

## Harbinger and Skyterra plan to bid for Inmarsat – the other shoe drops

...announcement that Inmarsat and Skyterra (MSV) are indeed going to make it official, provided the regulators will bless the union...

At the risk of seeming boastful, we saw this one coming. Following the companies' spectrum swapping deal from late last year (see "Mobile Satellite Ventures and Inmarsat Play Nice" in the January 2008 issue of *From the Ground Up*), Inmarsat and Skyterra (or, more correctly, their MSV subsidiary) have been joined at the hip (through spectrum sharing and cross ownership), so why not try to make it official? And thus Voila! We get the latest announcement that indeed they *are* going to make it official, provided the regulators will bless the union.

At first blush, this combination makes a lot of sense. Inmarsat is the grand daddy of Mobile Satellite Services – having been in service for decades with hundreds of thousands of terminals in service worldwide. MSV, descended from its forebear American Mobile Satellite Ventures is the second oldest MSS firm. Inmarsat arguably has the most powerful brand in the sector, a worldwide L-band spectrum footprint (with a notable deficiency in North America) and the oh so elusive (at least for MSS) EBITDA. MSV, while a bit light on revenues and EBITDA, has beaucoup L-band spectrum in the U.S. and Canada, right where Inmarsat needs it – along with a ton (actually, several) of satellite hardware on order and a formidable array of Intellectual Property to use it.

Then there's the common ownership factor: Harbinger. When they weren't getting rich betting against subprime and rattling cages at The New York Times, Phil Falcone and his gang quietly put their fingerprints all over the MSS sector, amassing the following stakes:

- 30% of TerreStar Networks
- 50% of Skyterra (MSV's parent)
- 28% of Inmarsat LTD

Part of the rationale for this bullishness could be the seemingly inexorable rise in spectrum values of late.

Most recently, the folks at Harbinger also committed to fund Skyterra (and thus, MSV) with \$500 million in fresh debt capital, independent of the proposed Inmarsat/Skyterra merger. Clearly, these guys are bullish on the sector in general, and endorse the potential value creation from a merger.

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Nextwave wireless sold a substantial portion of their AWS spectrum holdings for \$150 million – or twice the \$75 million they purchased in for in the FCC auction, just two years ago. Or, note the results from the recent Canadian AWS auction, where 105 MHz of 2 GHz spectrum garnered an impressive C\$4.3 billion – over C\$1.35 per MHz-POP or four times the pre auction prediction!

... a merger that has elements of operational consolidation as well as a larger spectrum hoarding...

We think that this transaction thus represents a merger that has elements of an operational consolidation as well as being part of a larger spectrum hoarding strategy that Harbinger (and Apollo advisors, through their own substantial sector holdings) are undertaking. With the substantial appreciation seen for spectrum in recent periods and operational synergies to protect the downside, and the potential for substantial pricing power from controlling a truly massive swath of spectrum to offer upside, this seems an interesting strategy indeed. And perhaps, presages additional consolidation in the MSS sector, yet to come.

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