

Falcon Point Comments on Ramifications of SpaceX Launch

(BN) SpaceX Jan. 9 Launch Puts Iridium's Future Up in the Air
2017-01-06 19:42:33.85 GMT

By Olga Kharif

(Bloomberg) -- Iridium Communications Inc. needs SpaceX to get it right this time.

Elon Musk's Space Exploration Technologies Corp. is set to launch 10 Iridium communications satellites from Vandenberg Air Force Base in California on Monday, marking the company's first return to flight since a Falcon 9 rocket blew up on a Florida launch pad in September. The satellites are part of the Iridium NEXT constellation network, providing new and better communications services, and allowing air-traffic controllers to monitor planes flying over oceans anywhere in the world.

Another mishap could crimp future revenue growth, rattle investors and leave Iridium at a crossroads: Who, if not SpaceX, can get its satellites up in the air?

"This is a very, very important launch," Matthew Desch, chief executive officer of McLean, Virginia-based Iridium, said in an interview. "It starts the process of our replacement of our satellites. That will completely replace our network by the first half of 2018 and enable those exciting new services we've talked about in the past. It's a historic launch as far as we are concerned."

At stake is a generational business shift: Iridium's NEXT constellation would replace the world's largest commercial network of low-earth orbit satellites. Those satellites are almost 20 years old, long in the tooth by industry standards.

Two went out of commission last year. And the company is counting on SpaceX to take 70 new satellites into orbit in seven separate launches over the next 14 months to 18 months, Desch said.

Short Interest

Iridium fell 2 percent to \$10.63 at 2:33 p.m. in New York Friday. The shares had risen more than 50 percent after plunging in the wake of the Sept. 1 explosion, including 9.9 percent on Jan. 3 when SpaceX first set a launch date. Yet skepticism also remains high, with short interest -- the number of shares sold by investors betting the stock will drop -- at a record.

Iridium's new network could mean fresh business opportunities and almost \$150 million in additional revenue a year, a big bump for a company that posted \$432.6 million in sales in the 12 months ended in September, according to Andrew DeGasperi, an analyst at Macquarie Group Ltd. Iridium may also be in a position to win more contracts from the U.S. Defense Department, he said.

"If they don't replace their network, that network will fall to pieces, and so will all the associated revenue,"

DeGasperi said in an interview. "I'd expect satellite failures to accelerate in the next few quarters."

Tracking Planes

Once Iridium launches the new satellites, the company will also receive a one-time payment of \$200 million from its joint venture Aireon LLC, which will provide near-real-time tracking of aircraft anywhere in the world, including over oceans, polar regions and other areas without ground-based radar.

The Federal Aviation Administration is expected to be one of Aireon's customers, though the company still has to raise money to make the payment. Desch said he's making alternative plans in case that falls through.

The extra cash would help Iridium pay vendors, including satellite builder Thales Alenia Space and SpaceX for the launch services. Iridium is in advanced talks with Thales and its credit facility lenders to delay certain scheduled payments to ensure liquidity through 2017, Desch said.

Iridium has few other partners to turn to if the SpaceX rocket fails.

The Sept. 1 blast was SpaceX's second major mishap in little over a year, and was believed to be triggered by a failure inside the second stage liquid oxygen tank. In June 2015, a Falcon 9 rocket carrying a Dragon spacecraft with cargo destined for the International Space Station blew apart 2 minutes and 19 seconds after launch. In that instance, a two-foot-long, inch-thick strut in a liquid oxygen tank snapped.

Landing Milestone

SpaceX returned to flight less than six months later. On Dec. 21, 2015, the company launched, then landed in Cape Canaveral, a Falcon 9 rocket for the first time. In April, SpaceX landed its Falcon 9 rocket upright on a drone ship bobbing in the Atlantic Ocean for the first time ever, a key milestone toward the goal of reusing rockets and sending humans to Mars.

"Hold-down firing of @SpaceX Falcon 9 at Vandenberg Air Force completed," Musk tweeted Thursday. "All systems are go for launch next week." Launch dates are always subject to change. When asked via Twitter Friday if the date was Monday, Desch said "Yes the 9th at 10:22 pst (weather permitting)."

Iridium, for its part, doesn't plan to seek out a back-up launch vendor.

"Satellites and dispensers have all been manufactured to the specifications of the Falcon 9 rocket, and Iridium has no plans to source a new launch vendor," Desch said. The company's network, while aging, is still working well, he said.

"All these factors give us confidence we can weather a bad launch if it happened," he said.

Yet investors aren't likely to show much patience.

"If the launch happens successfully, the stock probably goes up and people will be relieved," said Michael Mahoney, senior managing director at Falcon Point Capital LLC, which invests in wireless companies and doesn't own Iridium shares.

"If something goes wrong on this one, the stock could get hit really hard, because they may have to figure out what they need to do because they can't get the stuff up in the air."

--With assistance from Dana Hull.

To contact the reporter on this story:

Olga Kharif in Portland at okharif@bloomberg.net To contact the editors responsible for this story:

Crayton Harrison at tharrison5@bloomberg.net Paul Barbagallo, Rob Golum