

Avanti Communications Group plc

Project Finance: Complex Transactions, Multifaceted Returns Ex-Im Bank Annual Conference

11 March 2010



- INTRODUCTION TO AVANTI
- AVANTI HISTORY
- AVANTI BUSINESS MODEL
- THE EXIM TRANSACTION OPPORTUNITY
- □ THE EXIM TRANSACTION
- REASON FOR COMPLEXITY
- □ LESSONS LEARNED



AVANTI: INTRODUCTION

- Satellite broadband operator in EMEA, the first in the region
- ☐ Listed on AIM, Market Cap c£320m, senior debt of £240m
- We sell managed broadband services to service providers who sell to consumers, businesses and institutions
- ☐ First satellite HYLAS 1 launches this Summer.
- ☐ HYLAS 2 will launch in Q2 2012.
- □ Significant capacity pre-sales already generated



Satellite coverage throughout Europe, Middle East and Africa

0

HYLAS1&2 Ka-band coverage

HYLAS1 Ku-band coverage







AVANTI: HISTORY

- Terrestrial telecoms networks leave large gaps in coverage because:
 - Economics of serving rural areas are challenging
 - Terrestrial technologies struggle with long reach
- Old Ku band technology has been used for broadband, mainly enterprise customers, but is slow and expensive.
- Avanti founders Williams and Bestwick concluded in 2002 that a new generation of satellite technology called KA band would make satellite broadband fast and cheap for the first time
- Avanti established to seek license and funding
- □ UK government supported development of first satellite with ESA funding. Remainder of £120m raised on AIM and private placement debt



AVANTI: BUSINESS MODEL

- ☐ HYLAS 1 is a small satellite with beams over Europe
- □ Can supply up to 350,000 homes with satellite broadband
- ☐ Speeds up to 10Mb and prices from £20 per month
- Avanti sells a Virtual Network Operator Service ("VNO").
- It owns and operates all ground switches and management software
- ☐ The VNO buys units of end user service, but also has the flexibility to manage the service online
- ☐ The VNO needs zero CAPEX, it just sells, installs and first line supports
- Avanti has 54 VNOs around Europe
- The broadband service is highly flexible and is now also being sold for other Enterprise applications, like cellular backhaul



THE EXIM TRANSACTION OPPORTUNITY

- Avanti's business model was working well, and it needed to expand geographically with HYLAS 2 into MEA before its early mover advantage was lost in those areas
- But with the share price depressed, investors were unwilling to fully fund the second satellite
- Avanti had down-selected Orbital Science Corporation in November 2008 but the failure to secure full funding put project on ice
- Orbital therefore provided the introduction to US EXIM bank to explore whether the project could be financed
- Avanti shareholders were willing to fund one third of the costs if debt could be secured



THE EXIM TRANSACTION

- A transaction with EXIM had its first close in December
- Total Debt facilities of £194m supplied by US EXIM and also COFACE (in support of Arianespace launcher)
- Avanti raised £86m equity at 400p (share price now 460p)
- Secured on assets of HYLAS 2 with second charge on other Group assets
- ☐ From First meeting with EXIM in March 2009 to financial close was 9 months
- ☐ Given my experience as a banker during the 1990s, I think this timetable was impressive
- Barclays acted as advisor on both General Capital Structuring and as Avanti's advisor for the US EXIM Facility.



REASONS FOR COMPLEXITY

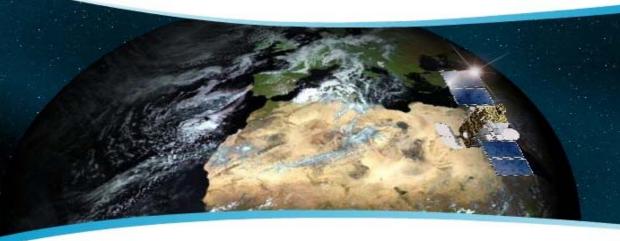
- □ Taking security over space assets and spectrum licenses is challenging
- ☐ The technology is new
- The markets are new
- The first satellite not yet launched
- □ HYLAS 1 has senior lender group with who intercreditor arrangements required
- □ Intercreditor arrangements required with COFACE and its fronting bank on HYLAS 2 financing



LESSONS LEARNED

- Avanti was well prepared with some existing consultants reports and high quality data to support new investigations
- ☐ Its existing lenders were flexible and co-operative
- Avanti was willing to be flexible and creative during negotiations
- The in-house finance and legal team were able to dedicate significant full-time resources to the transaction
- But the financial adviser and legal cost risk to Avanti during the transaction was worrisome
- A US EXIM transaction is challenging, but if the borrower is well prepared and willing to work hard the outcome can be excellent







dw@avanti-communications.com

0207 749 1600

Avanti Communications Group plc 74 Rivington Street, London EC2A 3AY AIM: AVN.L