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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Global Eagle Entertainment Incorporated Second Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference may be recorded.

I would now like to turn the call over to Peter Lopez, Vice President of Investor Relations at Global Eagle Entertainment, Incorporated. Sir, you may begin.

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

Thank you, Mark. Good afternoon, and welcome to Global Eagle's business update for the second quarter of 2018.

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

Actual results may vary materially from those forward-looking statements due to various factors that we discussed in our earnings release issued earlier today as well as in our most recent annual report on Form 10-K and in our subsequent quarterly reports on Form 10-Q. We disclaim any obligation to update those statements whether as a result of new information, future events or otherwise.

Our discussion today will also reference adjusted EBITDA, which is a non-GAAP financial measure. We have included a definition of adjusted EBITDA as well as a reconciliation to its most directly comparable GAAP financial measure in the earnings release and in the slide presentation accompanying this webcast. We will also use the term free cash flow, which we define later in our presentation.

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

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

Thanks you, Pete, Good afternoon, everyone. Thank you for joining our call. Let's start with Slide 2 of our deck. I am here with Paul Rainey, our Chief Financial Officer; also Jeff Leddy our Executive Chairman; Per Norén, our Chief Commercial Officer; and Walé Adepoju, our Chief Strategy Officer. All will be available for questions and answers after our prepared remarks.

I am excited to discuss our second quarter results. On our last call, we outlined our commercial, operational and financial actions to increase growth and margins. And I'm pleased that our progress is now clearly visible in our results. Today, we'll update you on of our efforts to manage liquidity and improve our cash flow from operating activities. I will also provide color on growth opportunities in our key markets.

Let me start with a review of our business on Slide 3 of our deck. Global Eagle provides both media and content and connectivity solutions. We serve aviation, maritime, enterprise and government customers. Our mission is to connect, entertain and inform passengers and remote workers, and we help our customers provide solutions that enrich the time their guests spend with fast Internet movies, live television, games and mobile applications.

We deliver our entertainment via seatback screens, wireless onboard entertainment systems and by satellite connectivity. And we are the leading service provider in many of our vertical markets. For example, in Aviation content licensing and services, we have the majority market share. We are the largest independent distributor of Hollywood, Bollywood and Chinese content.

SKYTRAX's top 5 global airlines all get their entertainment content from Global Eagle. In satellite-based connectivity, or in-flight connectivity, we are the leading provider of single aisle airliners. In television, we're the leading broadcaster to mobility audiences. We broadcast LiveTV to more than 850 aircraft and reach 25 million unique passengers per year. We broadcast to over 190 cruise vessels, with more than 150,000 subscribed cabins. Our strength in the aviation and cruise ship markets translates to favorable economies of scale. And our entertainment capabilities are increasingly important for our Connectivity strategy.

Passengers today use smartphones and tablets to watch our movies, play our games and interact with the world over our Internet connectivity, including live stream to social media. As passenger experience specialists, we have unique insight and data about what our passengers want to do, and we engineer our network and media services accordingly. And as entertainment and connectivity converge, delivering a great connectivity experience requires more than a big satellite pipe and reliable equipment. It requires total interfaces that are the gateway to the connected and entertain passenger. That portal helps drive efficient delivery of media and television services that passengers demand.

Advanced network technologies meet to integrate complex networks and prioritize traffic based on passenger and customer priorities. The platform needs to integrate seamlessly with back office billing and support systems. And we've demonstrated all these capabilities as validated by our recent wins.

Turning now from strategy to execution on Slide 5 of our deck. We are making progress on running our healthy core business, driving profitable growth and transforming our infrastructure. Our healthy core is resulting in expanding relationships with existing customers. Our profitable growth shows the recovery of margins in our Media & Content business and predictability in our In-Flight Connectivity margins. Our transformation includes driving innovation and new efficiencies in our Media & Content business and modernizing our ERP systems.

Our transformation shows with operating expense reduction that it's starting to become visible in our quarterly numbers.

Turning now to our business review. Second quarter revenue of $166 million reflected a 6.6% growth rate versus the second quarter of 2017 and generated adjusted EBITDA of $20.4 million, which was up approximately 23% period-over-period.

Let's start our business review with Aviation on Slide 6 of our deck, covering our first Media & Content segment. Our efforts are driving a return to health, with both top line revenue growth and margin recovery. In fact, during the second quarter, we were well ahead of our long-term guidance for Media & Content revenue growth of 3% to 5% on average.

Global Eagle is the partner of choice for airlines that use in-flight entertainment to attract and retain premium passengers. The world's top 5 airlines as rated for their IFE, all source entertainment from us. We deliver quality, quantity and timely delivery. For example, one of our premium customers provides passengers with 900 movies, 1,200 TV shows and more than 21,000 audio tracks each month. In addition, we also help more cost-conscious carriers innovate. We use global footprint and in-house content licensing capabilities to deliver Hollywood, Bollywood and Chinese language programming.

Now in addition to our content distribution and servicing, we also design graphic user interfaces, and of course, IFE games to almost all of the world's top 50 airlines, including recent agreement to expand our games and applications business with both American Airlines and Delta Air Lines.

Our Media & Content segment saw period-over-period revenue growth of 11.9% or $8.6 million and an increase in gross margin to 30%. Revenue growth was driven by previously announced new wins and contract renewals. Margin growth was a direct result of our ongoing plan to optimize content utilization. We're also well underway in our IT transformation of our content supply chain management, with the shift starting later this year to a cloud-based environment that allows us to process more content with higher efficiency.

As the largest content service provider in Aviation, we process more media assets than even popular consumer Video-On-Demand platforms. For example, this year, we'll book over 17,000 movie titles, of which about 2/3 are Hollywood, and about 15,000 hours of television content. We'll process meta-data for 1.8 million titles and encode more than 130,000 video files for seatback IFE systems.

Now our market opportunity is expanding with distribution of a wireless in-flight entertainment and connected systems. Our modernized platform is going to help us create additional cost and quality advantages over our competition and further improve our digital editing and integration capabilities. It will help us drive innovation with our customers as they drive their digital initiatives.

Turning now to In-Flight Connectivity, also on Slide 6. I want to be clear that our In-Flight Connectivity business makes money. Our IFE drives gross margin that covers its operating expenses. This is because we had a different strategy versus many of our IFE competitors. We focus on providing connected entertainment with LiveTV, movies and portals, thus influencing the demand on our Connectivity network. We focus on single aisle aircraft, because they carry multiple daily passenger load and they stay within specific geographies, so we can use our network efficiently and with high reliability.

Now we're the only IFE provider with both Ku and Ka band solutions, and on the 737 MAX, we're the only IFE provider certified for both retrofit and linefit installation. All of these elements provide the economics, scalability and reliability that our airline customers need and support the price points that airline passengers will pay.

Southwest Airlines continues as our flagship partner. And we are thrilled to see the positive impact that our investments are having on Southwest passenger experience. Our Southwest fleet continues to grow, now exceeding 700 aircraft. And if you've flown Southwest recently, you've seen the additional performance as we overlaid SES' HTS, high-throughput satellite capability on our existing network. We are excited of how SES HTS is performing thus far in service. So our investments are paying off for us and for Southwest Connectivity experience, which is now among the industry's best.

In addition to North America, our strength in Europe continues to build. Our linefit installations on LOT Polish Airlines continue, and in the second quarter, we completed installations on Norwegian 737NG fleet. Norwegian offers free WiFi and has one of the highest WiFi web browsing take rates for any airline globally. Over the past year, we rolled out improvements to Norwegian's IFE network, and the airline just won the Best WiFi Award at the APEX Passenger Choice Awards in June.

I can also confirm that our previously announced unnamed European customer will install a substantial number of aircraft in the second half of this year. We have received FAA retrofit approval for the new 3-axis antennas that will go on these aircraft, which can deliver data rates exceeding 400 megabits per aircraft.

The customers placed orders and paid deposits. We expect this fleet to exceed 100 aircraft by the end of 2019. We view service density as a key to increasing our IFE margins over time and our density will be strongest in key economic regions like the Americas and Europe where passenger demand is strong.

We also continue to evaluate timing in both India and China. Both are moving slower than we expected.

In India, we continue to work with Jet Airways to be ready for the final regulations, which we expect will require low satellite gateways, Indian-specific lawful interception in coordination with local telecom authorities and finalization of applicable taxation. We are involved in the regulatory process and we have built the necessary partnerships. We expect our first Indian Connectivity installation later this year, if the regulations are finalized this summer.

In China, last quarter we activated the first domestic single aisle connected aircraft, a 9 Air Boeing 737. We are the only domestic or international in-flight connectivity partner with a VSTC on any Chinese registered narrow-body aircraft for either Internet or live television services.

Globally, our IFE focus remains on profitable growth. Now we know some airlines may chose to rebid some of their connectivity awards. And we are going to be ready for these opportunities with our track record of IFE execution, reliability and innovation.

Turning now to Maritime on Slide 7. Our Cruise & Ferry business is delivering solid revenue performance. Second quarter Cruise & Ferry revenue was up 8% period-over-period to $19 million, and we expanded our ship count to 212 cruise and large ferry vessels through both newbuild and new brands.

Recently, we secured renewals that provide long-term revenue visibility for our cruise business. These renewals has come with higher bandwidth requirements and those ramp expenses did pressure second quarter margins. We expect margins will improve in the third quarter as bandwidth investments translate to higher revenue share activity.

Now our Cruise & Ferry business is more than just WiFi. We are the leading provider of live television to cruise ships. This year, we are implementing a new TV contract with Royal Caribbean, providing a foothold to up sell connectivity in retail services. Our cruise television business has vessel count growth of 20% period-over-period and subscribed cabins growth of 50%. Also we doubled our channel lineups since mid-2017 as we moved to synchronize our television capabilities across Aviation and Maritime sectors.

We have consistent bandwidth capabilities and global coverage for cruise ships. We work with satellite operators like Intelsat and Telesat to serve both mid-latitude regions like the Caribbean and high latitudes like Alaska and Northern Europe. We're also investing in our network technology. We've now deployed the in-life service, our proprietary software-defined networking platform, that uses network pipes and can achieve gigabit-class capacity on live cruises away from port and in motion with active passengers.

This fall, we'll be testing Telesat's LEO network on cruise ships as we collaborate to design tomorrow's capabilities. When paired with our software-defined networking platinum and our network technologies, we believe Telesat LEO can drive complete global coverage lowest latency, capacity and economics to complement our GEO Network in Maritime.

Overall, I see our cruise business as an important part of our future even in a competitive environment. We have long-term revenue visibility from our recent renewals. Our technology platform incorporates the best capabilities from different satellite partners, so our customers avoid technological and economic lock-in to a single operator's managed network.

Now in our Other Maritime & Land verticals, revenue was $28 million in the second quarter, which was flat period-over-period. It's important to note that reflects a combination of declining vertical market segments alongside other fast-growing segments. As previously discussed, we are winding down our African cellular backhaul business this year and shifting our focus to profitable and growing areas like our Yacht business, our Brazilian subsidiary and our government services business. As this shift continues, we expect to see revenue growth rate decline in 2019 with meaningful margin improvement. For example, in Brazil, our current backlog should result in that subsidiaries revenue doubling bring next year. And in our U.S. Government activity, we continue to benefit from new task orders that reflect our satellite-agnostic approach, our tactical resiliency, our U.S. ownership structure and our reliability in military applications.

To conclude, we are execution-focused. Our Aviation Media business has materially improved. Our In-Flight Connectivity business is profitable and focused. Our cruise business is growing with long-term revenue visibility. Our Other Maritime & Land businesses are transitioning faster growth opportunities. And as our revenue grows, we expect our Connectivity gross margin to bottom out in the second half of 2018 as we complete network build-out and then begin to scale up with our new customers.

Our commercial performance is the foundation for our full year 2018 adjusted EBITDA guidance of a minimum 25% improvement year-over-year. To discuss our cost actions and provide more color on guidance, I'll hand the call over to Paul Rainey, our CFO.

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

Thank you, Josh. Let's turn to Slide 8, 2Q '18 financial results. As Josh outlined, our second quarter results demonstrate two factors. First, an acceleration in revenue growth that is a reflection of our commercial progress. And second, the initial impact of steps we took in the quarter to achieve meaningful cost savings, which are visible now and will be increasingly visible in the second half of the year.

For 2018, we are guiding revenue in the range of $655 million to $670 million. As Josh mentioned, we continue to expect a minimum of 25% adjusted EBITDA growth year-over-year in 2018, driven by a combination of top line growth and operating expense reductions.

We also expect our CapEx to be less than $42 million in 2018. And as a reminder, during the first quarter of 2018, our CapEx included $8 million of nonrecurring CapEx. Excluding this, our first half CapEx was approximately $16 million.

We will remain focused on growth during 2019, yet we are targeting positive free cash flow for the full year with accelerating aircraft installations driving revenue and multiple transformation programs underway that should benefit our cost structure. To be clear, this is aspirational revenue guidance for 2019.

Now let me define how we calculate free cash flow. Cash flow from operating activities less purchases of property and equipment. Remember that our strong growth can require a temporary use of that working capital. Nonetheless, we have sufficient liquidity to navigate growth obligations and our ongoing restructuring and transformation activities.

Now I would like to focus on our second quarter numbers. Total revenue for the second quarter of 2018 was $166 million. This is a 6.6% increase over the prior-year period with an immaterial impact from ASC 606. Revenue growth was driven by both our Media & Content segment and our Connectivity segment. Our Media & Content segment had a very strong revenue growth in the second quarter as Content programming for previously announced new customer contracts began to ramp as well as from our joint expanded Content program with our existing airline partners. We continue to believe that our long-term -- over the long-term, we can maintain gross margins in Media & Content similar to those generated in the second quarter of 2018, while growing that segment's revenue by 3% to 5% a year on average.

In our Connectivity segment, the service revenue from new aircraft, vessels and land sites drove revenue growth. It's important to remember that new long-term contracts, the two of our largest In-Flight Connectivity customers, became effective on July 1, 2017. These contracts shifted to recurring revenue models on an apples-to-apples basis, using the new contract terms our 2Q 2018 period-over-period Connectivity service revenue growth would have been materially higher.

Please note that during the second quarter 2018, we incurred a noncash accelerated depreciation tied to the African cellular backhaul business that we are exiting. This weighed on gross margins for the Connectivity segment during the quarter.

Adjusted EBITDA for the second quarter of 2018 was $20.4 million, which was an increase of over 23% versus the prior-year period. Adjusted EBITDA margin improved more than 100 basis points versus Q1 2018 as well as versus the prior-year period.

Adjusted EBITDA benefited from strong Media & Content revenue growth, more efficient Content procurement, Connectivity service revenue growth as well as the ongoing reductions in our operating expenses.

Now let's turn to Slide 9, our transformation execution. This is a good point to touch on our operating expense savings initiative. As a reminder, we have guided that we will cut our operating expense by 10% to 15% on a run-rate basis by the end of 2018. This equates to savings of $16 million to $24 million annually.

We are lowering our OpEx by rationalizing our facilities footprint, headcount reductions, in-sourcing work streams and implementing technologies that will make us more efficient. We also told you that we will begin to see the impact in the second quarter and that they will be there throughout the year.

The second quarter benefited from about $1 million of OpEx savings with an expected annual run rate of $12 million. So we have made progress. We expect that progress to continue during the third quarter. However, the next step function improvement will occur in the fourth quarter as we integrate two ERP systems that administer the vast majority of our accounting data. There are a number of benefits of this ERP integration. At the top of the list, this integration is a keystone to remediating a number of material weaknesses in our internal controls over financial reporting.

Now I would like to take a moment to discuss our liquidity. We ended the quarter with liquidity of more than $100 million. During the second quarter, we use cash to pay down our revolver, invest in working capital for growth and pay for cash restructuring costs. And we had approximately $5 million of cash used in operating activities. We expect our cash to improve materially in coming quarters as the next phase of cost actions are implemented. As I mentioned earlier, we are targeting positive free cash flow during 2019.

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

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

Thanks, Paul. Turning to Slide 10. We are executing on our healthy core, profitable growth and transformation objectives. We understand what the total user experience needs to be on-board and how we can engineer connected systems to meet that demand. We focus on profitable backlog, enduring relationships with our customers and opportunities that fit our capability, and the numbers show we are returning the growth while strengthening our EBITDA. Our growth is balanced.

I think diversification is good in this space. We are leveraging network, software and technology investments over a broad base. As we grow across vertical markets and expand our connected entertainment portfolio, we're also focused on the efficient use of our network. And I'm confident that our focus on execution will translate to continued improvement in our financial results.

We are reiterating our previous guidance of our adjusted EBITDA, CapEx and OpEx reduction, while also providing new guidance on revenue.

To conclude, I'd like to thank both our customers and our employees. As a company, we are relentless about making every customer a reference. We deeply appreciate how our customers partner with Global Eagle and are sharing insight with us to improve their passenger and guest experience. Our strategy and our execution depends on building customer and end-user satisfaction.

Similarly, I'd like to thank our employees. Transformation is never easy, particularly at the fast pace that we're executing. Our employees have demonstrated commitment, endurance and creativity that's now showing in the increased gross margins and customer satisfaction.

With that, I'd like to hand it back to Pete for Q&A.

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

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

QUESTIONS AND ANSWERS

Operator

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

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

On the EBITDA margin side for the quarter, pretty impressive at 12.2%. As you look forward, where do you see potential upside, when you look at both the Connectivity and your entertainment segments, where do you see the most kind of growth from here?

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

I would say there's positive upside on both. For Media & Content, we still -- as I said, we'll have similar margins in the second quarter. But we still have the proof to get some more content procurement as we move out over the coming quarters. And as Josh mentioned, in our Connectivity services, we'll go through a tough period as we ramp in the second half, but we see opportunity as we begin to fill up that network in the coming quarters as well as we go into 2019. And then obviously, our OpEx cost actions will continue to build over time as we continue to implement those actions.

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

And turning to Southwest, are there any specific operational metrics that you can share across your 700-plane platform there? And can you talk about the potential (inaudible) for future and ongoing RFPs?

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

Yes. I think it starts with the last comment I made that our goal, our relentless focus at Global Eagle is to make every customer referenced. And that means ensuring that the airline is getting value from the services they partner with us for, and that the end users are getting full satisfaction from the product that they use.

I think when you look at, at what it takes to compete in Aviation Connectivity looking forward, it's a combination of providing an entertainment-oriented service to the passenger, where the passenger can stream, if they choose to, watch great television, watch movies, basically have an integrated experience through a very friendly and easy to use portal. And it's providing economics that really take advantage of network efficiencies.

And I think what we've been able to do with Southwest thus far, and it is a journey, and I think we have room to continue to improve. What we've demonstrated so far is that, at large scale, there are fundamental advantages to our strategy. And the consistency and reliability of the network services we provide, in the breadth of high-quality television that we can deliver and in integration of those services through the portal with the associated monetization that the airline needs in order to justify the investment.

So overall, I think that it is a wonderful reference case. Because, again, Southwest is far ahead of almost for every other airline in the consistency of the products they offer, the reliability of the service and the fact that everything is tightly integrated in terms of their back-end systems. And I think that reference point is very, very helpful to us in ongoing RFPs, to be able to suggest just to airlines that we're marketing to, just go fly Southwest, try the product and you'll understand what we do and why it's better than other solutions.

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

Great. And I realize it maybe early, but have you seen any rebate RFPs yet?

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

I think the market is quite active right now. I think there is a lot of evaluation going on. I think that the evaluation spans many different dimensions of end customers. Those dimensions include the quality of passenger experience, the reliability of the equipment and the service and the price point, right? And I think as we look towards future competitions in the market, airlines will be evaluating both incumbent providers and looking at new solutions for new aircraft that are coming in. So yes, as I said during the script, I do expect that previously awarded Connectivity deals may come back to market, and I expect that Global Eagle will be well positioned this time around to capitalize on those opportunities.

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

And last one, it's maybe for Walé. In terms of -- on the entertainment side, you had a nice quarter. Maybe you can -- can you talk about specific wins in the quarter and maybe some of the new products that you're offering, like your AIRtime-to-Go products, just more color on that evolving?

Walé Adepoju - *Global Eagle Entertainment Inc. - Executive VP & Chief Strategy Officer*

Well, certainly. I think really what we're seeing in this quarter is what we promised at the start of the year. We went out. We won new customers, and as Josh said, our existing customers have invested more in us in terms of more product and better quality product. So in terms of content mix, what we've seen is that we are providing more content as well as winning more customers. The new products, as Josh talked about, our games will be on 50 airlines. We still have new games still being developed. We already talked about that much, but that's still quite popular in the market and developing. And we are evolving on the different types of platforms as well with the games. So I do expect that to continue in terms of volume as well as new products.

Operator

(Operator Instructions) I am showing no further questions at this time. I would now like to turn the call back to Peter Lopez for closing remarks.

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

Thank you, Mark, and thank you, everyone, for joining our second quarter 2018 earnings call. We look forward to updating you on our continued progress next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.
