SORTINO M&A GROUP

Dish's Merger with EchoStar for $1.8bn

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Deal Introduction

DETAILS ABOUT THE DEAL

On the 8th of August 2023, both firms agreed in an announcement that Dish Network will merge with EchoStar Corporation. The merger is expected to be completed before the end of 2023.

Interestingly, this deal will reunite both Dish and EchoStar which several years ago were both originally part of the same company but decided to separate in 2008.

The deal is reported to be an all-stock transaction at a fixed exchange ratio. EchoStar Corporation shareholders will receive 2.85 shares of Dish Network for each EchoStar share owned. This exchange ratio represents a 12.9% premium to EchoStar’s unaffected 30-day volume weighted average closing price on the 5th of July, 2023. Upon the deal's completion, Dish shareholders will own approximately 69% and EchoStar shareholders will own approximately 31% of the combined company.

Evercore is serving as the exclusive financial advisor for EchoStar Corporation while JPMorgan is serving as the exclusive financial advisor for Dish Network.

REASONS FOR M&A

Dish has ambitions to attract up to 40mn wireless customers by 2030, to compete with giants such as AT&T and Verizon. This merger is looking to create a wireless network giant that will expand beyond the satellite TV market and into the mobile telecom market instead, with intentions to expand its 5G network. Dish also wants to move away from its pay-TV service, which saw its subscriber count fall by almost 300,000 in 2023Q2. While Dish's 5G network already covers more than 70% of the US population, the merger will allow Dish to use EchoStar's satellite communication solutions and other assets to deliver a variety of communication distribution capabilities for Dish. This will help Dish in creating a virtualized 5G network that will offer unique services to both retail and enterprise customers.

The merger will also provide Dish Network with an abundance of cash which will be used to advance its 5G buildout. Assuming the deal is approved, Dish will gain access to EchoStar's $1.9bn cash, cash equivalents, and marketable securities on its balance sheet as well as $265mn in expected free cash flow this year. This resource channel is another big driver behind this M&A deal.

There are also significant cost synergies to be realized from this deal. The merger is likely to provide an estimated savings of $150mn per year in EBITDA through the unified business. This will provide flexibility for Dish which will provide for further growth opportunities later in the future.

Acquirer Overview

DISH Network Corporation, headquartered in Colorado, U.S., operates as a prominent satellite TV broadcaster and terrestrial wireless operator. Established in 1995 and listed on the Nasdaq Global Select Market, the company has undergone significant changes in leadership, with CEO Erik Carlson having resigned on November 12, to be succeeded by Hamid Akhavan, CEO of Echostar without waiting for the completion of the merger with Echostar.

Throughout 2022, a series of Senior Notes were issued as follows:

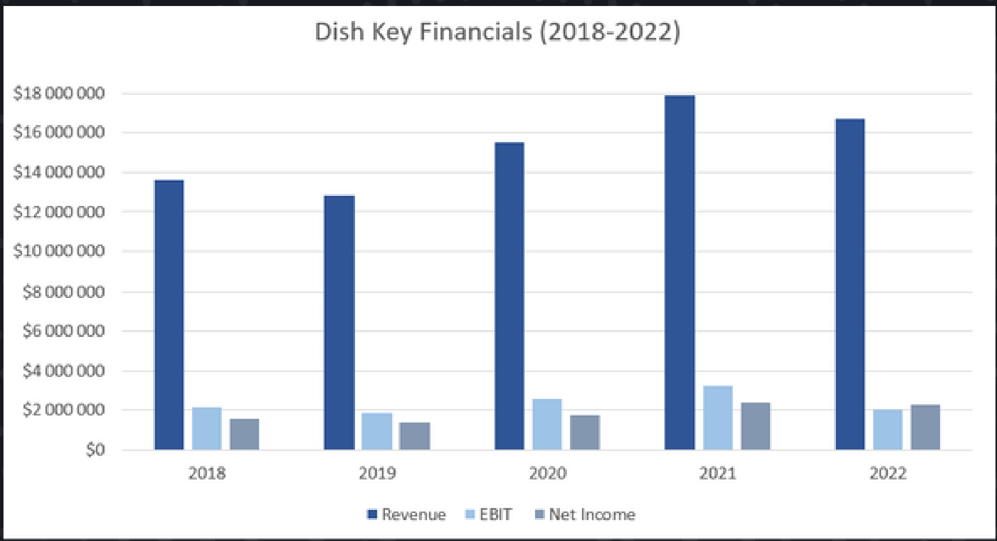
- In late 2022 and early 2023, $3.5 billion of 11 3/4% Senior Secured Notes due on November 15, 2027, were issued, with the first interest payment starting on May 15, 2023.

- The 6 3/4% Senior Notes due in 2021 and the 5 7/8% Senior Notes due in 2022, both with a principal balance of $2.0 billion, were fully repaid as of June 1, 2021, and July 15, 2022, respectively.

- Approximately $57 million of the 5% Senior Notes due 2023 were repurchased in the open market by the end of 2022, with the remaining balance of approximately $1.443 billion maturing on March 15, 2023, expected to be covered by cash and marketable investment securities.

Those debts were intended to be used for general corporate purposes including the buildout of wireless infrastructure.

KEY FINANCIALS



From 2019 to 2021, the overall financial performance improved, but it dropped in 2022. The revenue is decreasing in the two main business areas, but especially the wireless business had a negative operating income in 2022.

Revenue: $16,679,407

EBIT: $2,045,666

EBITDA: $2,762,739

Net income: $2,303,233

Market Cap: $1,840,000,000

P/E Ratio: 1,81

Share Price: $28.12

EPS: $3,61

	2020	2021	2022
EBITDA Margin	78,33%	81,55%	74,04%
Asset Turnover ratio	40,52%	37,25%	31,71%
Current ratio	115,41%	115,46%	76,53%
Debt to EBITDA ratio	476,23%	545,26%	772,75%

KEY FINANCIALS

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EBITDA Margin decreased in 2022 mainly because of higher costs of sales and SG&A even though the revenue did not pick up. The asset turnover ratio declined consistently from 2020 which suggests that efficiency has a place to improve. The current ratio dropped in 2022 and now it's lower than 100%. It could indicate a liquidity issue. The debt to EBITDA ratio is quite high, Dish seems to have too much debt to pay off.

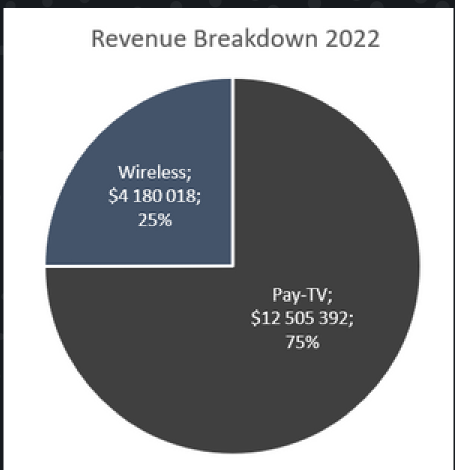
The Dish price has had a downward trend since 2022. This is because of the financial loss based on the decline of the pay-TV subscribers. Also, Dish has recently raised the price of its programming packages, and this led to negative sentiment for Dish stocks.

BUSINESS MODEL

Dish Network Corporation offers pay-TV services through its Dish and SLING brands. DISH TV provides satellite-based services with various assets, including FCC licenses, owned and leased satellites, and receiver systems. Additionally, DISH offers technology services to third-party providers. SLING TV offers internet-based streaming services. As of the end of 2022, Dish had approximately 9.75 million pay-TV subscribers, including 7.416 million for DISH TV and 2.334 million for SLING TV.

In the wireless sector, Dish provides retail services under the Boost Mobile, Boost Infinite, and Gen Mobile brands, offering both prepaid and postpaid options. Currently operating as an MVNO, Dish relies on T-Mobile and AT&T for network services but plans to switch primarily to AT&T under a new agreement. The company reported 7.983 million wireless subscribers as of December 31, 2022.

For its 5G Network Deployment, Dish has invested over $30 billion in wireless spectrum licenses, excluding $7 billion of capitalized interest. The investment aims to develop a cloud-native, O-RAN-based 5G network, which would be the first of its kind in the nation. Further details on these investments are provided in Notes 2 and 15 of the Consolidated Financial Statements in the Annual Report on Form 10-K.



ESG PRACTICES

Dish does not seem like they are actually trying to tackle this problem. On the company's site, they mention recycling and reusing, but the actual result and the objectives are not clear.

Target Overview

ECHOSTAR®

EchoStar Corporation, a prominent player in networking technologies and services, specializes in delivering internet services to a diverse range of customers, including residential users, and small to medium-sized businesses, as well as offering satellite and multi-transport technologies alongside managed network services to enterprise clients, telecommunication providers, aeronautical service providers, and government entities. Founded in 2007 and headquartered in Colorado, U.S., EchoStar is helmed by CEO Hamid Akhavan and is publicly traded on the Nasdaq Global Select Market.

On July 27, 2016, Hughes Satellite Systems Corporation, a subsidiary of EchoStar, issued $750 million in aggregate principal amount of both 5 1/4% Senior Secured Notes and 6 5/8% Senior Unsecured Notes, both series due in 2026. These issuances, priced at 100%, are governed by indentures dated the same day. The Notes are scheduled to mature on August 1, 2026, with the Senior Secured Notes accruing interest at 5 1/4% and the Senior Unsecured Notes at 6 5/8% per annum. Interest payments are due semi-annually, in arrears, on February 1 and August 1 of each year. These debt were intended to be used for capital expenditures.

KEY FINANCIALS

Revenue: $1 998 093

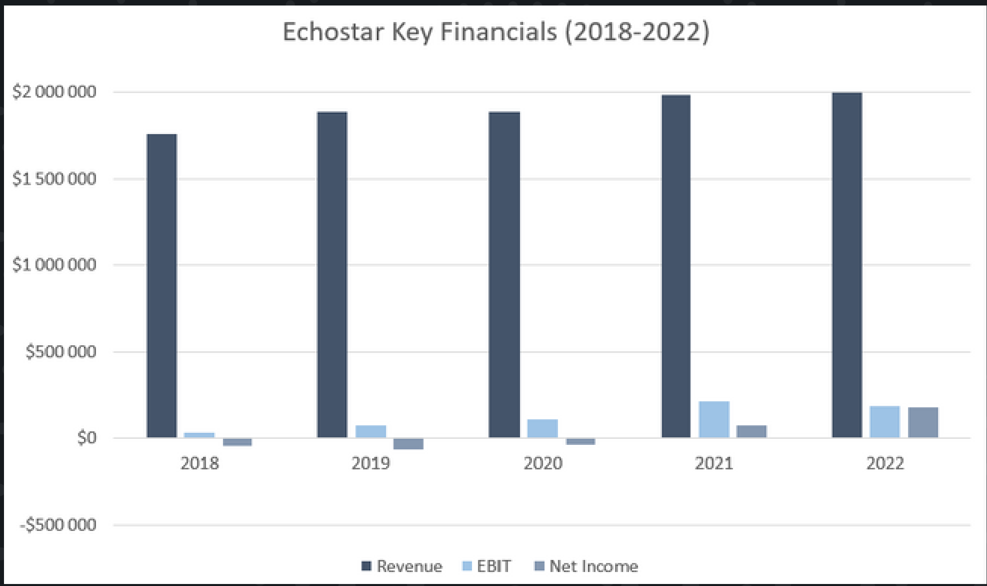
EBIT: $189 644

Net income: $177 051

Market Cap: $837 390 000

P/E Ratio:$8,99

EPS: $2,10



Net income was negative until 2020, but from 2021, it has been growing. The revenue is on an upward trend.

	2020	2021	2022
EBITDA Margin	32,68%	35,38%	35,41%
Asset Turnover ratio	26,69%	32,85%	32,23%
Current ratio	204,05%	418,78%	502,65%
Debt to EBITDA ratio	242,39%	212,94%	211,52%

The profitability and the efficiency have been improving. The current ratio is high enough to guarantee the liquidity. The debt to EBITDA ratio is around 2x, this is a reasonable level.

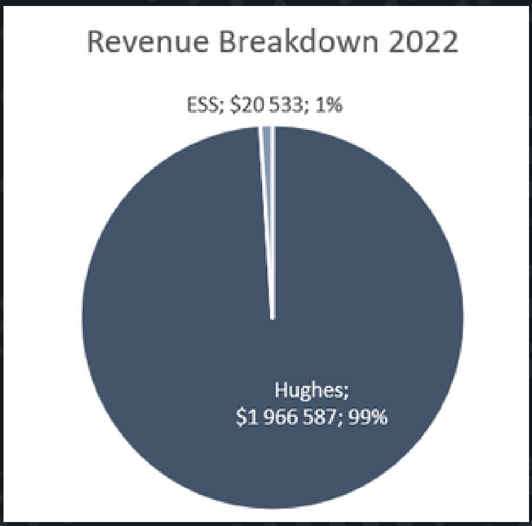
The stock price movement until February 2023 is quite similar to the one of Nasdaq, so it seems that the price movement is caused by the market sentiment. The serge for February 2023 happened on 23 February when Echostar announced their Q4 2022 result. On the annual report of 2022, we could see the positive net income compared to the negative net income of 2021.

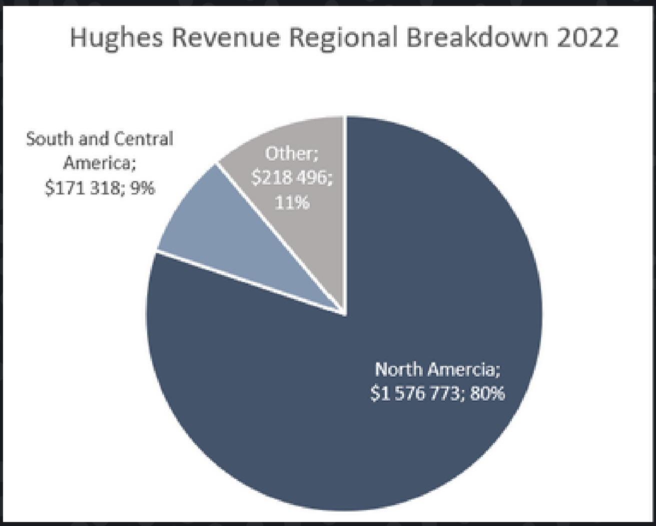
BUSINESS MODEL

Echostar offers mainly two business segments, Hughes segment and EchoStar Satellite Services segment (ESS segment).

- Hughes Segment: Specializes in broadband satellite technologies and services, focusing on technological advancement and network capacity. They have a strategic partnership in India and significant investments in the EchoStar XXIV satellite. They serve enterprise clients and are preparing for the launch of next-generation geostationary systems. Hughes faces competition from both traditional telecom and space-focused companies like ViaSat and SpaceX, and they differentiate through advanced VSAT networks and service customization. Outsourcing is part of their strategy to maintain cost efficiency.

ESS Segment: Provides a range of satellite services primarily to U.S. government agencies, broadcasters, and private enterprises, facilitated through the EchoStar IX and EchoStar 105/SES-11 satellites. They offer services essential for broadcasting, internet, and emergency recovery, with a business model reliant on strong customer relationships and market expansion. The segment operates in a competitive environment dominated by established satellite service companies holding long-term contracts and valuable orbital slots.





Valuation Analysis

COMPARABLE COMPANY ANALYSIS

Share Price as of 08/08/23			$10.61
FY2027 Revenue (Base Case)			1,703,911
FY2027 EBIT (Base Case)			211,610
Implied Market Cap (P/S)			1,037,156
No. of Shares			83,907
Implied Share Price (P/S)		**$**	**12.36**
	Premium		**14.2%**
Implied Enteprise Value (EV/EBIT)			179,415
Net Debt			(27,893)
Implied Equity Value			151,522
No. of Shares			83,907
Implied Share Price (EV/EBIT)		**$**	**1.81**
	Premium		**-83.0%**

Please click on the table to access the full model

The valuation multiples of EchoStar suggest a conservative market assessment. The Price/Sales (P/S) multiple of 0.4x is lower than the median of 0.6x among the selected peer group. Additionally, EchoStar's EV/EBIT and EV/EBITDA multiples of 3.6x and 1.2x, respectively, are relatively moderate compared to the third quartile figures of the sample, which are 14.3x and 24.6x. These metrics reflect the market's perception of EchoStar's growth prospects and profitability.

When looking at the implied share price based on the model's forecast for FY2027, we observe a mixed picture. The implied share price of $12.36 on a P/S basis represents a 14.2% premium over the current share price. However, on an EV/EBIT basis, the implied share price of $1.81 indicates an 83% discount to the current share price. It is important to note that this result is heavily influenced by the low median EV/EBIT multiple of the comparable companies, which is only 0.8x compared to EchoStar's 3.6x multiple. As a result, I would place more weight on the share price based on the P/S ratio.

DISH DISCOUNTED CASH FLOW MODEL

Implied Share Price Calculation		
Sum of PV of FCF		4,006,301
Growth Rate		2.5%
WACC		3.9%
Terminal Value		27,760,948
PV of Terminal Value		23,739,293
Enterprise Value		27,745,594
(+) Cash		2,621,039
(-) Debt		24,037,021
Equity Value		6,329,612
Diluted Shares Outstanding (M)		534,360
Implied Share Price	**$**	**11.85**

Please click on the table to access the full model

In our base case scenario for Dish Network, employing a WACC of 3.9% and a perpetual growth rate of 2.5%, our DCF analysis indicates an implied share price of $11.85. This valuation suggests a considerable premium over the stock's current market price of $3.53 and indicates a strong future earnings potential not currently reflected in the stock's trading levels as of November 28, 2023.

The fundamental assumptions behind this valuation include a gradual decline in unlevered free cash flow over our projection period from 2023E to 2027E. The base case reflects Dish Network's continued evolution in its business operations and market positioning, with the potential for growth in new strategic areas. Under a more optimistic scenario, which would include more aggressive assumptions on revenue growth and cost management we might envision a scenario where the implied share price could be higher, reflecting this is reflected in the sensitivity table shown. Conversely, a bearish case would lead to a much lower implied share price, closer to the current market price.

ECHOSTAR DISCOUNTED CASH FLOW MODEL

Enterprise Value	2,979,216
(+) Cash	1,517,050
(-) Debt	(1,302,840)
Equity Value	3,193,426
# of Thousands of Shares	83,550
Share Price	38.22

Please click on the table to access the full model

On the 8th of August, the closing share price of Echostar was $23.92. Given the calculated share price through the DCF model, the share seems to be undervalued by at least 60% as the conservative case estimates a ‘fair’ price at $38.22. The base alone forecasts an upside of 109% from $23.92 to 49.93.

The DCF forecasts that the share price will not rise because of high growth earnings, but instead due to improved profitability and cash conversion. This is because factors like EBIT margin are increasing at a higher percentage than working capital. EBIT Margin after 5 years is forecast to be 5% in the conservative case, 6.5% base case, and 7.3% in the optimistic case. Nevertheless, it should be noted that the capital expenditures for Echostar are hard to forecast, as these were not disclosed for many years, meaning that the DCF relies heavily on this assumption.

MERGER MODEL

Accretion/Dilution Analysis

	2019	2020	2021	2022	2023	2024	2025	2026
Earnings Per Share								
Acquirer Net Earnings	1,399,512	1,762,673	2,410,642	2,303,233	2,750,475	3,284,564	3,922,361	4,684,006
Target Net Earnings	-62,917	-40,150	72,875	177,051	448,909	1,138,201	2,885,887	7,317,112
Synergy					200,000			
Pro Forma Net Earnings					3,399,385			
Acquirer Shares O/S					295,960			
Target Shares O/S					36,220			
Pro Forma Shares O/S					1,139,446			
Acquirer EPS					1.9			
Target EPS					1.11			
Pro Forma EPS					2.98			
Accretion/Dilution					**1.08**			

Please click on the table to access the full model

Utilizing the base case forecast for 2026, we advocate for an 8.1% accretion in the merger between Dish and Echostar. This recommendation stems from the observation that the Pro Forma Earnings Per Share (EPS) surpasses the standalone EPS of the acquirer, signifying a potentially advantageous financial outcome. The envisaged merger is anticipated to yield substantial synergies by fostering more efficient operations and diversifying the portfolio of their future projects.

The prospect of heightened growth in revenue is another key factor driving this recommendation. The combined entities are poised to capitalize on emerging opportunities in the telecommunications sector, particularly with the rapid advancement of 5G technology. This technological evolution presents a promising landscape for the merged companies to explore and exploit, promising a trajectory of sustained growth.

Deal Analysis

STRENGTHS

- Access to the cash and the free cash flow of Echostar and strengths of the balance sheet
- With this access to the cash, Dish can continue the investment on the 5G network

WEAKNESSES

- Lack of enthusiasm among investors due to the focus on Dish's weakening balance sheet and failing revenues from TV business
- Being cash-constrained, challenges in funding the deployment of its wireless business, with high debts and the need to issue debt offerings

OPPORTUNITIES

- The merger allows Dish to serve customers in areas lacking cable or fiber connectivity, tapping into the growing global satellite internet market
- The merger provides opportunities for Dish to innovate in the satellite industry, utilizing EchoStar's satellite constellation for broader connectivity and services

THREATS

- Significant costs for network expansion, especially in rural areas
- The telecommunications sector is highly competitive, posing a threat to Dish's ability to capitalize on its merger with EchoStar effectively

GLOSSARY

Asset Turnover Ratio: The ratio indicates the efficiency of a firm to use its assets to generate revenue - calculated by dividing revenue by the total assets of a firm.

Current Ratio: The current ratio shows the ability of a firm to cover their short term obligations (liabilities) with their short-term assets - calculated by dividing current assets with current liabilities

Senior Notes: Debt that a firm issues which has the most priority to be paid back in the case of a bankruptcy.

Terminal Growth Rate: Assumption of the rate that a company is expected to grow forever.

WACC: Cost of capital used to represent a firm's after-tax costs from all resources.

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