



Maxar Technologies [NYSE: MAXR]

Initiate at BUY | PT: \$39

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CIMG investment Research

Earth Intelligence superiority and new constellation outweigh market fears over launch & legacy business

Maxar Technologies is an industry leader in space-based imagery and infrastructure as it nears the launch of a game-changing new satellite fleet, WorldView Legion. The operational and financial benefits of the new satellite constellation will be extremely transformative for the company. The higher growth driven by Legion and conclusion of capital spending associated with the creation of Legion will drive an increase in FCF from a little over breakeven in 2021 to a ~\$350 m by 2023. This cash flow will allow Maxar to repair their balance sheet, reduce leverage and increase shareholder returns over the long term. We believe the market currently misprices the effects of the Legion launch delay, overestimates the competition from smallsat imagery providers, and underestimates the technological moat and valuation upside driven by the Legion program.

Investment Thesis

The market is overly pessimistic about delays of the WorldView Legion launch. Maxar’s financial future rests on the success of its next-generation WorldView Legion constellation. Following pandemic related supply chain issues, Maxar’s WorldView launch was delayed from Q1 2021 to September 2021. These delays were furthered by a need for reworks of optical instruments from Raytheon and a stabilizing component from Honeywell. As a result, the launch was delayed again to Q4 2021 and subsequently to March 2022. In response to the Honeywell component shortage, Maxar received the highest defense priority rating possible, DX, from the government, which means suppliers must now prioritize Legion’s supply issues above all other programs. Since the failure of a Honeywell gyroscope led to the loss of Maxar’s WorldView-4 satellite in 2018, Maxar and its suppliers have set extremely tight parameters for component testing and raised requirements for redundancy. Maxar has remained focused on quality and product integrity, over making a deadline.

Early next year, a key government contract, the NRO Electro-Optical Commercial Layer (EOCL) Contract, will be awarded to Maxar. At \$300m per year, the NRO’s EnhancedView contract currently represents nearly 1/3rd of Maxar’s Earth Intelligence revenue and is the single most valuable contract in the commercial Earth Observation industry. In early 2022, the successor to the EnhancedView contract, the EOCL contract, will be announced. This contract is expected to be worth \$320-330m in the first year, with Maxar receiving the majority of the funding. Nearly 80% of the RFP is tied to Foundation Imagery – a capability for which Maxar has no serious competition. Maxar is expected to earn at, or slightly below \$300m for the first year of the EOCL contract, with the budget anticipated to grow in years 2-5 of the contract.

Maxar has a large and growing technological moat in the Earth Intelligence Industry. The competitive advantage of Maxar over its competitors is its imagery resolution. Maxar is currently the only commercial provider of 30 cm Very High Resolution (VHR) capacity. Legion satellites expand on this capability, offering sub 30 cm VHR, compared with the 50 cm VHR offered by Planet, and 1m VHR offered by BlackSky. This difference is paramount for intelligence and defense agencies. At 1 m resolution, it is impossible to distinguish between civilian and military vehicles. At sub-30 cm resolution, intelligence and defense agencies can determine the type of military vehicle, identify the weapons it possesses, and determine where they are firing. Legion also offers a much larger collection capacity, with Legion able to collect 1.7m sq. km / day at ~30 cm resolution, 3-5x more than smallsat operators’ ability to collect images at a lower quality. Maxar dominates across every key consideration – resolution, spectral quality, geolocation accuracy, and collection capacity. Unless BlackSky or

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Figure 1: TTM Stock Chart & Volume



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|-------------------|-------------------|
| Price | \$28.84 |
| Dividend Yield | n/a |
| PT | \$39 |
| Upside | 35% |
| 52-Week Range | \$21.53 - \$54.76 |
| Dil Shrs Outstand | 72,662,438 |
| Mkt Cap | \$1.99bn |
| Ent Value | \$4.06bn |
| FY 2020 Revenue | \$1.72bn |
| Operating Margin | n/a |
| Net Margin | 17.6% |

Planet spends \$1 billion in CapEx constructing new satellites, which is not feasible given their size and financial profiles, it is not possible for them to catch up.

We believe WorldView Legion Launch will transform the company financially. After the launch, Maxar will significantly reduce their CapEx for several years and experience sustained FCF growth, which will allow rapid de-leveraging and a de-risked financial profile. Due to prior acquisitions such as DigitalGlobe and the \$600m construction of the WorldView Legion constellation, Maxar currently has a relatively high level of leverage at ~5.0x. The WorldView Legion launch will transform the company's balance sheet and leverage. With the new Legion capacity, we project that top-line growth will accelerate to \$104M in 2023. We also estimate new margin improvements, driven by increased efficiency in the space infrastructure, to be \$28m in 2023. Additionally, we forecast CapEx will be significantly reduced by ~\$119m in 2023, as Maxar does not need to construct any new imagery satellites until 2026. Combined with interest savings from debt reduction and refinancing (\$78m by 2023), and \$27m in working capital reductions, FCF is expected to grow to over \$365m. We project Maxar's leverage reducing from 5.0x to 2.6x by the end of 2023. With reduced CapEx and interest payments, by 2023, Maxar is expected to return significantly more FCF in the form of dividends and share buybacks which we will see contribute to positive stock price movement.

Company and Industry Overview

Maxar Technologies is a global provider of products and services focused on Earth Observation and space infrastructure. Following a series of mergers, Maxar is a combination of the world's leading satellite imagery company (DigitalGlobe) and a leading manufacturer of GEO communications satellites and supplier of space-based infrastructure and components. Maxar operates in two reporting segments, Earth Intelligence and Space Infrastructure, with Earth Intelligence currently representing 60% of revenue and 95% of EBITDA. Maxar currently owns a constellation of 4 satellites and offers its customers industry leading high-resolution imagery and sells geospatial information, applications, and analytics services to national security and commercial customers. In Space Infrastructure, Maxar designs and manufactures communications and earth observation satellites. This segment operated at a loss for the past three years following a slump in the commercial GEO communications satellite market. However, management guidance for 2021E reflects a stabilization of topline and a return to profitability.

The space-based imagery market has seen new publicly traded entrants in 2021 with the announcements of SPAC mergers for earth imagery smallsat operators BlackSky and Planet. However, Maxar and smallsat operators are not in direct competition and success is not a zero-sum game. While smallsats are cheaper to produce and deploy, they provide lower resolution imagery and a capturing area that is orders-of-magnitude less than Maxar's best-in-class WorldView satellites. Planet and BlackSky's satellites ultimately do not impinge upon Maxar's ability to sell its differentiated high-resolution imaging analytics to its core set of ~10 long-standing, highly discriminating US and international intelligence and defense accounts.

The Market View

While Wall Street is bullish on Maxar with ~20-80% upside, the market seems to disagree. We believe this is primarily driven due to short-term pessimism regarding the recent announcement of the delay of the WorldView Legion launch until March 2022. However, Legion delays were driven primarily because of non-recurring COVID-19 impact in 2020 and Maxar's extremely tight parameters for component testing and we believe they are not cause for major concern, nor are they abnormal for the industry. Additionally, demand for Legion capacity is strong, as demonstrated by the recent expanded agreement with an international customer announced in July. With a long-term view, we believe the strong FCF growth and financial benefits for Maxar shareholders post Legion launch are clear.