

CFOs React: Hughes Communications' Grant Barber

While the satellite internet company is sitting on a ton of cash, its CFO worries about how well its customers are weathering the downturn.

David M. Katz

In recent days, as the financial crisis intensified, many commentators wondered how soon the credit freeze would hit Main Street and what effect it might have on the overall economy. Unlike many finance chiefs, Grant Barber, the CFO of Hughes Communications, a provider of high-speed satellite internet hookups, had few worries about the company's own funding. Much more pressing: the possibility of a tightening in consumer spending.

On May 21, as a result of what Barber calls "partially dumb luck, and good timing," Hughes raised \$100 million through an equity offering in which Goldman Sachs and Lehman Brothers acted as the underwriting representatives. Together with two prior debt sales in 2006 and 2007 via Bear Stearns that have brought its debt to \$592 million, the company has buttressed its cash position well enough to put it within reach of its goal of buying a \$400 million satellite without having to go to the capital markets now.

Besides funding the second satellite—the company launched its first one into space in August 2007—the company also issued the stock to "increase the public awareness and float for Hughes shares," according to Barber, who added that the company also wanted to attract analyst coverage. The company added 2 million shares in the offering. In late trading today, the price of a share of Hughes stock stood at \$19.09, off from its \$61 annual high last November 8.

Currently, the company is holding \$191 million in cash against its \$592 million in debt, for a net \$400 million of debt. That isn't half bad, Barber thinks, for a company with about \$1 billion in revenue over the year preceding June 30 (up 12 percent over the prior year). That should enable the company to put another satellite into space over the next three to five years, providing the CFO with fixed signal-transmission costs rather than the more variable expenses the company would accrue by renting space on satellites owned by other companies. A satellite typically lasts 15 years.

Thus, Barber's biggest anxiety about the current crisis isn't the financial effects on Hughes, but the economic impact on the company's customers. Essential as high-speed internet hookup has become to teenagers who watch their favorite television shows on their computers, he says, "it's still a discretionary service that people can put off."

Indeed, the company has already seen a "modest increase" in delinquency on its receivables, which are mostly on credit cards, he says. Further, it's recently seen about a tenth of a point rise in its customer churn, he says. Normally, the company loses 8,000 to 10,000 customers a month, or 2.5 percent to 3 percent. (As of June 30, Hughes had 410,000 subscribers.) "A tenth of point...it may not seem significant. But it is a trend we've watched," Barber said. "We're watching our spend [on inventory and headcount], such that

if we do see a slowdown in the topline we can still continue to upgrade profit."

Although the company has the cash to weather out a downturn of at least six months, Hughes is becoming "more creative" about its pricing plans to keep its existing customers and to lure new ones, Barber said. Typically, the company asks customers for \$300 up front to buy the needed equipment, which includes an outside dish and indoor modem, and pay for the installation. Then customers normally have a choice of monthly service packages ranging from \$60 to \$150, depending on the download/upload speed of the connection. (Increasing the speed offered doesn't cost the company anything extra.)

Recently, however, customers have increasingly balked at the cost of buying the equipment. "What we found is that consumers are more concerned about that upfront payment. The \$60 or \$70 isn't as big a concern," the finance chief says. "A year and half ago, [the upfront charge] was \$600, and we've dropped it to \$500, \$400, and then \$300."

Over the last two months, the company has been introducing rental plans with less upfront cost. In one plan, the customer pays a \$99 activation fee up front and then \$9.95 a month to rent the equipment in addition to the service fee—thereby giving up "the upfront sticker shock," notes Barber.

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