

For this month's Question and Answer (Q&A) session, Giovanni Verlini, Editor of *Satellite Evolution Asia* (SEA), talked to Tal Merizon Vice President (VP), Marketing and Business Development of Gilat Satellite Networks Ltd.



*Tal Merizon Vice President (VP), Marketing and Business Development of Gilat Satellite Networks Ltd*



# Back at the top



**Founded in 1987**, Gilat Satellite Networks is a world leader in Very Small Aperture Terminal (VSAT) technology. Following a profound re-organisation at all levels, Gilat has recently introduced the SkyEdge product family - the first truly comprehensive satellite communications platform to deliver superior voice, data and video services over a single, powerful system.

**Question: What is Gilat's current position in the marketplace?**

**Tal Merizon:** The past year has been a period of radical transformation for Gilat, with the company going through profound changes of ownership, management and strategy. The most evident manifestation of our new industrial policy was the official launch of the SkyEdge product family, which took place in February 2004 [see *Satellite Evolution Asia*, March/April 2004]. But there is much more than that, of course.

**Q: Can you expound on these changes? How has this re-organisation affected Gilat as a company?**

**TM:** We have taken a decision at a strategic level to focus on the development of technology, which has always been our main area of competence - in a way, it could be argued that with this decision we are going back to our origins.

Gilat is also a service company: we have six fully or partially-owned subsidiaries (three in South America, two in North America and one in Europe) that develop and provide satellite services. Naturally, we remain committed to these subsidiaries, but going forward we have decided to focus on the development of technology, equipment and networks.

**Q: How did you decide on your new strategy?**

**TM:** When we were facing the prospect of having to give a new strategic direction to Gilat, we realised that the best thing we could do was to go and ask our customers all over the world and in all market segments what they needed from a company like Gilat. We carried out these consultations for months and the outcome is reflected in our new strategy.

We have also interviewed our internal service customers who helped us in formulating a strategy that is based on the values of our equipment sales and service business.

**Q: Let us go back to the SkyEdge family of products. What is the peculiarity of SkyEdge? Why has**



*A remote learning project in Thailand. Photo courtesy of Gilat Satellite Networks.*



**it been described as an innovative technology?**

**TM:** There are four principles underlying the development of the SkyEdge product family. The first is the need to consolidate all types of services required by our customers (ie, voice, data and Internet) under one single system or platform.

The second principle that guided us was the need to optimise the relationship between costs and benefits of the solutions we offer to our customers. On this particular issue, let me just add that we firmly believe that this approach is beneficial not only to our customers, but to their customers as well as to ourselves. The third principle is having a standard DVB-RCS product as part of the SkyEdge family.

Finally, when we designed SkyEdge we dictated that our existing customer base should be allowed to migrate easily to the new family of products. We have a large installed customer base all over the world, and we wanted to show our commitment to them in a tangible way.

In other words, our approach is not profit-driven in the short term. We believe that providing excellent value for money and building a relationship with your customer is more important than trying to maximise profits in the short term. We are of the opinion that this philosophy will pay off in the medium term.

**Q: You also mentioned the fact that Gilat has been reorganised in terms of management structure and practices. What did that entail?**

**TM:** Gilat currently operates in several regions in all continents. We have customers, as well as some form of presence (ie, subsidiaries, sales offices, distributors, etc) in over 80 countries. One of the greatest challenges we had was how to create a global management approach to exploit synergies between our vari-



Twenty-first century communications for Asia. Photo courtesy of Gilat.

**Gilat to deploy rural telephony network in Papua New Guinea**

Telikom Papua New Guinea (PNG) and Gilat Satellite Networks Ltd have announced that Gilat has been selected by Telikom PNG to provide a hub and 500 DialAw@y IP Very Small Aperture Terminals (VSATs) for rural telephony services across the island country. The network is expected to expand to 2,000 sites and will provide support for Internet Protocol (IP), education and health applications.

Dr Florian Gubon, Chairman of the Board of Telikom PNG said: "A satellite-based network was ideal in our situation due to the lack of existing infrastructure. There is huge demand for our services and we are very pleased with the development of the rural communities in the wake of this project, which is only the first stage. We look forward to benefiting from Gilat's experience as we move ahead with this important project."

Oded Sheshinski, Managing Director (MD) of Gilat Australia, said: "We are proud to have been selected in this tender. We look forward to establishing a long-term relationship with Telikom PNG in which Gilat experience worldwide will contribute to turn this project into a profitable service across Papua New Guinea."

DialAw@y IP is one of the only VSAT products capable of providing high-speed Internet connectivity and toll-quality telephony service on a single, low-cost platform. Each unit supports a PC/LAN connection and up to six telephone channels. It is a low-cost solution for the fulfilment of Universal Service/Access Obligations (US/AO), Public Call Office (PCO) requirements and Small Office/Home Office (SOHO) requirements for bundled telephony and Internet access.

DialAw@y IP networks are rapidly deployed, highly scalable and field upgradeable. The remote equipment functions in extreme weather conditions, has a long lifespan and can be monitored from a distance. Ultra-low power consumption (less than 25W) enables the units to operate in remote locations that have minimal or no electricity, by incorporating a single-panel solar system or power generators. ■

ous departments and take advantage of economies of scale. In the end, we decided to reduce our labour force and consolidate several groups of our research and development activity into one.

This re-organisation has now been completed, and we are now focusing our attention on two areas: the completion of the SkyEdge system, and marketing and sales activities.

**Q: I understand Gilat also had to address problems of a financial nature. How was this done?**

**TM:** From the outset, our objective was simple: turn-



ing around Gilat into a profitable business. To achieve this goal we had to re-organise and re-focus our company's sales and marketing activity, of course. But we also had to tackle the problems that we had with our books. This has been done very effectively: most of our debt has been converted into equities, and Gilat today is a company with a small debt that can boast a positive cash-flow once again.

**Q: So who are Gilat's new owners?**

**TM:** Gilat's new owners are Israeli financial institutions. They are our former creditors that transformed our debt with them into equity.

**Q: Commentators seem to believe that for the development of competitive satellite solutions the cost of the ground equipment and, even more crucially, the cost of bandwidth needs to decrease. Would you agree with this analysis?**

**TM:** Yes, I do. Competition in the satellite operator marketplace has helped to reduce the cost of the space segment. However, we believe that the cost of airtime needs to go down even further for satellite solutions to become ever more competitive. The SkyEdge is a perfect example of this; it saves 30-50 per cent on space segment due to advanced modulation (HSPK) and access scheme.

**Q: What is driving the satellite industry today?**

**TM:** A general trend in the satellite telecommunications industry is the expansion of telecommunications needs into non-urban areas, large governmental so-

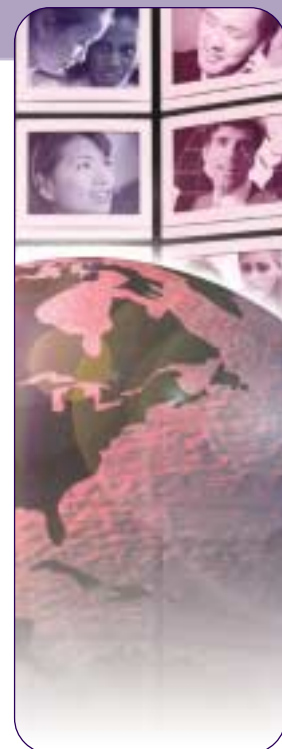


*Nowhere excluded. Photo courtesy of Gilat.*

cial programmes, the need for solutions with satellite access and expansion to new markets for satellite communications...this is stimulating demand....

**Q: Can we expect a deeper level of integration between terrestrial and satellite solutions in the future?**

**TM:** There is no doubt that in the future we will see an increasing level of integration of satellite and terrestrial solutions, be it cable, fibre or wireless. For example, Gilat is currently working on hybrid services such



## Gilat announces First Quarter (Q1) 2004 results

Gilat Satellite Networks Ltd has recently announced its results for the quarter ended 31 March 2004.

Revenues for the first quarter of 2004 were US\$57.4 million, up 12 per cent as compared to revenues of \$51.1 million for the same period last year. The Company reported a net loss of \$ 6.5 million, or \$(0.29) per share in the first quarter 2004. Net income for the first quarter of 2003 was \$150.2 million, or \$43.9 per share, mostly due to a \$181.1 million gain and \$5.5 million in tax expenses relating to the Company's debt restructuring completed during the first quarter of 2003. Included in these results are \$8.1 million in Depreciation and Amortisation expenses in the first quarter of 2004 as compared to \$6.6 million for the same period last year.

In accordance with the FASB Interpretation No.46, Consolidation of Variable Interest Entities, ("FIN 46"), Gilat consolidated the financial results of StarBand Communications in the first quarter of 2004. As a result of the above, the Company recorded revenues of \$7.0 million, and a net loss of \$0.2 million related to StarBand's operations during the first quarter.

The Company reported total cash balances (including cash and cash equivalents, short-term bank deposits, short- and long-term restricted cash and restricted cash held by trustees less short-term bank credits) of \$95.2 million as March 31, 2004, a decrease of \$1.6 million from the cash balance of \$96.8 million as of 31 December 2003. Cash balances as of 31 March 2004 include \$2.2 million related to the consolidation of StarBand Communications.

The above cash balances do not include the effect of the cash required for the completion of the acquisition by Gilat of all of the remaining shares of rStar Corporation that was concluded on 7 April 2004. The Company also announced that following the successful conclusion of the rStar transaction, rStar CEO Samer Salameh has resigned from rStar to pursue other opportunities.

In April the Company completed its previously announced acquisition of all of the shares of common stock of rStar Corporation not already owned by Gilat for \$0.60 per share in cash. As a result, immediately following the consummation of the acquisition, a Form 15 was filed with the SEC in order to deregister rStar's common stock. As a result, rStar will cease to be a public reporting company.

Also in April, the Company announced an agreement for the modification of the terms of the outstanding loan by Bank Hapoalim to Gilat. The agreement provides the Bank with the right to receive warrants to purchase Gilat's ordinary shares up to the outstanding balance of the loan, which currently stands at approximately \$71 million.

The parties agreed to a reduction of the rate of interest applicable to the outstanding loan balance going forward, a deferral of part of the principal payments that are due in 2005 and 2006 to the end of the loan period in 2012, and relaxation of the financial covenants contained in the loan agreement. ■



Also, it is important to remember that Asia has a great deal to gain from the adoption of satellite technology: communications can be used to accelerate the development of rural areas, from an economic as well as social point of view.

as satellite-Wireless Fidelity (WiFi), and satellite-terrestrial mobile telephony.

**Q: What is Gilat's position in the current 'battle of the standards' in the VSAT industry? Have you decided to support DVB-RCS, DOCSIS or are you still a champion of proprietary solutions?**

**TM:** We have studied the question regarding standards very carefully, and we have come to the conclusion that a proprietary standard represents the best solution for our customers.

However, we also understand that some of our clients might want to have a choice. To this end, the SkyEdge family that is called SkyEdge DVB-RCS that is fully compliant with the DVB-RCS standard.

**Q: How important is Asia for Gilat?**

**TM:** Asia has a huge number of rural communities that need to be reached by twenty-first century communications. Besides, there are entire countries that require immediate solutions. In our view, Universal Service Obligation (USO) in this part of the world, as well as in less developed regions such as Africa and Latin America, can only be fulfilled by satellite solutions. Satellite will certainly be a primary tool to serve this market. As Gilat we have already implemented large projects throughout Asia, and we certainly remain committed to this growing region.

Also, it is important to remember that Asia has a great deal to gain from the adoption of satellite tech-

nology: communications can be used to accelerate the development of rural areas, from an economic as well as social point of view.

**Q: Where do you see Gilat in five years time?**

**TM:** Gilat will be a clear leader in satellite communications worldwide, with a strong emphasis in Asia, Latin America and Africa and with a wide range of satellite network solutions for a variety of markets. ■

### Gilat signs agreement with Taegwang E&C Co. Ltd

Gilat Satellite Networks Ltd has announced an agreement with the Korean management and control services company, Taegwang E&C Co. Ltd, for the supply of a Skystar 360E satellite hub and remote Very Small Aperture Terminals (VSATs). The satellite-based VSAT network was successfully installed and will be operated by, the leading Korean telecom operator, Korea Telecom.

Taegwang E&C Co. Ltd, is a management and control services company that provides Supervisory Control and Data Acquisition (SCADA) and water management services for such Korean companies as Korean Electric Power Corporation (KEPCO), Korea Agriculture and Rural Infrastructure Corporation (KARICO), Korea Water Corporation (KOWACO) and Korea National Railroad (KNR).

The Skystar 360E hub will provide Voice over Internet Protocol (VoIP), cross-border data services and high-speed Internet services for national and international services both inside and outside of Korea.

Sung-Woo Lee, Chief Executive Officer (CEO) of Taegwang E&C Co. Ltd., said: "It will be an exciting new challenge for us to develop our satellite communications business including VSAT data services and SI/NI services. Also, this satellite solution will provide synergy for our SCADA business."

Giora Reish, Gilat's Associate Vice President (VP), Sales, Asia, said: "We are very pleased to be working with Taegwang E&C Co. and Korea Telecom and to be providing VSAT services in this most demanding of markets. We believe the deployment of this hub is a launching point for the expansion of our operations in Korea and neighbouring countries where customers can benefit from VoIP, Internet and data services." ■



*Waves and radiowaves. Photo courtesy of Gilat Satellite Networks.*

