Industry Brief

Viasat + Inmarsat: One-Off or Catalyst for Consolidation?

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Viasat announced Monday that it was acquiring Inmarsat in a blockbuster $7.3 billion deal that will have far-reaching ramifications for both companies and the industry at large. For the sake of brevity, we will not re-hash the transaction details, strategic rationale, and projected financial benefits, all of which are well documented in Viasat's press release, investor presentation, and numerous regulatory filings.

Instead, this note attempts to frame and summarize some of the key financial, technical, and competitive issues that are likely to play a determinative role in the success (or failure) of the transaction. We may revise/reverse some of our conclusions upon further analysis or reflection.

Basic Transaction Details

- Viasat is acquiring Inmarsat in a cash/stock deal valued at $7.3 billion, including assumed debt of $3.4 billion.
- The acquisition price represents a ~10x multiple on CY 2021 projected EBITDA and a ~25% premium to Inmarsat's "take-private" valuation of $5.7 billion roughly two years ago.
- The acquisition is expected to close in the second half of calendar 2022, subject to regulatory approval, resulting in a pro forma net leverage of ~5x LTM Adjusted EBITDA.

What We Like

- **Operational synergies.** The two companies have minimal overlap with respect to services, applications, and customers. Even in areas like IFC (In-Flight Connectivity), where they ostensibly compete, direct head-to-head competition has been limited due to regional coverage patterns and capacity constraints.
- **Ka-band powerhouse.** Viasat and Inmarsat are the only two companies today actively deploying a global Ka-band network. By joining forces, Viasat and Inmarsat will operate a fleet of 10 GEO Ka-band satellites (and a total of 19, including other frequencies), creating even greater separation from the competitive field. Viasat and Inmarsat collectively have 10 more Ka-band satellites launching over the next three years — more than any other GEO operator by a longshot. Their fleets complement each other, with Inmarsat providing a blanket of thin global coverage and Viasat providing dense capacity overlays in high-ARPU regions.

Inmarsat-Viasat Satellites Under Construction, Listed in Order of Projected Launch Date

Future GEOs	Operator	Satellite (Manufacturer(s)/Launcher)	Projected Launch Date	HTS?	Planned TXPs Ku-band	Planned TXPs C-band	Ka-band on Sat?
1	Inmarsat	**Inmarsat-6 F1** (Airbus-MHI)	Dec 2021	HTS	Both L-band and Ka-band services		
2	Viasat	**ViaSat-3** (Boeing-Falcon Heavy)	2022 Q2	HTS	No	No	Yes
3	Inmarsat	**Inmarsat-6 F2** (Airbus-SpaceX-TBD)	2022?	HTS	Both L-band and Ka-band services		
4	Viasat	**ViaSat-3** (Boeing-TBD)	2022?	HTS	No	No	Yes
5	Inmarsat	**Inmarsat GX7** (Airbus-TBD)	2023?	HTS	No	No	Yes
6	Inmarsat	**Inmarsat GX8** (Airbus-TBD)	2023?	HTS	No	No	Yes
7	Viasat	**ViaSat-3** (Boeing-TBD)	2023?	HTS	0	0	Yes
8	Inmarsat	**Inmarsat GX9** (Airbus-TBD)	2023?	HTS	No	No	Yes

+Payloads on Norway's Arctic Satellite Broadband Mission — a two-satellite system being built by Northrop Grumman designed to operate in highly elliptical orbits over the Arctic. The satellites are scheduled to launch late in 2022 on SpaceX Falcon 9 and Inmarsat will have a payload on each.

- **Strength in mobility.** Unlike many peer satellite operators, Viasat/Inmarsat are veterans in the mobility market, boasting decades of experience in satellite services to maritime, land, and aeronautical platforms. Both companies also share a strong legacy in government mobility solutions.
- **Positioned to win in aero.** While both companies are currently capacity constrained in the aero market, their 10 satellites under construction — representing more than four Tbps of globally distributed Ka-band capacity — are expected to offer a major selling point for airlines that have historically struggled to secure needed satellite capacity in key high-traffic areas.
- **Capex cost savings.** Both operators were preparing to build large ground station networks to support their future satellite plans. By combining, they can build fewer stations and aggregate facilities at the same geographic sites, thus reducing ground infrastructure costs (real estate, fiber, power, etc.). It is apparently too late to cancel the Inmarsat-7/8/9 satellites, but longer-term, Viasat can reduce satellite capex spending by consolidating future capacity requirements onto the Viasat-4 constellation.

POSSIBLE CHALLENGES AHEAD

- **Where's the LEO?** The acquisition joins two GEO powerhouses without satisfying customers' growing desires for hybrid network solutions (i.e., LEO or MEO). Viasat has reluctantly explored LEO/MEO systems, and Inmarsat only recently unveiled a vague LEO constellation that wouldn't launch until around 2026. Any near-term efforts to accelerate a LEO/MEO program would need to overcome both financing and regulatory licensing headwinds, with significant investment in such a system unlikely until post-closing (i.e., late 2022).
- **Max leverage.** While not unmanageable, the acquisition will push Viasat's peak leverage to ~5.5x, which could constrain its ability to make near-term investments in sales, operations, or infrastructure. To help reduce pro forma leverage and to better direct its resources toward its main priorities, we suspect Viasat may consider a sale of some non-core assets if sufficient value can be realized.
- **Channel surfing.** Neither company is considered "channel-friendly" in its distribution strategy, and the combination has the potential to amplify this dynamic. An exodus of channel partners in the aviation market is probably manageable given the relatively high customer concentration in the aviation sector (and lack of alternatives) but would be problematic in the highly fragmented maritime market where Inmarsat is dependent on channel partners and where it has already experienced a multi-year trend of customer attrition.

- **Stovepipe meets stovepipe.** Despite management assurances to the contrary, stitching together Viasat's and Inmarsat's proprietary Ka-band systems will take significant development effort, time, and cost. Capex investments in modems, antennas, software development, and the ground network undoubtedly will cost hundreds of millions and take many years to implement. Effectively communicating its technology roadmap to customers will be critical; otherwise, customers may hesitate to make strategic sourcing decisions based on the companies' current network architectures.
- **Skynet teammates.** Inmarsat and Viasat are on separate teams competing to participate in the British government's next flagship military satellite communications program, Skynet-6. For more than a year, Viasat has been working with **BT** and **NSSLGlobal**, while Inmarsat joined forces with British contractor **Serco**, IT specialist **CGI UK**, and **Lockheed Martin UK**. The Viasat/Inmarsat merger will likely cause a reshuffling of Skynet-6 teams before the British government makes a multibillion-dollar award expected in 2022.

More Consolidation on the Horizon?

Maybe yes, maybe no. Undoubtedly, the Viasat/Inmarsat transaction will prompt many boards and management teams to consider M&A strategies that can improve scale, diversify exposure (customer and end-market), and better position their companies to compete against a newly enlarged and emboldened competitor. That said, many historic barriers to consolidation still exist, including:

- **Geopolitics.** Satellite operators are prized possessions for their home countries, and national regulators are often unwilling to allow the redomiciling that comes with M&A. A prime example is when the Spanish government rebuffed French satellite operator **Eutelsat's** efforts to buy Madrid-based **Hispasat** in the mid-2010s. Even among close allies, operator mergers are difficult to execute. Viasat and Inmarsat understand the importance of the U.K. government's support for the deal, and government officials know they have considerable leverage in granting needed approvals. As an olive branch, Viasat pledged Nov. 8 to operate its Viasat-3 EMEA satellite from the U.K., ensuring continued investment in the country. We expect Viasat/Inmarsat to secure approvals in time, but commitments from the new company to maintain operations in the U.K or other concessions could delay closing and reduce operational synergies.
- **Shallow pockets.** Numerous M&A attempts in recent years have collapsed due to unfavorably low bids from prospective buyers. A few weeks ago, Eutelsat rejected an offer from Altice founder Patrick Drahi to acquire the company. Inmarsat rejected **EchoStar** twice in 2018. In 2016, British operator **Avanti** gave up its sale effort. **Measat** rebuffed solicitations in 2012 from **Arabsat.** In each case, the target company felt undervalued by its prospective buyer. Given steadily declining revenues for most major satellite operators, few have the financial strength at this time to execute major M&A moves.
- **Lingering uncertainty.** While major operators may feel compelled to act in response to the Viasat/Inmarsat tie-up, they are currently beset by massive technical and structural disruption impacting nearly every aspect of the industry from frequency bands (Ku, Ka, V/Q) to constellation design (LEO, MEO, or GEO) and distribution approach (direct or channel). Arguably, pulling the trigger too soon could steer a company directly into a brick wall.

We believe there are good reasons to like the Viasat/Inmarsat transaction, but it is important to note that the combination was precipitated by Inmarsat's private owners seeking a sale. Even those who highlight the transaction's advantages would be hard-pressed to say the timing is ideal from Viasat's perspective. Like many deals of this magnitude, there was momentum for closing on the main terms. But some key decisions (e.g., executive management post-deal) remained open as of the time of the merger announcement yesterday.

COMPETITIVE RESPONSES?

The Viasat/Inmarsat transaction will have significant implications across the satellite industry, potentially causing a realignment of partnerships from ground equipment providers through channel partners and satellite operators. In recent years, Inmarsat and Viasat had initiated a shift toward vertical integration – their tie-up is likely to reinforce views that partnership opportunities can yield competitive advantages. Exploring these future alignments is beyond the scope of this note, but we do have thoughts on satellite operators that are most likely to feel the effects of the Viasat/Inmarsat merger:

- **EchoStar.** Inmarsat twice-rejected acquisition bids from EchoStar in 2018 but did eventually partner with EchoStar on North American aeronautical connectivity in 2020. The aero service, called GX + North America, combined Inmarsat's Global Xpress network with EchoStar's Jupiter satellite network to provide higher bandwidth for airlines. Save for binding contract terms, we doubt this arrangement will survive once Viasat completes its merger with Inmarsat. Viasat is EchoStar's principal competitor in consumer broadband and is poised to compete more aggressively on mobility as well.
- **Eutelsat.** Prior to its recent investments in **OneWeb**, Eutelsat had exemplified the "wait and see" approach to dealing with the industry's technical/strategic uncertainty. Ironically, Eutelsat's strategic reticence was partially a byproduct of management's decision to partner with Viasat on the ill-fated KA-SAT satellite program, a decision that management came to regret and eventually unwound. As it stands today, Eutelsat has spread its bets across traditional FSS (Fixed Satellite Services) markets, VHTS (Very High Throughput) GEO satellites, LEO broadband, and even IoT (S-band "ELO" effort). We suspect Eutelsat will take another strategic pause before placing additional bets.
- **Intelsat.** As previously noted, Viasat's enhanced network resources will likely have strong appeal to aviation customers, thus presenting a direct challenge to **Intelsat's** $400 million bet on the aviation market (e.g., the 2020 acquisition of Gogo's commercial aviation business). Counterintuitively, the merger could boost Intelsat's standing as the "Viasat alternative." Intelsat is effectively the last major satellite operator defending its historical Ku-band architecture, including plans to add up to 10 more Ku-band GEO satellites and possibly a MEO constellation.
- **Iridium.** At face value, Viasat's aggressive promotion of the L-band spectrum is a ringing endorsement for **Iridium's** market position, while Viasat's efforts to capitalize on the IoT opportunity would appear to represent a direct affront to Iridium's growth prospect. That said, for reasons enumerated in the section below, we are dubious of Viasat's IoT claims, which are likely nonactionable for at least five years.
- **SES.** Thanks to its constellation of 20 MEO satellites, **SES** stands apart as the only other operator with a (nearly) global Ka-band footprint. For satcom users with large coverage needs in Ka-band, their options are: (1) Viasat/Inmarsat, (2) SES with its O3b constellation, or (3) an amalgamation of various regional satellite operators. O3b is differentiated by its lower latency, equatorial coverage, and lack of consumer broadband focus. SES will face steeper competition though from Viasat/Inmarsat in the cruise market, which Viasat management has identified as a priority for Viasat-3. Inmarsat's decades of maritime experience, along with significant new capacity from 10 satellites to be launched, will make the combined company a formidable challenger for SES-O3b.
- **Telesat.** In recent years, **Telesat** has made a distinct shift toward the Ka-band spectrum, including a handful of GEO HTS satellites and the company's long-touted Lightspeed LEO constellation. The Viasat/Inmarsat merger represents direct and enhanced competition for Telesat's targeted customer base in the enterprise sector and could slow some of Telesat's ongoing customer discussions. Lightspeed gives Telesat a distinct advantage for latency-sensitive applications, but Telesat's ability to

tout a "hybrid architecture" is mitigated by the capacity and geographic constraints of the company's GEO satellite fleet. Maybe that's an argument for partnering with regional GEO Ka-band operators?

SELECT END-MARKET/TECHNOLOGY CONSIDERATIONS

- **Aviation.** We estimate Viasat and Inmarsat together provide satellite broadband connectivity to 2,500-3,000 aircraft, making the combined entity comparable in size to Intelsat. The merger should significantly enhance Viasat's standing in the aviation market, as it will immediately give Viasat global coverage (something it lacks today) and unrivaled network density. In addition, the combination helps to alleviate "single point failure" concerns associated with Viasat's single-string Viasat-3 network design. On the other hand, successful execution will be challenging in the near term. Global airlines demand a decade-long technology roadmap, and neither Inmarsat nor Viasat will be able to commit just yet to their long-term integration pathway. Key impacted companies include **Anuvu**, Intelsat, and **Panasonic Avionics**.
- **Maritime.** Inmarsat fills a significant void in Viasat's end-market portfolio, immediately catapulting Viasat to the number one position in the maritime market with a large installed base (roughly 40% of Inmarsat's revenues) and a complementary portfolio of legacy L-band and high-speed Ka-band solutions. Under the right circumstances, the deal could benefit Inmarsat's maritime standing, giving it the ability to provide the industry's highest data rates at the most attractive cost. The onus will be on Viasat/Inmarsat to convince its maritime channel partners, including Marlink (which recently announced that a majority of its shares would be sold to a new owner, Providence Equity Partners), to remain committed to the combined company's maritime broadband platform given both companies' preference for vertical integration. Viasat management also highlighted the cruise market (a new area for Inmarsat and home turf for SES) as a future focus for Viasat-3. This would have been largely impossible for Viasat without acquiring a maritime expert (and RigNet, though billed as such, did not have sufficient scale). Key impacted companies include **KVH Industries**, **Marlink**, **SES**, and **Speedcast**.
- **IoT.** Inmarsat has participated in the IoT market for at least two decades, although primarily in a passive role through its partners (most notably, **Orbcomm**). Likewise, Viasat has dabbled in the IoT market for the better part of a decade (e.g., its LightSquared partnership in 2014) but only recently gained a meaningful toehold in the IoT market through its RigNet acquisition in April. Viasat management was surprisingly bullish on the IoT opportunity during its investor presentation but gave little clarity on how they will seek to leverage their expanded L-band portfolio. Undoubtedly, Viasat's experience with narrowband Link-16 services for the DoD will be a key area of focus, but unless Viasat commits to building an L-band LEO constellation, it will be inherently limited in its ability to serve the IoT market due to the "look angle" challenges associated with Inmarsat's GEO satellites. Key impacted companies include **Iridium**, **Orbcomm**, **Yahsat/Thuraya**, and **BAE Systems**.
- **Government.** Viasat and Inmarsat both have strong defense businesses, with Viasat benefiting from expertise in hardware and Inmarsat in providing networked services. While the U.S. government is leery of consolidation that reduces competition, we feel this won't be a factor here given the diversity of satellite operators serving the USG and the fact that Inmarsat is British-domiciled (Five Eyes partner). Viasat may be able to leverage Inmarsat's broader global government presence to win new defense customers abroad. The merger's impact on the U.K.'s multibillion-dollar Skynet-6 program (detailed above) is not immediately clear, but it certainly will be a topic for regulators to debate. Key impacted companies include **OneWeb**, **Intelsat**, **SES**, **Eutelsat**, and **Iridium**.
- **Consumer broadband.** Viasat has historically loaded its new satellites with residential broadband subscribers before diversifying to other markets. This approach works well for North America and potentially Europe but will be difficult in other regions with low ARPUs and limited logistics. Viasat

management discussed using Inmarsat's Global Xpress satellites to seed the market for overseas consumer broadband. Here we also believe Inmarsat's experience in global markets will benefit Viasat. Inmarsat's Global Xpress fleet has limited capacity for consumer broadband, and its architecture and+ cost-per-bit are not optimized for that end-market application. However, it can serve as a launching-off point for ViaSat-3 (and for Inmarsat's future reprogrammable satellites from Airbus). Key impacted companies include **EchoStar**, **Eutelsat**, **SpaceX**, and **Amazon**.

- **ATG networks.** For longtime observers of the satellite industry, it is difficult to ignore the irony of Viasat's newfound evangelism for Air-to-Ground (ATG) networks. The company spent years suing the European Union to block Inmarsat's use of S-band spectrum to build an ATG network in Europe. We believe Viasat's now-abandoned S-band spectrum claims were valid, but that is a moot point now. With the Inmarsat acquisition in process, Viasat has become a believer in ATG's usefulness for dense air traffic zones and low-latency applications. That said, it would take many years to build out a new ATG network in North America (or elsewhere), as the efforts of **Gogo** and **SmartSky Networks** can attest.

CONCLUSION

We view the combination of Viasat and Inmarsat as synergistic, but more challenging than outlined by company management teams. A complicated network integration, heavy regulatory scrutiny, and potential dissonance between corporate cultures will make for a lengthy subsumption of Inmarsat. We do expect the merger to be transformative for Viasat, and one that will rekindle industry interest in operator consolidation. Whether that enthusiasm can overcome longstanding barriers to M&A among satellite operators remains to be seen.

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