
Space M&A H1 2023

Joining forces against a space ecosystem overly fragmented



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Space is hard, in both the technical sense and the financial sense. It takes hundreds of millions of dollars, if not more, to get off the proverbial launchpad. As reference, it is taking Astranis more than \$350M¹ to develop and build the first commercial micro-GEO. Telesat Lightspeed, still in the process of closing its financing, is estimated to cost \$5B.²

Surely, most investors who have put money into the space ecosystem believe that there is a market for their product and services. That may be true in some instances,

but the reality is much more nuanced. At FTI Consulting, we further segment the space domain based on end-user applications, with 11 categories:

Segment	Commercial	Civil	Defense	Intelligence
Communications	✓		✓	
Earth Observation	✓	✓	✓	✓
Position Navigation and Timing			✓	
Beyond Earth, Observations		✓	✓	
Technology Demonstration		✓	✓	
Exploration		✓		
Industrial Space	✓	✓		
Space Tourism	✓	✓		
Space Management			✓	
Military Space			✓	
Other	✓	✓	✓	✓

Many of these markets are inherently institutional (governmental) with a finite amount of available funding. Although we're seeing disproportionate growth in funding for governmental space programs within the U.S. (the Space Force's budget request was nearly 40% higher in 2023 than in 2022), this level of activity is likely not sustainable.⁸ Given the costs to fully mature a space technology, the question remains whether the end markets are large enough to support the current number of players.

In our view, the space and satellite industry need to move from divergence to convergence and scale. There are many promising players with revolutionary technology, but the industry is overly fragmented for these technologies to mature and be economically viable. Investors can add value by combining the right assets to achieve global scale. The space industry truly needs collaboration on a global level; otherwise individual country/regional markets will be too small to bring a nascent technology to operational maturity. As an example, convergence and scale can be achieved through vertical integration (e.g., IoT + satellite + data analytics) or horizontal integration (e.g., Optical ISLs or user terminals).

Integration can come in many forms, including traditional mergers and acquisition, joint venture or simple partnership. The key is to understand the broader strategic priorities of the parties involved, be they financial, technical or geopolitical. However, it is important to note that, in some cases, regulatory authorities and legislative bodies stand opposed to integration and cross-border collaboration.

Take, for example, a recent letter written by Senator Elizabeth Warren to the Federal Trade Commission "FTC" expressing opposition of the pending acquisition of Aerojet Rocketdyne by L3Harris Technologies. The letter, which heavily cites arguments from the Department of Defense's February 2022 "State of Competition within the Defense Industrial Base" report, positions Aerojet Rocketdyne as just the latest target of L3-Harris's "acquisition spree spanning two decades and over 30 target companies."⁹ Importantly, the scope of the letter expands well beyond the L3Harris-Aerojet transaction and specifically cites other defense primes for their alleged anti-competitive behavior, including vertical consolidation.

⁸ Theresa Hitchens, "Space Force budget gets a big boost to \$24.5B in FY23, focus on resilience," Breaking Defense (March 28, 2022), <https://breakingdefense.com/2022/03/space-force-budget-gets-a-big-boost-to-24-5b-in-fy23-focus-on-resilience/>

⁹ Elizabeth Warren, Letter from Senator Elizabeth Warren to the Federal Exchange Commission (January 26, 2023), <https://www.warren.senate.gov/imo/media/doc/2023.01.26%20Letter%20to%20FTC%20re%20Aerojet-L3Harris.pdf>



Additionally, as it relates to cross-border collaboration, the current regulatory environment in the U.S. often works against this objective. For example, ITAR restrictions in the commercial satellite sector can prohibit U.S.-based companies from scaling into other markets, while foreign competitors with less burdensome regulations strengthen their position. In response to this challenge, Tom Stroup, President of the Satellite Industry Association, recently testified before the House Energy and Commerce Subcommittee on Communications and Technology and advocated for the “removal of satellite technologies from restrictive export control regulation when international commercial alternatives exist.”¹⁰

If left unaddressed, these regulatory and political impediments have the potential to negatively impact investors as they look to create value and strengthen the space ecosystem.

With over 50 years of combined experience working across the space value chain, FTI Consulting has extensive experience setting up the right mechanism to achieve the convergence and growth objectives, while also managing and mitigating regulatory and political risk. For further discussions around potential integration targets, or how best to structure the opportunity, please reach out to our FTI Consulting space experts.

¹⁰ Peter B. De Selding, “One example of ITAR and NewSpace: Signals intelligence provider Hawkeye 360” Space Intel Report (February 13, 2023), <https://www.spaceintelreport.com/one-example-of-itar-and-newspace-signals-intelligence-provider-hawkeye-360/>



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