

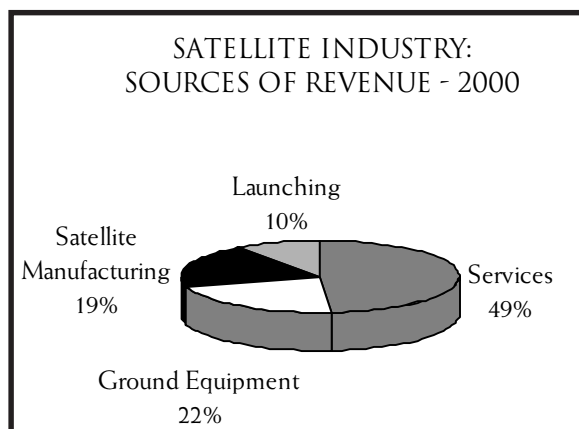
TECHNOLOGY INDUSTRY spotlight

SATELLITE INDUSTRY

JULY 2001

Industry Overview ▶

The growth of the satellite communication industry has been fueled by booming demand for mobile communication, global positioning service, and broadcasting. According to the Satellite Industry Association (SIA), the commercial satellite industry generated \$81 billion in global revenue in 2000, with revenue segmented into four sectors: 1) services 2) ground equipment 3) satellite manufacturing and 4) launching. The strongest growth came from the services segment that includes DirectTV, GPS, mobile phone, Internet access, and transponder leasing. Satellite-related ground equipment – from satellite control systems to DBS dishes – increased 11% in 2000. Launch services and satellite manufacturing also experienced strong growth.



Rapid Growth and Consolidation ▶

Communication services are badly needed in rural areas and underdeveloped regions such as Asia, Latin America, and Africa. With the high cost of installing landlines, the deployment of satellite technology should garner significant market share in these areas. According to research from TeleGeography, more than half the world's countries are dependent on satellites for communication services. Because of fiber's ability to supply virtually unlimited bandwidth with limited geographic reach whereby satellite can offer limited bandwidth with nearly limitless reach, these two technologies will continue to complement each other in supplying the world's communication needs. With the advent of broadband Internet access, video on demand, and other high-speed voice, audio, and data services, the industry should continue to experience strong growth to meet the much needed bandwidth demand. For the next decade, the industry is expected to grow 13-15% annually. According to the Encyclopedia of American Industries, there are 175 communication satellites in orbit and more than 500 are scheduled for launch in the next three to five years – in turn, driving growth in the satellite equipment and launching businesses.

However, excess capacity in satellite manufacturing due to overestimated demand along with many underutilized satellites circling around the Earth as a result of rapid change in technology has led to rapid

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consolidation within the industry. In addition, a more difficult credit environment has led numerous companies to seek strategic partners or to consider selling. Finally, larger companies that cannot afford to fall behind in this rapidly evolving industry have opted to acquire the needed technology rather than to devote years in developing the technology internally.

The satellite communication industry is still young and unexplored. Satellite technology continues to evolve and the search for the most cost effective solution for deploying satellite communication will continue to fuel future mergers and acquisitions.

Value Drivers ▶

RCW Mirus believes the following points are critical in driving value for middle market satellite communication companies:

- **Technology** – Companies must have reliable technology that accommodates both analog and digital transmission, operates seamlessly with fiber infrastructure, support future communication services, and can be delivered economically.
- **Licenses** – The ability for companies to negotiate with government agencies both domestic and foreign to obtain the proper licenses will be vital.
- **Strategic Partnership** – Successful companies have developed strategic partnerships with key customers and alliances with companies that possess supporting technology.
- **Scale** – Success is also dependent on companies' ability to build-up scale to recover the enormous up-front capital investment.
- **Management** – Prudent management who posses the right vision for the future of satellite communication will lead their company to prosperity.

Recent Transactions ▶

The rapid growth of the industry is fueling consolidation at attractive prices for owners. The following is a list of recent transactions:

- Ducommun acquired Composite structures LLC – June 2001, \$54 MM
- Microsemi Corp agreed to acquire New England Semiconductor Crop – June 2001, \$20.6 MM
- Hughes Electronics acquired Telocity – April 2001, \$180 MM
- SES buys GE American Comm. – March 2001, \$5 B
- Telenor to buy Comsat – March 2001, \$116.5 MM
- Dynamic I-T acquired BankNet – July 2000, \$55.7MM
- Comtech Telecom bought EFData – July 2000, \$54.4 MM
- ViaSat acquired the satellite network business of Scientific Atlanta – April 2000
- FastComm acquired Cronus Comm. – March 2000, \$27 MM
- Titan Corp. acquired Advance Comm. Systems – February 2000, \$206.6 MM