

INTELSAT'S

EPIC

WAGER

**Intelsat CEO Stephen Spengler  
on the fleet operator's  
big broadband bet**

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**Tory Bruno on ULA's \$800 million  
U.S. Air Force launch contract  
Why didn't Canada put up a fight  
for Com Dev?**

# Intelsat's



## Wager

**T**he Jan. 27 launch of the first of Intelsat's Epic high-throughput satellites was a much-needed piece of good news for Intelsat, a company whose historic and continued importance to the satellite telecommunications business cannot be overstated.

It is this importance that accounts for the nervousness with which satellite insiders — including Intelsat competitors — now talk about the company at industry gatherings. “What would happen if...?” is the general tone.

Lots of companies' stocks have seen rough weather of late, but Intelsat's stock and bonds have been particularly beaten up. The market capitalization given the company's equity nearly three years after its IPO befits a third-rank player, not an Intelsat.

Everyone knows the facts of the case: A slow-growth period for all fixed satellite service providers is forcing these companies to adopt new business models. Because of its history, Intelsat has had more of the heritage

point-to-point business to transition from than others, but this was always a manageable problem.

Intelsat is rather a victim of successive leveraged buyouts made when it seemed possible that a global footprint and growing emerging market demand for television and connectivity would enable the company to digest the formidable debt that accompanied the transactions.

That hypothesis is now being severely tested.

No one could have predicted the strength of the headwinds, but Stephen Spengler knew when he became Intelsat's chief executive in April 2015 that his tenure would be no day at the beach.

Nearly a year into the job, Spengler shows no sign of being overwhelmed by the turn of events — although his stock options are as far underwater as the rest of his team's.

In an interview, Spengler said he is well aware of the concerns of his stock and bond investors, and his owners. But he remains confident that around the next bend — already visible — is a business environment that will usher in a new era of growth enabled by Epic-class satellites.

Planes, trains, ships and millions of automobiles — all connected by satellite — are reason enough for optimism, he said.

And reason enough not to focus on the elephant in the room.

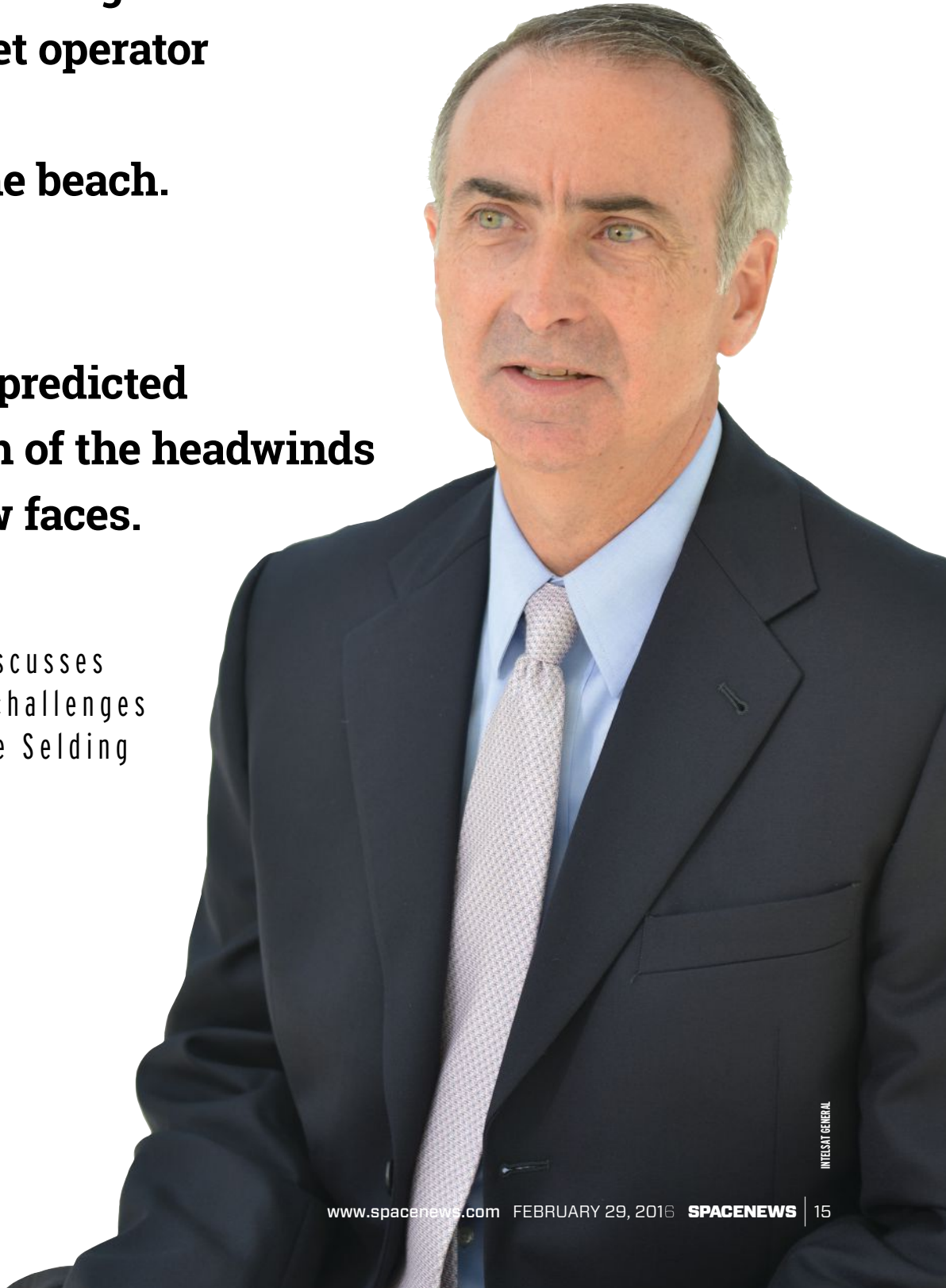
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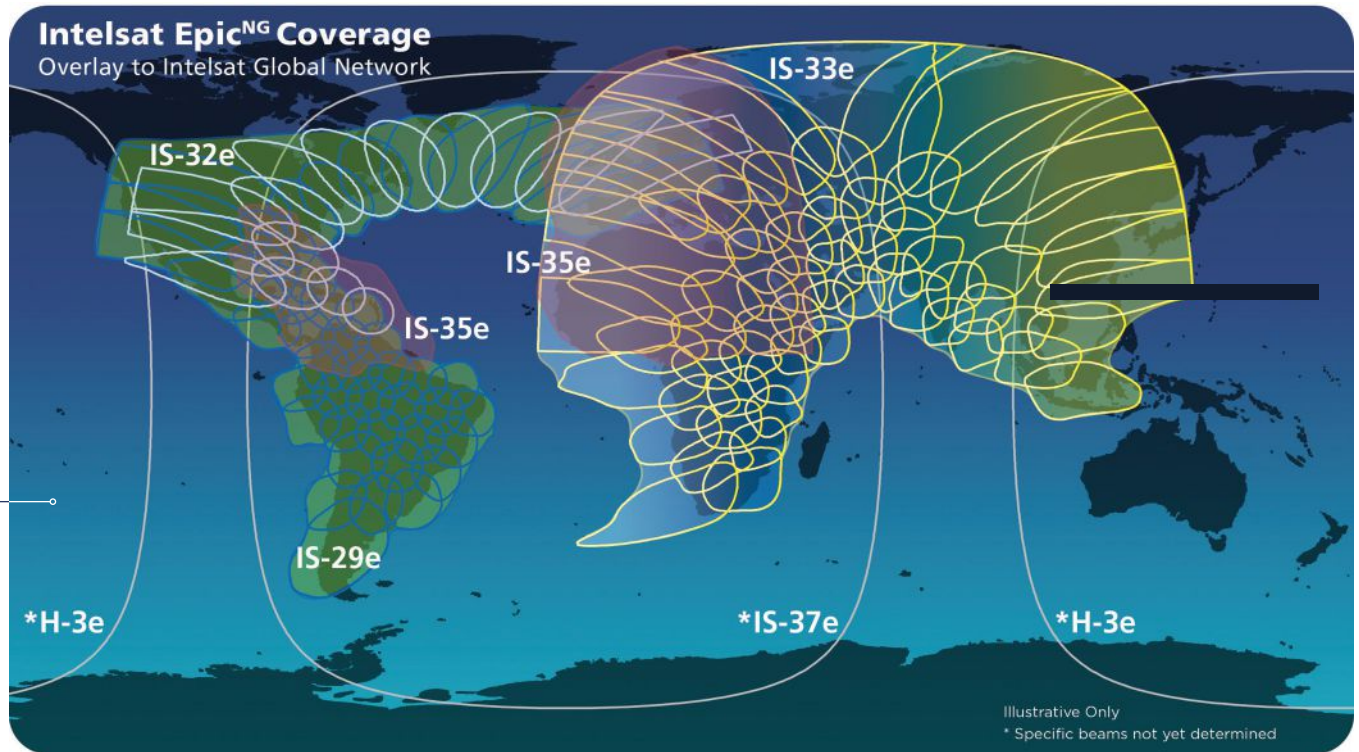
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**Stephen Spengler**  
**knew his tenure as CEO**  
**of the world's largest**  
**satellite fleet operator**  
**would be**  
**no day at the beach.**

**But no one**  
**could have predicted**  
**the strength of the headwinds**  
**Intelsat now faces.**

Intelsat CEO discusses  
his company's challenges  
with Peter B. de Selding





By late **2018**,  
**Intelsat** expects  
**6** to have  
**Epic** satellites  
 in orbit.

**LAUNCHED**

IS-29e Jan. 27

**STILL TO GO**

IS-33e Late 2016

IS-32e 2017

IS-35e 2017

IS-37e 2018

IS-H3e 2018

**Intelsat is a victim of successive leveraged buyouts made when it seemed possible that a global footprint and growing emerging market demand for TV and connectivity would enable the company to digest the formidable debt that accompanied the transactions.**

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**Is the new Epic satellite series crucial for Intelsat, a do-or-die situation?**

The question is whether high-throughput satellites is a turning point — a do or die for the broader satellite industry. There is explosive demand for broadband worldwide, for all kinds of applications — remote connectivity, corporate networks, mobility and government communications.

We have to think more broadly as an industry if we're going to compete for a bigger share of the pie in broadband or communications

in general. Epic is our strategy to address the opportunity.

It requires higher-performing satellites and also innovation on the ground to enable customers to expand. That relates to the ground investments we're making with antenna systems and the services we're building up around Epic.

**One of your big customers, Harris Cap-Rock, reports a sharp decline in demand for connectivity in the energy sector with the oil-price decline. It wants lower satellite bandwidth prices and uniform pricing worldwide, regardless of the type of satellite. Is that good news for you?**

Satellite pricing has to be better and is coming down. High-throughput satellites like Epic enable better economics for service providers.

But the satellite is just one component. We have developed IntelsatOne Flex, a wholesale managed service for service providers that provides the ability to have a global network across the entire Intelsat fleet, whether it be wide-beam or Epic.

Cruise ships move from region to region depending on the season. Enabling a service provider to move capacity to where the demand is, is really valuable to them. They'll use more capacity at any given time than if they were just buying a lease, where it's up to them to keep the capacity filled.

This is important. Service providers want global solutions and flexibility and to get the right economic performance in one package. It's in our interest to do this as economically as possible as we run the infrastructure for them so they can have control where they need it and let us have control in other parts where it's not as essential. We let them focus on the end customer — applications and service support to develop the new verticals.

**So you'll smooth out the difference between declining prices for your conventional satellites, and the lower-cost Epic capacity, by adding IntelsatOne Flex to the portfolio?**

Yes, the customer no longer has to worry about buying specific capacity on specific satellites with ground equipment for it. They can save a lot if they leverage our ground infrastructure.

Some customer networks are well suited for Epic, and for wide-beam satellites. Some can use inclined-orbit capacity on our old satellites. It all depends on traffic density and

customer requirements.

We take all that off their plate and offer network connectivity. So it's up to us to determine which satellites will be used and where to lay down capacity based on specific SLAs [service level agreements] with customers.

The large contract we announced in the third quarter — we didn't identify it — is going to use up to 20 satellites on our network. That goes far beyond Epic. IntelsatOne Flex capability incorporates the satellite and ground network in an integrated way.

**And this managed service compensates for the lower bandwidth prices you can charge?**

Correct, and other services are on top of that. We are not trying to get in front of our distribution partners. What we're doing is running the infrastructure for them. It's a very clear distinction. We're not going directly to the multinationals or airlines.

**Some service providers predict a fall-off in C-band demand by U.S. broadcasters. Are you seeing that?**

We don't agree with that assessment. The business is stable in North America. We're not seeing any customers reduce the number of channels they are distributing. The contracts on our network are not up for renewal near-term; they are further out. Some customers go from lower to higher compression for high-definition programming, and some are ceasing dual broadcasting to focus on MPEG-4 and HD.

So at the renewal point for some networks there was a downsizing. But we have not seen a decrease in channels under contract in

**“The question is whether high-throughput satellites is a turning point — a do or die for the broader satellite industry.”**

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**“We are not in a pre-Chapter 11 situation ... We are of course looking at every opportunity that makes sense strategically, and that is Guggenheim’s role.”**

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North America.

Programmers and broadcasters still get an overwhelming percentage of their revenue from linear distribution to cable head-ends or to their affiliates. That is not going away anytime soon, even if Over-The-Top is growing dramatically.

**You went to the Detroit Auto Show to see the Toyota research car with a Kymeta satellite antenna being developed with Intelsat support.**

Toyota has made a real commitment to the connected car, and to Kymeta, for satellite connectivity. It’s a great endorsement. We think satellite has a real advantage for many of the connected applications with its point-to-multipoint broadcast capabilities.

The antenna Kymeta is developing with our support will enable connectivity in cars. It’s still a few years away. But some markets, such as specialized SUVs for diplomats or security applications, are nearer-term. Toyota is underwriting some of the development for Kymeta for this particular solution.

**What are Intelsat’s milestones with Kymeta over the next 12-18 months?**

We are due to receive a production unit from Kymeta late next year. That will be a transmit/receive unit with the form factor for the connected car. We are working with them on two antennas – one for the connected car, and a larger one for maritime applications. So we should have production-level units next year.

Kymeta has an agreement with Panasonic for the maritime market.

**So by late 2017 Kymeta antennas will be available for the marketplace and are**

**designed to work with Intelsat Epic?**

Yes, and it will enable our service providers to leverage the antenna technology into their network — largely on Epic, but it doesn’t have to be.

**Will those antennas work just as well with a competitors’ HTS satellites, such as Telesat or SES?**

They might, after the end of our exclusivity period with Kymeta, which I won’t comment on.

**You won’t disclose its duration?**

It’s a complicated formula. But there is a period in which this is exclusive to Intelsat for use on the Intelsat network. We have a little bit of market advantage there for both the maritime and the connected car markets.

**A decade ago private-equity investors purchased satellite operators and said they’d make them more efficient. In hindsight it looks like these leveraged buyouts did little more than load debt onto the satellite fleets’ balance sheets – including yours. Is that a fair assessment?**

I certainly cannot criticize our private-equity investors. They have been enormously supportive of our strategy and our investment plan. They fully supported our Intelsat Epic initiative.

Also, the market has changed over time and they aren’t responsible for that. Some of the changes are disruptive. Some are really exciting with all the new innovation. It’s a much more dynamic market.

We have been heavily leveraged since 2005. Over that time, we have managed our capital structure,

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invested in our fleet and paid down debt when we could.

**You are aware of market corridor talk that you are negotiating a possible Chapter 11 filing? Is this why you have hired Gug-**

**genheim Securities?**

We are not in a pre-Chapter 11 situation. I'll just say no to that. We are of course looking at every opportunity in the capital markets that makes strategic sense to enhance our position, and that is Guggenheim's role.

We don't feel like we have to do anything dramatic. What we have to do now is get Intelsat Epic operating, develop our services and continue to invest strategically, like with antennas.

**So you focus on the business and not debt and share price?**

I do not spend any time on industry scuttlebutt. I don't listen to it. I listen to investors and partners and employees. But of course I have to address the interests of investors and owners. I care about our perception in the marketplace and where our stock and bonds are trading. That's part of my job. A lot of it I cannot control. And ultimately we have to deliver. That's the company's focus.

**Lots of U.S. companies pay management in stock options. Your stock has not done well since your April 2013 IPO. How do you keep quality people?**

Retention is obviously important at a time when you're getting ready to turn the corner in a dynamic job market. Part of it is compensation and incentive plans. But part is people believing in what they're doing. Our team is very motivated right now. Despite the challenges and the talk in the marketplace, we are excited about what we're doing.

You are not going to retain people by compensation alone. It's important, but you need people who believe in what they're doing. We have that on our team. **SN**



ES/ACRES/AR/ANS/SPACE

▲ The Intelsat 29e in the Final Assembly Building being loaded onto the top of the Ariane 5 second stage.