

## Intelsat Credit Primer

BI Cable & Satellite, North America Dashboard



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### 1. BI Credit Research Primer: Intelsat

(Bloomberg Intelligence) -- Growth concerns resurfaced for fixed-satellite service providers as competition and slow customer adoption of new services may foreshadow continued revenue declines and margin pressure. Intelsat is by far the most leveraged within the group and its Ca/CCC-rated Luxembourg bonds may be impaired.

Yet Intelsat may be slightly free-cash-flow positive for the next two years and has minimal near-term obligations.

(11/01/17)

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## Credit Considerations

### Credit Checklist

#### 2. Intelsat Net Leverage to Orbit in the 8-9x Range Through 2019

Intelsat's net leverage ratio may remain in the mid-8x range for the next several years as Ebitda orbits around \$1.6-\$1.65 billion and net debt remains about \$13.5-\$14 billion. Intelsat should be slightly free-cash-flow positive for 2017-2019 due to lower capital expenditures after the company launched eight satellites within the past two years. It faces minimal near-term debt maturities, with its \$3.1 billion term loan due in mid-2019 and its next meaningful bond maturity not until October 2020.

Intelsat's competitors have more tenable capital structures. Loral's Telesat has a net leverage ratio of 4.4x compared with 3.2x for Eutelsat and 3.4x for SES (accounting for hybrid bonds as 50% equity and 50% debt).

(11/01/17)

Interactive Intelsat Credit Checklist

Credit Drivers	Credit Trends		
	Unfavorable	Neutral	Favorable
Earnings & Cashflow			
Leverage & Financial Policies			
Competitive Landscape			
M&A			
Event Risk			
Stock Performance			
Debt Maturities			

### Credit Drivers - Leverage

## Houston We Have a Problem. Intelsat Revenue Troubles Resurface

Intelsat and its fixed-satellite services peers produced 3Q revenue figures that were below consensus. Added supply from newly launched high-capacity satellites and slower customer adoption of new services led to a sequential step-up in the rate of decline across the industry, with no clear indication that this is a short-lived challenge. (11/04/17)

### 3. Intelsat Revenue Declines Mimic Fixed-Satellite Peers

Intelsat's 3Q revenue declined 3.1%, reversing a trend of improvements in the rate of decline over the past year. Its investment in high-capacity Epic satellites has yet to produce growth in new applications at a level that may offset contract non-renewals and price declines for legacy wide-beam services. Intelsat has said it believes there's customer demand for Epic services, yet adoption is slower than it anticipated. Its revenue will likely continue to decline over the next year, but at a more moderate rate.

Intelsat's 3.1% revenue decline for the quarter ended Sept. 30 excludes the non-recurring benefit of a \$13 million contract termination fee. In comparison, Eutelsat's top line fell 6.7% and SES revenue decreased 4% on a pro forma basis and excluding the impact of currency moves. (11/01/17)

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#### Company Press Release

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"Until our new assets and strategies, including managed services, achieve greater momentum, our business remains in transition, causing our return to growth to take longer than previously anticipated. Our heavy investment phase related to our high-throughput satellites is now nearing completion. The lower capital expenditures associated with our next replacement cycle are expected to support an improved cash flow profile and financial flexibility over the next several years."

Quarterly Commentary, Intelsat  
Form 6-k, Exhibit 99.2, Oct. 26, 2017

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[Quote located on page 1, click to view entire press release](#)

### 4. At 77%, Intelsat's Ebitda Margin Is Above Most of Its Peers

Intelsat should post an Ebitda margin of about 77% this year, up 160 bps from 2016, largely due to a significant improvement in bad-debt expense and despite a declining top line. Its margin should be in the 76-77% range for 2018 as the company struggles to return to revenue growth but costs remain under control. Loral's Telesat has the highest Ebitda margin among the four largest fixed-satellite service providers at almost 82%. This compares with 77% for Eutelsat and 65% for SES.

Intelsat's Ebitda margin is down modestly from a range of 78-79% for 2013-16. (11/01/17)

Intelsat Adjusted Ebitda

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017
Source: Intelsat 3Q17 Form 6-k		
Net income (loss)	\$ 196,605	\$ (29,416)
Add (Subtract):		
Interest expense, net	243,039	261,834
Loss (gain) on early extinguishment of debt	(219,560)	4,565
Provision for (benefit from) income taxes	650	(1,153)
Depreciation and amortization	174,909	178,742
EBITDA	395,643	414,572
Add:		
Compensation and benefits <sup>(1)</sup>	4,855	4,494
Non-recurring and other non-cash items <sup>(2)</sup>	4,375	1,385
Adjusted EBITDA	\$ 404,873	\$ 420,451

Credit Drivers - Cash Flow

Intelsat Likely to Produce Free Cash Flow, Yet Only 1% of Debt

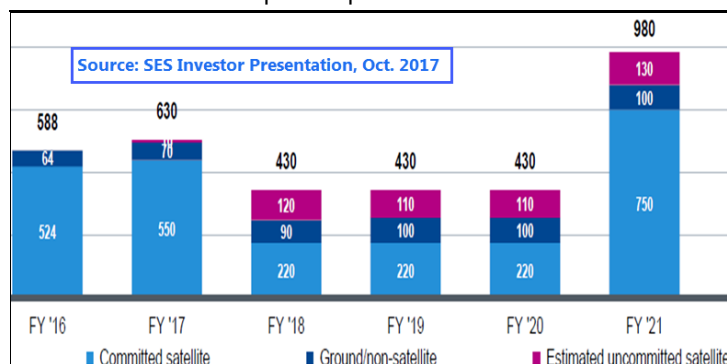
Intelsat may return to yearly positive free cash flow for 2017-19, largely due to lower capital spending. Yet net cash generation will likely be only a small fraction of its \$14.5 billion debt load. Annual free cash flow may increase to about \$100 million for 2018-19 after less than \$50 million for 2017 and negative \$36 million for 2016. (11/01/17)

5. Intelsat Capital Spending Has Kept Pace With Higher-Rated Peers

Intelsat has aggregate capital spending of more than \$3 billion since the beginning of 2013 with a cumulative expenditure-to-sales ratio of 28%. Despite operating with a highly leveraged balance sheet, Intelsat's investments have kept pace with its investment grade rated peers. Over the past 4.5 years, Eutelsat has realized capital spending of 1.9 billion euros (28.6% of sales) compared with 2.3 billion euros for SES (25.5% of sales). SES' spending rate should modestly decline for the next several years.

Eutelsat expects to average 420 million euros in annual capital spending through year-end 2020 (about 28% of sales) while Intelsat will average about \$470 million of spending per year for 2017-19 (about 22% of revenue). (11/01/17)

SES Capital Expenditure Forecast

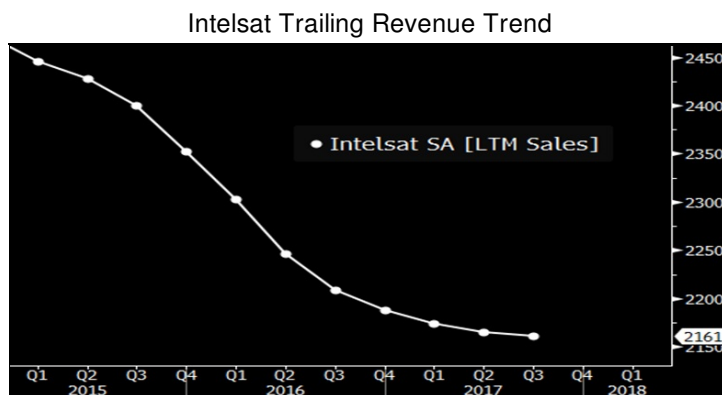


6. Revenue From New Intelsat Satellites Is Slow to Materialize

Intelsat expected its new high-capacity Epic satellites to be a catalyst for growth, yet customer sign-ups have been slower than anticipated. On Oct. 26, Intelsat announced it would be at the bottom of its \$2.15-2.18 billion revenue guidance range for this year despite realizing a \$13 million non-recurring contract termination fee during

3Q. This follows a lowering of 2017 revenue guidance four months ago. Five Intelsat satellites have entered service since mid-2016, including three Epic class units.

Intelsat had 825 units of high-throughput satellite capacity via its four Epic satellites in service as of Sept. 30. This should increase in early 2018 when IS-37e enters service, after it was launched on Sept. 29. (11/01/17)

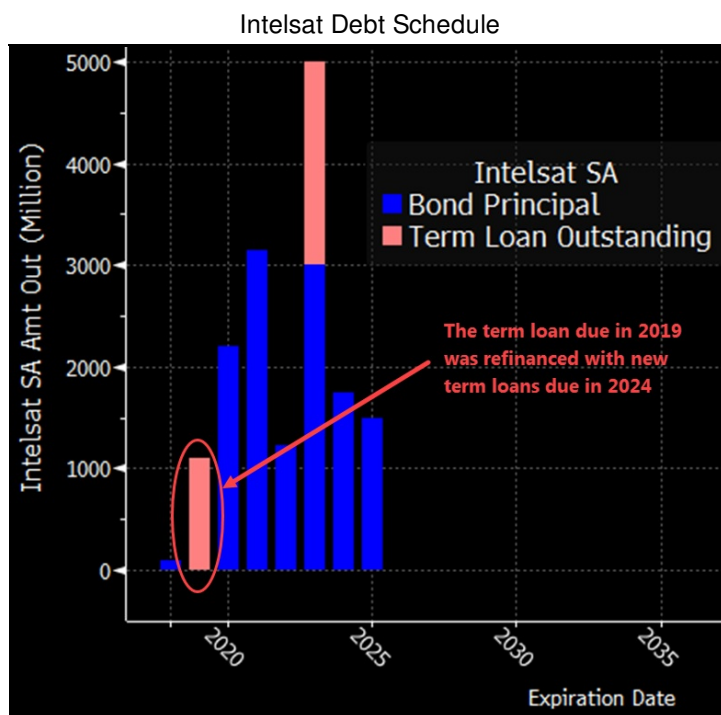


## Liquidity

### 7. Intelsat Next Major Debt Hurdle Is \$2.2 Billion Note Due in 2020

Intelsat doesn't face a meaningful debt obligation until its \$2.2 billion of 7.25% bonds are due on Oct. 15, 2020. Over the last two months, Intelsat refinanced its \$3.1 billion secured term loan due in 2019 with three new term loans. These include a \$2 billion floating rate B-3 loan due in November 2023, a \$395 million floating rate B-4 loan due in January 2024 and a \$700 million fixed B-5 loan also due in January 2024. The loan maturity dates spring forward if the Jackson bonds due 2020-23 aren't refinanced.

Intelsat Luxembourg faces a \$97 million bond obligation on June 1. The company's consolidated cash position was \$580 million as of 3Q, including \$48 million at Intelsat Luxembourg. (01/09/18)



## Valuation

### Asset Coverage for Intelsat Luxembourg May Have Dropped to 43%

A 14-25% decline in equity valuations for fixed-satellite peers Eutelsat and SES over the past month suggests asset coverage for Intelsat Luxembourg's \$2 billion of bonds may have fallen to below 50%. Yet the company's liquidity position is adequate given cash on hand and no meaningful near-term obligations. (11/01/17)

### 8. Intelsat Peers Valued at 7.7-8.6x, Down 1x From a Month Ago

Asset recovery for Intelsat Luxembourg's three bond issues with an aggregate principal of \$2 billion may be about 43%, based on the enterprise value-to-Ebitda trading multiples of peers. The analysis is based on 2017 company Ebitda guidance, a multiple of 7.75x (Eutelsat's current valuation) and assuming cash on hand is used to reduce debt. SES' multiple contracted to 8.6x from 9.6x only one month ago due to a 25% drop in its stock price. Eutelsat and SES have net leverage ratios in the low-3x range.

Given the large amount of debt senior to the Luxembourg notes, recovery values vary widely with small changes in the enterprise value-to-Ebitda valuation multiple. For example, asset coverage changes by about 20 percentage points with a 0.25x multiple adjustment. (11/01/17)

Click Through for Excel Sheet

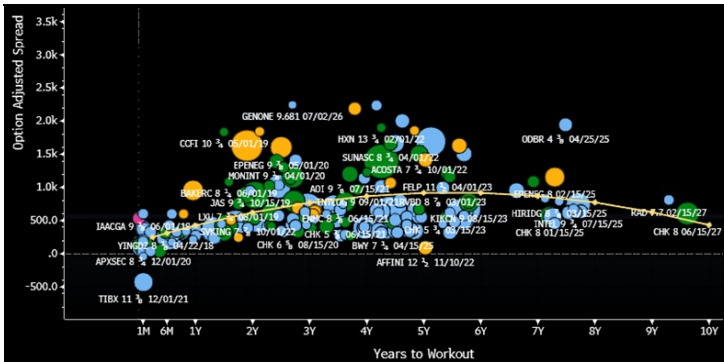
			Potential Asset Coverage for Intelsat Luxembourg Bonds				
			EBITDA Multiple				
			7.25x	7.50x	7.75x	8.00x	8.25x
-2%	1,622		0%	9%	30%	51%	71%
-1%	1,638		0%	16%	36%	57%	78%
2017 Est. Ebitda	1,655		1%	22%	43%	64%	85%
1%	1,672		7%	28%	50%	71%	92%
2%	1,688		13%	35%	56%	78%	99%

### 9. Intelsat Jackson Notes Trade at Premium to Like-Rated Bonds

Intelsat Jackson's almost \$7 billion of Caa2/CCC+ rated unsecured notes trade at option-adjusted spreads (OAS) that are slightly tighter than the regression curve of peer securities, including bonds that are rated triple C by Moody's and S&P. Jackson note prices vary widely. The 9.75% bonds due in 2025 are priced at 100.25 cents on the dollar vs. 85.5 cents for the 5.5% notes due in 2023, yet the latter trade at an OAS that's about 65 bps lower than the former.

Both issues have a mid-2023 workout date. The Jackson bonds are leveraged 7.1x compared with 3x for Intelsat's secured debt and 8.4x for its consolidated net debt load. (11/01/17)

Triple C Rated Bonds, OAS



Topics

FSS Comparable Analysis

10. Intelsat Peer Equities Fall 14-25%, Ebitda Multiples Compress

SES and Eutelsat stock prices fell 25% and 14% over the past month, leading to about a 1x decline in their enterprise value-to-Ebitda multiples. The multiples for the four major fixed-satellite service providers vary despite similar business models and revenue trends. The key differential may be their capital structures. Canada's Telesat has a high yield rated balance sheet and its valuation is implied from the total enterprise value of its 63% economic owner Loral, which is publicly traded.

High grade rated SES trades at a multiple of 8.6x. Its almost 12 billion-euro enterprise value includes a 6.6 billion market capitalization, 4 billion of net debt and 1.3 billion of hybrid perpetual notes included in the shareholders equity section of the balance sheet. (11/01/17)

Click Through for Excel Sheet

	SESG FP Equity	ETL FP Equity	I US Equity	Telesat Canada
Currency	EUR	EUR	USD	CAN
Market Capitalization	6,617	5,065	547	N/A
Net Leverage	3.8x	3.2x	8.4x	4.4x
Net Leverage w/ Hybrids as 50% Equity	3.4x	N/M	N/M	N/M
Total Enterprise Value (TEV)	11,930	8,706	14,489	5,850
TEV / LTM Ebitda	8.6x	7.7x	8.7x	7.7x

Possible C-band Spectrum Value

Intelsat C-Band Spectrum May Be Worth Several Billion Dollars

Contributing Analysts Matthew Kanterman (Technology)

Intelsat's C-band spectrum (3.7-4.2 GHz) within the U.S. may be worth several billion dollars in a sale or lease to terrestrial users for their 5G networks. Any payments, however, are likely several years away and depend on interest from the mobile carriers. (10/05/17)



## 11. Potential Gross Value of \$2.5 Billion for Intelsat Frequencies

Intelsat could realize a gross value of \$2.5 billion for its 3.7-4.2 GHz spectrum holdings. This assumes it controls 40% of the 500 MHz of C-band spectrum, 30% of this capacity is freed up for terrestrial use and there is a valuation of 13 cents per MHz-POP. Yet, any payments are likely several years away and depend on mobile carriers' interest in the frequency, its ability to free up some of the spectrum and regulatory approval. Intelsat and SES control a vast majority of the C-band spectrum.

Sprint acquired the 50% of Clearwire equity it didn't already own for \$3.6 billion in 2013, valuing the firm at \$11 billion before any adjustment for its spectrum-lease obligations. The deal valued Clearwire's 140 MHz nationwide average of 2.5 GHz spectrum at 25 cents per MHz-POP. (10/05/17)

Click Through for Excel Sheet

		Value per MHz * POP				
		\$ 0.05	\$ 0.09	\$ 0.13	\$ 0.17	\$ 0.21
% of Spectrum	20%	640	1,152	1,664	2,176	2,688
	25%	800	1,440	2,080	2,720	3,360
Cleared for	30%	960	1,728	2,496	3,264	4,032
Terrestrial Use	35%	1,120	2,016	2,912	3,808	4,704
	40%	1,280	2,304	3,328	4,352	5,376

## 12. Intelsat Looks to Cash in on Spectrum as New Epic Sales Lag

On Oct. 2, Intelsat and Intel Corp. filed comments with the FCC regarding the potential for increased flexible terrestrial use of the C-band spectrum Intelsat controls. If allowed, and assuming commercial interest from land-based operators, Intelsat could realize significant payments for the use of its spectrum. Such proceeds may be welcome, given that slower-than-anticipated user adoption of Intelsat's new Epic satellites has meant lower-than-anticipated sales for IS-33e and IS-37e.

Intelsat estimates that terrestrial use of the 3.7-4.2 GHz spectrum could begin within three years of an FCC Report and Order. Such proceeds could enable Intelsat to reduce its \$14.5 billion debt load and improve its 8.5x net leverage ratio. (10/05/17)

### Docket

"Intelsat and Intel urge the Commission to allow co-primary terrestrial mobile operations in the 3700-4200 MHz band through commercial agreements between terrestrial mobile interests and primarily affected FSS satellite operators. Those FSS satellite operators, in turn, will work cooperatively to identify geographic areas of the country where they could undertake the complicated and costly process of clearing portions of the C-band for terrestrial use in defined areas by..."

Federal Communications Commission, Oct. 2, 2017

Source: BLAW, click to view entire docket

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