

### ***Capital crashes more important than orbital crashes***

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What a time for Iridium Satellite, LLC. The worldwide telecommunications company and satellite operator seemingly has a seven-course meal of items on its plate right now. On one hand, the company is growing nicely (320,000 terminal units and EBITDA over \$108 million), is introducing new and highly competitive services offerings (such as OpenPort mobile broadband), receiving new support from an acquiring company and its affiliate bank (the GHL Acquisition Corp SPAC and sponsor Greenhill), while benefitting mightily from the problems of competitor GlobalStar. On the other hand, with an aging fleet of satellites needing replacement, with Inmarsat and its newer satellite fleet chomping at their bit with equally compelling offerings and with access to capital highly constrained by the greatest upheaval in the capital markets in a generation – Iridium faces some great strategic challenges to the future and nature of its operations.

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In fact, while the collision of one of Iridium's satellites in orbit earlier this month seems to have created much commotion and debate in the press, the incident seems to be one the lesser concerns for the company right now. Whatever degradation of service quality that occurred was quickly repaired with a replacement where the old satellite used to be. Little or no revenue was lost. The market seems to be satisfied – while there was a significant jump in the trading volume of GHL securities in the days following the incident, prices hardly moved at all, reflecting no less or greater concern by the market for the near-term viability of the company and the acquisition.

Unfortunately for Iridium, GHL warrants were already trading in the pennies and far out of the money. Clearly, the market currently does not believe that the GHL acquisition of Iridium will be consummated by its shareholders and that the GHL SPAC will be dissolved following the vote. This does not necessarily reflect badly on Iridium and its business – the warrants of virtually all other SPACs on the market are also trading at pennies. In a turbulent era when cash is king, no one wants to be locked in with an illiquid equity stake when they can simply vote their own cash back. For Iridium, however, the market downturn means that it may lose access to the valuable GHL cash. When it comes to business, a crash in the market can mean a lot more than a crash in orbit.

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This is all the more problematic since Iridium has been planning to build Iridium NEXT, the replacement for its current fleet and due for deployment in 2014. NEXT, however, is estimated to cost \$2.7 billion, an amount of capital that is hardly accessible in these times, even with access to the public markets and Greenhill/GHL's support. Planned financing of NEXT is said to consist of a combination of GHL cash and warrants, operating cash flow and revenues from secondary payloads. Whether this is creative or sufficient enough is under some doubt. Cash flow isn't anywhere near enough to cover the difference whether or not GHL cash shows up. Finding high-paying secondary payloads is going to be a tall order when potential tenants' technical requirements (orbits, spectrum use, etc) do not necessarily align with NEXT and are facing the same capital market environment that Iridium is facing. In any case, even if Iridium is able to go to the markets and raise debt - at 8x EBITDA, GHL's valuation of all of Iridium is not much more than \$800 million. Even if one applied the 14.5x EBITDA multiple that Inmarsat had at the time of the original merger announcement (but doesn't anymore), you would still be about \$1.3 billion short of the entire company's value to build NEXT. As it stands, can this system be built?

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While we like the concept and advantages of a LEO constellation from a redundancy and service point of view, it may well be necessary for Iridium to build a GEO constellation instead. The recent Inmarsat-4 constellation of 4 GEO satellites only cost about \$1.5 billion, which seems much closer to being doable for Iridium. Yes, a retreat to GEO would negate some of Iridium's inherent and highly marketed advantages – low data latency and coverage of the poles, but it is debatable whether those two advantages justify the extra billion dollars in investment. Besides, since the coverage density of the current Iridium constellation is highest at the poles, service in those areas by the old system will continue for years yet, even as parts of the system start to fail. As for lower latency – while it is certainly nice to have, the only potential competitor on the horizon in the high data rate market is the as yet unbuilt O3b system. Their system won't be adequate for maritime and aeronautical uses – plus they too must deal with the same capital market to build their system.

Where does Iridium go next, even if not NEXT? Iridium, GHL and their advisors may yet find some arrangement to induce shareholder approval and discover mercy and opportunity in these



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troubled markets. A management team that has brought the company this far certainly cannot be counted out to see through its vision to the next generation. It would be a nice boost to see a new, array of Iridium satellites in the sky, no matter what form they take. Now, if they could only watch out for those pesky old Russian satellites floating around....

By Ian Fichtenbaum  
Near Earth LLC



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