outlined the strategic review that we're conducting of our MEG business. Responding to inbound interest, we have been considering the potential sale of some or all of our MEG vertical.

We retain Barclays to advise us. Separately, we've been evaluating the potential sale of our joint venture interests, and at this time our review continues.

We have seen significant in the entire MEG business as well as in portions of the business from a number of potential buyers. We are evaluating options to maximize shareholder value which could include a full or partial sale of the business.

While we continue this process, we are pleased to report that the MEG business continues to perform well, and we believe it will deliver value to our shareholders regardless of which path we choose.

We took significant cost actions which improved our operational efficiency. We structured win-win deals with customers and with satellite partners to optimize capacity and increase performance.

We are winning key renewals and we're in an excellent position to continue winning in the market. So if we do a transaction, we're going to ensure that it's the right answer for our customers, for our employees and that it will strengthen and enhance our shareholder value. We now expect our review to conclude by the end of the fall. Now I'd like to pass the call to Christian to review our financial progress.

Christian Mezger^ Thank you, Josh and good afternoon, everyone. I will begin by providing my observations of my first 90 days with the company. Since my arrival, I've been impressed by our retention to serve our customers and win in a marketplace. Our ability to work with our lenders and provide an additional \$61 million in liquidity which combined with cash flow improvements should elevate liquidity concerns.

Finally, I've been very impressed by our company wide focus on financial discipline which has led to significant improvements in unadjusted and adjusted EBITDA as well as free cash flow. Let's turn to slide 12 to discuss our liquidity profile. I would like to update you on the amended credit facility with our lender group.

As Josh detailed, our first lean upsizing will provide Global Eagle \$61 million in additional liquidity over the next 18 months. We are using this liquidity to pay down our revolver and supplement the company booking capital requirements, including the cash proceeds.

And after making our quarterly interest payment, we currently have liquidity of \$74 million. Finally, we agreed with our lenders to simplify financial covenants that have been set to be consistent with our estimates of the company's future financial performance.

Turning to our financial results on slide 13, Global Eagle reported second quarter 2019 revenues of \$157 million. Revenues fell 5.1% on a year-over-year basis and sequentially revenues were down 5.5%.

To be clear, the mass impact was approximately \$2 million. The impact of refresh cycles in constant had a \$2.6 million impact and a non-renewal of an unprofitable content distribution contract had an approximately \$1.5 million impact. Together, the total negative impact on revenue in the second quarter was about \$6.1 million.

Margins for the company were 21.1% up 170 basis points from last quarter and a 770 basis points improvement from our low point in the fourth quarter 2018. SG&A was \$48.5 million down 20% year-over-year and down \$3 million from Q1 of this year.

The company is successfully executing its phase two savings plan. And at this point has realized \$23 million year-to-date in savings which is in line with previous guidance. I'll discuss our cost initiatives in greater detail shortly.

Operating income for the company was negative \$15 million which is a sequential and year-over-year improvement. Unadjusted EBITDA was \$8.7 million, almost double the second quarter of 2018.

Adjusted EBITDA has also improved. Adjusted EBITDA for the second quarter of 2019 was \$22.7 million or 14% of revenue. This represents a \$4 million improvement versus last quarter and more than \$2 million improvement year-over-year.



This highlights our progress in achieving improved financial results and is an important step towards our stated goal to achieve sustainable free cash flow by the end of 2019. Note, that this was accomplished with the headwinds of the MAX grounding and content refresh cycle.

Moving through the P&L statement, global legal net loss for the second quarter of 2019 was negative \$38 million, but earnings per share of minus \$0.42. This includes \$22 million of a crude interest expense.

Let's turn to our segment results and start with our connectivity segment. Connectivity revenues increased to \$83.5 million or 1% year-over-year growth despite an approximate \$2 million revenue headwind Boeing 737 MAX grounding. Our cross margins in connectivity, they're 20.2% in Q2 2019 and show year-over-year improvement of 300 basis points in sequential improvement of 850 basis points.

In our last webcast, we outlined a cross margin recovery was driven by increasing network utilization, technology monetization from HTS satellites and satellite capacity unit pricing changes. The second quarter primarily benefited from the decline in satellite unit prices as we renewed and renegotiated contracts.

The year-over-year benefit for the quarter was approximately \$2.8 million. Network utilization on the other side did not change significantly this quarter due to the [Max] grounding.

As mentioned in previous calls, we continue to believe that our total connectivity cross margin should be 25% on a normalized basis. Obviously, this is only achievable once the Boeing 736 -- 737 MAX aircraft returns to service.

It is a good time to talk about the financial impact from the 737 MAX groundings on Global Eagle. The MAX program negatively impacted second quarter services revenues by approximately \$2 million with an approximate \$1 million impact to adjusted EBITDA for adding back \$0.3 million of related expenses.

In both the third and fourth quarter of 2019, we expect a revenue impact of 43 million per quarter and an adjusted EBITDA impact of \$2 million per quarter after \$0.3 million of related expenses added back third quarter.

As Josh mentioned earlier, once the MAX aircraft returns to normal flight schedules, and all MAX aircraft are activated on our network, we will expect the positive revenue impact of approximately \$3 million per quarter and an adjusted EBITDA impact of approximately \$2 million per quarter. We expect the positive cash flow impact to be greater than the adjusted EBITDA impact.

Our estimates do not include any material changes in our shipment dates for Boeing line-fit MAX installations. If Boeing were to suspend MAX production, we could see additional delays in equipment revenue and a temporary inventory belt impact working

capital. We do not expect Boeing to suspend MAX production and our additional liquidity allows us to navigate through as risk should it arise.

Finally to our Maritime, Enterprise and Government business which we call MEG second quarter revenue was \$44.1 million. An increase of \$2.8 million quarter-over-quarter comprising 52.9% of our total connectivity revenue and 28% of our overall company revenue.

Cruise revenue was \$17.4 million. After our cruise contract reset in the fourth quarter of 2018, we continue to build revenue ahead of our expectations with strong operational performance.

Turning to yachts, second quarter yacht revenue was \$6.7 million, an increase of \$1.1 million versus the first quarter. Historically, our third quarter has been our seasonal peak for yacht revenue.

Commercial shipping and energy revenue was \$6.3 million, an increase of \$1.3 million over the first quarter. In our enterprise business, we had a second quarter revenue of \$10 million, a minor decline from the first quarter.

In the first quarter and beyond, we shifted a significant Brazilian customer to cash accounting due to payment timing. Our government revenue was flat at \$3.7 million in the quarter with expected growth for the remainder of the year.

Now let's turn to our media and content segment. In Q2 2019, our revenues were \$74 million, a year-over-year decline of 11.3% and a decline sequentially of 7.4%. \$2.6 million of the decline can be attributed to the content refresh cycle of our airline partners.

And \$1.5 million can be attributed to our exit from an unprofitable content distribution contract. In Q1 2019, most of our customers had two content refresh cycles, where as they only had one cycle in Q2 2019. Therefore, we expect CSP revenues to increase in the third quarter.

And finally, as Josh mentioned during his remarks, we will see an increase of revenues for the segment from [our newest CSP] customer relationship, the largest in the industry.

[Our first margin] for the content and media segment in the second quarter was 22.2%, both a year over year in sequential decline. This was mainly driven by three items, lower revenue levels associated with the timing of content refresh, accounting for about 100 basis points. Increased mix of large CSP contracts that have lower margins accounted for another basis points. And accrual adjustments that we do not expect to reoccur accounted for approximately four points.

We believe that our course margins [when we get content] should be about 1% lower than they have historically been due to the shift in mix. This leads to a range of 27 to 31

percent. Now, I'd like to turn back to highlight the progress of our cost saving initiatives, let's turn to slide 14.

First off, we are on track. We continue to deliver cost reductions without negatively impacting our service delivery, both missing on gross margin improvement and operating expense reductions. First, our face to headcount reductions from February are now largely completed, having reduced our annualized labor run rate costs by about \$19 million per year.

Over the past year during phase one and phase one and phase two, we have [intermitted] 20 vice president, SVP and EVP positions. Secondly, we have reduced both professional service expenses and travel and entertainment expenses significantly in the quarter. On a quarterly run rate basis, we have reduced these expenses by approximately \$6.8 million versus the prior year quarter.

We will continue to optimize our cost structure. Every day we look for new opportunities to be very efficient, but also more effective in how we serve our customers. These efforts should help us to reduce our cost structure, not only in 2019, but also in 2020 and beyond.

A major factor in reducing cost is the remediation of our [material] business. The program is progressing well. As you know, we already remediated too much [year] weaknesses and now focus to [remediate] several additional material weaknesses in 2019. I expect the overall program to last until 2021 as we redesign business processes and further integrate and update our I.T. system environment.

I will now discuss key balance sheet and cash flow items. We ended the quarter with a cash balance of \$11 million in line with our expectations as we target to minimize interest expense related to the usage of our revolver.

Our liquidity at quarter end was approximately \$50 million before our first lien amendment. Cash flows from operating activities was positive \$12 million for the quarter and included 1 million of severance payments.

This was a 22 million sequential improvement that was aided by positive working capital plans. In the second quarter increased collections of accounts receivable and flat accounts payable aided cash flow from operating activities. Our capital expenditures for the second quarter were \$4 million. Our second quarter CapEx was in line with our previously given guidance and slightly more than the 20 million [10 year] capital expenditure.

During the second quarter, we generated record cost [to the] cash flow of \$8 million. This is a very important milestone for our company. We're working to fulfill the [full business] accomplishments.

We continue to expect our realignment -- cost of realignment time together with revenue [growths] to drive a minimum of \$25 million of adjusted EBITDA in the fourth quarter of 2019.

Upon resolution of the Boeing 737 MAX related issues, we expect to transition to positive free cash flow on a sustainable basis. To clarify, sustainable free cash flow assumes no benefit from working capital.

In summary, we made good progress over the last two quarters, improving our financial performance by getting new business, cutting operating expenses and driving EBITDA improvement, leading to positive free cash flow.

Given the headwinds of the Boeing 737 MAX grounding, we're especially proud of our accomplishments. Nonetheless, we are focused on continued improvement to drive the business to sustainable, positive free cash flow. I want to thank our employees for their tremendous work, which led to a good quarter that showed measurable progress. I am excited and proud to be part of this team. With that, I would like to turn it back over to Josh.

Josh Marks^ Thank you, Christian. So in the first quarter, we materially improved our earnings, but our cash flow was still negative, and now in the second quarter, we again improved earnings while also delivering meaningful positive free cash flow for the first time in company history.

We did so against material headwinds from the 737 MAX. We reduced costs while implementing our new content contract, including the activation of our major new [CSC] account.

We also transitioned our first airlines onto Open, our cloud-based digital content platform, which provides industry-leading capability for high definition video, personalization and scalability. During the second quarter, we strengthened our team with the appointment of Christian to CFO; we're really benefitting from his experience in cost control and in process improvement.

We addressed our long term liquidity through our first lien amendment that we completed in July, which clearly demonstrates our strong relationship with our lenders. And as we continue our cost actions and deliver on growth, we remain on track for our guidance of 25 million adjusted EBITDA in the fourth quarter.

Once the MAX reenters service, we feel we'll be in a position to generate sustainable free cash flow into the future. In the meantime, we continue our strategic review of our maritime enterprise and government business area.

We've seen interest and we're evaluating options to maximize shareholder value, including both a full and partial sale of the business. In parallel, we'll continue to

evaluate our [J.V.] interest as well. And while we continue this review, the [meg] business is performing well and we believe it will deliver value to our shareholders.

So our action positions Global Eagle as the passenger experience partner of choice for global airlines, cruise lines and other partners. I'm very proud of the progress we've made in the second quarter and highly confident in our ability to deliver technical innovation while also improving the efficiency of our cost structure. With that, I'll turn the call back to Pete for Q&A.

Peter Lopez^ Thank you, Josh. [Liz], we'd now like to open up the call for questions and answers.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions). Our first question comes from the line of Greg Gibas with Northland Securities. Your line is now open.

Greg Gibas^ Good afternoon, guys, thanks for taking my questions and congrats on reaching positive free cash flow in the quarter.

First, so now that you've achieved a positive free cash flow, which is a couple quarters earlier than expected, how should we expect it to trend over the next couple of quarters, and if you could, maybe talk about like thus far in Q3, are you on track with your expectations from savings with respect to the next round of labor cuts, professional services, lower [bandwidth costs], et cetera. And I guess has anything really changed with respect to your previous expectation on the timing of those?

Christian Mezger^ Thanks, Greg, this is Christian. So let me first take the first part of your question. I think we are very happy to have a [cheap year] of free cash flow in the quarter. I think as we mentioned multiple times during the prepared remarks, we look for sustainable free cash flow in the future. That means that working capital has kind of eliminated from that equation.

So we have a little bit to go on that one. What becomes very clear is that there is a high dependency on the Boeing 737 MAX grounding and the release of that after [it procs] back in the sky, back in service, to achieve that. So we feel good about the trajectory, I think the company has done a really good job in the quarter to hit this milestone, but I think there's still work to be done.

In terms of what's going on in the current quarter. The expectations on how are the cost savings flow through in terms of labor, T&E, bandwidth I think we are fully on track. We, we're executing to the plans that we had set out and it's basically a continuation for what we have done here in the previous quarters.

And lastly I think, as I mentioned in part of this script I think it is now to become this cost conscious to be part of the DNA of the company and to continue to re-eval business

processes and so forth to continue savings in the future. And we will talk at a later point in greater detail about that.

Greg Gibas^ Great, that's really helpful. And then secondly, I know you can't say too much here, how should we think about your decision to extend Mr. [Teeter] evaluation process to the end of fall. I know previously it was the end of summer.

Is there anything you can say about more or less interest from potential buyers that you are seeing and maybe has anything changed with respect to I guess the process on how you are evaluating these strategic alternatives. I wish we, is it safe to assume that you're still seeing a lot of interest in the MEG business?

Christian Mezger^ Yes, the MEG business as I said is performing well. We've put the right platform in place of both technology and cost structure for the business to excel.

And we're in a market where a number of our competitors are restructuring themselves. Which creates a very interesting pipeline of opportunities for us giving our track record of delivery.

As we look forward, you know we are going to evaluate opportunities for either the full or partial perimeter of that business. Based on what's right for our customers, for our employees and of course the share holders.

At this point and time that review continues. So no, we don't have any further guidance at this time other than our focus is ensuring that this potential transaction would drive value for share holders. And will create a result that is significantly deleveraging for us. That continues to be our focus.

Greg Gibas^ Got it, got it. And then I was just wondering if you could provide some additional color on the roll out of the major IFE? Account that you began this July. I think it was as the beginning of July. Did everything really go as planned there? And how should we see this relationship potential ramping? Is there additional room to grow at this (inaudible)?

Per Norén^ Mr. Per Norén, thank you for that question. It's a good question. Yes I think we're off to a very, very good start. Of course we've replaced another (CSD) provider here. It's a major account that we, because the customer hasn't really get, really wanted us to reveal who they are because they want to do that themselves in a different kind of PR campaign.

But we are off to a very good start if we deliver the first cycles here. We continue to deliver the next, prepared to deliver the next cycle. And there is, there's actually already increase in content that they spend.

They ordered large in content spend, they are expanding more and I think we'll see a lot, some cross sale from that account as well. And I think it goes Josh mentioned our new

open platform our [closet] platform. When that starts to hit the ground running here with the first customers that we're rolling it out with.

And some of these new ones you're going to see faster cycles, which also means that you're going to not have the [sequelity] of the business that Christian talked about in terms of revenue as well.

So yes to the question on the new account, it's going really well. We see an upside with it and yes to the (inaudible) line of our technology. That's also going to drive, take some of the [sequelity] away, which will create the sustainability for us on revenue. That will help cash flow on the (inaudible).

Greg Gibas^ Great, that's really helpful Per. And one last one from me. Would just be if we switch over to the IFE side the new contract that will begin ramping. I guess begin installing in early 2020.

How should we think about when that will be recognized as revenue and how many install should we expect on a quarterly basis if the entire contract, I think you said 113 aircraft to start out with.

Per Norén^ Our guidance in terms of the size of the opportunity is it will be our second largest fleet and it's no secret that our largest is Southwest. So that should give you an idea of the scale. As I've guided as well it does include multiple aircraft [ice].

So there is some complexity around the ramp up of the installation giving that we're dealing with two different manufacturers and families of aircrafts. In terms of the timing as you note we would expect to start rolling out in early 2020. We have not yet set the final installation time table with the airline.

That's something that's in process right now as we complete the engineering and preparatory work for the program. But we do think it will have a significant impact on 2020 equipment revenue and then as aircraft enter service and are activated will impact service revenue by the back half of the year as well.

Greg Gibas^ Good to hear Thanks, congrats on the quarter.

Per Norén^ Thank you.

Operator^ Just a reminded ladies and gentlemen that is "star" then "1" if you would like to ask a question. Our next question comes from the line of Jay Lee with Haven Capital. Your line is now open.

Jay Lee^ Hey guys, thanks for taking the question. Just a real quick follow up on the 737 Max issue. Going back to the Q4 conference call of 2018 you guys noted that Max aircraft represented only about 1% of our total connectivity's service revenue. Now it looks like that's kind of jumping up to near 4%. What is driving that change?

And then also on the Q4 call you noted that the majority of the Max aircraft are on monthly recurring revenue models. So they're not really dependent on flight segment operator, passenger sessions. Has something in that change as well? I'm just trying to get a handle on the net impact and how that changed or how that evolved over time.

Per Norén^ The answer to your first question about magnitude of the revenue. In fact continue to install Max aircraft during the grounding. So over the course of the last couple of quarters (inaudible) pretty healthy installation per aircraft. Which is how we guide that. At this time we don't expect a significant impact over all connected to the equipment revenue as we install the Max this year.

However, as aircraft are installed Boeing is putting those aircraft in short term storage waiting the reactivation of the fleet. So our calculation of service revenue impact and particularly the revenue that will come in when those aircraft service. Based on a count aircraft that is increasing every month. To answer the second. Can you repeat the second part?

Jay Lee^ Well I mean the second part was the big chunks of these aircrafts were suppose to be on monthly recurring revenue model. So I'm assuming that the aircraft were not sold are just setting in hangars and I get that.

But then back in Q4 1% of your total connectivity service revenue at that point and time was Max aircraft. Right now that number you said is about #3 million a quarter, which is about 3.6% of your connectivity revenue. And the Delta there is the equipment?

Per Norén^ Yes, it's when you look at our contracts we are working with our airline partners. This is an extraordinary event for all our airline (inaudible) it's a regulatory grounding of the aircraft and those are covered by different contractual provisions. So the answer to your questions without getting into any detail of any individual customer contract. Is we are working very closely with our airline partners and with Boeing.

But this is an extraordinary event that impacts our ability to collect monthly service revenue. At the point when the aircraft are allowed bank in the air and have received FAA or [YASA] clearance to fly. We expect that monthly service revenue to kick back in independent of flight segments operated.

Jay Lee^ So while they're ground you don't get that monthly recurring revenue?

Per Norén^ That's correct.

Jay Lee^ OK. And that's baked into the contract that?

Per Norén^ You can infer that.

Jay Lee^ OK. All right, great that's all I had. Thank you.



Operator^ And again ladies and gentlemen that is “star” than “1” if you’d like to ask a question. And I would like to turn the call back to Mr. Lopez for closing remark.

Peter Lopez: Thank you, Liz. And thank you all for participating on our second quarter 2019 earnings call. We look forward to updating you on our continued progress next quarter. Liz.

Operator^ Ladies and gentlemen thank you for your participation in today’s conference. This concludes the program and you may now disconnect. Everyone have a great day.