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SATELLITE GETS PERSONAL

By Max Engel

Consumer Broadband Sector Strengthened by New Owners

Once again a North American satellite broadband provider has a new owner. Following WildBlue's acquisition by ViaSat, Hughes Network Systems is being purchased by EchoStar. Is it possible that broadband companies just can't make it on their own?

Actually, the two cases are totally different. Although both sales have resulted in potentially stronger companies, where this strength comes from is very different. When ViaSat bought WildBlue, the greatest benefit to WildBlue was increased resources. ViaSat gained a retail arm to market it's new satellite capacity. In the case of Hughes and EchoStar, the picture is much more complex. For one, Hughes does more than just provide satellite broadband. The satellite operator is an expert in managed communications services for business and builds hardware in addition to its consumer broadband business (those are Hughes' historical core capabilities, broadband came later). EchoStar, on the other hand, owns and operates the satellites that transmit Dish Network programming and provides Dish Network's set top boxes.

When Hughes' capabilities are added to those of EchoStar, interesting possibilities emerge. The first of these is the obvious idea that Hughes satellite broadband provides the two-way channel that is necessary for a DTH company to fully compete with terrestrial multi-system operators. As I have noted in previous columns, the weakness in the satellite TV offering is the inability to provide the sort of customized, or unicast, experience possible with video on demand systems. Currently, the Internet serves as a partial solution to this problem, but many satellite TV subscribers do not have broadband, and sometimes they do not even have access to broadband. As the great strength of satellite broadband is its ubiquity, it would serve as an excellent adjunct to the equally ubiquitous satellite TV.

I have always thought that this idea failed when the amount of broadband capacity that would be required was considered. Even with the new generation of broadband satellites represented by Hughes' Jupiter and ViaSat's ViaSat-1, the use of satellite broadband in areas well-supplied with terrestrial broadband seemed

inefficient, at best. However, I lack the technical skills to make a real evaluation. Perhaps Jupiter and its successors are sufficient to tie all of Dish Networks subscribers to video-on-demand services. We will see. More importantly, though, is the fact that Hughes already is providing technology-agnostic, hybrid networks to its commercial customers.

As I see it, the real value in Hughes is its ability to leverage a limited amount of satellite capacity, coupled with terrestrial broadband resources. As a managed service provider with expertise in mixed networks, Hughes offers a path to a return channel covering 100 percent of Dish Network's subscribers without the necessity of providing satellite broadband coverage to all of them. Satellite coverage might do the job along, but with Hughes, other options open as well. Charlie Ergen has shown that he is willing to take risks on new technologies, but there is no sign that he does so when old ways would work as well. With Hughes he has choices.

Beyond its networking abilities, Hughes also is valuable as an addition to EchoStar's set-top box capability. The acquisition of a technology leader like Hughes only can add to EchoStar's current capabilities at a time when the subscriber's experience is heavily dependent on the quality of the devices that mediate between the viewer and the programming source.

Beyond the technological fit between EchoStar and Hughes is the fact that Hughes has been quite successful on its own. Unlike WildBlue, which might be seen as having needed a deep-pocketed partner, Hughes is profitable and growing with no obvious storm clouds on the horizon. Apollo is selling its stake in order to realize the profits that are the reason such investment funds exist. Given that Apollo has decided to sell, EchoStar and Hughes seem an excellent fit where there is considerable overlap in capabilities and relatively little in markets. Hughes has not been a player in video — with the notable exception of digital signage, and EchoStar has not been in the broadband business.

With the current management team slated to remain at Hughes, there is a real opportunity for both companies to continue to do what they do best alone and to do things together that neither could do before. ▣

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