

Viasat, Inc. Ticker: **VSAT**

A Path Upwards

March 2020



Safe Harbor



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Best Idea —

Viasat

Price/Share: \$42

CSC Target: \$125 - \$160

(over the next 3 years)

This is arguably one of the most compelling investment opportunities in our firm's history and is again our largest position.



Cove Street Capital and its Principals have owned and researched Viasat for 20 years.



The market underappreciates the internal Intellectual Property (IP) of a complicated and opaque company in a grossly misunderstood industry.



There is a massive spread between current cash flow and incumbent position in the sky... and endless hype and blathering about an untested space future—in which VSAT may actually play a crucial role.



Government Systems, Viasat's defense business, has been on a multi-year tear and is arguably worth \$65 per share on its own, implying little—if any—value for the remaining business lines.

People + Pedigree

Prominent Heritage

Emerged from the San Diego
Tech Cradle — Linkabit roots

Durable Offering

Multi-decade presence in
defense encryption and
connectivity solutions

Disruptive Innovation

Evolution from 100% defense to
global commercial solutions

Trusted Business

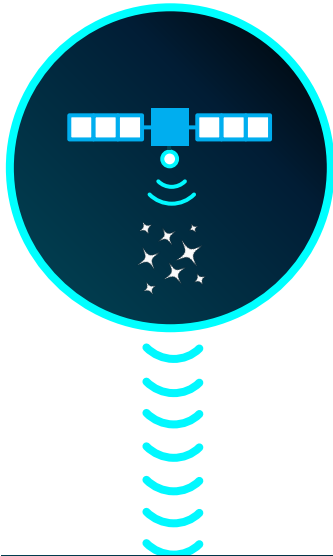
Government
Systems

Satellite
Services

Commercial
Networks

Defense / Military / Security / Home / Business / Air

The Business



Developed the **High Throughput Satellite** (HTS), a breakthrough communications satellite that dramatically increased speed and capacity while also significantly reducing cost, creating:

- the modern HTS industry
- high-performing **Satellite Services** :

Faster, Cheaper
**Government
Aircraft
Service**

First-Ever
**In-Flight
Connectivity
System**

Affordable
Remote & Rural
**Community
Wifi**

Direct to
Home(DTH)
**Consumer
Broadband**

The Business

SATELLITE SERVICES

Government
Aircraft
Service



Massive
increase in
speed delivered

Reducing cost
per bit for
military
customers by
factor of 100



In-Flight
Connectivity
System (IFC)



Delivering
12mbps to the
seat

Currently on
1,300+ planes



Remote
Community
Wifi



Remote WiFi
internet services

Underserved
communities in
Mexico and
Brazil



DTH
Consumer
Broadband



Speeds greater
than most DSL

Price point
comparable to
cable

Nearly 600,000
customers in
the U.S.



The Viasat Advantage —

Proven Quality

Superior Performance

Pedal to the Metal on Cost per bit delivered advantages versus incumbent satellite providers

Future Connection

ViaSat-1 to ViaSat-3 constellation efficiency gains of 8x in less than four years!

Unrivaled Assets

Unique Intellectual Property portfolio that has brought in >\$400 million

Elite Partnerships

The preferred choice for ground network infrastructure used by U.S. military and allies, all powered by Viasat IP

Key Variables —

Risk + Uncertainty

SHORT-TERM / COVID-RELATED



Consumer Activity — No flights due to virus = limited in-flight revenue = ~\$80mm of variable revenue at risk

Airline Health — No new plane installs due to airline financial woes

Government Operations — Decline in military spend due to delays in RFPs

Satellite
Success



LONG-TERM / EXISTING

Favorable
Conditions

Team
Performance

Satellite Risk — Asset is orbiting 22,500 miles in space—a risk that cannot be mitigated

Launch Risk — Binary satellite launch risks, timing and success of generation 3 constellation

Capacity Risk — Expected compounding results from successful satellite performance

5G Backhaul Risk — 5G / Wireless high speed internet extension into rural / non-urban / underserved areas

LEO / New Competition — Low-Earth orbit constellations driving down pricing per bit faster than expected — Starlink from SpaceX, Kuiper from Amazon, Telesat, and OneWeb from SoftBank

Defense Budget — Future allocation to modernization initiatives

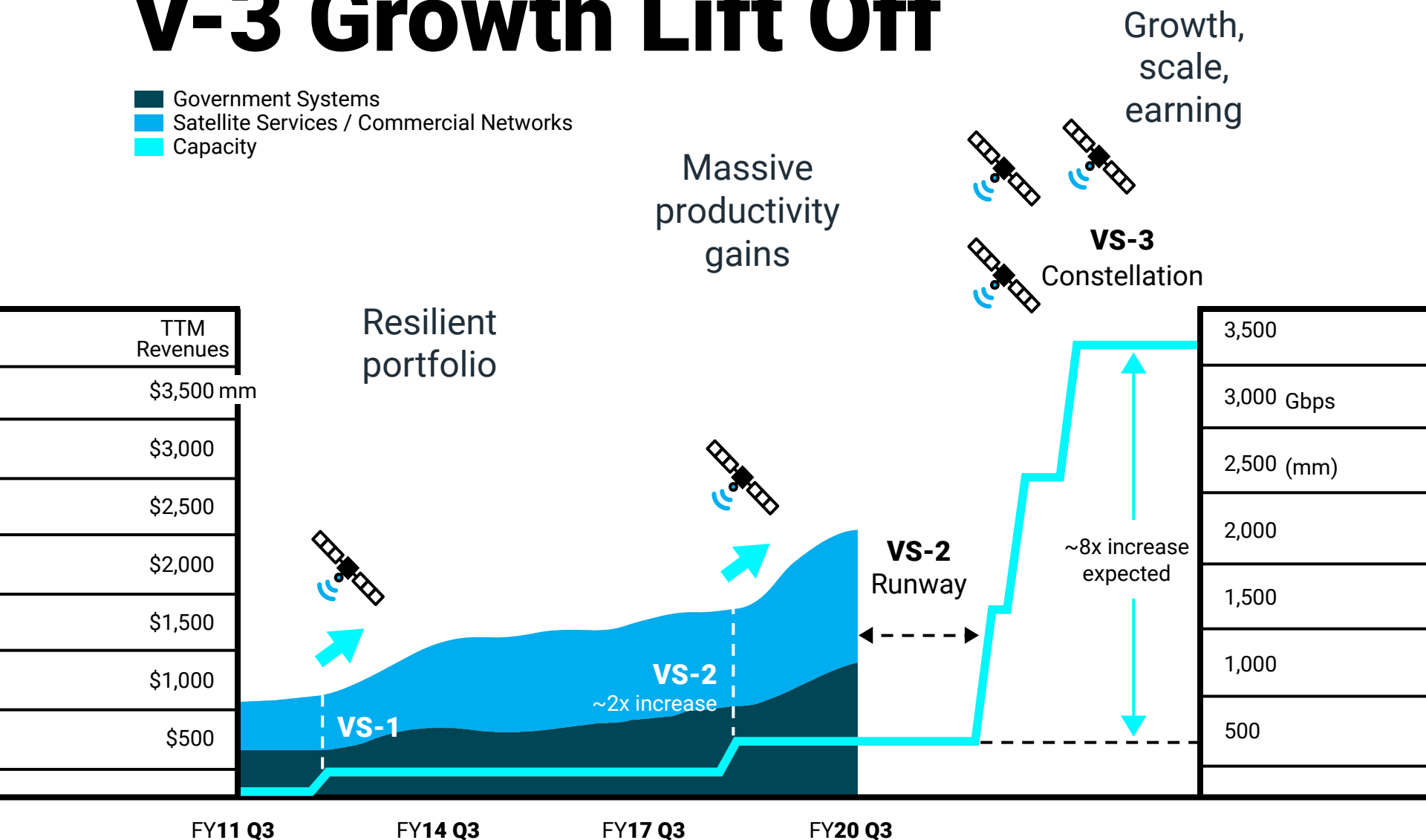
Public Activity — Engineering -focused team with little sensitivity to or interest in the perception of its value from the outside

Future Development — Internal technological advancement versus competitive developments

FY20 → FY23 Projected Roadmap

V-3 Growth Lift Off

- Government Systems
- Satellite Services / Commercial Networks
- Capacity



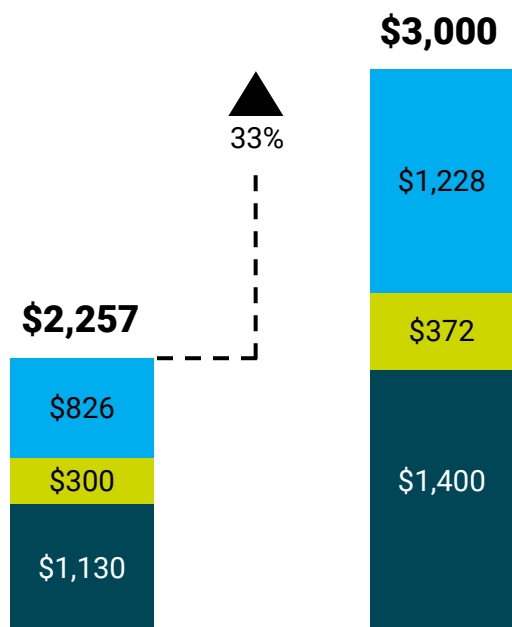
SOURCE: Viasat

FY20 → FY23 Projected Roadmap

V-3 Growth Lift Off

Government Systems Commercial Networks Satellite Services Total

REVENUES (\$mm)

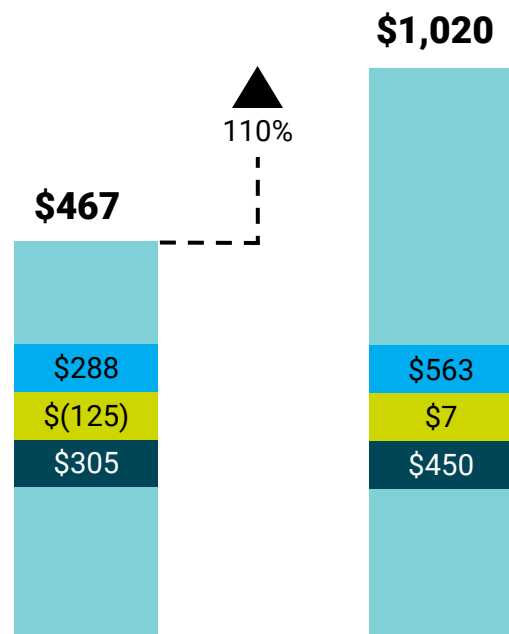


FY20



FY23

Adjusted EBITDA (\$mm)



FY20



FY23

Satellite Services



EXISTING

- Consumer Broadband
- In-Flight Connectivity (IFC)
- Cheap Community Wi-Fi
- International Connectivity



POTENTIAL

- Maritime
- Oil & Gas
- 5G Backhaul
- Business services

Viasat —

Satellite Services



EXISTING

Consumer Broadband))))))) Fixed wireless internet for the home



In-Flight Connectivity (IFC)

Rural Community Wi-Fi

International Connectivity



Non-residential revenue now at 25% of segment (Q3:2020) and growing rapidly

SOURCE: Viasat

Viasat —

Satellite Services



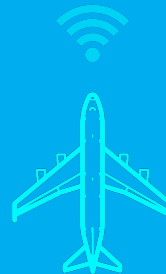
EXISTING

Consumer Broadband

In-Flight Connectivity (IFC)

Rural Community Wi-Fi

International Connectivity



» Internet connections in the air

IFC and services are driving diversification in
Satellite Services Revenue (\$mm)

■ IFC & Other
■ Fixed Broadband



SOURCE: Viasat

Viasat —

Satellite Services



EXISTING

Consumer Broadband

In-Flight Connectivity (IFC)

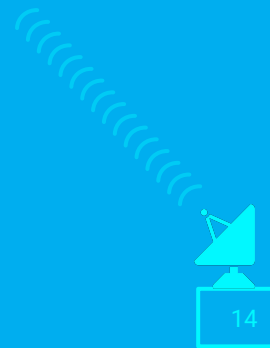
Rural Community Wi-Fi)))))))

International Connectivity



Connectivity for underserved populations

Community Wi-Fi (CWF) successful rollouts in rural Mexico and a beginning ramp in Brazil via government public school initiative, GESAC



Viasat —

Satellite Services



EXISTING

Consumer Broadband

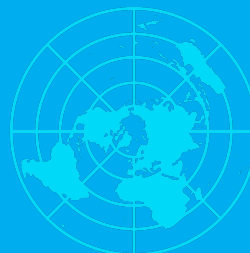
In-Flight Connectivity (IFC)

Cheap Community Wi-Fi

International Connectivity)))) Infrastructure for worldwide connection



Expanding footprints and distribution in Americas and Europe



SOURCE: Viasat

GEO Competitor Price Check —

Lowest Wins!



Cost per bit dynamics favor Viasat versus all GEO competitors:

Viasat Satellites

The Other Guys

COST PER GDPS (\$mm)

★
**Viasat
VS-3**
\$0.9

★
**Viasat
VS-2**
\$1.8

\$2.5
Hughes
Jupiter-2

★
**Viasat
VS-1**
\$3.5

\$7
Eutelsat
Ka

\$36
Intelsat
EPIC

\$56
Inmarsat
GX

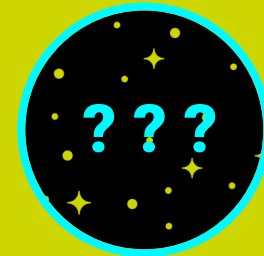
\$171
WGS
Flights

\$249
DoD
Leased Ku

SOURCES: 1 Internal CSC estimates 2 Public statements

Competitors' Current Status —

LEO Hype vs. Reality



	In Orbit?	% Complete as of 02/2020	\$ Raised	% Est. \$ Needed	Backers
Telesat	No	0%	\$600mm	20%	Company's cash
OneWeb SoftBank	Yes, partial	6.2%	\$3.4B	78%	SoftBank, Grupo Salinas, Qualcomm, Airbus, Virgin Group, Hughes
Starlink* SpaceX	Yes, partial	6.8%	\$1.45B split with SpaceX	N/A	Ontario Teachers Pension, Baillie Gifford, BofA, Fidelity, Google
Kuiper Amazon	No	0%	\$1B/year with Blue Origin	N/A	Amazon

*SpaceX Starlink numbers contingent on model assumptions outlined on the following page.

SOURCE: CSC Internal Estimates / Public Statements

Starlink Key Variables



"I want to be
the first non-
bankrupt LEO"
— Elon Musk

	ASSUMPTION	STATUS as of March 2020
Inter Satellite Links (ISL) Laser based satellite-to-satellite communications	Maximum capacity in orbit	No ISL-capable Starlink satellites in orbit
Ground stations worldwide	~ 123	0
Gateways deployed	~ 4,000	~ 0
Phased-array antenna cost (CPE)	\$100	\$1,000 - 1,500 (estimate)
Satellite success rate	100%	~ 95%
Number of satellites to launch	> 4,000	FCC rulemaking on orbital collision probabilities still TBD — may limit to < 4,000 total satellites

SOURCE: CSC Internal Estimates / Public Statements / "Starlink failures highlight space sustainability concerns," July 2019



Competitor Cost Per Bit Delivered —

LEO Hype vs. Reality



LEO competitors are riding a wave of hype, yet the cost reality is quite different:



	Telesat LEO	OneWeb MEO	SpaceX LEO	ViaSat-3 GEO
Number of Satellites	117	650	4,425	3
Max Theoretical Capacity (Tbps)	2.66	1.41	23.7 * ~9	3
# of Ground Stations Needed	42	71	123	V-2 reused
Gateway Antennas	221	725	3,690	N/A
Satellite Efficiency	58.8%	21.7%	25.1%	100%
Estimated Constellation Cost	\$3,000	\$4,338	\$8,854	\$2,700
Cost per Bit Delivered (Gbps)	\$1.13	\$3.08	\$0.37 * \$0.98	<u>\$0.90</u>

* **SpaceX comes with a caveat:** Maximum theoretical capacity is based on the assumption that they deploy an ISL; however all 302 Starlink satellites launched have lacked the functionality. Without ISL, max capacity drops to ~9 Tbps, arriving at \$0.98mm/bit—**leaving Viasat with the slight edge.**

SOURCE: CSC Internal Estimates / Public Statements / Portillo, Cameron and Crawley, 2019, "A Technical Comparison of Three Low Earth Orbit Satellite Constellation Systems to Provide Global Broadband"

Aircraft IFC Opportunity –

In-Flight Connectivity

1,379 tails in service as of Q3-2020

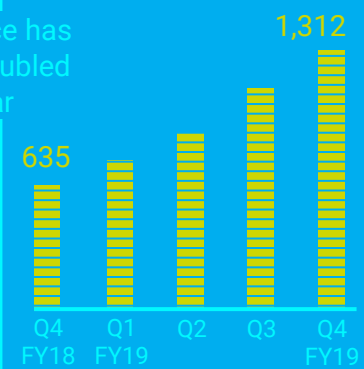
Additional aircraft under contract:
~690 □ approaching 2,000 milestone

Promising growth opportunities with
new and existing customers

Hybrid Ku/Ka-band terminal introduced
for **wide-body aircraft market** □
expanding reach into airlines with long-
term Ku contracts

TAILS IN SERVICE

Tails in service has
more than doubled
Year-over-Year



Wide-body Opportunity
9,180



SOURCE: Global wide-body fleet by year 2037 (Boeing 2018 - 2037 Commercial Market Outlook).

Government Systems

Secure Connection

Embedded within an encrypted military network infrastructure

Best-in-Class

Nearly sole-sourced on several large encryption network contracts

Trusted Quality

Multi-decade long high-end performance for all branches of military

Continuous Development

Expanding addressable markets & new products and services drive growth

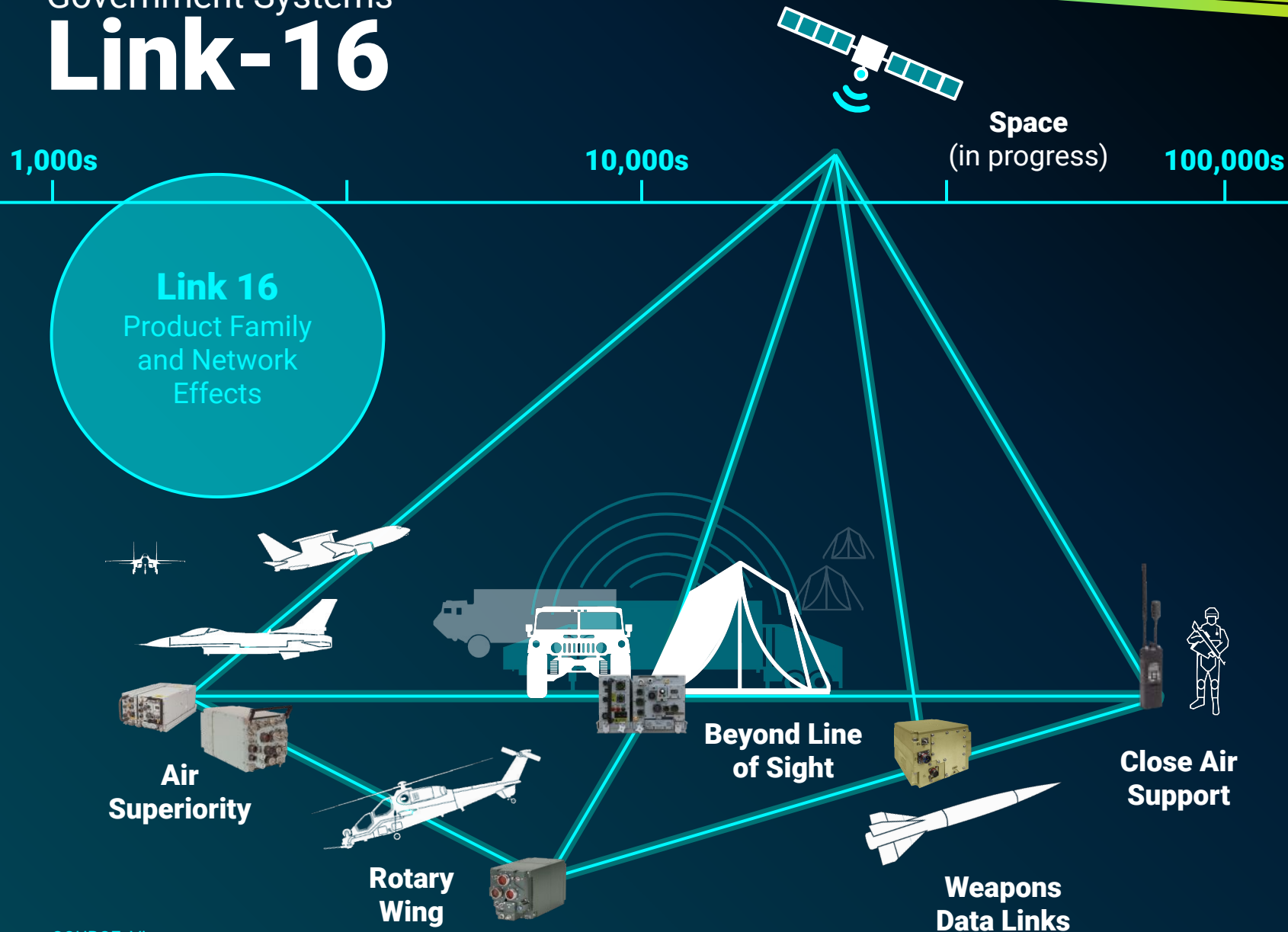
Space is the Limit

Exciting space systems opportunities

Elite Partnerships

Multiple IDIQ contracts + AMSS contract options represent ~\$1B opportunity

Government Systems — **Link-16**



SOURCE: Viasat

Link-16 Network

Network effects built on core Link-16 functionality create an enviable position of strength through which these future network connectivity solutions will be sold

Complete Ground-to-Air Network

designed by, optimized for, and implemented through Viasat



BATS-D handhelds



KG family of inline network encryptors



MIDS-JTRS terminals embedded in advanced weapon platforms — F-18, F-15, F-16, E-2D, B-2, C-130, etc



Mobile SATCOM via Ku/Ka hybrid **phased array antenna** used for ISR



SATCOM terminals for executive gov. aircraft (i.e. Air Force One)



HAIPE Type 1 encryption enabled — a unique Viasat encryption algorithm



STT KOR-24A terminals in helicopters and ground vehicles



BATS-E embeddable comms for weapons, targeting pods and UAVs

Government Systems —

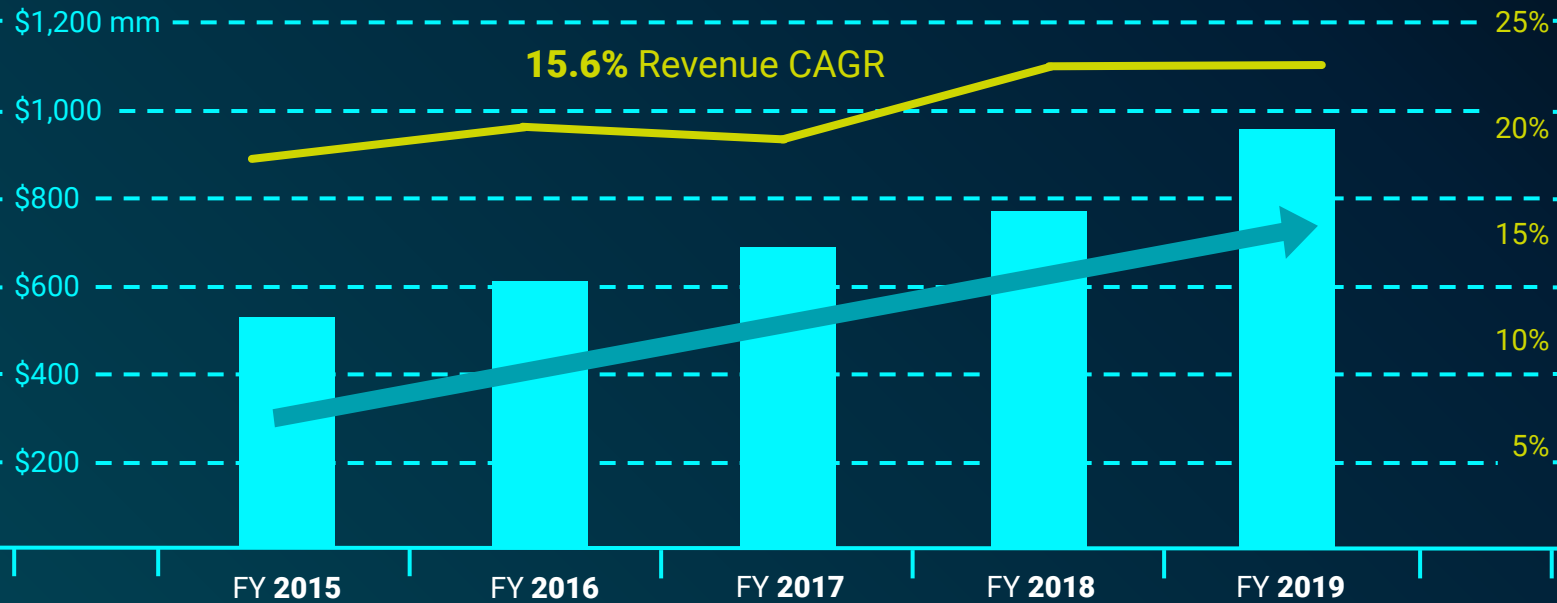
Defense Business

Growth has been robust, backlogs have increased, and margins have continued to march higher

This business unit is a
Tier-1 Asset
for any major
prime contractor

■ Defense Revenue

■ EBITDA Margin — %



SOURCE: Viasat

Sum of the Parts | Defense — Valuation

Separating out
the Defense
segment reveals an
**immensely
undervalued
stock**



We estimate the **Defense** value from comparable companies

The closest defense competitor is L3Harris — however, Viasat's defense margins and growth profile more closely resemble FLIR Systems'

Taking the average of the 4 names below, we arrive at a public valuation of roughly **14x EBITDA** as of Feb 2020

	Price	Mkt Cap	EV	EV / Revenue	EV / EBITDA	P / E	Op Margin	EBITDA Margin	CAPEX % REV (3-Yr)
L3Harris Technologies, Inc.	228.73	50,564	57,475	3.0x	15.4x	19.6x	8.1%	12.9%	0.0
General Dynamics Corporation	188.14	54,367	67,252	1.7x	11.8x	14.8x	11.9%	14.0%	0.0
FLIR Systems, Inc.	56.58	7,590	8080	4.3x	18.3x	24.5x	17.2%	22.2%	0.0
Raytheon Company	224.00	63,256	64,675	2.1x	11.4x	17.7x	14.2%	16.0%	0.0
Average				2.7x	14.2x	19.2x	12.8%	16.3%	-2.4%

SOURCES: CSC Internal Estimates / Public Statements

Sum of the Parts | Satcom — Valuation

Taking the **DEFENSE** segment as a standalone entity, the value for the rest of the business—**COMMERCIAL HARDWARE** + **CONNECTIVITY**—implies a value less than \$0.28 on each dollar invested in ViaSat-1, 2, and the three Generation 3 satellites to be launched

Government Systems — Price/Share	\$ 50.15
Government Systems — Enterprise Value	\$ 3,006
Total EV	\$ 4,342
Implied EV of Satellite Connectivity + Commercial Hardware	\$ 1,336
Estimated Total CAPEX on ViaSat 1 / 2 / 3	\$ (4,693)
Implied \$ returned per \$ invested in Commercial Satellites	<u>\$ 0.28</u>

SOURCES: CSC Internal Estimates / Public Statements

Valuation

We value the company as a Sum of the Parts exercise:

Defense Segment

Split out from
remaining business

Value derived via
comparable
transactions

Commercial Satcom

Satellites analyzed
on an NPV basis

Model assumes
V-1, 2, and 3 all
exceed their WACC
hurdle rates

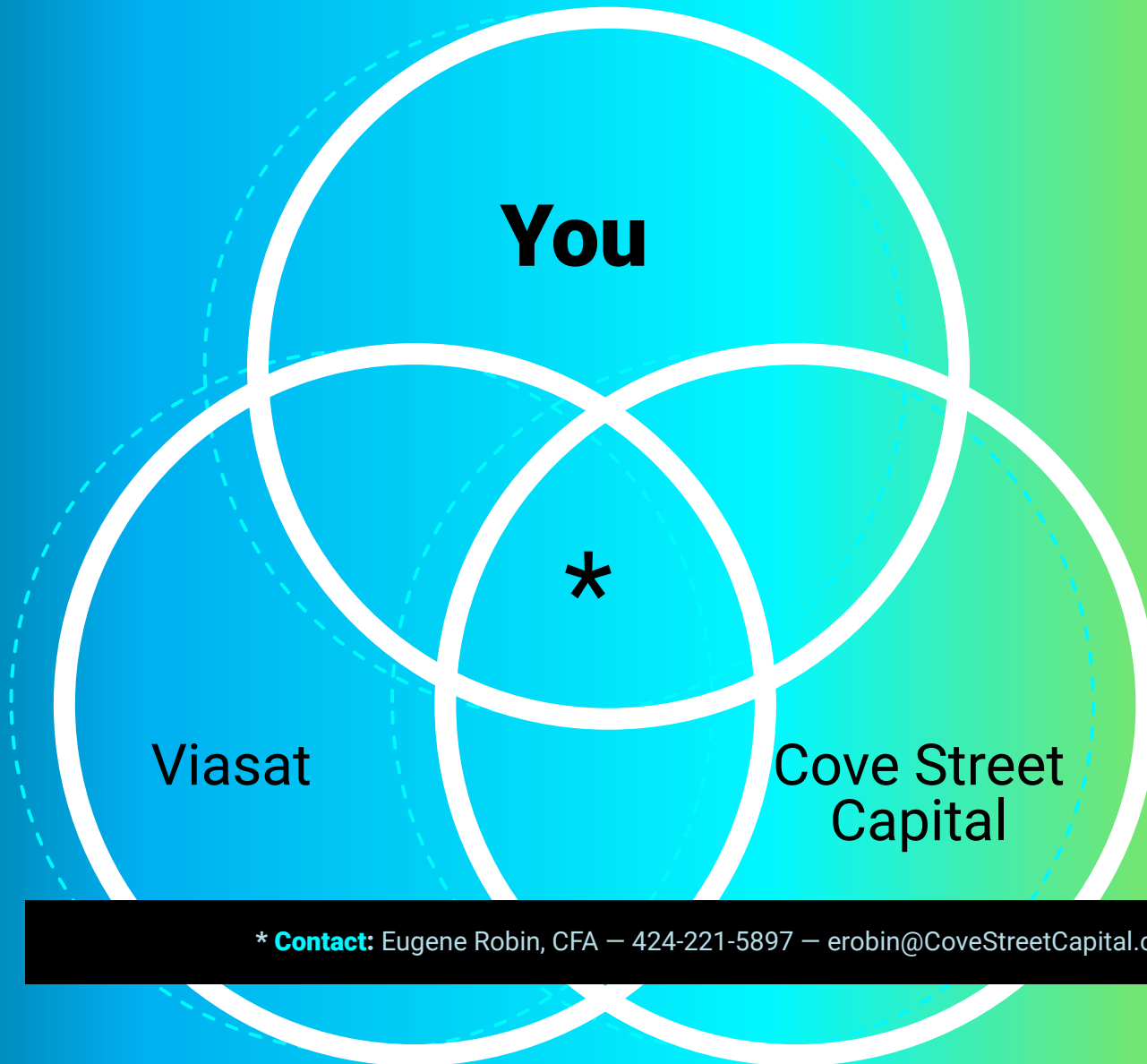
Commercial Networks

Hardware group
valued at zero

Provides R&D to
both Defense and
Commercial Satcom

Government price/share	\$ 50.15
CAPEX recover/share	\$ 78.29
NPV for V-3 Constellation, ex-military	\$ 11.23
Less expected net debt/share, ex-Satellite buildout debt	\$ (3.39)

Value per share: **\$ 136.28**



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