



# Near Earth LLC

Specialists in Space-Related Investment  
Banking

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# State of the Industry – Still Weak

- ◆ FSS industry operating at 60% of capacity
- ◆ Returns are below acceptable levels
  - ROI is in low to mid single digits even for the largest operators
  - Even lower for most small operators

# But Demand is Increasing

- ◆ Telecom market recovering
- ◆ Analog to Digital nearing completion
- ◆ Compression technology gains slowing
- ◆ HDTV and broadband rolling out
- ◆ Occasional use in US up significantly
- ◆ Government demand growing globally



# Although Growth Still Slow

- ◆ 2-5% annually
- ◆ With 30-40% excess capacity it will take a long time to fill-up
- ◆ Industry needs to rationalize

# Rationalization of Industry Unfolding

- ◆ Large FSS operators now controlled by private equity firms
  - Highly rational, financially driven
  - Internal politics preventing rationalization will be eliminated
- ◆ Expect FSS operators to seek to reduce PPE levels over time

# What Does this Mean?

- ◆ Satellite manufacturing below replacement level of 20 orders a year for next 3-7 years
  - Continued growth in small GEOs
  - Potential satellite manufacturing consolidation
- ◆ Launch demand to follow in line
  - Potential consolidation or shake-out
- ◆ Increasing competition for growing government market
- ◆ Creative rationalizations of industry structures
  - M&A, JVs, marketing alliances or asset swaps

# Other Implications

- ◆ Increasing importance of cost reductions and operating efficiencies to remain competitive and increase ROI
- ◆ Focus on core activities that touch the customer and higher vertical integration
- ◆ Growth in outsourcing of non-core activities
- ◆ Example: TT&C and flight operations
  - Most operators do this function themselves 24x7
  - Tremendous industry overcapacity
  - Independent providers able to lower costs
  - Like wireless industry outsourcing tower operations

# TT&C and Flight Ops Outsourcing

- ◆ Currently about \$XXM is spent on these functions annually within FSS and DBS companies.
- ◆ We expect 40% - 60% will be outsourced over next 5 - 7 years, up from almost 0% today
- ◆ Outsourced prices/satellite will likely average about half of internal costs

# Signs this is Happening

- ◆ PanAmSat has contract to fly DIRECTV satellites and says it would like to fly satellites for others
- ◆ SES has just set-up a new legal entity to fly satellites for others
- ◆ Universal Space Network<sup>1</sup> plans to enter market as independent 3<sup>rd</sup> party provider
- ◆ We expect other entrants as well

# Devil is in the details

- ◆ We believe initial outsourcing will be lead by smaller operators who lack economies of scale and will see greatest savings
- ◆ Independent outsourced providers likely to have significant long-term advantage as there are no competitive conflicts
- ◆ Affiliated outsource providers likely to suffer the same conflicts as wireless companies who tried to sell competitors capacity on their towers

# Summary

- ◆ Industry has hit mature growth phase with growth averaging near GDP levels
- ◆ Highly rational financial players have entered the business and will drive for profitability
- ◆ Industry structures that worked in higher growth phases will no longer be appropriate
- ◆ New smaller high-growth entities will likely take advantage of these opportunities

# New Wall Street Reality

- ◆ Private Equity ownership of Intelsat, PanAmSat, New Skies, Inmarsat & Eutelsat
- ◆ Opportunity for major IPOs and additional public float greatly diminished
- ◆ Less reasons for Wall Street to keep satellite research analysts or invest in sales/trading
- ◆ Banking effort will shift to coverage of private equity groups for both M&A and debt financings
  - Advantages will go to firms making bank loans, issuing high yield debt and with strong private equity coverage



# Near Earth LLC



- ◆ Specialists in Space-Related Investment Banking
- ◆ Trusted Advisors to Small & Large Firms
- ◆ Creative, Competitive & Flexible Approach
- ◆ Senior-Level Attention Throughout
- ◆ Private Capital Raising
- ◆ M&A Advisory Services
- ◆ Strategic and Financial Consulting