Chris Quilty
chris@quiltyanalytics.com
Justin Cadman
justin@quiltyanalytics.com

Industry Brief

OneWeb Chapter II; New Owners, a New Mission?

Following weeks of heated speculation that included a touch of geopolitical intrigue, OneWeb Global Limited ("OneWeb") secured a buyer and announced on July 3rd, 2020 its plan to be acquired by BidCo 100 Limited ("BidCo") – a consortium comprised of Her Majesty's Government through the United Kingdom Secretary of State for Business, Energy and Industrial Strategy ("U.K. HMG") and Bharti Global Limited ("Bharti"). The sale plan remains subject to approvals, including court confirmation. And, while OneWeb will quickly move to resume operations, its formal reemergence from Chapter 11 bankruptcy protection is still several months away.

SALE PROCESS UPDATE

By the time of its non-binding proposal deadline on May 4th, OneWeb had received 14 indications of interest. OneWeb and its advisors subsequently engaged with a subset of these (and other) interested parties in a due diligence process during May and June. As described in our May 17th research note, "**OneWeb Bankruptcy Takes a Curious Turn**," there was growing interest in the OneWeb process (directly and indirectly) by State-backed actors and increasing concern on both sides of the Atlantic that OneWeb might fall into Chinese state-influenced hands.

On June 24th, with OneWeb's final bid deadline fast-approaching, the United States sent a clear warning message to Chinese bidders, filing a notice that a transaction "may be subject to review by [CFIUS] and the Federal Communications Commission ('FCC'), and may be referred to [Team Telecom] … for national security and law enforcement recommendations, which could affect the ability of the parties to complete the transactions, the timing of their completion, and/or their terms."

There were three final bid submissions on June 26th, none of which at the time technically constituted a qualified bid (as defined). OneWeb and its advisors continued working with these three suitors and other interested parties and, during that time, received an updated bid from BidCo. It quickly became clear that BidCo's proposal was meaningfully superior to the rival bids.

On July 2nd, a OneWeb Board meeting was held during which BidCo's proposal was selected as the best and highest bid, subject to certain modifications, which BidCo agreed to. With the outcome a fait accompli, the Board canceled the formal auction process and approved the BidCo offer. On July 10th, an important (but perhaps anticlimactic) bankruptcy hearing is scheduled for the court to approve BidCo's Plan Support Agreement ("PSA") and certain amendments to the Debtor-in-Possession (DIP) facility. Once complete, BidCo should have a clear path to securing the assets over the coming months assuming there are no unexpected roadblocks thrown into its pathway.

TRANSACTION TERMS

U.K. HMG and Bharti have each committed U.S. $500 million in capital for BidCo to finance OneWeb, up to an aggregate capital commitment of $1.0 billion. Their investments into BidCo may be made in the form of equity and/or debt securities. And, while the operating agreement of BidCo has not been made public, we understand that U.K. HMG may have certain control rights beyond those that would be implied by a 50.00% share of the capital commitment.

The structure of the BidCo investment is as follows:

- Up to $110 million in interim financing, through an amendment to the existing OneWeb Debtor-in-Possession credit facility, whereby BidCo will assume future DIP funding commitments from the existing DIP lenders ($45 million) and will fund new DIP lending commitments ($65 million)
- $150 million in cash consideration, the vast majority of which will be used to repay the existing DIP lenders (including roll-up amounts) as well as to satisfy certain other claims
- $740 million in new financing (i.e., $850 million less the amount of the $110 million interim financing) will be used to pay contract cure costs, pay other administrative costs and, most importantly, to fund OneWeb's go-forward business plan. Of the $740 million, we estimate that the amount of "new" funding to advance OneWeb's go-forward plan following its emergence from bankruptcy totals ~$640 million, as illustrated in the Sources & Uses table below.

Where does the money go? We very roughly estimate that the BidCo investment funds: (1) $150 million of cash consideration to the OneWeb creditors, (2) ~$110 million to fund OpEx and CapEx costs through the balance of OneWeb's time under bankruptcy protection, (3) ~$640 million toward OneWeb's business plan following its emergence from bankruptcy, and (4) ~$100 million to pay various costs, fees, and expenses (including cure costs for the assumed contracts).

BidCo – Estimate of Committed Transaction Sources and Expected Uses of Cash

Sources of Committed Cash		Estimated Uses of Cash from BidCo	
Bharti Global Limited	$500	Assumption of existing DIP commitments	$45
U.K. HMG	500	New money DIP commitments	65
		Interim financing subtotal	110
		Repay original lenders' DIP principal & interest	32
		Roll-up DIP derived value - repayment	96
		Other creditor claims paid from cash	23
		Cash consideration to creditors	150
		QA estimate of assumed contract cure costs	75
		Administrative claims (capped amount)	26
		Funding for go-forward (post-Ch.11) plan	639
		New funding subtotal	740
Total Sources Committed	$1,000	Total Uses of Proceeds	$1,000

Source: Filings, Quilty Analytics estimates

OneWeb's former senior secured noteholders (**Softbank** being, by far, the largest) held approximately $1.6 billion in 12.5% Senior Secured Notes just prior to the bankruptcy. In addition, on a post-petition basis, Softbank and **Grupo Elektra** funded approximately $30 million in new DIP financing up to this point (and before accounting for the roll-up). The secured creditors will also get $100 million in notional value of equity in BidCo, giving them a pro forma equity interest of 9% in the new company.

We expect OneWeb's former equity holders and many of its unsecured creditors to be wiped out. Counting their cash proceeds and the notional value of their equity received, we estimate that the all-in recovery for OneWeb's secured creditors is roughly ~15%. While not a great recovery, it still a better outcome than past LEO bankruptcies. In fact, as shown below, the $250 million in value payable to existing OneWeb stakeholders is almost an order-of-magnitude better outcome than certain other "1st Gen" LEO bankruptcies

Historical Comparison – OneWeb vs. Prior LEO Bankruptcies

1st Gen

Company	1st Bankruptcy Filing	Sats in Service at Time of Filing	System Investment	Lead Investor(s)
Iridium	Aug 1999	66	$5+ B	Motorola
Orbcomm	Sep 2000	30	$0.8 B	Orbital Sciences, Teleglobe
Globalstar	Feb 2002	48	$4.3 B	Loral, Qualcomm
OneWeb	Mar 2020	74	$3.4 B	Softbank

2nd Gen

Company	Amount of Purchase	Chpt 11 Price as % of Orig. Invest.	Restructuring Completed	Main Buyer(s) Post Chapter 11
Iridium	$25 M*	~1%	Dec 2000	Iridium Satellite LLC (Dan Colussy)
Orbcomm	$16 M	2%	2001	Pacific Corp Group, Ridgewood Satellite, OHB
Globalstar	$43 M	1%	Apr 2004	Thermo Capital Partners
OneWeb	$250 M**	7%	4Q20 (Est)	UK Government & Bharti Global

* Plus an undisclosed amount new investors agreed to make after purchase.
** Assumed equal to $150 million in cash consideration and $100 million notional equity consideration
Source: Quilty Analytics.

The outcome is also almost a best-case scenario for OneWeb as a company, as discussed below. The BidCo consortium seeks to continue development of a OneWeb-based satellite network, giving the company a second lease on life and the possibility of achieving longer-term success. Key near-term milestones on the road to recovery include:

Proposed Transaction Timetable – "Outside" Dates

Actual/Scheduled:	Date
Debtor's filing of DIP amendment motion	7/6/2020
Bankruptcy court approving PSA and DIP amendment motion	7/10/2020
Target "Outside" Dates:	**Approx Date**
BK court approval of disclosure schedules	8/29/2020
BK court confirmation order	10/13/2020
Sale substantially completed (assuming no regulatory delays)	11/27/2020

Source: OneWeb Bankruptcy Filings, Quilty Analytics.

KEY INDUSTRY TAKEAWAYS

OneWeb's Chapter 11 rescue undoubtedly prompted sighs of relief amongst the company's many vendors and partners, while OneWeb's competitors most likely cursed the improbable turn of events. That said, OneWeb's new owners have not yet fully-disclosed their future intentions, thus complicating the exercise of identifying definitive industry winners and losers. But that doesn't mean we can't try. Our first blush takeaways for high profile related parties include:

SpaceX

- Overall, a marginal negative.
- OneWeb's rescue prevents SpaceX from inheriting the company's priority rights in the Ku-band spectrum.
- U.K. ownership of OneWeb is awkward for SpaceX. The U.K. is now both a competitor and indirectly a regulator (via OneWeb's filing with Ofcom).
- OneWeb's new co-owner, Bharti, commands a strong distribution presence in India, Africa, and other parts of the developing world, thus potentially complicating SpaceX's path to success in these markets.
- Life goes on, and Mars awaits.

Telesat

- Overall negative.
- Contrary to industry rumors, we do not believe Telesat was a serious bidder in the OneWeb bankruptcy process. Telesat remains dutifully focused on perfecting its own LEO business model.
- OneWeb, like Telesat, aims to address the enterprise connectivity market opportunity.
- Funding Telesat LEO could be more challenging due to the perception of increased competition.
- Ongoing uncertainty regarding OneWeb's intentions could further-stall and already delayed program and Telesat's ability to start of service in 2022
- On a positive note, the industry the supply chain, upon which Telesat is also dependent, should get a shot in the arm from restarted OneWeb production.

Amazon

- No impact.
- Amazon is building a Ka-band system, and we believe it has little interest in OneWeb's spectrum or system design.
- Vertically-integrated design and production strategy leaves Amazon isolated from industry supply chain issues.

OneWeb Vendors (Gen1)

- Near-term positive for legacy Gen1 vendors, including **EchoStar**, **RUAG**, **SolAero**, and **Teledyne**.
- New OneWeb investors will likely make partial cure payments against past claims.
- OneWeb must restart Gen1 production ASAP: (1) delays are costly at $10-15+ million dollars per month in hard costs, not to mention opportunity cost, and (2) looming regulatory bring-into-use (BIU) milestones.
- Renegotiation with Gen1 vendors will occur. OneWeb will want an immediate restart of production coupled with more future flexibility (i.e., to move production to the U.K. over time). On the other hand, some of OneWeb's systems/subsystems are dependent on one or more critical, sole-source vendors, without which production cannot resume. Some of these vendors may be busy with other program work that they have taken on over the last several months, and some may see risk in OneWeb's long-

term production facility migration plans. The complex interplay of these factors may drive some increase in near-term production costs.
- Vendors must weigh the benefits of near-term pricing leverage against the prospects for long-term (i.e., Gen2) production contracts that will be migrating from Florida to the U.K.

Airbus

- Near-and long-term benefits.
- Immediate benefit from restarting Gen1 production in Florida, but re-hiring and training new employees could be time-consuming and/or costly.
- Restored U.S. production capability provides a platform for targeting U.S. government programs (i.e., DARPA Blackjack and other future proliferated architecture defense programs).
- Airbus becomes the hands-down favorite to establish OneWeb production in the U.K. via its existing subsidiaries in England or through the establishment of a new facility.

Maxar

- Mixed outcome.
- Airbus likely eliminated as a bidder for the Telesat LEO program, setting up a head-to-head competition between Maxar and **Thales Alenia Space**.
- On balance, OneWeb's rescue is negative for the Telesat LEO program, thereby diminishing the prospects that the Telesat LEO program will move forward.
- The prospect of losing OneWeb manufacturing (from Florida to the U.K.) could prompt increased financial support (via the U.S. Ex-Im Bank) for a Maxar/Telesat LEO bid.

U.S. Government

- Overall positive.
- OneWeb remains in friendly hands, and China is blocked from acquiring a premier, global spectrum position that could be used for military efforts and further promotion of its space industrial base.
- Contingent on OneWeb's go-forward plans, the U.S. DoD could benefit from OneWeb's ability to provide arctic communications and/or GPS augmentation services.

WHAT COMES NEXT?

In the coming days, the U.S. Bankruptcy Court for the Southern District of New York should approve OneWeb's PSA and DIP amendment motions, putting OneWeb on a clear path toward bankruptcy exit in a matter of months. Champagne toasts, while clearly in order, will not have the luxury of allowing the bubbles to settle due to a furious workload of strategic, political, technical, financial, and operational decisions that must be navigated in order to drive a OneWeb (Act II) success. Amongst the hurdles that await:

- **Political.** The OneWeb acquisition was not universally supported in the U.K., as hinted at by recent statements of Mark Garnier, a member of Parliament, with respect to the U.K. Space Agency. Any future infighting could undermine the success of the effort. Will U.K. ownership of OneWeb help or hurt the company's efforts in the U.S. (DoD contract), Russia (landing rights), and India (preferred distribution)? Will it have an edge through government-to-government ("G2G") sales efforts?
- **Technical.** Which features can be accommodated within the constrained design of a Gen1 bus? We expect that most of the new OneWeb capabilities (e.g., GNSS augmentation) will appear in a Gen2 design that is manufactured in future U.K. facilities. What features will be prioritized for the OneWeb Gen2 design?

- **Financial.** Assuming that the BidCo transaction provides for post-bankruptcy funding of ~$640 million (see our analysis above), how will OneWeb fund the balance of its capex requirements that we have previously estimated at ~$800 million to achieve the next regulatory milestone (FCC, 360 satellites by June 2023) or $1.7 billion to complete the full Gen1 constellation? However, we expect that Gen1 ambitions will be scaled back in order to accelerate Gen2 efforts. The details of Gen2 and the U.K. production pivot will heavily influence the range of feasible financing alternatives.
- **Operational.** Most of the staff of OneWeb and of the Airbus-OneWeb Satellites ("AOS") joint venture were let go earlier this spring, and it will take time to fully-rebuild the workforce. How quickly can OneWeb ramp Gen1 production to meet regulatory milestones? Will the threat of a future U.K. move deter the return of some Gen1 vendors? Likewise, does OneWeb rebuild its operational/technical staff in the U.S., the U.K., or some combination?
- **Competition.** While the OneWeb process outcome could stifle Telesat's nascent LEO effort, U.K./Bharti ownership of OneWeb is unlikely to deter Amazon and SpaceX, both of which inhabit an alternative financial universe. The competitive dynamics will be highly unusual and almost surreal. In one corner, one of the world's largest tech giants, Amazon. In another, SpaceX, led by one of the world's most innovative entrepreneurs. And now entering the ring, a duo that teams a great-power government with the globe's #2 mobile operator by subscribers.

We will tackle these topics in conjunction with our LEO Broadband update in our forthcoming subscriber-only **2Q20 Satcom Quarterly Report**, to be released in early August. Parties interested in receiving this report or subscribing to Quilty Analytics' ongoing research service should send their inquiry to: info@quiltyanalytics.com.

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