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PROFILE David E. Hershberg

CHIEF EXECUTIVE OFFICER, GLOBECOMM SYSTEMS

Not For Sale

GlobeComm Systems in the past four years has transformed itself from a company building satellite Earth stations and performing some value-added services on the side to one whose business is mostly managed network services. Building Earth stations remains a core competency for the company, but the recent revenue and profit growth is coming from the services side, mainly through contracts with the U.S. government.

GlobeComm Chief Executive David E. Hershberg, who founded the Hauppauge, N.Y., company in 1994, says the switch to services started slowly, outside the United States, and was done so as not to upset any of GlobeComm's customers, who themselves are often service providers.

Managed network satellite telecommunications

Two of your services competitors, CapRock and Segovia, have been purchased by larger companies — Harris and Inmarsat, respectively — in the past year. Is GlobeComm next?

Well, if we could get a deal like CapRock ... But seriously no, we're not for sale.

Sometimes companies that aren't for sale end up being purchased nonetheless.

Some of the big guys are looking for a service component to better position themselves for government contracts that may require that. We feel we've got a pretty good future.

You began entering the managed services part of the business some years ago after focusing on Earth station manufacturing. What was the reason?

Earth stations in the 1990s started becoming more of a commodity. We didn't want to compete with our customers, who are service providers, so we found other ways to get into services, particularly in the developing world, where we could avoid any perception of causing problems for our customers. Then starting in 2000 we made a conscious effort to get into services.

In recent years your government services business has become especially important.

Yes, I would say that from less than 10 percent of our revenue in 2000, it has grown to more than 50 percent now. Services in general now represents, for us, some 500,000 hours of video per year over our networks.

When you say government, do you mean mainly military?

It includes all government customers, domestic and international. I would say the U.S. government is about 40 percent of our government business, with NATO, the United Nations and overseas agencies being about 20 percent.

We expect the U.S. Department of Defense will be less than 10 percent of our total government business in fiscal year 2011, which ends June 30. Most of our government business is for foreign aid, diplomatic communications and other nonmilitary users.

In the terminal market overall — fixed, gateways, fly-aways — what is your estimated market share?

We have a relatively good position that I would estimate at around 25 percent.

services has been a focus of Wall Street interest recently as two GlobeComm competitors, Segovia and CapRock, were purchased by larger companies that wanted a services provider as part of their portfolio.

Hershberg said GlobeComm has had its share of possible suitors but is not interested in becoming part of a larger organization. He says GlobeComm's near-term prospects are solid, and that the company can remain on its own and grow nicely.

A particular focus of current work is fielding gear to work with the coming Ka-band broadband communications satellites, both governmental and commercial. The maritime sector, increasingly interested in broadband as well as narrowband communications, is another priority.

Hershberg spoke with *Space News* staff writer Peter B. de Selding.

Maritime is a growing sector for you. How do you see the market evolving between low bandwidth at L-band from Iridium and Inmarsat, higher-bandwidth Ku-band VSAT installations, and Ka-band terminals being designed for Inmarsat's future global Ka-band network?

It really depends on the application. For a fishing fleet, to cite an example, there will be a need to report position and similar functions, and this is OK for Inmarsat at L-band. But if your requirement is for several hundred kilobits then you will pay 10 to 20 times for Inmarsat's L-band service what you could get from VSAT.

There are 50,000 or 60,000 ships now that form a market for broadband. So this looks pretty interesting. Our maritime product line has seen good growth and now is on more than 2,400 ships. Broadband accounts for 30 percent of all new activations.

Some of this broadband is to be supplied by the U.S. military Wideband Global System (WGS). Are you going after that future terminal market?

We are making X- and Ka-band Earth stations. In the past there wasn't a lot of X-band demand beyond NATO, and there wasn't any Ka-band at all. The military has really been key to a lot of these markets in Ka-band. The U.S. military isn't going to be buying [L-band] Inmarsat for broadband applications.

We have seen different satellite fleet operators take different paths with respect to providing managed services directly to the customer. Some are willing to engage in the business, despite the lower profit margins, and some want to limit their activity to selling satellite bandwidth. How do you view it?

We have found that having a hardware division can generate business on the services side, but the reverse is also true. Services have helped our hardware business. It really goes both ways.

Some VSAT network operators have said satellite bandwidth remains extremely expensive in some regions, and that satellite owners have taken advantage of the scarcity. Your view?

Well, it's pretty clear that you will not have an easy time finding capacity over Afghanistan these days. That capacity is rare, and expensive. The same is true for some connections into and out of Africa.

Do you buy bandwidth in bulk far in advance to keep the per-megahertz cost down?



We try to buy only what we know we will need. Around 2000, when the dot-com bubble was about to burst, we bought something like \$180 million in satellite capacity, with the contracts running to the end of the satellites' lives. Big mistake. A lot of it was empty too long.

We've learned our lesson since then. We buy as we need it. There's nothing just sitting there unused. But of course, you pay a bit more, and you have to find this capacity.

Since you are leasing the equivalent of a couple of satellites' full capacity, are you able to negotiate deals that would be beyond the reach of a smaller customer?

I think that's true, and it's not just our size, it's also the fact that we pay on time. That matters to the operators, because not all customers do pay on time. So we have been able to negotiate some pretty good deals, and we've tied up some bandwidth on some new satellites. We've been able to hold our own.

The problem with buying capacity far in advance is you don't know where you are going to need it a year or two later. If we make a big commitment, and it doesn't work out, we're stuck with something we can't use. We really can't stand a lot of empty bandwidth.

How big is the Ka-band opportunity for you?

We think we are one of the leaders in developing Ka-band Earth stations, and we have won contracts for military Ka-band systems and recently we won a contract with Hughes to provide gateways for their Jupiter commercial Ka-band satellite. There is an awful lot of bandwidth available in Ka, but the fact is that when it rains hard, you're going to have issues.

We are expecting a request for proposals for Ka- or X-band or for a mixed-band antenna solution for WGS. But we have not seen it yet. In fact, in general we have not seen a lot of Defense Department requirements come out for Ka-band.