

# SES Lowers Revenue Forecast, Says O3b Expansion Top Priority

By [Peter B. de Selding](#) | Oct. 31, 2014



SES CEO Karim Michel Sabbagh said spending on O3b is a higher priority given what he has seen of customer reaction to the service. O3b has begun demonstrating its system to the U.S. government, he said. Credit: SES photo

PARIS — Satellite fleet operator SES on Oct. 31 reduced its expected revenue performance for 2014, saying that it is now suffering — later than its competitors — the full effects of U.S. Defense Department budget pressures.

In a conference call with investors, Luxembourg-based SES — the world's second-largest commercial fleet operator by revenue — said North American revenue in general continues to be mediocre, especially when compared with the company's European and international business.

SES Chief Executive Karim Michel Sabbagh also said during the call that SES's first investment priority for the coming months will be expanding the fleet of O3b Networks, a company in which SES has a major stake and options to become majority shareholder.

O3b has launched eight satellites into medium Earth orbit. While the first four have an onboard issue that likely will reduce their operating lives and deliver a \$315 million insurance claim into O3b's treasury, the company has maintained the minimum six in full operational status and, since September, has begun loading commercial customers onto the service.

O3b satellites use Ka-band beams to provide high-speed, low-latency broadband connections to nations and businesses that otherwise do not have broadband access.

The third and final set of four satellites on order for O3b is scheduled for launch in December aboard a Europeanized Russian Soyuz launch vehicle.

Once these four are in operation, O3b will have enough capacity to maintain operations no matter what happens to the first four, and the question for the company then will be when to plot further expansion.

O3b Chief Executive Steve Collar has said he is optimistic that the company's shareholders, starting with SES, will agree to use the insurance proceeds to invest in the business.

In the conference call, Sabbagh deferred to O3b on future investment but made clear that SES wants to see a further expansion of the O3b constellation. The more satellites in the constellation's unusual 8,000-kilometer equatorial orbit, the less work needs to be done by customers' tracking antennas.

Asked about small acquisition targets in the emerging markets of Latin America, Africa and Asia where SES's growth is strongest, Sabbagh said spending on O3b is a higher priority given what he has seen of customer reaction to the service. O3b has begun demonstrating its system to the U.S. government, he said.

But it is the U.S. government and its budget trials that forced SES to reduce its forecast growth in 2014 to 4 percent from 6 percent.

SES Chief Financial Officer Padraig McCarthy said two-thirds of the shortfall was due to nonrenewals of contracts at SES Government Solutions, based in McLean, Virginia.

Up to now, SES has said its relatively low exposure to U.S. government business compared with some of its competitors — about 10 percent of total annual sales — would be an advantage at a time of government spending cuts, just as it was a disadvantage when spending was greater.

Sabbagh said while the U.S. government market represents “a significant headwind” to current growth in the short term, SES sees this market segment stabilizing sometime in 2015 and beyond.

He pointed to SES Government Solutions' win, in September, of the U.S. Army Warfighter Information Network-Tactical (WIN-T) contract for five years of satellite capacity, using entirely SES fleet capacity, as a subcontractor to AIS Engineering Inc. of Silver Spring, Maryland.

Sabbagh said that once through the current dip, SES sees strong demand from U.S. government customers. He specifically pointed to government unmanned aerial vehicles, which he said may represent 50 percent of U.S. government demand in the coming years. These vehicles are often used for surveillance, requiring them to stream large volumes of video.

SES's next launch is of the Astra 2G satellite, designed to add capacity to the company's core European direct-to-home television portfolio. Four of the satellite's transponders have been sold to rival Eutelsat of Paris under a 2013 settlement resolving a dispute between the two companies.

Astra 2G is now scheduled for launch on Nov. 28 aboard a Russian Proton rocket. Sabbagh said that despite a rough ride to the Baikonur launch base in Kazakhstan — the Antonov cargo aircraft was forced to make an emergency landing following engine trouble — the satellite is in good shape and ready for launch.

McCarthy said that while the launch's delay from October means Astra 2G will not be providing any revenue in 2014, the later date has permitted SES to delay planned capital spending, so the net effect is small.

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