

New player in town

Rendering of ProtoStar 1 that is planned to launch in 2008. Photo courtesy of SS/L.

ProtoStar focuses on providing high-power geostationary satellite services optimized for direct-to-home (DTH) satellite television and broadband Internet access across the Asia-Pacific region. Giovanni Verlini talks to Philip Father, ProtoStar's CEO about the company's plans.

ProtoStar's planned footprint will reach over three billion people in India, Indonesia, China, Taiwan, the Philippines and South East Asia. The company's system will enable in-country partners to offer subscribers a technically advanced, reliable, cost effective satellite television package, providing a robust subscriber experience.

As a highly customer-oriented operator, ProtoStar is uniquely positioned to supply customized transponder configurations to meet the power and footprint requirements of both existing and emerging DTH operators. As such, the company will provide optimized, high-power geostationary FSS and BSS Ku satellite services. Where appro-

appropriate, ProtoStar is capable of packaging these satellite services with flexible financial arrangements covering large blocks of transponders. The company plans to launch its first satellite in the second quarter of 2008.

At the end of 2006, ProtoStar moved a step closer to its Asian satellite service by successfully closing on US\$210 million in financing to purchase and launch its first satellite. This financing was preceded by a US\$40 million Series B round that was completed earlier in the year for a total cumulative financing of US\$250 million. The Company's initial plan is to create a three-satellite constellation serving the fast-growing and under-served Asian Direct-to-Home (DTH) satellite-TV market.

The financing consisted of \$160 million of senior secured convertible notes sold to a range of institutional investors, for which Jefferies & Company Inc. served as placement agent, and a \$50 million equity contribution from several leading venture capital and private equity funds. Milbank, Tweed, Hadley & McCloy, LLP and Cooley Goodward Kronish, LLP acted as the company's legal advisors in the financing.

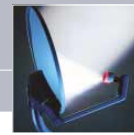
ProtoStar is using the proceeds to purchase and launch its first geostationary satellite, for which ProtoStar has already preleased a significant portion of its capacity.

At the time Philip Father, ProtoStar's CEO, described the company's funding as timely. "This is surely one of the more innovative financings of the year (2006) in the satellite sector. In a challenging high-yield debt market, financings require multiple and often diverse sources of funds, ranging from debt to various forms of equity. This transaction embraced all of these elements and will contribute to making advanced satellite-TV service available in Asia."

Question: Would you be so kind as to tell our readers about ProtoStar.

Philip Father: ProtoStar's focus is really to serve the Direct-to-Home (DTH) television market across Asia. We are looking to supply capacity in a holistic way, and we feel that the market is developing and has a lot of potential. You can see signs of that in the current activity in India, through South-East Asia, Indonesia, and Philippines etc. Every week in the local press, DTH is making the headlines.

So that's our focus, and the argument for the business model. On the other side of the equation, it is a great opportunity and we need to address regulation and capital expenditure issues. These are things that usually need to be worked out over time and while we are optimistic about DTH, our goal is to be realistic about the uptake. We see it progressing over time, but not necessarily in a quick way. We are trying to make our investments now and be patient with the market.



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Question: What satellite will you be using? What capacity do you have?

PF: Our first satellite is scheduled to launch in May 2008 on an Ariane 5 launcher. We contracted with Space Systems/Loral in January and they have begun modifications on the former ChinaSat-8 satellite, a high-power geostationary satellite that has been in storage at SS/L’s manufacturing facility in Palo Alto, California. The satellite is based on the company’s highly reliable 1300 spacecraft bus. It will operate in both Ku-Band and C-Band and is expected to provide more than 15 years of service.

ProtoStar acquired the satellite from China Telecommunications, Broadcast Satellite Corporation and China National Postal and Telecommunications Appliances Corporation under an agreement reached in 2006. SS/L will tailor the spacecraft to meet ProtoStar’s requirements, which target emerging and existing DTH operators in the Asian market as well as other broadband communication needs in the region.

We are on track for delivery and launch schedule in May 2008. We have signed up a couple of anchor customers, and we are very excited about the opportunity. We have good partners, and believe that both our vendors can deliver on time to market. So we think we are in a good position.

Question: What is the payload of the satellite?

PF: ProtoStar 1 is a 22 Ku-band, 36Mhz equivalent with approximately 38 C-band, 36Mhz equivalent. Our core focus going forward is on the Ku-side. ProtoStar 1 just happened to come with C-band. Going forward we are trying to serve the DTH market. So our goal on the first satellite is to really monetize that C-band – sell it like any other traditional operator. The attraction here is that it is a real quality satellite that we can move forward with.

Question: What kind of investment was required to purchase the satellite from ChinaSat?

PF: We spent a great deal of time with the Chinese negotiating the proper deal structure that worked for both parties, and we have put a lot of time into that relationship. In the course of 7-9 months we negotiated a deal that leaves ChinaSat and ProtoStar as pretty

good friends. As a result of the transaction, the two parties have a high degree of mutual respect for each other. We are looking forward to developing this friendship and working relationship.

Question: How will you be approaching the market? Will you be looking to launch a series of DTH platforms, Pay-TV, free to view – what type of business model will you be adopting.

PF: That is really up to our customers. Our customers can be existing DTH operators wishing to expand; it could be new DTH operators that have just received their licence; and cable operators that are looking to move into DTH. Across Asia we see this field developing slowly but surely. But given this is a long lead business – new builds now are 29 months, the launch market is tight, orbital slots are not that easy to come by, you have to lay the foundation now. We are putting in place the satellite infrastructure. Our investors have backed us for a three satellite constellation. The investors are numerous, but what I can tell you is that we have two large equity investors - VantagePoint Venture Partners and New Enterprise Associates. We are making progress on ProtoStar 2 as we speak, and ProtoStar 3.

So moving forward we are working with potential anchor clients and building our satellite programme around that anchor. The way I would like to build the constellation is in what I would call a premeditated way, so that customers are able to see more than one of our satellites.

That way they have access to growth capacity when they need it. They are not captive to just one satellite. Also we are providing them with inherent redundancy which we think is important to them, as they go to capital markets themselves to grow their businesses. Investors are looking to make sure that a DTH operator won’t hit the wall because of satellite failure. So our value proposition is high power for a small dish, plenty of capacity so that they can expand, and built-in redundancy.

Question: Are you looking at one orbital position.

PF: No, we are looking at several orbital positions, but positions that would be close to one another. So a consumer with an ellipti-

cal dish could see multiple satellites.

Question: You mentioned earlier that you were hoping to work with some anchor clients. Are these in position yet?

PF: It is too early to discuss at this point, but we have signed up several anchor clients. They are supporting the programme and that is the reason we are fully financed on the first satellite. So we are happy and fortuitous to be where we are.

Question: From what regions are you expecting most of your business demand?

PF: We actually see demand coming from as far west as India and Pakistan to as far east as Korea, Taiwan, Philippines. In fact it is all over, if you have the right orbital slot and the right satellite design you can cover the whole of Asia. We are looking to serve all of Asia and are in discussions with multiple countries and customers.

However, I should add that they all have different needs. It is not a cookie cutter approach to solving our customer’s problem. It is more of a consultancy approach

Question: Asia is already crowded with operators. Why come into the Asian market now? What is it that you are bringing to the party?

PF: I will refer back to ProtoStar’s mandate when we focused solely on DTH. Even though the skies are crowded, the capacity that is still available is underpowered Ku band, because it is legacy capacity launched mid to late nineties prior to the regulatory markets opening up for DTH.

This capacity is fine to start one business, but as the environment becomes increasingly competitive, we are trying to give our customers more things that they can compete on, and that is power. If your signal drops less you can increase your reliability, and you can use a small dish. Power allows them to penetrate urban markets where the dishes are small. And this is just not happening at the moment, in a robust way, across Asia. It takes investors with a vision of where the market could go, and we have a good investor base. We have a solid management base – many of our people have 20 years plus of experience in the satellite industry, but also with expertise of the DTH markets. So while we are only selling space segment, we actually help our customers optimize their systems.

Question: Finally, where is the company based?

PF: We are incorporated in Bermuda and based in San Francisco, and we have just recently opened an office in Singapore. We are all about Asia, so you will see a shift towards the Singapore office. Fair to say that if things go well, we will open offices in India and China as well. ■