

Business strategy: satellite finance finds an ally

How can satellite projects find financing in today's financial climate?

With extensive turmoil in the financial markets, lenders have tightened lending requirements for new ventures and their appetite for new "risky" projects has been understandably curtailed. Given this backdrop, how can satellite projects secure financing in a climate that demands tighter restrictions on lending and increased security for lenders?

"Ex-Im Bank-Backed Satellite Export to Luxembourg Will Provide Broadcast Services to Mexico, Create Hundreds of New U.S. Jobs" Ex-Im bank press release headline 14 December 2010

Despite legitimate fears surrounding the imposition of stringent requirements for lending, the satellite market appears to have remained buoyant. Three satellite projects in 2010 were hailed as some of the biggest deals of 2010 (Iridium Next, O3b, and Gazprom Space Systems), and all of these received backing from the French Export Credit Agency, Coface (*Compagnie Française d'Assurance pour le Commerce Extérieur*).

"Financing high-technology American exports promotes communications infrastructure growth in dynamic markets like Mexico. This export also opens up potential follow-on business for U.S. exporters, and helps create and maintain U.S. jobs." Ex-Im Bank Chairman and President Fred P. Hochberg on the \$171.5 million direct loan to support the export of a Ku-band broadcast satellite by Space Systems/Loral (SS/L) of Palo Alto, Calif., to SES S.A. of Chateau de Betzdorf, Luxembourg.

Coface has long provided financing in support of the French satellite industry, as has Export Development Canada (EDC) for Canadian satellite industry companies. However, more recently, the U.S. Export Import Bank (Ex-Im Bank) has become an active player in this market. In 2011 two notable transactions (the Hispasat¹ and Inmarsat² transactions) were backed by Ex-Im Bank, with further financing planned.

Members of the satellite finance team from Ex-Im Bank participated in this year's World Summit for Satellite Financing. Speaking at the conference was John Schuster, the head of a small staff of finance officers who handle satellite financing projects for Ex-Im Bank. Together with his associate Michelle Miller, John provided valuable insight into how Ex-Im Bank long term debt financing for satellite projects may be secured.

EX-IM BANK

Ex-Im Bank is an independent U.S. federal agency that helps create and maintain U.S. jobs by providing financing for exports by U.S. companies. Ex-Im Bank is on a record pace for 2011, providing financing of \$13.4 billion in support of over \$15 billion of U.S. export sales products (in total not just satellite projects), after setting a record in 2010 of almost \$25 billion in financings.

Ex-Im Bank is self-sustaining and is able to cover all operation costs and potential losses while also producing revenue as a result of charging fees and interest on loan transactions. Ex-Im Bank has generated \$3.4 billion for U.S. taxpayers over the past five years.

Perhaps the highest profile Ex-Im Bank satellite project has been the \$700 million financing for Inmarsat's procurement of 3 Ka-band satellites from Boeing, completed late in 2010. The transaction was the largest satellite financing in Ex-Im Bank's history and its support helped Boeing Space and Intelligence Systems win the contract over competition backed by a foreign export-credit agency.

"The United States is a world leader in aerospace technology, and this sector provides employment for thousands of Americans. Our financing of this sale will help Boeing and its many small-business suppliers maintain jobs in California and around the country." Ex-Im Bank Chairman Fred P. Hochberg on Ex-Im Bank's financing of 3 Ka-Band satellites in late 2010

While Coface and EDC are generally thought to be closely focused on the jobs being created in France and Canada, Ex-Im Bank also views its mission as supporting and increasing U.S. jobs in the export sector and therefore it may involve a higher level of credit scrutiny, similar to that which one might encounter with a non-government, commercial lender, but on projects with significant U.S. exports. While Ex-Im Bank direct loans and guarantees are not subsidized, the terms of these financings can be very attractive to satellite operators, both with respect to pricing and terms (see box: "Case Study").

Case study: The Inmarsat financing

On May 12th 2011, Inmarsat announced that Ex-Im Bank was providing \$700 million in satellite financing. The loan was made on the following terms:

- 8.5 year term, fixed-rate direct loan
- availability period of four years
- the loan related to the development of three satellites and also launch insurance

The current fixed rate ("CIRR") is 2.02% for direct Ex-Im Bank loans with a 5 to 8.5 year tenor and 2.63% for tenors of longer than 8.5 years.

On top of this interest, the borrower pays fees and reimburses expenses incurred by Ex-Im Bank.

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EX-IM BANK REGULATORY AND OTHER LEGAL REQUIREMENTS:

a) **Export financing only** – Ex-Im Bank financing is only available for exports from the United States. This requirement may be met by U.S. supply contracts from U.S. suppliers, whether for satellite, payload, launch vehicle or component parts, being exported from the U.S. In addition Ex-Im Bank will want the U.S.-product supply contract to be between the U.S. supplier of the goods which contain the U.S. content and a foreign buyer.

It is possible to have several separate U.S. supply contracts with suppliers of different parts of the system. A complex analysis may well be needed to determine the U.S. content that will be eligible for financing.

- b) **Collateral Security Package.** Ex-Im Bank will want a complete collateral security package, which will include a mortgage on the financed asset (e.g. the satellite), assignment of the lease (if the project is done on a lease basis for tax or other reasons), assignment of the receivables from customers, a pledge of the stock of the SPV, assignment of the U.S. supply contract(s) and an assignment of any ancillary contracts like the O&M Agreement and insurance contracts. Typically Ex-Im Bank will ask for guarantees from creditworthy related parties if the project sponsor is not considered creditworthy. The vendors may be asked to give guarantees or subordinated loans in lieu of a related party guarantee.
- c) **Special Purpose Vehicle.** It is preferable for the financing to be provided to an SPV that will own the end product, e.g. the satellite or foreign gateways. While Ex-Im Bank is open to any tax neutral jurisdiction with sound bankruptcy and other relevant legal protections, it often favors Delaware as the situs of the SPV's formation.
- d) **Need for a lending bank.** While Ex-Im Bank can provide direct lending, as it did for the Inmarsat project, Ex-Im Bank is more likely to provide government guarantees in respect of commercial bank loans. Typically, therefore, the party seeking financing should canvas banks experienced in Ex-Im Bank financing, especially in the satellite sector.
- e) **Overall financing issues.** Ex-Im Bank and Coface will be keen to ensure the company can demonstrate that it has:
- a good track record
 - good financial statements
 - regulatory approvals in place
 - projected cash flows (reasonableness)
 - solid customer contracts from good creditworthy companies (if they can be obtained); and
 - assignment of insurance proceeds.

LEVEL OF FUNDING

Ex-Im Bank will fund the lesser of 85% of the value of all eligible goods and services in the U.S. supply contract or 100% of the U.S. content in all eligible goods and services in the U.S. supply contract. If there are multiple U.S. supply contracts, the U.S. content is generally analyzed separately for each supply contract and then totaled for the final Ex-Im Bank financed amount.

As noted above Ex-Im Bank frequently co-finances with the Export Credit Agencies (ECAs) of other countries, so if the US content is insufficient to allow Ex-Im Bank to support the full funding requirements and another country such as France has significant content, Coface could co-finance with Ex-Im Bank. Generally the ECA with the largest domestic content will be the lead financing entity.

APPLYING FOR AND RECEIVING FUNDING

Not surprisingly, setting up financing for projects for which there are few precedents will generally take longer than transactions which cover a well-trodden path. It is also the case that satellite projects tend to be more customized and therefore involve more planning and time than a "commodity" such as an aircraft which is likely to have a ready-formed resale and leasing market.

The first step is to retain a legal team and consultants who can advise on the Ex-Im Bank process to flag the issues and help the company prepare its proposed deal structure, materials explaining the project and the overall financing plan, and how it is going to meet Ex-Im Bank requirements. Typically the project sponsor and its team will meet with the relevant Ex-Im Bank officers to let them know of its plans to apply for financing. An application is then prepared by the team and presented to Ex-Im Bank. After a review period, the team will respond to and resolve any issues raised by Ex-Im Bank.

If all issues are resolved satisfactorily, and preliminary internal clearance is received, Ex-Im Bank staff and its counsel then negotiate the financial package and the structure of the project and the transaction documents with the sponsor and its team

All projects over \$100 million in Ex-Im Bank financial support are subject to a 35 day Congressional notification period before the Board of Ex-Im Bank gives its final approval. This notification rarely results in amendments to the financial package, but the length of time for it to be completed must be taken into account in the project financing timeline.

1 See press release, August 2011 at http://www.hispasat.com/media/384-Financiaci%C3%B3n%20Amazonas%203_EN.pdf

2 See press release at http://www.inmarsat.com/About/Investors/Press_releases/00037475.aspx?language=EN&textonly=False

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