S&P Global
Market Intelligence

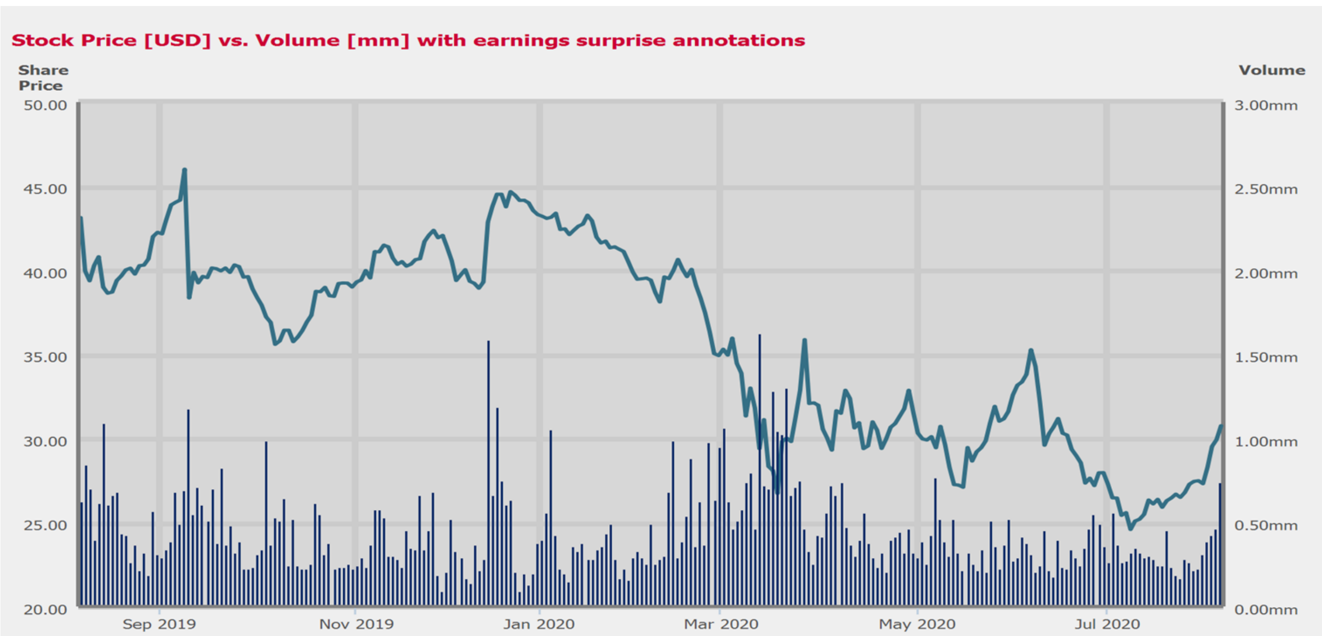
EchoStar Corporation NasdaqGS:SATS
FQ2 2020 Earnings Call Transcripts

Thursday, August 06, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.21)	(0.12)	NM	(0.17)	(1.03)	(0.60)
Revenue (mm)	436.65	459.47	▲5.23	458.45	1838.80	1957.30

Currency: USD
Consensus as of Jul-30-2020 5:23 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	(0.39)	(0.19)	NM
FQ4 2019	(0.11)	(0.55)	NM
FQ1 2020	(0.18)	(0.56)	NM
FQ2 2020	(0.21)	(0.12)	NM

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EXECUTIVES

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Chief Strategy Officer

Charles W. Ergen
Executive Chairman of the Board

David J. Rayner
Executive VP, CFO, COO & Treasurer

Dean A. Manson
Executive VP & General Counsel

Michael T. Dugan
CEO, President & Director

Pradman P. Kaul
Director and President & CEO of Hughes Communications Inc

Terry Brown
Vice President of Finance

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Quilty Analytics, Inc., Research Division

Giles Thorne
Jefferies LLC, Research Division

Kyle Davis

Michael Rollins
Citigroup Inc., Research Division

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the EchoStar Earnings conference call for second Quarter of 2020. [Operator Instructions]

I would now like to hand the conference over to your speaker for today, Mr. Terry Brown. Thank you, sir. Please go ahead.

Terry Brown
Vice President of Finance

Thank you, operator. Good morning, everybody, and welcome to our earnings call for the second quarter of 2020. I'm joined today by Charlie Ergen, our Chairman; Mike Dugan, our CEO; Dave Rayner, COO and CFO; Pradman Kaul, President of Hughes; Anders Johnson, Chief Strategy Officer and President of EchoStar Satellite Services; and Dean Manson, General Counsel.

As usual, we invite media to participate in a listen-only mode on the call, and ask that you not identify participants or other firms in your report. We also do not allow audio recording, which we ask that you respect.

Let me now turn this over to Dean for the safe harbor disclosure.

Dean A. Manson
Executive VP & General Counsel

Thanks, Terry. All statements we make during this call other than statements of historical fact, constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results and from any future results expressed or implied by the forward-looking statements. For a list of those factors and risks, please refer to our annual report on Form 10-K and quarterly report on Form 10-Q filed with the SEC.

All cautionary statements we make during the call should be understood as being applicable to any forward-looking statements we make wherever they appear. You should carefully consider the risks described in our reports and should not place any undue reliance on any forward-looking statements. We assume no responsibility for updating any forward-looking statements.

I'll now turn the call over to Mike Dugan.

Michael T. Dugan
CEO, President & Director

Thank you very much, Dean. Thanks, everybody, for joining us in the call today, and we hope you and your family are still safe and healthy.

With the COVID complexity, it was an unusual quarter with the -- from the EchoStar team. When our customers need us the most, we kept them connected to vital information, entertainment, social, service, medical, education and business applications. Although the demand for our services continued to remain very strong, we also had to implement cost savings initiated to help preserve our margins during these uncertain times.

We are placing top priority on protecting the safety and health of our employees while effectively maintaining productivity and keeping up our pace of engineering innovation and also keeping all of our customers happy.

Let me now turn it over to the management team. First, Pradman, you're up.

Pradman P. Kaul
Director and President & CEO of Hughes Communications Inc

Thank you, Mike. Despite all the uncertainty driven by the COVID pandemic, foreign exchange headwinds and the ones who had bankruptcy filing in Q1, we grew Hughes adjusted EBITDA by 20% over last year. The adjusted EBITDA margin for the second quarter was 41% compared to 34% last year. And our HughesNet subscriber base grew by approximately 26,000, ending Q2 with 1.542 million subscribers, including approximately 321,000 subscribers in Latin America.

Much of our U.S. network is operating at full capacity. And we continue to stay focused on providing an outstanding customer experience while also managing churn. With the expiration of the FCC pledge on June 30, we will resume more normalized U.S. sales activity with continued strong ARPUs in the second half of the year. We also expect to continue subscriber growth in our international consumer markets.

Regarding the Jupiter 3 program, we still expect the satellite will be launched in the second half of 2021, and we are in active discussions with launch providers.

Switching to our North American enterprise business. Q2 saw lower than normal installation activity in April and May due to the COVID-19 impact on our customers. But activity was recovering by June and we are currently engaged in catching up on activity that had been delayed.

We've also had a lot of new contract activity recently, including a multi-brand restaurant company and a retail chain, each with thousands of sites. In addition, customers in the retail petroleum space are upgrading their networks to accept credit cards with chip technology at the pump. We also secured a contract to sell network operation center systems to Telesat to upgrade 2 of their existing hubs with Jupiter technology.

On the international enterprise side, we are pleased to announce several new awards in India with large customers in the petroleum, banking and communication industries.

We've also deployed a regional KU brand -- broadband maritime service along the Indian Coast line. Initial contracts for that service have been signed with 4 shipping companies. As many of you know, the Jupiter system is already the worlds de facto standard for satellite broadband systems. And today, we are pleased to announce that Cignal TV in the Philippines has selected us to enable satellite broadband service to its 2 million subscribers.

Also in the Philippines, SpeedCash is using the Jupiter system to add 2,000 locations to their community Wifi Hotspot project. And Telefonica Peru has expanded their network of 4G cellular backhaul by an additional 400 locations.

Our Government & Defense business continues to build momentum. We have significant activity with partners in addressing opportunities with the social security administration. We also had 2 very successful demonstrations of our through-the-rotor blade HeloSat capability aboard the Black Hawk helicopter.

We announced last week that we have agreed in principal to join the consortium of the U.K. Government and Bharti Enterprises purchasing OneWeb from bankruptcy. We are excited about continuing our involvement in OneWeb as an investor as well as a technology and distribution partner. We see many strategic synergies ahead for our business as complex hybrid networks become the norm of our industry with GEO satellites complemented by LEO and MEO satellites as well as terrestrial connectivity.

In this hybrid structure, LEOs can deliver ubiquitous coverage and low latency, while GEOs bring high capacity at the lowest possible cost wherever needed, especially in areas with limited or low terrestrial access. The combination will increase the size of the market we can address significantly.

GEO satellite high-speed services continue to be the most viable technology for cost effectively serving customers in low-density areas. We believe the near-term focus of LEO networks will initially be on enterprise verticals, including cellular backhaul, aero, maritime and government applications in unserved and underserved markets. We also expect GEOs to maintain its significant cost edge in markets where the lowest possible latency is not a top priority.

We continue to monitor activity related to the FCC's Rural Digital Opportunity Fund, RDOF, for short. The option provides incentives for lower latency and high-speed services, which clearly advantages fiber and to a lesser extent fixed wireless service in the denser census blocks.

Given the high build-out cost associated with these technologies, we believe modest Phase I funding will remain for the lower household density markets that use that service. For this reason, we do not anticipate any negative material impact to our target market due to the size and the cost challenges of serving the low-density areas.

Despite the technology bias of the RDOF we have filed an application to participate in Phase I bidding, which is expected to begin in October 2020. We see potential economic upside if we can ultimately secure funding. Although GEO has the economic advantage over LEOs in the rural low-density markets, the RDOF market program could potentially subsidize the LEO service offering due to the latency rules.

Based on our recent announcement, we have the opportunity now to augment our GEO offerings in OneWeb capacity and a more favorable positioning for RDOF funding.

Overall, I'm very pleased with our performance and outlook. Our consumer business remained strong. And although our enterprise business has slowed during the pandemic, it's both diverse and resilient, and we anticipate recovery in the second half of this year and in 2021. We are excited about the opportunities associated with all aspects of our business as it continues to evolve.

Let me now hand over to Anders.

Anders N. Johnson
Chief Strategy Officer

Thanks, Pradman, and good morning. In Q2, ESS continuing operations revenue was $4 million, up slightly from Q2 of last year. We continue to pursue opportunities to lease our excess capacity during these challenging economic conditions.

On the global S-band front, the launches of our first pair of new satellites for our EchoStar Global subsidiary delayed due to the pandemic, have been rescheduled for the third quarter of this year. Business development activities are continuing, and we are gratified to see a lot of interest from a range of vertical players supporting the EchoStar Global mission.

Our European subsidiary, EchoStar Mobile, also continues to see strong interest in its new products and services as pandemic travel restrictions have eased, our proof-of-concept activities are ramping back up, and we are seeing a lot of appetite for the application of MSS technologies to emerging verticals such as autonomous platforms and 5G integration.

As always, full integration of S-band satellite services into 5G networks remains our longer-term strategic goal, and we continue to explore ways to integrate our complementary ground component authorizations into these and other developments.

I'll now turn it over to Dave.

David J. Rayner
Executive VP, CFO, COO & Treasurer

Thank you, Anders. As in previous quarters, I will be speaking to our adjusted EBITDA measurement. The measurement excludes from EBITDA certain nonrecurring items as well as gains and losses on our investments and unrealized gains and losses on foreign exchange. More details are in the GAAP to non-GAAP reconciliation in our earnings release. We believe that adjusted EBITDA more closely represents our operating efficiency and financial performance.

Consolidated revenue in the second quarter was $459 million, relatively flat compared to the same period last year. Hughes revenue was $453 million, slightly higher than last year despite negative foreign exchange impact of approximately $12 million. The strong growth in Hughes consumer service was offset by lower equipment sales, primarily driven by the impact of the OneWeb bankruptcy and lower domestic and international enterprise services.

ESS revenue in Q2 was $4 million, up slightly to the same period last year, while corporate and other revenue decreased about $3 million due to certain real estate being transferred to DISH in Q3 last year as part of the BFS transaction. Consolidated adjusted EBITDA in the second quarter was $161 million, an increase of over 19% from last year.

Hughes adjusted EBITDA in Q2 was $186 million, an increase of $31 million from last year. The margin associated with the growth in consumer revenue, lower sales and marketing spend on our domestic consumer service and lower G&A spend were the main contributors to the large increase. Corporate and other was slightly lower as a result of the reduced revenue and increases in losses in equity of affiliates.

Our net loss from continuing operations was $15 million in Q2 compared to a $30 million loss last year. The largest components of the change were an increase of $39 million in operating income, offset in part by lower gains on investments of $19 million and higher income tax provision of $6 million.

Capital expenditures in the quarter were $92 million compared to $107 million in Q2 last year. The decrease was primarily due to lower satellite related spend, partially offset by higher spend on CPE, driven by growth in our consumer business. Free cash flow, defined as adjusted EBITDA minus CapEx was $69 million during the quarter versus $28 million last year.

We ended the quarter with $2.5 billion of cash, cash equivalents and marketable securities. We feel very good about our cash balance given the uncertainty in the current economic conditions present. It affords us with the flexibility to explore investment opportunities that foster growth, both organic and inorganic.

And with that, I'll turn it back over to Mike.

Michael T. Dugan
CEO, President & Director

Thank you, Dave. I'm very proud of everything that was talked about earlier. During the second half of 2020, we will remain focused on operating our existing business in a prudent manner, carefully managing the construction and delivery of the Jupiter 3 satellite and looking for additional growth opportunities. We continue to adapt to the challenges of the COVID-19 pandemic, which has affirmed the need for global connectivity and communications.
Let me now turn it back to the operator to start our Q&A session.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ric Prentiss with Raymond James.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

I'm glad to hear you're doing well through the COVID-19 pandemic, both personally and business-wise. Question is for Charlie. I appreciate he being on the call today. I think it's maybe been 2 years since the last time on an EchoStar call, when you talked about the Inmarsat offer, a lot of progress at DISH moving beyond pay TV into wireless, 5G. But maybe you could take the opportunity to update us on your vision for EchoStar? How you see things playing out and how it fits into your -- with the future.

Charles W. Ergen
Executive Chairman of the Board

Okay. I mean, the big picture is that, obviously, the -- we've been primarily a satellite company. And in that, we're related to connectivity and so that's a place where the world needs to go. And the pandemic has shown us all that connectivity and broadband access is a necessity. So -- and that's around the world, and so EchoStar is well positioned. I think big picture is, we will continue down that path, but I think it may be a greater emphasis on the broadband side as well, and we're well positioned to do that. We've been patient almost to a fault, but now with $2.5 billion of cash, no net debt in the company, and in a world where, at least within some of the satellite community, some of the businesses are going to be challenged for several years. We're well positioned to -- with a strong balance sheet, maybe one of the strongest balance sheets in the industry, to move forward and take advantage of opportunities. And to the extent that opportunities don't exist, we can internally grow our business through a variety of methodologies. You see a little bit of that when Anders talked about S-band, which is an opportunity to connect the world through low frequency, our continued interest in OneWeb, which is -- which will come out of bankruptcy as much stronger company. It was always a challenging business plan to start with because of bankruptcy, most companies comes out, we think it will come out in a strong position. And so we continue maintaining interest there, small interest financially, but a much greater commitment from the technical side.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

And so when you think about the hybrid spectrum and hybrid network, how do you view where that's playing out? And do you envision EchoStar being able to help DISH in the U.S. as well?

Charles W. Ergen
Executive Chairman of the Board

Well, a lot of the stuff that EchoStar and DISH do because of my involvement in both, normally, we look at things that might be advantageous, as an example, the next Jupiter satellite has tremendous capability for wireless backhaul. And if you're building that DISH obviously has to build out a network. It's going to -- as it builds out more rural sites, maybe even inside places where people aren't today. Satellite backhaul can make that economical in a way that maybe hasn't been there before. And Jupiter -- and part of the Jupiter design is to be able to do that. So there obviously are things that we look at between the 2 companies, if they make sense. And of course, there's things that don't make sense, and the companies go their separate ways. But when you look at S-band and how that might affect wireless play around the world, it certainly is a frequency that you can make the case that you can go from a very small low powered device, including perhaps your phone to a satellite. So we think that the things that Anders are working on have potential for wireless carriers around the world. So there's a lot of -- on the -- as DISH becomes really experts in the wireless world, particularly in 5G and O-RAN architecture, cloud-based architecture, that will pay dividends for strategically how Hughes and EchoStar pursue opportunities as well.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

Great. And last one for me. Obviously, you've got a great balance sheet here at EchoStar. What is it that would be of interest in the M&A world as far as what you would want or need to kind of make the EchoStar strategy play out.

Charles W. Ergen
Executive Chairman of the Board

Yes. I think anything that -- where there might be synergy, particularly in the connectivity broadband world with what EchoStar is doing and doing and companies that can make -- that can have positive cash flow in the long term, those are the things, you'd look for the synergies, potential for an increase in cash flow business, do they shore up? Do they build on strengths we already have? Do they shore up weaknesses that we have? Those are the kind of things you'd look for out there. And there's a lot of great companies out there. Some are going to struggle in the short term, just based on the nature of the customer base. And as you said, with a strong balance sheet, it's a good spot to be. And we've been patient. We'll continue to be patient, but if there's opportunity, we certainly would take advantage of.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

And maybe that's why not a lot of stock buybacks because clearly, the stock has been undervalued in our opinion, but keep the cash on the balance sheet, looking for opportunities rather than stock buybacks?

Charles W. Ergen
Executive Chairman of the Board

Well, I always challenge management. We look at stock, we look at dividends. We look at stock buybacks, but to the extent that we do that, that means our management hasn't found a place to put capital -- to grow capital for a better return for our shareholders. And I keep challenging management to find a better use of our capital, but to the extent that we come to conclusion that perhaps that's not something we're able to do in the foreseeable future, then I think stock buybacks can make some sense. And so I think we bought back a little bit. Dave?

David J. Rayner
Executive VP, CFO, COO & Treasurer

End of Q1, we bought back a little.

Michael T. Dugan
CEO, President & Director

End of Q1, but we didn't buy anything back in Q2. So you never say never, but hopefully, we can find a better use of capital. But if not, it's something that we continue to do, our board has given us the authority to buy back, I believe, $500 million of our stock, and that remains a possibility.

Operator

Your next question comes from the line of Chris Quilty with Quilty Analytics.

Christopher David Quilty
Quilty Analytics, Inc., Research Division

I want to follow-up a little bit on that question of just focusing on the M&A first and then get back over to internal investment. But when you look across the company's portfolio and you've got international operations, you've been growing in Latin America, you've got India. You've got a LEO opportunity. You've got your traditional GEO. Is there any one of those that stands out to you as an area where with the capital on hand and given the fact you've got struggling competitors that it makes the most sense to step out and maybe perhaps do a bolt-on or find something that's additive to your business in a faster growth path?

Michael T. Dugan
CEO, President & Director

Who's that question addressed to?

Christopher David Quilty
Quilty Analytics, Inc., Research Division

To Charles, I'm sorry.

Michael T. Dugan
CEO, President & Director

I'm sorry.

Christopher David Quilty
Quilty Analytics, Inc., Research Division

I know what Anders will say and I know what Pradman will say.

Charles W. Ergen
Executive Chairman of the Board

Yes. I don't know if there's any one thing that stands out. I think that the ideal situation is something where there's synergy, something where it's somewhere in the satellite connectivity business, doesn't have to be satellite, but that's been the connectivity of broadband business. And something that can generate cash flow in the long term, even if it needs investment to get there. So it's interesting time. I think patience -- I hope our patience will be rewarded. It hasn't been the last 3, 4 years. And -- but from my Poker days, I remember sitting in Poker game holding for 8 hours, now you win the last 2 hands, and you go home a pretty big winner. But to -- you didn't -- you have to hold it for 8 hours. You just had to be patient. And I think some of those business lessons would apply to business as well. And the pandemic has certainly changed people's business plans and things are beyond people's control, things are -- some industries are going to be changed for a while, not long term, but certainly for a while. And so we'll see if these things would make sense for us, and we look at it every day.

Christopher David Quilty
Quilty Analytics, Inc., Research Division

And maybe just a follow-up, and I'll throw out a specific example. With the in-flight connectivity market, you guys fortunately have taken sort of an arms-merchant approach to that industry, which was the right approach as it turns out. But things are happening right now. Obviously, the industry is hurt pretty badly. But I think most people believe there's going to be assets available, is that a market that you believe in as a growth market? And is that something that you'd take a look at it maybe a more fulsome stake in the supply chain of what's going on in the aviation market?

Charles W. Ergen
Executive Chairman of the Board

Well, it's certainly a long-term business, and so does companies are well positioned there. The EchoStar approach has been, and I think this is to Hughes and Pradman and his team are. We've chosen to partner with people who need our technology or our capacity rather than compete with them. And so when -- as a general rule where somebody has an asset that exists, we would rather -- if they are willing to partner with us, we would rather partner with them rather than to duplicate that asset. And for the most part, that's what we've done in the in-flight connectivity space, where we've partnered with just about everybody. And look, as a partner, to the extent that somebody needs help, we're -- I think we've been there to help those companies through thick and thin, and I think we'll continue to try to do that because we have strong relationships with those companies. And then internationally, we've done the same thing where we've chosen to partner with companies internationally rather than to go it alone or to compete, as long as they're willing to partner with us, not everybody is, but we have strong relationships with a variety of companies, we feel a lot of loyalty to those companies, and they've been good partners for us.

So I think that's a path that we generally would continue on to the extent that people want to continue to do business with us.

Christopher David Quilty
Quilty Analytics, Inc., Research Division

Understand. And final question for Charlie. The consumer broadband business has been great, steady grower for Hughes. And yet if I look back over the last 10 years, the pace at which you guys have acquired and built new satellites has continuously lagged the actual demand in the market. I think that's happened with both Hughes and Viasat, in fact. When you look at that market, is this a time when it would make sense to perhaps step up the pace at which you replace those satellites? And do you still see a path for improved performance on GEOs, Viasat has already talked about a Viasat 4 design or is it a better time to kind of step back and see what happens with LEO?

Charles W. Ergen
Executive Chairman of the Board

Well, it's a good question. So I'd say a couple of things. One is, one of the things we've built in the United States because we knew exactly where we needed our capacity in the United States, and we had both DISH and DIRECTV that has infrastructure to get to rural customers that we didn't have to totally duplicate. So the North American market is kind of an unique market for us. Internationally, we've chosen to partner with people on the international side because that's always -- there is a government regulation. There's always -- it's a different kind of animal. We already had facilities in South America to some degree, we've now partnered with Yahsat in Brazil and in Africa. So we're pretty gung hole on that on the international market. But we don't want to go necessary alone. We do the complexities of the regulatory and operating environment internationally. So we want strong local partners. And as those -- as we find people who are willing to commit to that, we're certainly willing to invest money there.

On the future satellite side, I think we've been prudent in how we do it because there are 2 technologies that are -- actually 3 technologies that are starting to -- that will compete with GEOs, which will be MEOs and LEOs, but also terrestrial. And so based on a lot of the things we've learned on the DISH side on 5G and architecture, and we think that's on the terrestrial side, there's opportunity that we'll take away some of satellites opportunity from a GEO perspective. And then we think LEOs and MEOs, to the extent that you can build economical phased array antennas, that will be a game changer. Those don't exist in the marketplace yet, but there's certainly an awful lot of people working on them. And to the extent you get a low-cost phased array antenna, change the complexity of -- it will take away one of the advantages of GEO. So we've been prudent about it. We know that our next-generation satellite that we have -- we know we meet demand in North America. We know what that demand usage is, we're basically full. We're basically full capacity today. So we desperately need that capacity. But we think there's other opportunities in addition to GEO around the rest of the world. And we think there's opportunities in the United States that don't include GEO as well.

So look, a big picture, I think we have as good a handle on satellite as anybody in the industry, and we have a strong balance sheet to take advantage of it to the extent that there's a paradigm shift that starts moving the industry in a different direction.

Christopher David Quilty
Quilty Analytics, Inc., Research Division

Great. And don't be a stranger. Hope to see sometime sooner than the next...

Charles W. Ergen
Executive Chairman of the Board

I promise I'll be around once a year. I don't have anything to do due to the pandemic, so they felt sorry for me and invited me.

Operator

Your next question comes from the line of Giles Thorne with Jefferies.

Giles Thorne
Jefferies LLC, Research Division

My first question was back on the topic of OneWeb. And I'd be interested to hear Pradman's comments on why the previous business plan didn't work and the new business plan will? That would be my first question.

Pradman P. Kaul
Director and President & CEO of Hughes Communications Inc

Yes. I think the focus of the new business plan is to do it for the mobility market and the enterprise market and the government markets, as I said in my earlier comments. And I think that those markets are -- one of the common elements in those markets is the cost of the consumer antenna is not a big factor, unlike the consumer market where you need a phased array antenna, as Charlie mentioned, that doesn't exist today, but really won't really come into play. So I think it's timing where the antenna wasn't there, and the -- by bringing them out of bankruptcy, obviously, you're a much stronger company because the investment in the old stuff is no longer hurting your balance sheet. And I think the last probably element is the 2 major partners are totally different types of people. You've got the United Kingdom government, which obviously has infinite size balance sheet. And then you've got one of the largest wireless service providers in the world, Bharti as the other major partner. Bharti, obviously, has, what, over 400 million subscribers. So they'll bring a lot of strength in India and Africa to OneWeb in terms of cellular backhaul and other rural applications, and they're also very big in Africa. So they'll complement our YahClick joint venture. So -- and they also obviously have raised, I think, over $14 billion so far for their wireless network. So they know how to raise money. They're very successful. So between them and the U.K. government, I think they have a big leg on in their current plan than they did in the previous plan.

Giles Thorne
Jefferies LLC, Research Division

So just picking up on that. If I remember correctly, one we're pivoted pretty hard from consumer to enterprise and government mobility a long time ago. That's not a new phenomenon. That's happened I want to say, 18 months, maybe 2 years ago. So I don't really understand that comment. I mean, I suppose the comment around the antenna makes a bit more sense. Could you maybe just give us a bit more color on what the antenna side is doing.

Pradman P. Kaul
Director and President & CEO of Hughes Communications Inc

Right. The point is that previously, in the current business plan, and they don't have much emphasis on the consumer market because they don't have the antenna. The previous business plan had a significant focus on the consumer market, but the antenna technology and cost was not there. So the 2 didn't act. That was what that comment was all about. And the second element is, obviously, the shareholders and their ability to fund -- to continue funding the development of the business plan.

Giles Thorne
Jefferies LLC, Research Division

Okay. Understood. And then just more specific sort of sticking with the antenna. I mean, if I think about side panel antenna development, and the first thing that comes to mind is going stable going back. So can you just give us your color because you've got better visibility than certainly me, into what you're seeing on the antenna side because you are confident.

Pradman P. Kaul
Director and President & CEO of Hughes Communications Inc

Well, they're probably maybe 5 to 10 companies that are spending a lot of energy and time on trying to develop a phased array antenna at the cost points that we need to. Now each of these 2 markets has different cost points. The consumer market would obviously want a phased array antenna maybe $100,

$150 maximum. The aeronautical market antennas go for $150,000. So when you go to some of the mobility markets and the government markets and the enterprise markets, the pressure on having an antenna at the lowest possible cost is not as strong as it is in the consumer market.

So if you look at the technology today, I think there's no question we can build phased array antenna at the low end, probably in the low $1,000 range. But nobody has figured out how to get it down to $100. But for the other markets, the technology is there for the price points that we need for those markets for both the aeronautical and maritime and the enterprise markets. So I think we are now in a position that we'll have the right economics for those markets. It's probably a few years away from having taken up of the consumer market.

Charles W. Ergen
Executive Chairman of the Board

And this is Charles. I'll just add 2 things -- couple of things on OneWeb. One is, we know that the technology works. I mean, we obviously have been heavily involved in the ground segment in terms of testing the current satellites that are up. And while there's still a lot of technical things to do that we know the system has planned, original plan can work. Second thing is as it comes out of bankruptcy, you would expect that it comes out with a strong balance sheet, but also potentially, given the U.K. government's involvement and potentially orders, actually, revenue. It's a little bit like -- and I'm not saying it will be as dramatic as this, but it's a little bit like Iridium where they came out of bankruptcy and they -- I believe they had orders from the Department of Defense, and that's a well managed, very -- a lot of value at company. It came out of bankruptcy with $50 million, and it obviously supports several billions of dollars now. So those opportunities exist in OneWeb, just needs to be -- just needed to get over the hump. And the second thing is that OneWeb remains having a high priority in the ITU for the use of thousands of gigs of frequency or megahertz of frequency. So they're well positioned from a regulatory point of view as a company that has -- is -- for lack of a better word, first in line, from a regulatory position, as long as they can continue to launch more satellites, which they'll be funded well enough to do today, and they already have launch contracts, and so it's a matter of just building the satellite. So there's a lot of potential positive with OneWeb. Still a long way for them to go, but they're in the right structure with the right partners moving forward.

Operator

Your next question comes from the line of Michael Rollins with Citi.

Michael Rollins
Citigroup Inc., Research Division

Two, if I could. So first, as you think about the S-band spectrum holding, is it more likely that you can create value from those holdings through an operating model that EchoStar controls or partners with? Or is it more likely a monetization strategy of finding alternative purposes for that spectrum, for example, trying to push it to mobile or some other wireless service? And then just taking a step back, as EchoStar, as a company, evaluates investments for the satellite business for IoT, 5G, can you share with us how you're sizing the addressable revenue market, given that a lot of these services and applications don't really exist today. So if you could share with us the framework and maybe some numbers that you're using for that, that would be great.

Michael T. Dugan
CEO, President & Director

Anders, do you want to take that one?

Anders N. Johnson
Chief Strategy Officer

Well on the S-band side, it's certainly early days. I mean, right now, our efforts are focused on getting our initial LEO satellites launched, so as to crystallize our rights, which overlay the existing GEO rights. So once we have that in hand, as I mentioned in my comments, we're already in meaningful discussions with a number of potential customers that would, in essence, be anchor customers or partners in the development of a non geostationary S-band service, which we intend once the business plan makes sense to invest in. I don't see us just monetizing the spectrum rights to third parties. I think I see us developing the MSS opportunity in some very unconventional ways. And then we have a second wave of development opportunity to the extent we then pursue the co-licensing of the use of the same spectrum terrestrially in areas where we don't already own that.

Operator

Your next question comes from the line of Kyle Davis with Cowen.

Kyle Davis

I have 2 questions about the trends in the residential business. So the first one was, I was wondering if you guys could quantify the Keep America Connected churn issue in the quarter? And what you sort of expect for that in Q3 as the pledge has ended?

And then the second question is, we have to make some assumptions around how much of the FX headwind held back the residential revenue increase, but it does look to me like your residential revenue grew faster than your subscribers, which suggests to me an ARPU growth acceleration in the quarter. And I was wondering if you could talk about what may have driven that?

Michael T. Dugan
CEO, President & Director

Yes. I'll start, and then Pradman can finish up a little bit. There's no question, certainly, in North America that the ARPU growth was significant in Q2. It was -- grew over 5% from Q1 of 2020. So the ARPU is certainly up, and that's really an indication, at least in part of the higher utilization that customers had, upgrading plans, buying additional capacity as they exceeded data caps, that's what drove that in part.

The headwinds in South America are significant. Most of those are on the consumer side of the business. And as we said, the $12 million revenue decline year-over-year as a result of those FX impacts.

In terms of the number of subs and the pledge, we're going to hold back on disclosing what that number is, it is safe to say its in the tens of thousands, and I'll let Pradman address what he thinks happens to it going forward.

Pradman P. Kaul
Director and President & CEO of Hughes Communications Inc

Yes. I think the pledge period has ended as of the end of June. And we found that we've converted a reasonably big percentage of the customers that were in this bucket. We've converted them to regular subscribers and they start paying the dues. So the -- now, I think we -- in the Q or something we clearly pointed out that the subscribers that were in this pledge bucket were counted as having churned out. So that caused our churn numbers to be slightly higher than what we had seen in the last couple of quarters. But I think by converting them to paying customers, we should see that being recovered in the next few months as we go forward. But all in all, this pledge agreement that we signed with the government has not been as harming our numbers significantly. And in any case, it's now done, and we're in a normal mode at this stage.

Kyle Davis

Got it. And that ARPU strength that you've commented on, is that something you guys would guess persist into the back half of the year? Or is it something that was particular to a lot of people being under stay at home orders in Q2? Or is it -- do you think it's more persistent than that?

David J. Rayner
Executive VP, CFO, COO & Treasurer

I'm sorry, that question was in relation to what?

Kyle Davis

The ARPU boost in North America that you commented on, David?

David J. Rayner
Executive VP, CFO, COO & Treasurer

Yes. I think we're going to have to see whether that continues. If people are still working from home, if there's still classrooms from home versus returning to schools. I think a lot of unknowns around COVID-19 and what the impact will be on the individuals and more specifically, our customers in terms of their usage patterns, and that will be a more societal impact as we go forward. So it's tough to really forecast exactly what is going to happen in the usage going forward. And so we've got more clarity on returning to work, returning to school, et cetera.

Operator

Your next question comes from the line of Brad Hathaway with Far View.

You have a follow-up question from Ric Prentiss with Raymond James.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

Thanks. Since we don't get Charlie again for another year, figure to throw a couple more at Charlie.

Charles W. Ergen
Executive Chairman of the Board

Come on the DISH call tomorrow.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

Exactly. And speaking of DISH, the quick easy one is any other asset swaps envisioned between EchoStar and DISH in the short term. But the more complicated question is, you were early and blunt on what the trends in pay TV were, and you were right. What do you think the trends are in consumer broadband? You mentioned that you think you can see the demand for Jupiter 3. But as you look at the competitive dynamics, of LEOs and fiber, how do you think about that demand curve and the ability to earn a return on Jupiter 3 over the long run?

Charles W. Ergen
Executive Chairman of the Board

Well, I mean, because we have a lot of control over North America, and because a lot of the subscriber acquisition cost is already in place for our customers and our customers are asking for just more capacity. The math on Jupiter 3 is good. And Pradman probably answers better than I can, but it's comparable to what we've been able to churn on previous broadband satellite. So we're confident that's a good internal rate of churn for us. The biggest thing -- 2 things are happening that would probably -- if you look 5 years down the road and say, where we might go, the government, obviously, is subsidizing with the rural development funds, and we think that's only going to continue to grow regardless of who the next President of The United States is. We think there'll be subsidization of rural broadband connectivity, it's going to be like electricity was at the turn of the century where people had that electricity and ultimately became ubiquitous across the United States. Same thing is going to happen to broadband. Satellite will play a role there. But so will, LEOs and MEOs as well as GEOs, and so will terrestrial. So I think that's a place that EchoStar can play to take what they do well with GEOs and continue to be on the forefront of that broadband connectivity, and they have the capital to go do that in the right spot. And we'll -- and obviously, 2 things, what is the cost of an antenna come down to, if you've got a LEO or MEO, can that get low enough for consumers? And second, what is the government going to do in terms of subsidization. So we're just well positioned there, but you're certainly not going to go do things. And then there's also things like aeronautical and maritime that you're just not going to do any other way than, better do satellite and commercial. So I mean, I think we do it like we always do, look at the math, and every investment we expect to get a return. And when in doubt, we don't do it. And when we feel good about something, and we feel like there's a vertical that we can go into and make money, then that's where we're going to go.

Probably, I'd add to it, EchoStar, because of their -- they are getting knowledge from the wireless side on the DISH side, so they get access to, DISH is seeing everything, there isn't anybody in the world in 5G architecture, new generation, how to build a network that DISH isn't talking to at very high levels. So DISH is seeing technology in the lab long before the consumer is going to see it. And EchoStar, to the extent we can share information and I was privy to some of that, and so it helps them in knowing where things are going. And so I think the decision-making process at EchoStar has an advantage in knowing a lot about where the terrestrial world is going to go, both in terms of developing products that will help the terrestrial world and staying away from products that might not be competitive given the long lead cycles of building satellites. So I think they're uniquely positioned in that sense, and perhaps more so than other companies.

Richard Hamilton Prentiss
Raymond James & Associates, Inc., Research Division

And no other asset transfers planned in the short term?

Charles W. Ergen
Executive Chairman of the Board

I think all the material assets -- there might be some assets here or there, but I think the material assets have been transferred.

Operator

Your next question comes from the line of Brad Hathaway with Far View.

Brad Hathaway

Sorry about a minute ago, and so Charlie, I just wanted to ask you a question about kind of bigger picture. When you think about kind of larger M&A and the cost of kind of your equity capital, I mean, how do you think about your share price as a potential asset? Does it kind of frustrate you that your -- that EchoStar doesn't seem to attract the same valuation as a lot of your peers? And then kind of how do you think about maybe changing that perception going forward?

Charles W. Ergen
Executive Chairman of the Board

Well, I mean, I think -- I don't think it takes a great financial analyst to see that our -- the EBITDA multiple at EchoStar is materially lower than some other companies. Yes, there's been a strong track record of performance at EchoStar. So that would be disappointing, but for me, it's to challenge our management to show that they've got future -- they've got growth that can accelerate as opposed to plot long, even though it's plot-ed long enough at a high level, so that they actually justify higher multiple. But clearly, even if you look at it today, the multiple seems to be a little low, but it's up to management to go out there and convince the market -- to make sure they're in markets that have growth and convince the market that those are long-term sustaining growth things and they have the capital to do it, and they just need to be challenged to do it. So if we get up this call, we get to talk to Pradman and Mike and Anders, and we'll whip them into shape a little bit. That's why I want to be on the call, so all of you guys should be saying the same thing to our management.

Brad Hathaway

Greatly appreciate you being on the call because I think one of the overhangs historically been concerns over kind of long-term capital allocation. And so really appreciated some of your discussions about kind of some of your long-term thoughts. And again, congrats on the operational quarter and looking forward to seeing the strategy going forward.

Operator

Your final question comes from the line of Michael Rollins with Citi.

Michael Rollins
Citigroup Inc., Research Division

I just wanted to follow-up on the second question that I had for Charlie. If you could talk a bit that as you're looking to invest in IoT and 5G with satellites, how you're sizing this market for revenue and opportunity, given that a lot of the applications and services don't exist in that form or that way today?

Charles W. Ergen
Executive Chairman of the Board

Yes. I don't think we have an exact size and the market is potentially very large. So you certainly have billions of things that need to be connected, that aren't in access of a terrestrial network or fiber. So certainly, you can think about maritime and you can think about geography and how those things might want to connect. You can see Inmarsat, Iridium doing some of that today, Orcom does that today.
So you start to see the beginnings of that, but it's in the first inning of where that's going to go. And the big picture is that it's billions of units, and even if you were making the dollar a month with those connectivities, it's a huge market. And as you think about the kind of devices you could connect, you could get into -- you can imagine anything that's handheld, whether it be a phone or something else that you already -- you got billions of things to connect. And so all you need is a fleet of satellites that cover the planet that have a frequency that's low enough that you don't need -- that you have an omnidirectional antenna, and you can imagine it with low battery power for fixed devices, what that might be. And that's an incredibly large business, assuming you could develop the right technology to do that. and we don't see anything from a lot of physics to prevent an S-band frequency from doing that. You might have regulatory, you might have -- from each country, you might have those kinds of issues, but there's nothing from a lot of physics which would prevent people to be connected around the world with an omni direction -- with an omnidirectional antenna, which could be as simple as a chip in a device. So it doesn't have the same kind of problems that we had with phased array antennas with the KU-band frequencies. So different market, different application, but that's what Anders is working on, and Anders is spending a lot of time on that with people. We have our own ideas, other people have ideas, and we think that's a potential big business for us, but there's still -- we could get our first 2 satellites up, which is what we're -- hopefully, in the call next quarter we'll have the first 2 satellites up.

Terry Brown
Vice President of Finance

Okay. Guys, we're out of time here, so we're ready to conclude the meeting. So I'd like to thank everybody for calling in.

Operator
Ladies and gentlemen, this concludes today's conference call. I thank you for your participation. You may now disconnect.