

May 4, 2018

**Dear clients and colleagues,**

Is help always only ever a phone call away? What if you are 2,000 miles at sea? Or an engineer or geologist appraising a mining or oil and gas project in a remote location? This is where mobile satellite communications fill the void, when terrestrial telecom networks are unreliable or simply unavailable. Satellite technology innovation is evolving quicker than ever today, and the significant trend in maritime satellite communications is the shift from narrowband to broadband communications. The move to broadband connectivity is due to the increased digitalization of vessel operations (e.g. data analytics, remote monitoring, connected equipment and sensors). Also a consideration is the welfare of the crew and passengers who have greater data connectivity expectations. The shift to maritime broadband is being accomplished with VSAT technology. Inmarsat, a company we recently added to our portfolios, addresses these maritime trends and is also exposed to other growth opportunities in mobile satellite communications.

Inmarsat was established in 1979 by the International Maritime Organization to help ships remain in contact or in case of emergency, call for help regardless of the distance from shore. As well as the maritime segment, Inmarsat also counts governments, airlines, broadcast media, the oil & gas industry and the mining and construction industries among its customers. Inmarsat owns and operates 13 communication satellites and customers connect to them using antennas fitted to ships, aircraft or vehicles, or with global handheld satellite phones and broadband internet devices the size of a notebook.

Inmarsat has four main business segments. Maritime (40% sales), as mentioned, concentrates on commercial maritime opportunities. It is estimated that 1.2M seafarers rely on Inmarsat safety services every day. Government (26% sales) concentrates on both civil and military opportunities in the US and globally. Enterprise (9% sales) is for enterprise, energy and media. Aviation (14% sales), perhaps the greatest growth opportunity for Inmarsat, focuses on in-flight voice, data, safety services and cabin connectivity for business and commercial aviation. The Other segment accounts for the remaining 10%.

#### **Market Data**

- Total addressable market for global maritime satellite communications expected to be approximately US\$2.2B in 2025.
- Total addressable market for aviation satellite communications expected to be approximately US\$6.6B in 2025.
- Total addressable market for global government and military satellite communications capacity expected to be approximately US\$1.4B in 2025.
- Inmarsat is market leader in Commercial Maritime, Government satcomms, Safety and Operational satcomms, Business Aviation, Safety operations across key mobility markets, and commercial land satcomms.

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### ***Growth Strategy***

- Signing more contracts with commercial airlines and corporate jet operators.
- Geographical expansion with the development of commercial airlines in emerging markets.

### ***Strengths***

- Inmarsat's systems include the IMO's Safety of Life at Sea (SOLAS) and Global Maritime Distress and Safety System (GMDSS) requirements.
- Very high barriers to entry due to scarcity of available radio spectrum; complexity of regional rights negotiations; high capital intensity with long development cycles; legacy monopoly position in some cases, like the GMDSS system for ISAT.
- Well diversified customer base, across the Maritime sector, National Governments, Business & Industry and also in the Aviation industry.
- Track record of outperformance on commercial momentum and contract backlog of 1,300 aircraft and negotiations for 3K aircrafts in pipeline.

### ***Opportunities***

- Aviation and In-Flight Connectivity (IFC): 60% of respondents to an Inmarsat IFC survey considered in-flight broadband a necessity and not a luxury. Increased demand for connectivity combined with digitalization and new technology across the aviation industry means the market available to IFC connectivity service providers to the aviation industry could grow to US\$5.4B by 2026. Inmarsat is the number two global IFC player (ex-US), aiming to be market leader, with an estimated 30% market share. In terms of Business Aviation and Safety and Operations Services, those markets are expected to triple in size to approximately US\$1B and US\$150M respectively.
- Maritime: The high bandwidth Very Small Aperture Terminal segment is expected to double to approximately 40,000 vessels over the next 10 years creating a US1B market worth. The market for smaller vessels (fishing and leisure) should see steady growth over the next 10 years to a approximately US\$780M market value. The mid-market segment (merchant, offshore, high-end fishing and leisure sub-segments) is worth approximately US\$540M today but is expected to decline in the medium term due to VSAT cannibalization.

### ***Risks***

- Maritime markets increasingly competitive.
- Launching satellites is inherently a risky business.
- Price competition in the satellite industry due to increased supply.
- New technology.

Have a good weekend.

### **The Global Alpha Team**

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