

Executive Comments

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Biography:

Education: Dipl.-Ingenieur at Technical University Berlin(TUB), Doctor degree at TUB
1967 - 1971 **German Space Agency**, Planning and preparation of medium term space programmes. Manager for the development of cryogenic technologies.
1972 **ELDO** – European Launcher Development Organization, Paris, France
Developing cryogenic structures for the future Europa-III-Rocket
1973 – 1980 **CNES** – Centre National d' Etudes Spatiales, Paris, France
Member of the Ariane development project team. Developed the cryogenic Tanks for the third stage and fairings for the Ariane-1-Launch Vehicle
1980 – 1999 Served **ARIANESPACE** as Senior VP. Developed commercial activities of company, including commercial policies, customer relations and services, international relations and cooperation. Participated in creation of **STARSEM**, a joint venture company to operate Soyouz. Member of STASEM board.
Chairman of **Arianespace Inc**, United States affiliate company.
Created **enerjy. co** as strategic consultancy company and serves as professor for space operations and planning at the **Berlin Technical University**, Institute for Space and Aeronautics.

Honors and memberships:

Member of German Aerospace Society (DGLR)
Member of German Society for Foreign Affairs (DGAP)
Member of French Academy for Aeronautics and Space (ANAE)
Chevalier de la Legion d'Honneur
Chevalier de l'Ordre National du Merite,.

VALUE GROWTH?

It is no scoop that satellite telecommunications have become an essential part of our daily lives over the last 40 years.

On international level and after many changes we found truly global players for the distribution of data and video to fixed and mobile users. We were enthusiastic when deregulation helped them to come into play, we admired Rene Anselmo and his initiatives to make satellite operators more commercial.

Last year the world were surprised by a rush of Private Equity companies (PE) acquiring global operators: one after the other fell into their hands, starting with Inmarsat in December 2003, followed by New Skies in June 2004, the already publicly traded Panamsat in August and finally Intelsat in October.

Why were these PE's so interested in investing into satellite operators and what will the PE's finally do with them? However the small commercial satellite world seemed to be happy. Big and prestigious equity investors found them worthwhile putting money on the line, big money so it seemed! About 12 billion \$ were committed for the big four.

I was stunned to learn that the debate around those acquisitions was not how to make the companies grow again but instead how to exit quickly with the best possible gain. A year has passed since and those who might remember now noticed the exit strategies indeed!

We will have to evaluate the likely impact on our industry and perhaps learn something?

Let's look at the PE wisdom with the help of two examples:

News Skies went first and successfully to IPO in late 2000. It was a brain child of what the US-Congress understood of privatisation: Take a part of Intelsat assets, create a new company, take the same old owners as shareholders of the new one and let them go to work. An almost impossible task was finally well done and New Skies could proudly report that even in difficult times, the company produced cash and more importantly had no debt! And this despite tense economical pressure and difficult markets. So it happened that the company after having refreshed some capacity in orbit by launching two new satellites in 2002, then operated a total of five and sailed along quite uneventfully. New Skies needed to grow that was certain. A new satellite was already on order. It came differently!

The rush on the "space gold mines" came - we did perhaps not know that those satellite companies were "gold mines" - and PE acquired New Skies for a price slightly above publicly traded stock value.

Everything else what now follows is although financially not necessarily economically sound!

First, the company disappears from the public exchange. Your shares are bought and cancelled! You go home with 7.96 \$. Remember, you paid 9 \$ at introduction!

The new owners acquire generously for 959 million \$ the company but brought in only 163 million \$ in equity. The rest was paid for through fresh debt.

Second, no later than six months after the acquisition, the initially debt free company shows through divers actions a total of 745 M\$ in aggregate debt.

Third, chase the cash! The only new satellite on order at Boeing is renegotiated such that Boeing repays all the moneys received to New Skies. A total of 168 million \$ returns, of which most except 30 million \$ go into the hands of the new owners.

The new satellite is still likely to come, but this time, the company will have to pay for it after its launch. It may not be able to use its capacity of service for earning fresh cash, but may just operate to pay debt whereas the financial wizards will be gone at that time. A hefty dividend was paid as well. Before the rush no dividends were ever paid!

Finally the company reappeared in public through a public offering, successfully concluded in May 2005. It is the same company, with same management and same number of satellites.

Initial valuation was about 950 million \$ now, after the new IPO, the company was worth about 640 million \$.

What was the advantage for the buyer? Money has been made fast and taken out. Perhaps even long term interest payments secured through long term debt, fast money through fees, dividends and the public offering!

And what about the future of the company? There was hope that it is acquired to allow quick exit for the PE, but a first attempt failed. They will however not give up selling it!

Panamsat got into the maelstrom as well. The gold fever swept into it in August 2004. Even more dramatically took PE the fast speed of exiting: Sold to Intelsat a year after!

Panamsat, a great company but neglected by management since the Anselmo family quit and GM/Hughes took over, was sold to PE for 23.5 \$ per share and exited the stock exchange! The company was valued at about 3.5 billion \$. Long term debt was 1 billion \$. Again, PE offered a portion of the company nine months after through IPO for 18 \$ a share and floated 50 million shares from a total authorized of 122 million. Therefore one might conclude that the new company, a year after its acquisition by PE, was valued about 2.2 billion \$.

No wonder! It had now 2.9 billion \$ debt, almost three times more than initially. The best however was still to come: Freshly introduced as a public company (again!) it ended up in the hands of Intelsat, another giant of the international satellite operators family and traditional competitor of Panamsat. What did both have in common now? Both were owned by PE companies!

The rush here ended for the PE's with 230 million \$ cash dividends and the sale of their part of the shares to Intelsat which we value at approximately 1.8 billion \$ - against an initial equity participation of 550 million!

The small investor could just look at a saddening story of similar kind. Invest, never make any money, potentially loose some, get barely any dividends and finally be kicked of the stock exchange twice.

Did somebody say value added?

Those who work for the companies might ask what will happen to their jobs?

Those who produce proudly satellites and other equipment for operators might ask what kind of companies they have in front of them once they go through the hands of PE and whether they will ever be able to pay again for the hardware they need? A very serious question indeed!

The Boeing case seems to be an interesting example of what can happen as well to manufacturers. Not just because Boeing might have made some mistakes as supplier, but because I believe the new owners went that avenue on purpose, as part of their culture. Take as fast as possible all wealth out of the company, leave it operating highly leveraged and go away as fast as you can.

Will these satellite operators now be able to support new capital expenditures? Fresh bank debt is most unlikely now! Will the manufacturers perhaps be called in? If so, the long awaited manufacturer's consolidation will come through the back door then, as only those will sell satellites that can afford it on their balance sheet in the future!

But over and above that we should reflect on how to protect the satellite telecommunications value chain and avoid the short term financial manoeuvres and definitely favour long term and stable growth! For that we need imaginative and dynamic leaders in the operators industry!

However, the unintended upside could be that the market, served by heavily loaded operators and little flexible as they may become, will offer new opportunities for young and imaginative entrepreneurs or offer a chance to heretofore smaller regional operators. Perhaps the barriers for entry are not that high any more?

In any event, we live interesting times!