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Deal of the Decade – the O3b Networks project?

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This year, Infrastructure Journal will celebrate the tenth anniversary of the IJ awards, and includes a special 'Deal of the Decade' category. In the telecom sector, the O3b networks project is the stand-out candidate.

Referring to the "other 3 billion" people in the world currently without access to broadband Internet, due to the absence of a backbone of fibre optic cable connections in many parts of the world, the US\$1.2 billion 'greenfield' satellite financing for O3b Networks was one of the most ambitious space projects of the decade [[Projects Database](#)].

This project will aim to support super-fast broadband connections in Africa and other emerging markets, linking the traffic of local telecoms and internet service providers to the global fibre infrastructure.

Alongside the project's admirable raison d'etre, however, two more reasons mark it out as a candidate for deal of the decade.

First, the O3b Networks project attracted a large club of investors including one new entrant into the equity project finance arena, Google.

Second, this ambitious project remains unique due to the equity and debt financing packages it received and to the relative short period of time in which the deal was closed.

Google was an early-stage investor in O3b Networks - investing in the company as early as 2008 – and has been joined by eight other investors since then.

In a blog written in 2008, Google explained its choice to invest in O3b, saying: "An important aspect of Google's mission is to make information universally accessible."

However, the financing structure was a challenging one giving the equity raising process. Before the last round of funding was signed in November last year, new investors had come on board. The US\$410 million in equity financing included US\$230 million in new equity investment, while the additional equity was provided by a group of existing shareholders:

- Google
- North Bridge Venture Partners
- Allen & Company
- SES
- Liberty Global
- HSBC Principal Investments

SES injected an additional US\$75 million, taking its total investment to US\$155 million. Therefore, SES became the largest minority shareholder of O3b Networks – owning a 34 per cent stake. The new investors in the project also included:

- the Development Bank of Southern Africa
- Sofina
- Satya Capital

Furthermore, the project brought together one export credit agency -France's Coface – and four commercial lenders.

The US\$770 million debt package was split into three tranches with the following lenders:

- a US\$510 million senior debt facility provided by HSBC, ING, Crédit Agricole and Dexia which was 95 per cent underwritten by the French export credit agency, Coface

- a US\$115 million senior debt facility provided by the IFC, the African Development Bank (AFDB), the Emerging Africa Infrastructure and Infrastructure Fund (EAIF), the Dutch Development Bank (FMO) and the French Development Finance Institution Proparco
- a US\$145m mezzanine facility provided by HSBC, the IFC, AFDB, the German Development Finance Institution (DEG), EAIF, FMO and Proparco

The combination of export credit and development finance debt as well as the presence of a mixture of technology, private-equity and development oriented drove the project to financial close in less than three months after the end of term sheet negotiations. However, it is worth noting that the deal needed to be done within this lapse of time due to the contracting programme which enabled companies to benefit from negotiating contract.

The presence of this large group of development finance institutions (DFIs) in the project is also rare enough to be highlighted. HSBC head of infrastructure Trevor Sturmy said: "The large and diverse group of funding institutions, and the time pressure of the process to close, made the deal execution extremely challenging, and all the parties involved had to work together closely to achieve the delivered timetable."

The financing supports the purchase of O3b Networks' first eight medium earth satellites from Thales Alenia Space. This constellation will be put in a Medium Earth Orbit (MEO) at around 8,000km above the equator, providing coverage around the globe to a latitude of plus and minus 45 degrees. Flying in MEO means the satellites will be four times closer to the Earth than is the case with traditional geostationary telecommunications spacecraft which sit 36,000km above the planet. This should reduce substantially the delay, or latency, of the signal as internet traffic is routed via space. O3b Networks plans to extend the constellation to 20 satellites in the future.

Much more than just connecting people's home to the internet, the problem is mainly due to the lack of a telecommunication network to link homes to. In comparison to developed areas which are linked by submarine fibre optic cables to carry core Internet traffic and where easy access to low-cost broadband is taken for granted, developing countries do not have access to this technology due to the cost of such projects, and sometimes due to political reasons. The O3b project should therefore reduce those barriers and enable the 'other 3 billion people' to have access to a better broadband coverage.

