

Seeking growth in emerging community Wi-Fi markets and partnerships

Q&A with Hughes Network Systems SVP of international Ramesh Ramaswamy

US connectivity heavyweight Hughes Network Systems is bullish on consumer satellite broadband in the Americas and beyond. In early September the company expanded its Wi-Fi alliance with Facebook to cover Colombia, soon after their partnership in Brazil deployed its hundredth Wi-Fi hotspot in the country. We spoke to Ramesh Ramaswamy, SVP and general manager of Hughes' international division, to learn more about this strategy and how it leverages partnerships to expand internationally.

Jason Rainbow: What market potential does Hughes see in community Wi-Fi, and how does your Facebook partnership work?

Ramesh Ramaswamy: We have a three-pronged approach for the Wi-Fi market. One is, typically we're in very rural areas, where people come into a kiosk and buy internet service in a pay-as-you-use model. That's a classic community Wi-Fi model.

The second one is where you have Wi-Fi infrastructure and consumers are at home on a subscription-based usage model, a classic subscriber business.

The third is government-funded community Wi-Fi projects, where users go to a government office or a school that offers broadband access, and that

infrastructure also provides free internet for neighbouring communities.

When people say community Wi-Fi, they can mean any one of these. Now, from a user's service perspective, the Facebook model is under the first model that I described – where there's a point of presence in a rural area with satellite and Wi-Fi infrastructure, and logistical infrastructure where people can offer and bill for the service.

Facebook has developed this Wi-Fi infrastructure called Express Wi-Fi, which includes the actual access points that have been qualified, and the backend systems that essentially allow the creation and provisioning of data packs. The agreement between Hughes and Facebook is that Hughes essentially uses that infrastructure within its satellite broadband service construct, and offers these services through its own retail channels.

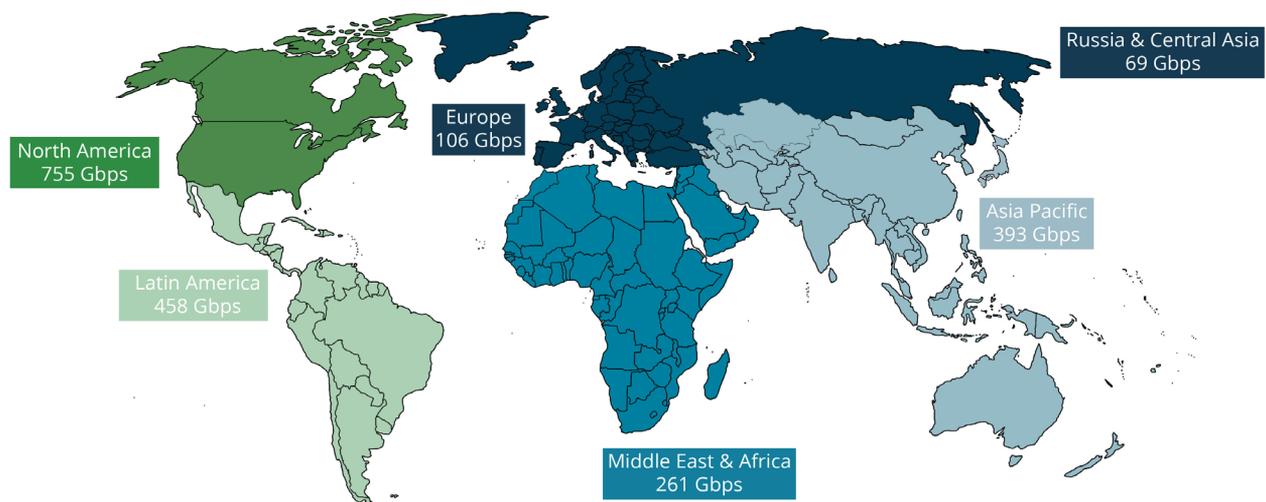
JR: So there's no revenue sharing or other value dynamics within this partnership?

RR: There is no revenue share or commercial transaction



Ramesh Ramaswamy, SVP of international, Hughes Network Systems

Worldwide HTS capacity



Source: Euroconsult, Hughes Network Systems

per se between Hughes and Facebook. It's almost like a software licence agreement. For Facebook, it's essentially part of their overall enabling broadband strategy. For us, it's providing broadband to areas where the ARPUs are low and you need a shared community infrastructure.

JR: How do Hughes and Facebook decide which markets to cooperate in, and what countries could be next?

RR: It's on a country-by-country basis. From Hughes' perspective, we would obviously pick countries where we have a vertically integrated service. In this case, that's in central and Latin America. That would be countries where we have launched our own HughesNet service, which is Brazil, Colombia, Mexico, Chile, Ecuador, Peru. That's where your ownership economics allows you to offer competitive services.

The countries that we are targeting to launch with Facebook are initially in these markets. I believe we've already announced Brazil, Mexico, and now we've announced Colombia. Hopefully, we'll continue to expand that relationship in these markets in other countries.

JR: Yahsat is another big partner of yours. The latest deal with them to be announced was the broadband JV for Latin America – similar to your first partnership with them concerning Africa, Middle East, and Southwest Asia. What's the latest with this partnership?

RR: The Brazil deal has been signed, and is going through regulatory approvals. We're hopeful and confident that the approvals should be received soon.

JR: Are there discussions about expanding this partnership to other markets?

RR: Not at this time.

JR: What about the possibility of this partnership ordering a dedicated satellite?

RR: If I look at it from the African context, today the JV has X amount of capacity over Africa and the Middle East. Obviously, the first order of business is to sell that capacity out, or at least have a plan that we know we're going to

sell it out in some period.

In this business, you have to plan for expansion capacity. As the JV plans expansion capacity, it's quite conceivable that you could have a dedicated satellite. It'll come down to how much investment and what the resulting cost per bit is.

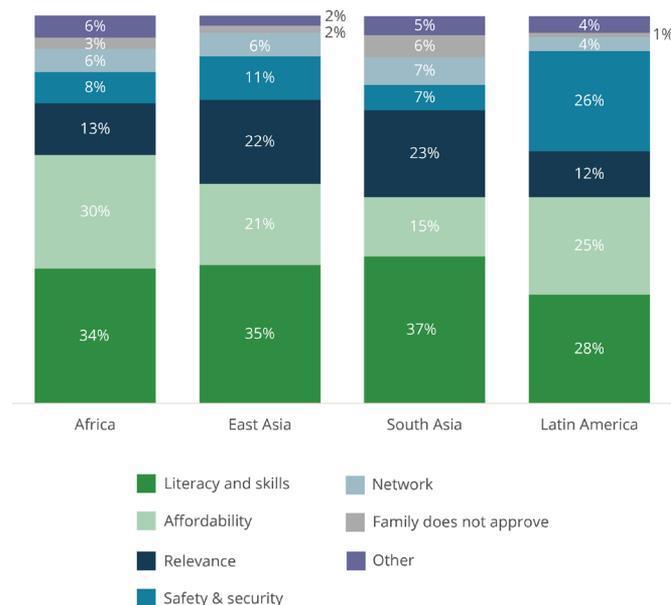
JR: It seems that partnerships, rather than a go-it-alone strategy or M&A, is the name of the game for expanding into new markets. How much should we be reading into that in terms of a headline strategy for Hughes?

RR: I don't know how much you need to read into it, except that the strategy is predicated upon the fact that international markets are very diverse. More often than not, you need strong local partners to be able to crack those markets. That's the genesis of the strategy. You could have a lot of cash, you could have a lot of expertise, but if you don't have the right local partners it's hard to succeed. You've got to find a way to partner. JVs are just one construct. Acquisitions are another construct. We've done JVs.

JR: You've also been sitting on billions of dollars in cash reserves for many years now. What has been inhibiting an acquisition? Why haven't we seen a deal?

RR: This may sound like a trite answer, but I think the right deal hasn't come. We're looking at strategic options all the time. That's probably the best way I can answer that.

The top barriers to mobile internet use in surveyed low- and middle income countries



Source: GSMA

JR: Does the LEO and newspace arena still interest Hughes? What are the prospects there for a deal?

RR: Absolutely, we're a big believer that LEO and NGSO will play a big part, going forward. We've always said that all of these LEOs, NGSOs, and even terrestrial technologies, they are all complementary, and we're a big believer in this hybrid approach. To that extent, we'll continue to be involved in the NGSO space. Today as you know we're a technology supplier and a minority investor in one of those constellations [OneWeb]. I think we'll continue to invest from a technological perspective to keep up our edge in that space.

JR: What kind of IoT business could complement your GEO broadband strategy?

RR: From a GEO broadband business perspective, we look at IoT as very complementary in the sense that it's an aggregation strategy. You aggregate IoT devices and provide, for a lack of a better term, backhaul. That's clearly a complementary market. But to be in the direct device communication piece of that business, that's truly a narrow-band strategy.

As you know, we have a strong pedigree in providing narrow-band technology. We have a long list of customers, such as Thuraya and MEXSAT, and our own sister company EML is in the narrow-band space. I think we have the technological pedigree and we now have complementary space assets, such as EML. I would say that it's just logical that you would look at ways to leverage those capabilities to expand potentially into the IoT space.

Of course you've got to crack things like the device, technological issues and all of that. From that perspective, we have complementary capabilities in place, I believe.

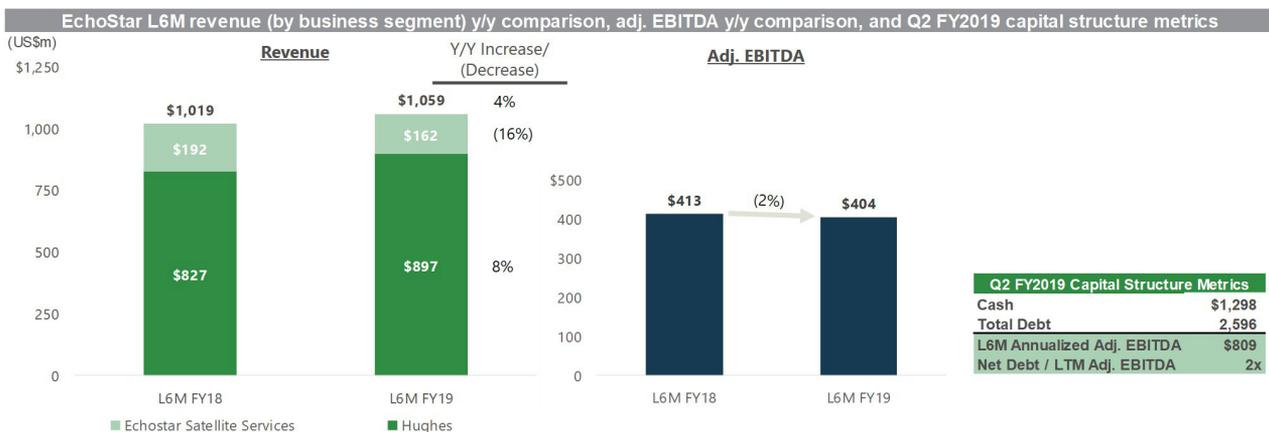
JR: And what can investors expect from consumer broadband this year and next, generally?

WE'RE A BIG BELIEVER IN SATELLITE CONSUMER BROADBAND. WE'VE INVESTED A LOT OF MONEY IN THE AMERICAS TO BE VERTICALLY INTEGRATED IN PROVIDING BROADBAND. AND NOW IN LATIN AMERICA WE HAVE AROUND 169,000 SUBSCRIBERS. CLEARLY, WE'RE FULLY COVERING THE AMERICAS

RR: We're a big believer in satellite consumer broadband. We've invested a lot of money in the Americas to be vertically integrated in providing broadband. And now in Latin America we have around 169,000 subscribers. Clearly, we're fully covering the Americas.

One of the markets that the Africa JV will be focusing on is consumer broadband, albeit not as high an ARPU market as the US. Again, we'll be using some of these strategies like community Wi-Fi to reach some of the lower ARPU markets there too. That's the second level of consumer internet access strategy, if you will.

Then we'll have to see. I think as we grow or expand into other parts of the globe, consumer broadband will not be the only market, but consumer broadband will be one of the bedrocks, and complemented by lower ARPU consumer businesses such as community Wi-Fi, and trunking businesses such as cellular backhauling. All of these will be markets that we think will have a lot of potential as we look to expand globally.



Source: Finance Information Group, EchoStar