

Company Profile

PANAMSAT CORPORATION

PanAmSat flies high in Latin America and elsewhere around the globe

Contacts

PanAmSat Corporation

One Pickwick Plaza
Greenwich, CT 06830
U.S.

☎ (1) 203 622 6664
fax (1) 203 622 9163

Frederick Landman:

president & CEO

Lourdes Saralegui:

executive vice president

Kenneth Heintz:

executive vice president &
chief financial officer

Alvaro Gazzolo:

senior vice president, Latin
America

Robert Bednarek:

chief technology officer

MUCH HAS CHANGED since PanAmSat put its first bird into orbit in June 1988. It was then an upstart competitor to government-sponsored Intelsat with a dubious strategy of creating a global satellite network when most of the world's markets were closed to private competition.

"PanAmSat has become by far the largest publicly traded satellite company in the world," says Steven Solazzo, a satellite industry analyst with Toronto Dominion Securities in New York. Hughes Electronics' recent purchase of an additional stake in PanAmSat valued the company at \$9 billion, and it has \$3 billion in outstanding long-term debt. By year-end, after Intelsat splits its operations into two separate companies, PanAmSat will manage the world's largest fleet of satellites.

Latin America is a key component of the company's international strategy. It was founded by Mexican businessman Rene Anselmo in 1984 and its first satellite, PAS-1, was aimed at Latin America. Through its merger with U.S.-focused Hughes Electronics' Galaxy satellite services in 1997, PanAmSat now generates about 65% of revenues from the U.S. market. However, Latin America still accounts for about one-fifth of its income, which reached \$756 million in 1997.

PanAmSat satellites provide video distribution (54% of total Latin American revenues), direct-to-home television (25%) and telecoms (20%) in Latin America via six satellites and through strategic partnerships with local and international carriers.

PanAmSat currently manages a fleet of 16 in-orbit satellites. Although there are obstacles to PanAmSat's ambitious launch schedule, it has plans to replace its

Financial highlights

\$ mil.	1996	1997	1998e	1999f	2000f
Revenues	730	756	933	1,239	1,513
EBITDA	481	544	693	988	1,272
Operating income	300	346	446	651	880
Satellites in orbit	14	17	18	20	22
EBITDA margin	65.9%	71.9%	74.3%	79.7%	81.9%

Note: Results reflect consolidated PanAmSat and Galaxy systems. Consolidated data prior to 1996 not available.
Sources: PanAmSat, Merrill Lynch

first satellite with a more powerful bird (PAS-1R) which has Latin American coverage, and to launch Galaxy 11, which has some coverage in Mexico. The company has an order backlog of \$7 billion and Merrill Lynch projects revenue will reach over \$1.5 billion by 2000.

The merger of the Galaxy and PanAmSat fleets in 1997 changed PanAmSat dramatically. "They now have the advantages of a larger fleet and the ability to manage the fleet under a single company," comments one industry observer. As part of the deal, Hughes Communications Galaxy (HCG) merged with PanAmSat to create PanAmSat Corp., leaving Hughes with a 71.5% stake in the new company.

Previously PanAmSat was 40.5% owned by Televisa; the Anselmo family (40.5%); and the public (19%). Televisa retained a 7.5% stake in the new company, the Anselmo family 12.2% and the public 8.8%. Televisa received \$650 million for its equity plus a 7.5% stake in the new company. In May this year, Televisa sold its remaining stake and the Anselmo family a 2% stake to Hughes for a combined \$850 million in cash, or \$60 per share. Hughes now controls an 81% stake. The Anselmo family plans to sell another 8.5% stake to the public.

Hughes' acquisition is the culmination of a relationship with PanAmSat that stretches back to

1991 when the two signed a deal to construct and launch three satellites. In 1996, PanAmSat/Galaxy's Latin American revenues were \$80 million, equivalent to 19.5% of the total regional satellite market. "Latin America is a huge opportunity for satellite operators," says Vijay Jayant, a New York-based analyst with Bear Stearns.

Video programming distribution and DTH television broadcasting make up the bulk of PanAmSat's Latin American business. In 1997 PanAmSat launched three birds, two of which – Galaxy VIII-I and PAS-6 – were dedicated to DTH. Galaxy Latin America, a DTH service 60%-owned by Hughes Electronics, covers the region using the VIII-I bird. The News Corp.-owned Sky Latin America DTH service, Televisa and Organizacoes Globo, covers South America using the PAS-6 bird. Sky pre-leased Ku-band transponders on PAS-5 to cover Mexico.

PanAmSat says the DTH services pre-leased transponders for the life of the satellites, but Alvaro Gazzolo, PanAmSat's senior vice-president for Latin America, would not disclose specific terms of the contracts. He also declined to comment as to whether PanAmSat is at risk if one of the two DTH companies do not survive or if the two services merge. But analysts think it likely that PanAmSat has protected itself, either by ensuring it

Chronology

1983 HBO begins transmitting U.S. domestic signals using a Galaxy satellite

1984 PanAmSat founded by Rene Anselmo

1988 First PanAmSat satellite, PAS-1, launched

1989 CNN becomes the first international broadcaster to use the PAS-1 satellite to distribute programming in Latin America

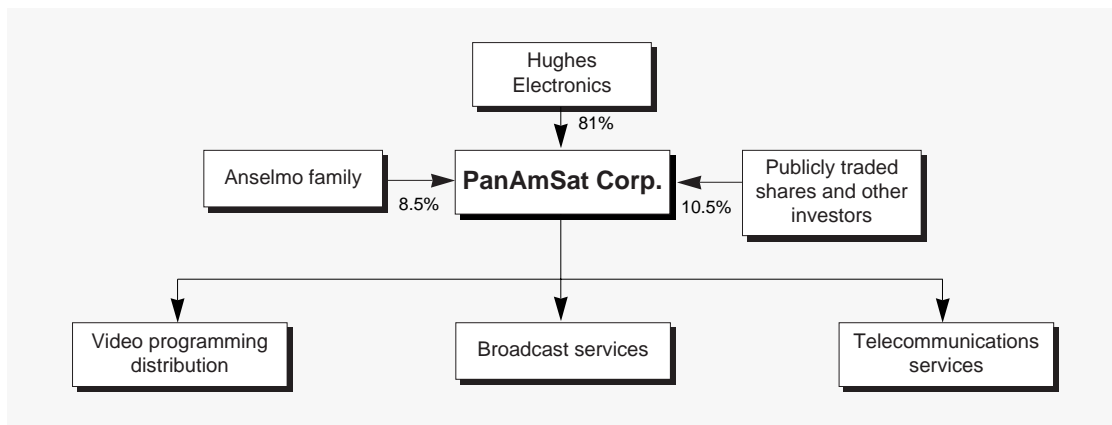
1992 Televisa becomes a major shareholder with the purchase of a 40% stake

1994 PAS-2 launched with Asia Pacific coverage

1995 Galaxy launches its first satellite with coverage in Latin America, Galaxy III-R

1996 Merger plans between Galaxy satellite services and PanAmSat announced.

1997 PanAmSat merges with Galaxy, leaving Hughes as the company's main shareholder. PanAmSat launches three satellites – PAS-5, PAS-6 and Galaxy VIII-I – totally or substantially dedicated to Latin American DTH TV services Sky Latin America and Galaxy Latin America.



has recourse to the main shareholders for payments, or by requiring a large one-time payment for returning the transponders to PanAmSat.

Gazzolo praises the accord signed June 5 between the U.S. and Argentine governments which allows regional DTH operators to use PanAmSat's satellites to offer service in Argentina. "We are very happy about this," he says, adding that PanAmSat's Galaxy VIII-I bird has already received approval to offer service.

He sees continued demand from programmers seeking reach in Latin America. "Cable operators only carry 60-80 channels now...but that must change," he predicts. Competition from DTH services, he says, will force cable operators to offer more channels and keep demand for transmission high.

PanAmSat says carriers in Latin America signed up for over 130MHz of additional capacity in 1997, bringing the total to more than 700MHz. Impsat Satellite Communications Systems and Americatel Corp. were among the customers buying more capacity. Red Cientifica Peruana, an Internet service provider in Peru, increased its capacity on PAS-3 by some 400%.

PanAmSat says 90-95% of Latin America's private telecoms operators use its services. The largest user of PanAmSat capacity is Hughes Network Systems (HNS), which uses PanAmSat-based very small aperture terminal (VSAT) networks to link its international branches. Several corporate customers also access PanAmSat's satellites directly from Latin America, relaying voice and data communications via

dedicated transmission links. These links cost between \$6,000-10,000 per month.

Impsat and Comsat are the biggest players in the Latin American VSAT market. Impsat has taken capacity on multiple PanAmSat Atlantic Ocean region satellites to support the growing number of VSAT business networks.

PanAmSat also offers bandwidth on demand, allowing carriers to pay for only the time they use. In late 1997, PanAmSat began to sell satellite services by the minute to customers who do not require dedicated space segments.

"The Internet business is growing exponentially," says Gazzolo, "we are finding it hard to keep up." PanAmSat offers Internet carriers an all-in-one package called SPOT-bytes. The product packages teleport services, an Internet port and space segment for Internet service providers. The ISPs will use PAS-1R, which is set to launch in 1999 as the largest of the new PanAmSat birds. Latin America is PanAmSat's

largest market outside the U.S., and its current six-satellite capacity in the region is nearly full.

PanAmSat's large fleet is one of its main advantages. As investors started to see successful launches of satellites in 1997, combined with expectations of more efficient operations, PanAmSat's share price rose from about \$35, to as high as \$66 in recent months. With the surprise breakdown in May of the Galaxy IV satellite, which covers the U.S., shares fell back to about \$55.

But the Galaxy IV incident allowed PanAmSat to show its strength. With tens of millions of U.S. paging customers left without service, PanAmSat was able to quickly move another of its satellites – Galaxy VI – into Galaxy IV's position. In a report following the Galaxy IV failure, Solazzo says "PanAmSat's ability to provide customers with backup satellite capacity demonstrates the value of owning a large fleet of satellites that can accommodate service interruption." L

PanAmSat birds with Latin American coverage



Satellite	Location	Transponders		Launch	Primary services	Coverage
		Ku-band	C-band			
PAS-1	45°W	6x72MHz	6x72MHz 1x36MHz	June 1988	Video, telecoms	Americas, Carib., Eur.
PAS-3R	43°W	6x54MHz	16x54MHz	Jan. 1996	Video, telecoms	Americas, Carib., Eur., Africa
PAS-5	58°W	6x36MHz 18x36MHz	24x36MHz	Aug. 1997	Video, DTH, telecoms	Americas, Carib., Eur.
PAS-6	43°W	36x36MHz	–	Aug. 1997	DTH	S. America
Galaxy III-R	95°W	16x27MHz 8x54MHz	24x36MHz	Dec. 1995	Video, DTH	U.S., Latam
Galaxy VIII-i	95°W	32x24 MHz	–	Dec. 1997	DTH	Latam

Source: PanAmSat