



Top 10 deals that SHOULD happen before Satellite 2011

As we head toward Satellite 2010 next week, we thought we would look into our cloudy crystal ball and then paint some pictures on it we thought should happen over the next 12 months. It always helps in predicting the future, if you first give it some good hints.

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The ten transactions we list below our deals we think could happen, should happen and perhaps even would happen if the market stars and corporate stars can get in alignment. To be absolutely clear, none of these transaction ideas are based on non-public information, but are simply our extrapolations and conclusions based publically available information and our experience covering the industry.

Financings

1. **Iridium Financing:** We have been as skeptical as most regarding the likelihood of Iridium pulling together a \$2.7 billion financing package for its NEXT generation fleet. The company's stock performance in the last few months has certainly suggested significant doubt among investors. However, in light of improving equity markets and the very helpful \$586 million COFACE debt guarantee for Globalstar, it seems to us more than reasonable to expect at least a similar and most likely a much larger amount of debt support from one of the export credit agencies for Iridium. Iridium does after all have global coverage, far more subscribers and rapidly growing cash flow. Perhaps more importantly, its new fleet will represent a much larger construction contract for some nation to win. Whether Iridium chooses Lockheed Martin as its prime contractor with support from the Export Import Bank of the United States or Thales Alenia Space with support from COFACE, it seems a contract as juicy as this one should attract some serious export credit agency support, especially in a time when government coffers are being opened to "stimulate" the economy. So, if as part of the contractor selection an export credit agency deal can also be announced, we would expect Iridium's stock price to gain significant support from the promised low cost debt financing. This affordable leverage should also make a secondary equity offering achievable, if required, to close

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any financing gaps. A strengthened stock price would also improve the chances of having Iridium's 28.1 million stock options exercised in 2 years raising as much as another \$261 million.

2. **SpaceX IPO:** Well, despite recent challenges at the Falcon 9 launch pad, we are still very bullish on the prospects of SpaceX. If it can get two or three successful Falcon 9 launches under its belt in the next 12 months, its multi-billion dollar NASA backlog for COTS will be confirmed in investors' minds and additional commercial satellite operators should see SpaceX as a viable new supplier. With a strengthened and diversified manifest of launches, we would think SpaceX could go public on favorable terms. (see our previous article "SpaceX hits the big time", September 2009)
3. **Intelsat IPO:** While by no means certain in terms of timing, a relatively near term Intelsat IPO does make sense on several fronts. The first is to create a liquidity path for the company's private equity shareholders. It looks like an IPO window is starting to open and given the superior performance of FSS companies compared to the general market during the recession, we would expect shares of Intelsat to be very well received by public investors. While a majority of any IPO proceeds might go toward reducing the company's debt load, there could be an opportunity for a sizable secondary component to an Intelsat IPO. If not, at least shareholders have moved down the liquidity path and are closer to an exit. An IPO probably represents a closer exit opportunity than a strategic sale as most likely global telecom company acquirers are focused more on fighting terrestrial wireless wars or seeking to add video and broadband services versus satellite infrastructure. Another reason to go public sooner rather than later is to free up cash flow from debt servicing to support growth initiatives. Intelsat has been very creative and disciplined in its capital expenditures, but as the world emerges out of the recession there could be a heightened need for new investments to support government and consumer demand. Having a less leveraged balance sheet could be advisable in such an environment.
4. **Sea Launch Bankruptcy Exit Financing:** The world's only operator of a sea-going commercial launch platform, Sea

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Launch, has spent much of the last year in restructuring, struggling as it has from a mountain of debt and the aftermath of the 2007 launch failure of NSS-8. It entered Chapter 11 bankruptcy in the middle of last year and has since closed on two rounds of DIP financing for a total \$24.5 million. Most interestingly, the DIP was provided by Space Launch Services LLC, a consortium backed by PlanetSpace and Excalibur Almaz, both players in the formative NewSpace industry involved in human spaceflight.

While the motivations of Space Launch Services are not immediately clear, what has been immediately clear is that satellite operators are very interested in seeing Sea Launch get back in the game to increase competition and launch availability.

We think a financing event for Sea Launch is in the cards, if for no other reason than the customer base is demanding its existence and that the backlog potential is still large. Even with the possible emergence of low cost SpaceX into the market, the large FSS operators, value the availability of multiple launch providers to ensure ready transport of their spacecraft. With a cleaner balance sheet, the reemergence of Sea Launch looks to be the thing to watch.

Mergers & Acquisitions

5. **TerreStar / DBSD:** This one looks like a “no brainer” to us. If the ultimate game is a spectrum play for its major shareholders, Harbinger, Echostar & Highland, then what else can TerreStar do to entice a buyer? Management has superbly checked all of the boxes in its business plan: (i) launch and commence operations from world’s largest communications satellite, (ii) get FCC approval of ATC spectrum license, (iii) roll-out GENUS hybrid phone with great form factor, (iv) sign roaming agreement with AT&T, (v) sign distribution agreement with AT&T, and (vi) commence next generation chipset production at Infineon and Qualcomm. The only major operational value creation it can achieve now is to add subscribers and that takes money for marketing and subscriber acquisition costs, money its shareholders may be understandably stingy to provide. The greatest value creation now may come from consolidation of ATC spectrum versus operational performance. Having 20

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MHz of lower 48 spectrum is great, but having 40 MHz is a whole lot better, especially in the eyes of a prospective telecomm acquirer. DBSD has been given a stay of execution by its bankruptcy judge, keeping senior debt (e.g. Echostar) in place based on the hypothetical value of the company's spectrum, but converting junior debt into a majority of the company's equity. We suspect any hopes of raising appreciable amounts of new equity for DBSD must be slim given an already crowded MSS market and with Globalstar rescued, TerreStar launched and SkyTerra soon to be. DBSD's best bet is clearly to negotiate a merger with TerreStar. This seems to be a case of $1 + 1 = 3$. Whereas the two 1's on a standalone basis may, over time, become fractions.

6. **SkyTerra / Inmarsat:** And why should the S-band players have all the fun? An eventual merger of Inmarsat and SkyTerra also makes great sense for many of the same reasons and with Harbinger holding major stakes in both, perhaps an inevitability (assuming regulatory hurdles can be met). You also have Inmarsat coming off a very good 2009 with record revenues and strong cash flows, but facing an increasingly challenging maritime market with Ku-band and C-band VSAT type broadband services starting to penetrate major shipping fleets, plus Iridium nipping at their heels for many voice and data applications, especially near the poles.
7. **An ATC Exit:** While the exit of an ATC company to a major Telco has seemed like the elusive Holy Grail of the MSS industry for many years, the combinations mentioned above could hasten such an exit. Whether both transactions are likely to occur in a 12-month time frame is doubtful, but by no means impossible. To us, the acquisition of an ATC company has always lacked urgency among the likely buyers given serious competing uses of capital and the presence of other undeveloped spectrum holdings (see Spectrum... article herein). However, there has always been the potential of a domino effect if one Teleco sought to buy up ATC spectrum thereby forcing others to shift their focus or forever lose it. Seeing 40 MHz of 48-state coverage go to a competitor is not an event likely to go unchallenged. While there are several entities that might want such spectrum, we believe the most advantageous combination would be T-Mobile USA acquiring an S-band combination of TerreStar

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and DBSD. T-Mobile USA has far less spectrum in the 48 states than Verizon, AT&T or Sprint/Clearwire.

8. **Liberty Media / Sirius XM:** Although we like to claim Sirius XM as a satellite company, it is really a media company first and could benefit greatly from deeper pockets and far more patient equity to exploit its media content and technology across multiple delivery infrastructures and geographies. We are just not sure the public equity markets will provide substantial new capital to satellite radio given past volatility and a very cloudy competitive landscape driven by the increasing availability of mobile broadband services. Still, subscriber growth has been impressive despite declining car sales and profitability has improved. Perhaps this operational strength is sufficient to attract a major media company like Liberty Media to acquire the business and make some long term investments to take it to the next level.

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9. **GE / ORBCOMM:** Full disclosure up front – we indirectly hold a small, approximately 10,000 share stake in ORBCOMM from an engagement many years ago, so perhaps this is just wishful thinking on our part. However, the merits of such an acquisition look very strong to us. First, the machine to machine (M2M) space is exploding. While the bulk of all services and revenues are generated terrestrially, a meaningful and rapidly growing amount require satellite connectivity. As the world becomes increasingly integrated and interconnected we would expect this trend to continue and maybe even accelerate. There are only four satellite companies providing satellite M2M connectivity on a global or near global basis: Iridium, Globalstar, Inmarsat and ORBCOMM. We doubt if Globalstar is in a financial position to acquire ORBCOMM or if it even desires to do so. Iridium recently announced a relationship with SkyBitz, so it may have chosen its partner already. ORBCOMM seems more than capable of surviving and growing on a stand-alone basis and has done an impressive job financing its next generation fleet, but we can not help but think a deep pocketed strategic acquirer with a global footprint would allow the company to more rapidly penetrate often challenging international markets (e.g. China, India, Brazil). Perhaps the biggest and most strategic of these would be General Electric, which is already an ORBCOMM shareholder and a major value-added reseller and customer

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through its construction equipment business and potentially its railcar leasing business.

10. **AT&T / DISH:** This transaction can be defined by three issues (from the AT&T perspective): Why bother with a deal, why DISH (vs. DirecTV), and why now? Let's consider them in turn. Considering the first issue, AT&T's U-verse service is limited by using copper for the last mile, and as such is harder and more expensive to deploy in rural areas – so to maximize its benefit from nationwide branding AT&T needs a rural solution. Furthermore, as highlighted by recent programming content disputes, AT&T needs scale in video to negotiate effectively with providers. So they benefit from doing a deal. Why DISH? Two reasons – with DISH you get only what you need – the video transmission business with key spectrum and satellite assets, leaving less critical infrastructure at EchoStar. And, you get it for less money – DISH is less than half the price of DTV despite having nearly as many subscribers. Finally, DISH is strongest in the same rural areas where AT&T is weakest. Of course all of these facts have been true for a while, so why this year? Partially because AT&T's switch from marketing the DISH service to DirecTV has reduced the valuation multiple of DISH versus DirecTV. As such, Ma Bell could have more leverage in negotiating a purchase with DISH versus paying a merger control premium on top of the already higher valued DirecTV stock. In addition, because DISH's affiliate Echostar has substantial non-DBS spectrum holdings that AT&T could use (see the article elsewhere in this issue) and that could be thrown into the deal. And finally, partially because DISH in recent years has transitioned from a rapidly growing company that uses cash into a mature cash cow, that wouldn't put any additional strain on AT&T's finances.

AT&T needs scale
in video to
negotiate
effectively with
providers ...



SPECIALISTS IN SATELLITE, TELECOM AND AEROSPACE INVESTMENT BANKING

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