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Satellite 2008 – Washington D.C. February 25-28, 2008

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Satellite 2008 showcased a vibrant industry moving forward enthusiastically, but understandably cautiously, against a scary backdrop of an uncertain U.S. and global economic environment. This was perhaps best illustrated during the opening financial sessions of the conference, where despite updates of the massive credit crunch sweeping the globe, public equity markets in decline or at best stalled and severely diminished private equity deal closures, the satellite industry continues to enjoy special interest and above average treatment from investors. For instance, public satellite industry stocks have on average beat broader market indices, the landmark Intelsat acquisition managed to get done despite a FSS record 9.5x leverage and the Loral / Telesat deal went forward despite a very robust EBITDA acquisition multiple. The pace of satellite industry consolidation through mergers and acquisitions in fact seems to be accelerating and from our own perspective, we have never seen institutional investor interest so high. This interest is not just for the traditional favorites like FSS and DTH, but increasingly for sectors previously ignored like MSS, satellite broadband and geo-spatial applications.

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Another interesting theme permeating the conference, sometimes explicitly and sometimes subliminally, was that the 50 year old satellite industry needs to evolve from a small and largely independent niche to a critical and integrated part of the broader digital telecom and media industry. This is a view especially held by many of the younger and newer entrants to the industry who are used to thinking about the larger whole and the broader technology and user trends. End users, whether enterprises or consumers, increasingly just want their connectivity, content and applications anywhere and anytime, the what, when and where, and do not care so much about the who and how. Our ability to prove our relevance and importance to the broader telecom and media industry should therefore increasingly impact the satellite sector's future growth prospects and its ability to capture a "fair" slice of the overall pie. An interesting question is how fast this historically insular satellite industry can adopt a new mind set and adapt to changing competitive dynamics. Will a Satellite 2018 even make sense or will future conferences be organized around different themes than the location of the infrastructure, in example video broadcasting, broadband connectivity and mobile communications versus

satellite, cable and wireless. Being a satellite “lifer” myself, I may miss the uniqueness and excitement of our focus on space and the special bonds enjoyed in this community, but an increasingly integrated digital world has a way of bringing space down to a flattening Earth.

Additional comments and thoughts:

- Steve Dorfman, a legend in the satellite industry and current Chairman of Protostar, gave a luncheon keynote address where he reminded us that almost all of the satellite businesses now enjoying success had pioneering predecessors that experienced severe and costly failures. Even Protostar had predecessors whose earlier mistakes and efforts helped blaze the way for a hopefully successful pan-Asian DTH platform. Being first to market in this industry has rarely guaranteed success. Over the last 50 years, this has been an industry financed largely by either government mandates/subsidies, visionary strategic initiatives from large corporations (e.g. DIRECTV coming out of Hughes) or the sometimes irrational enthusiasm of individual and public investors. There will always be a need for visionaries and angels in this industry to do the important missionary work for new businesses (e.g. space tourism), but the industry has matured and joined the main stream in many regards. Interest and participation from the institutional investment community has steadily improved. They have made real money and are back to place more bets. But, the business models must be sound.
- Dr. Hamadoun Toure, Secretary General of ITU, gave an interesting forward looking talk at the Washington Space Business Roundtable lunch entitled “Not Business as Usual – the Next Fifty Years in Space.” Dr. Toure has led an effort focused first on Africa to open up emerging markets to investments in telecommunications. The failed models of the last half century relied primarily on grants and foreign aide as opposed to strategic international partnerships to build profitable and sustainable businesses. The result is growth approaching and in some cases exceeding triple digits. Let’s all hope this philosophy of market based solutions eventually brings another 3 billion people into the digital age.

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- Satellite broadband had a much larger presence at the conference this year due in large part to the initial successes of Wildblue, Hughes and Telesat in the North American market. The key market and investor question is still how many subscribers can the satellite industry attract and retain against a relentless onslaught of fiber, cable and wireless solutions. This author's opinion is that (a) the industry has now proven, with Ka-band spot beam technology, that it can deliver acceptable broadband value to the terrestrial "gaps," (b) broadband is increasingly a must have for all, not a luxury for the few, (c) some gaps in terrestrial coverage are unlikely to ever be filled, and (d) the number of potential subscribers in these long term gaps make for a sizable international market for a moderate number of satellite broadband competitors and satellites. Although the answers above point to a real market, an even more interesting question is whether or not satellite broadband can compete for an even larger slice of the broadband pie. The current terrestrial gaps are so large that were they to stay open the market opportunity would be truly impressive and require numerous satellites to fulfill. Most investors and consultants we know believe these terrestrial coverage gaps will gradually close over the next decade, but what affect will a Viasat-1, for instance, have on the rate of gap closure? Can technology that delivers 10x the capacity, thereby greatly reducing the cost per bit to consumers, hold off the terrestrial competition in denser rural and even suburban markets? Mark Dankberg, CEO of Viasat, certainly hopes so and even reminds us there is no reason to believe Viasat-1 will be the last major advance in costs per bit capability. Perhaps, in the future, another order of magnitude can be achieved by clever engineers. As Roger Rusch of TelAstra points out, such capacity improvements may be demanded by end users as his data shows an order of magnitude increase in bandwidth usage by consumers every 5 – 7 years. Satellite bandwidth usage does not necessarily need to match terrestrial usage, but how much it can lag and stay viable is a real question.
- The presence of MSS related panels, conversations and companies was also substantially increased this year. There was much to talk about, including the sector attracting new capital from private equity investors (in some cases the same investor, Harbinger Capital) and finally a strategic



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source (Echostar) and the win-win deal between Inmarsat and MSV to rationalize L-band spectrum utilization. Interest in the timing of future consolidation is still strong as is the so far unfruitful courtship of the wireless/cellular industry. Now that the 700 MHz auction is nearing completion, we suspect ATC could become the next spectrum block to fight over. In any event, with satellite launches scheduled and mounting common shareholder ownership by a handful of investors, we look forward to an extremely interesting year for MSS.

- A related, but more government/military focused sector of MSS called Comms-on-the-Move was also a major factor at this year's conference. It seemed the exhibit hall was overflowing with new mobile antenna systems chasing this lucrative and growing market. Our only cause for concern, is if there will be enough unique applications and customers to support all of these antenna systems. We suspect the real winners will be those that can deliver the hardware and software that works with the antenna systems to drive the spectrum efficiency and quality of service these customers will demand.

By Hoyt Davidson
Near Earth LLC