

# Has Commercial Remote Sensing Finally Found Stability?

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Commercial high-resolution satellite remote sensing attained an important industry milestone with the September 2005 announcement that ORBIMAGE would acquire Space Imaging's assets. This right-sizing consolidation will afford investors, customers and employees alike a more certain, stable future as it allows the industry to evolve along a more "normal" path.

The deal, in which ORBIMAGE will acquire most of Space Imaging's assets, is expected to close at year-end, pending regulatory approval. The \$58.5 million price tag looks attractive, and if Space Imaging's IKONOS satellite reaches its life expectancy into 2008, the transaction is likely to generate free cash flow well in excess of the purchase cost. In addition to being the largest awardee from the National Geospatial-Intelligence Agency (NGA) ClearView program, Space Imaging has more than a dozen valuable international groundstation contracts drawing annual access fees, and these contracts should novate to ORBIMAGE.

ORBIMAGE CEO Matt O'Connell already stated his intention to maintain significant operations in ORBIMAGE's Dulles, Va., and Space Imaging's Thornton, Colo., locations. Look for business development and administrative functions to migrate east, while technical operations gravitate westward. Additionally, ORBIMAGE is likely to keep its presence in St. Louis, where it maintains a value-added services group that directly supports NGA's mapping needs. But plain old business sense will lead O'Connell to integrate the organizations to reduce duplication and drive the bottom line.

## NGA Was the Catalyst

Under the leadership of NGA's director, retired Air Force Lt. Gen. James R. Clapper, NGA tipped the industry's hand when it decided to award two—and only

two—NextView contracts for the construction and launch of next-generation commercial imaging satellites. DigitalGlobe received the first award in 2003, and ORBIMAGE secured the second in 2004. Despite its industry-leading position at the time, Space Imaging's chances to receive a NextView award waned when its primary financiers, Lockheed Martin and Raytheon, announced as early as 2003 that they would make no further investments in the company, then walked away from NextView negotiations in 2004.

Economic models of this capital-intensive industry indicate a stability scenario with two owners operating a constellation of five or six high-resolution satellites. Upon the launch of the two NextView satellites, this stability point

will be achieved. With NGA acting as the anchor-tenant, look for ORBIMAGE and DigitalGlobe to have the scale, profitability and access to capital required to maintain a long-term, multisatellite fleet.

2006 revenues in the \$150 million range. ORBIMAGE has increasingly used debt financing for its NextView construction capital, including a \$155 million debt round this year, providing leverage for its stockholders. As NextView risk-milestones are counted down and NGA data-purchase revenues grow nearer, ORBIMAGE's valuation will rise and will be reflected in its closely held and lightly traded stock.

With NGA on board, Wall Street views the sector favorably. Morgan Stanley continues to take an active role in financing DigitalGlobe, which forayed to the capital markets to raise its cost-share portion to build its NextView satellite, now dubbed WorldView.

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O'Connell, formerly of Wall Street investment firm Crest Advisors, maintains good relations with the

array of investment funds that hold ORBIMAGE's debt and equity instruments. These fund managers, shrewd with a healthy dose of skepticism, support O'Connell, and many continue to up their holdings as the company raises additional tranches of capital. This shareholder support and O'Connell's canniness gave ORBIMAGE a key advantage in the Space Imaging bidding, which was conducted by Bank of America.

## The View from Wall Street

As the dust settles and the industry enters a "normal" mode, the onus now falls upon the DigitalGlobe and ORBIMAGE management teams to execute, execute, execute. The combined ORBIMAGE-Space Imaging entity will have a near-term market share advantage on DigitalGlobe. However, DigitalGlobe's WorldView satellite is scheduled to launch and produce revenues before ORBIMAGE's OrbView-5. The long-term balance of power between the two competitors will depend on scrupulous execution.

New York-based L-3 Communications (NYSE: LLL), headed by Frank Lanza, reportedly was interested in acquiring Space Imaging, but the company's ardor cooled when Space Imaging didn't win a NextView contract. Space Imaging investor Mitsubishi also had interest, but the loss of an important imagery supply contract with the Japanese Defense Agency took it out of the running. In the end, DigitalGlobe and ORBIMAGE were the only serious bidders for the company.

Post announcement, ORBIMAGE stock (OTC: ORBM.PK) has been hovering around the \$12 range. The company reported sales revenues of \$36.4 million in the 12-month period ending June 30, 2005. Expect the combined entity to post

scrupulous execution. EJ