

SpaceX hits the big time

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A launch here, a service contract there, sooner or later we're talking about real money. With each passing week, the relentless drip, drip, drip of announcements – an Orbcomm launch contract one day, an Astrium contract the next – from Space Exploration Technologies (SpaceX) amasses into a gushing torrent. Add a dollop of successful launches, tens of millions of outside private capital, a ruthless commitment to cutting costs and a billion-dollar backlog of orders built on offering the lowest prices in the industry – that's not just a company, that's a business.

If it seems we speak with undue highness of SpaceX and its founder, Elon Musk, it is because it bears repeating exactly what it has done to merit such praise. More than just creating grand plans and fancy presentations, this startup and its founder had the temerity and the ingenuity to do what no one had ever successfully done before – to develop and operate a disruptively different commercial launch service using largely private capital and, from all reports, to do so profitably. To do so while developing a new space cargo delivery system and winning an International Space Station cargo supply contract without historical precedent and amidst a long trail of failed competitors, is quite the accomplishment.

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If that past success is not enough, Elon and SpaceX should be pleased by the result of the recently released Augustine commission report. As discussed earlier in this issue, the commission not only recommends, in almost every scenario, continued support for commercial transport solutions (both cargo and crew) to low-Earth orbit, but also continued support for the International Space Station until 2020. SpaceX's backlog of cargo missions, via its Dragon capsule and its Falcon 9 craft, is already stretched out to the current Station due date – itself a commitment of \$1.6 billion until 2015. If the new directions by the Augustine commission become NASA policy, SpaceX's potential backlog could treble.

Let us also not ignore that the capabilities of the Falcon 9 place SpaceX smack dab in the commercial satellite market, where a gaping hole in the market has now been left by the bankruptcy of Sea Launch. Although Chinese and Indian launch service providers



have recently been nipping away at the launch market, for all practical purposes, operators are now left with a duopoly of Arianespace and International Launch Services. Although the launchers these firms market are prized for capability and reliability, limited capacity has strained some business plans. The large operators simply cannot depend on getting the satellites they order in orbit when they need it. A launcher with the Falcon 9's already long manifest and backlog, built upon a diversified customer base, has before it a direct path to gaining the flight heritage, reliability and sustainability the major commercial satellite firms demand.

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Of course, we beg the question, what next for SpaceX? The company will most likely need further capital to develop its crew transport capability even though a COTS expansion will fund much of these costs. SpaceX could continue to access institutional private capital, as it has successfully done on multiple occasions. The other option would be to hit the big time and go to the public markets with an IPO. Although the after-effects of the financial crisis and the weak global economy have dampened the prospects for many IPOs, we believe that a company with such a solid competitive position, a strong customer base and growth potential would nonetheless do well in this environment. Moreover, a commitment to develop a new and unique commercial crew transport capability against a backdrop of eager government demand would be, in our opinion, an excellent use of proceeds. Given Elon's PayPal experience this would have to be done in a way that did not involve a loss of control, but as we saw with the Google IPO and the use of super voting Class B shares, the public market will, in special and promising cases, allow founders with successful track records to keep control of their companies.

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The past year has already seen the arrival of satellite imaging operator DigitalGlobe to the public markets and soon, as it now seems quite likely, to be followed by mobile satellite operator Iridium. The entry of SpaceX would not only expand on the growing roster of publicly traded space and satellite companies, but would add a new dimension where only few, such as Orbital Sciences Corp, have gone before. Not a telecom company or a remote sensing company and not merely an aerospace company, SpaceX is a breed that has barely before been available to retail investors – a space transportation company.

Bring someone or something where they want to go, when they want to go, at a price they're willing to pay and all of a sudden, you



are a transportation operator. Maybe not, 'build it, and they will come', but perhaps 'build it, and they will go'. The launch service business has established beyond any possible doubt that, with low enough prices, commercial transportation services are not in the least confined to the Earth's surface. And if low Earth and Geostationary orbits are not in doubt, can anyone really say there cannot be a successful commercial transportation service anywhere else? Near Earth asteroids? The surface of the Moon? Mars? Why not?

Investors and speculators, sucked up stocks and high yield bonds, wanting a piece of the action...

In the mid-nineteenth century, there was nothing more exciting to the public markets than the promise of railroads, the new method of disruptively cheap, mass transportation. Across the U.S. and Europe, thousands of miles of railroad track were laid while whole new territories and markets were opened to trade and economic exploitation. Hundreds of railroad joint stock companies were founded, of which many raised vast sums of capital to build their railroads. Investors and speculators, from the largest investment houses to the middle-class man on the street, sucked up the stock and high yield bonds, wanting a piece of the action and a right to a stake in the future.

Although history records that Railroad Mania ended with a pop of a bubble and a market crash, the end result was the laying of the infrastructure that the following century of the as-of-then unparalleled economic expansion was built upon. A century and a half later, are we seeing with SpaceX and its erstwhile imitators and competitors, the beginnings of a new transportation infrastructure? If so, that's not just a new direction, that's talking real money.

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SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING

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