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NEWSPACE COMPANIES AHEAD OF A FUTURE INDUSTRY CONSOLIDATION: HOW CAN VALUATION METHODS CONTRIBUTE TO THEIR SUCCESS?

Abstract

The paper targets NewSpace companies wanting to prepare for a future consolidation phase within the space industry.

The first part of the paper analyses the reasons for the growth of the space market and concludes on the necessary consolidation it will undergo in the future. Over the last 10 years a thriving and colorful landscape emerged with small and medium-sized companies having high specialization in a technology, a product or a service. Such a fragmented landscape will inevitably come to a consolidation phase via strategic or financial pressures in order to keep a meaningful position on the market.

How would a small actor anticipate and prepare for a win-win move? How would they adjust by creating a new value proposition and business model? Should they target another company or be targeted?

Valuation provides the tools to answer these questions and to prepare for market moves either strategically motivated or plainly financially.

In the second part the fundamentals of valuation methodology are illustrated via two relevant examples:

1. Company A, based in the US with 3M$ yearly revenue, has a technology generating interest in the market. Company A wants to extend its geographic footprint and targets company B, with 1M yearly revenue, in a strategic region. The paper outlines in a few steps how company A would valuate company B for a worthy deal and for which market value. Notions such as capital structure, discounted cash flow, cost of equity / capital, risk premium and enterprise value are explained.

2. A company C of 20M$ yearly revenue wants to prepare to be targeted or sell it. Various formulas are then possible, such as leveraged buyout, strategic MA sale or minority recapitalization. After defining the selling requirements, strategic goals (including exit strategy alternatives), relevant acquirers and timing, the company C can determine a valuation range.

The final part enlightens the strategic options for NewSpace companies and the fundamentals of transaction structuring. Companies can use different financial strategies, such as joint ventures including for vertical integration, or mergers and acquisitions. The notions of stock ownership and equity options packages, stock versus asset sale, terms and interest rate on financing or liabilities are explained and why they are relevant.

The way small and medium companies prepare for the upcoming consolidation can determine how fast NewSpace 2.0 will kick in and how successful it will be.

The authors combine financial experience from Wall Street and business development from key aerospace actors. They have the ambition to contribute to the growth of NewSpace by combining uniquely their expertise.