

## COMPANY BRIEF

### Gilat Goes Big on IFC (NASDAQ: GILT, TASE: GILT)



Gilat's June 17 [announcement](#) that it was purchasing Stellar Blu Solutions for a base purchase price of \$98M with an earn-out upside of up to \$245M likely caught many investors by surprise given Gilat's multi-year effort to develop its own electronically steered antenna (ESA) for the in-flight connectivity (IFC) market. So, who is Stellar Blu, why are they potentially worth a quarter-billion dollars, and how does this acquisition fit into Gilat's product portfolio?

#### The TLDR:

By our estimate, Gilat paid a reasonable ~10x multiple on Stellar Blu's 2025 EBITDA, but if Stellar Blu can hit its growth targets, that multiple drops to 6-8x on 2026 EBITDA and potentially a low single-digit multiple on 2027. Plus, our 2027 upside scenario would contribute close to \$70M of EBITDA; nearly double Gilat's 2023 EBITDA of \$36M.

## Some Context

Satellite IFC is a relatively new technology/market. Southwest was the first major airline to commit to satellite IFC in 2008. Today, satellite connectivity is a must-have for the ~2,000 new aircraft delivered annually by Airbus and Boeing (note – Airbus is forecasting 40,850 deliveries from 2023 to 2042).

Prior to [October 2022](#), GEO satellites were the only broadband IFC solution available<sup>1</sup>. While mechanical antennas work fine for GEO satellites, an ESA is the table stakes for a LEO system, given that the antenna may need to switch between satellites every 5 to 10 minutes.

Plus, an ESA can enable multi-orbit communications as the electronic beam dances between satellites in LEO, MEO, and GEO.

Not surprisingly, every IFC service provider is

desperately seeking a multi-beam ESA capable of multi-orbit connectivity. Let's unpack that:

- as **Electronically steered antenna (ESA).** Pure, mechanically steered antennas will become a thing of the past. In the new multi-orbit future, phased array technology is the path forward.
- as **Multi-orbit.** 100% of the ~11,000 connected aircraft in service today (out of ~27,000) are using mechanically steered or hybrid (e.g., ThinKom) antennas. To achieve multi-orbit capability across LEO, MEO and GEO, all 11,000 will eventually need to switch to an ESA.
- as **Multi-beam.** While a single beam can theoretically switch between satellites in milliseconds, two beams are superior, enabling make-before-break connectivity.

<sup>1</sup>SES/O3b has been operational since [2014](#) but does not offer aviation services. Inmarsat and Iridium are only capable of narrowband (<1 Mbps) communications.



## Who is Stellar Blu?

Rising from relative obscurity, Stellar Blu Solutions has emerged as a leading horse in the IFC antenna race with a considerable time-to-market advantage. Facing [liquidation in 2021](#), GDC Technics (formerly Gore Design Completions) was acquired from bankruptcy by a Fortress Investment Group portfolio company.

From these improbable roots, the subsequently renamed Stellar Blu became the industry's first ESA manufacturer to secure a volume ESA production order in June 2022 when [Intelsat](#) unveiled its new ESA antenna based on Stellar Blu's Sidewinder antenna.

Months later, Panasonic [unveiled](#) its partnership with Stellar Blu. Panasonic has remained publicly tight-lipped about the scale of its commitment to Stellar but not about its enthusiasm for LEO and professed strategy of "leading with LEO."

Airbus bypassed Stellar Blu in favor of GetSat for its HBCplus supplier-furnished equipment (SFE) program, but Stellar Blu has made inroads with Boeing, which executed a Technical Services Agreement with Stellar Blu in May 2023 enabling line-fit on the 737 MAX, 787, and 777X types.

Impressively, at the time of the acquisition, Stellar Blu had amassed firm orders for 800 antennas, valued at roughly \$200M (based on an ASP of \$250k per shipset). Put into context, Viasat, the world's #1 IFC provider, is projecting to install ~500 aircraft in 2024, growing to ~600 in 2025.

## Valuation Considerations

While the full \$245M sticker price is certainly eye-popping for a company with a pre-announcement EV of \$190M, our analysis suggests that investors can only hope that Gilat ends up paying the full price.

Gilat has projected Stellar Blu revenues of \$100-150M in 2025. Not a hard bogie, given their backlog of ~\$200M and a targeted production rate of 100 antennas per month.

Under our baseline growth scenario, Gilat hits its midpoint revenue guidance (\$125M) in 2025, growing to the high end of its range in 2026 (\$150M) and then by an additional \$25M in 2027. Under this scenario, Stellar Blu management would earn ~35% of its earn-out consideration, resulting in a total acquisition price of \$150M. Our numbers.

Revenue targets and earn-out considerations were not disclosed.

To earn the full \$245M consideration, Stellar Blu will need to deliver on strategic "upside" opportunities (explained in more detail on page 7), which would boost revenues by \$25M in 2025, growing to an incremental \$150M contribution by 2027. In this scenario, EBITDA margins would also be positively impacted by 800 basis points by 2027.

Net-net, we estimate that Gilat paid a reasonable 10x multiple on 2025 EBITDA, but if Stellar Blu can hit its growth targets, the acquisition begins to look quite inexpensive on 2026/2027 EBITDA for a high-growth company.



## Stellar Blu Valuation Analysis

(\$,M)	2025	2026	2027	Comments
Revenues	\$125	\$150	\$175	<< Baseline scenario assumes 35% of earn-out
Revenues (upside)	\$150	\$225	\$325	<< Upside scenario assumes 100% earn-out
EBITDA margin	12%	12%	13%	
EBITDA margin (upside)	15%	17%	21%	<< Upside scenarios are higher margin
EBITDA	\$15	\$18	\$23	
EBITDA (upside)	\$22	\$39	\$68	
EV/EBITDA	10.0x	8.3x	6.6x	<< Assumes gross acquisition price of \$150M
EV/EBITDA (upside)	n.a.	6.3x	3.6x	<< Assumes gross acquisition price of \$245M

Admittedly, our revenue and EBITDA margin assumptions are based on informed estimates. But do they make sense? Based solely on the new aircraft delivery segment of the market, and assuming 100% IFC penetration into new deliveries, Stellar Blu would need to achieve 25% market share in 2025, growing to 35% market share by 2027.

Stellar Blu Market Share Assumptions  
( New CA Deliveries Only)

(\$,M)	2025	2026	2027	Comments
Revenues	\$125	\$150	\$175	<< Baseline scenario
Revenues (upside)	\$150	\$225	\$325	<< Upside scenario
Antennas shipped <sup>(1)</sup>	500	600	700	<< ASP of \$250k per shipset
Antennas shipped (upside)	560	790	1,080	<< Incremental ASP of \$400k per shipset
SBS % of total	25%	30%	35%	<< Aircraft deliveries 2,000/yr
SBS % of total (upside)	n.a.	n.a.	n.a.	<< Upside assumes non-CA opportunities

<sup>1</sup>Pre-production backlog of ~800 aircraft as of June 2024.



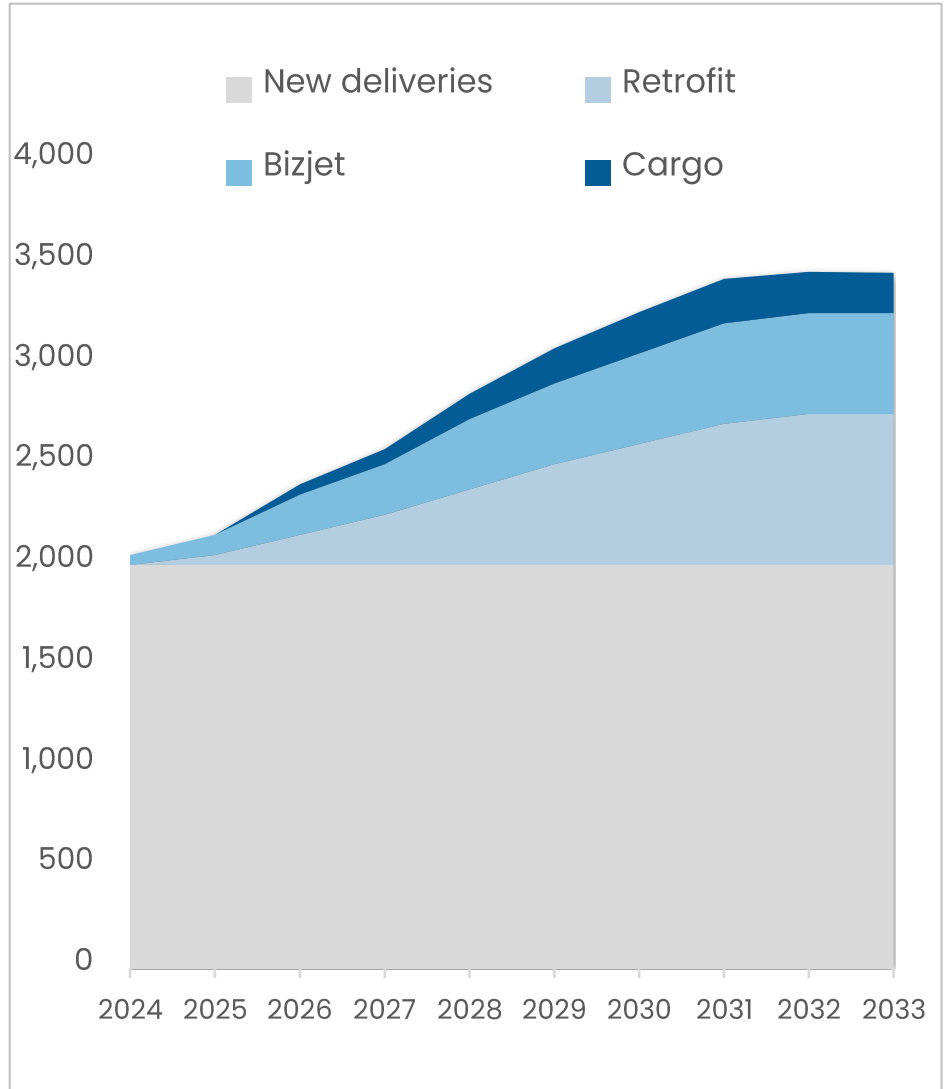
## Annual ESA Market Opportunity

But, clearly, new commercial aviation (CA) deliveries (2,000/year) are not Stellar Blu's only opportunity. As previously mentioned, if 75% of the legacy IFC fleet of 11,000 aircraft is upgraded, retrofits could grow to roughly 700 aircraft per year by the end of the decade.

Business aviation (BA) represents another attractive opportunity, but sizing the market opportunity is more challenging, given:

1. IFC is optional on BA aircraft
2. Fuselage size (and, hence, IFC suitability) varies widely
3. Air-to-ground (ATG) services represent a legitimate alternative to satellite.

While the BA opportunity may grow to 500 aircraft per year by the end of the decade, the market will likely be more heavily weighted to Ka-band solutions (smaller antennas) and LEO-only (good enough).



Finally, the oft-forgotten cargo market could add up to another 200-250 aircraft per year.

Rolling it all together, Stellar Blu's addressable market will likely be closer to 2,600 aircraft by 2027, reaching 3,300 by the end of the decade. Under this scenario, Stellar Blu's implied market share would be closer to 20% over 2025-2027 vs. 25-35% for CA deliveries only.

## Competitive Landscape

While Stellar Blu is not the only game in town, it stacks up well against the competition, especially over the next three visible years. Focusing exclusively on the market for Ku-band IFC antennas, Stellar Blu has the only antenna that is currently shipping for the commercial aviation (CA) market and has the industry's largest order book (~800 shipsets).



# Competitive Landscape

## Ku-band ESA Competitive Landscape

	Terminal	Orbit	Tx Beams	Rx Beams	Terminal Mass (kg)	Power (W)	Aircraft Type	Production Availability
GetSat	Aero LESA	Multi-orbit	2	2	75	1,300	CA	2026
Gilat	Satcom Direct ESA	LEO only	1	1	n.a.	n.a.	BA	2025
Hanwha Phasor	A7700	Multi-orbit	1	2	n.a.	1,600	CA	2025
Hughes	Hughes ESA	LEO only	1	1	30	330	CA & BA	2H24
Stellar Blu	Sidewinder	Multi-orbit	1	1	n.a.	n.a.	CA	Now
Stellar Blu	Diamondback	Multi-orbit	1	1	n.a.	n.a.	CA	Now
SatixFy	Onyx	Multi-orbit	1	1	36	1,000	CA & BA	2025
Starlink	Aero Terminal	LEO only	1	1	25	400	CA & BA	Now
ThinKom	ThinAir Plus	Multi-orbit	2	2	190	700	CA	2025

Additional color on the competitive landscape, where warranted:

- Orbit.** With the exception perhaps of Starlink, every airline and antenna manufacturer has the goal of enabling multi-orbit connectivity. LEO-only models like Hughes’ ESA and Stellar Blu’s smaller LEO-only Sidewinder may have a limited shelf life for CA aircraft (LEO-only remains suitable for BA).
- Tx/RX beams.** As previously mentioned, multi-beam capability is preferred (i.e., the ability to do make-before-break), but even single-beam antennas like Stellar Blu’s sidewinder support multi-orbit operations. GetSat, which was selected by Airbus for its HBCplus program, will likely be the first multi-beam antenna to hit the market in 2026, but we expect Stellar Blu, along with most antenna vendors to migrate to multi-beam antennas over time.
- Terminal mass.** Lighter is better. Direct comparisons are tricky because each vendor’s configuration is unique (radome or no radome), but ESAs are generally much lighter than mechanical antennas.
- Power.** Ideally, a power budget of <1,000 W is desired. Higher power causes problems with heat dissipation,
- Aircraft type.** Several antenna vendors use a “tile” approach that allows the antenna to be scaled up or down depending on fuselage size.
- Production availability.** Availability dates for antennas still in development should be taken with a grain of salt. Hanwha Phasor is five years late on its original delivery schedule, and SatixFy is partnered with SCOTTY, a small European secure communications provider.
- Radome.** Stellar Blu is somewhat unique in that it does not require an external radome, which reduces the antenna’s cost, weight, aerodynamic drag, and installation time, resulting in lower total cost of ownership (TCO) for airlines.
- Open architecture.** In contrast to the walled garden hardware approach of most IFC vendors, Stellar Blu has adopted an open architecture approach that allows IFC service providers to seamlessly integrate the antenna with third-party components (e.g., modems, modmans).
- ThinKom.** A clarification: the ThinAir Plus product line is a mechanically steered, low-profile antenna with a Hughes-supplied ESA thrown in under the radome. While a clever way to achieve seamless multi-orbit connectivity, the two antennas (and three apertures, since Rx and Tx are on different panels for the VICTs parts) may result in a larger size than competing alternatives.



## Key Benefits & Risks

The Stellar Blu acquisition is not without risks. In addition to FAA certification, airframe STCs, competitive bakeoffs, and typical post-acquisition consolidation challenges, other areas of higher risk include:

- as **Production delays.** While revenue forecasts can look great on paper, the challenging part is execution. ThinkKom is currently the market leader in satellite IFC antennas using the company's proprietary **VICTS** mechanical phased array technology. ThinkKom vaulted into the IFC prominence in 2013 when Gogo signed an exclusive on ThinkKom's Ku3030 antenna, but deliveries were delayed by a year due to problems with de-icing fluid leaking into the radome. Stellar Blu's Fort Worth, TX manufacturing facility is scaled to produce 100 antennas per month, but teething pains are not outside the realm of possibility.
- as **Vendor dependency.** Ball/BAE is the sole supplier of the core Ku-band antenna array used in Stellar Blu's antennas (on a non-exclusive basis). Presumably, Stellar Blu has negotiated a long-term supply agreement with Ball and/or has plans to identify a secondary supplier.
- as **Ka-band product extension.** Currently, all of Stellar Blu's antennas operate in Ku-band, but over time, Ka-band could comprise half or more of the IFC market. Stellar Blu has a clear path forward using an off-the-shelf Ball/BAE Ka-band antenna array, but if Stellar Blu's Ka-band efforts fail, its implied 2027 market share would need to double from 20% to 40% to make up the difference with Ku.
- as **Management team.** While Gilat is well-versed in ESA technology, retaining Stellar Blu's management team for the next 2+ years will be critical to ensuring a smooth production ramp. There is a reason that Gilat structured the deal with a \$147M earn-out.

As detailed above, the financial benefits of the Stellar Blu acquisition are fairly straightforward, equating to EBITDA of \$26M to \$71M by 2027 (note Gilat 2023 AEBITDA of ~\$36M). Other possible synergies include:

- as **Street cred.** Gilat is not new to the IFC market. Intelsat, the #3 IFC player (~20% market share), has standardized on Gilat's SkyEdge IV Taurus modem, and Gilat's Wavestream subsidiary is the leading supplier of power amplifiers to the IFC market. But buying Stellar Blu vaults Gilat into the big league of IFC hardware vendors.
- as **Product bundles.** While not 100% vertically integrated, Gilat has the opportunity to offer antennas, modems, amplifiers, and gateway hardware as a tightly packaged hardware solution.
- as **Product certification.** Stellar Blu brings strong capabilities in aircraft engineering, certification, integration know-how, and support services that can be directly applied to Gilat's internal ESA efforts.
- as **Cross-selling.** Gilat has a solid presence in the defense, government, and land mobility markets that represent the bulk of Stellar Blu's upside opportunity.
- as **Open architecture.** Both companies are advocates of an open architecture approach to hardware development.



## Potential Upside Opportunities

While Gilat did not explicitly define the upside opportunities that could unlock the full \$147M earn-out, likely possibilities include:

- as **Defense LEO.** The USG's Joint All-Domain Command and Control (JADC2) initiative to connect multiple platforms across all branches of the military includes efforts such as the Space Development Agency's PWSA constellation that will eventually link LEO satellites to aircraft equipped with ESAs. The same is expected for Europe's IRIS<sup>2</sup> program. Viasat currently dominates the government mobility market but only offers mechanical antennas.
- as **The government market.** Federal, state, and local government agencies. Domestic and foreign.
- as **Mobility markets.** The maritime and land (vehicle/train) markets could grow to thousands of units annually but will require separate antenna development programs.
- as **Major satellite operators.** SBS counts Intelsat and OneWeb as customers but could dramatically expand Gilat's market share by pulling in other operators.

## Impact of Gilat's Balance Sheet

- as The acquisition is expected to close during the second half of 2024, with Gilat paying \$98M in cash at closing. Gilat ended Q1 with \$104M of cash and equivalents, and we are projecting that Gilat to generate an additional ~\$20M of free cash flow by the end of the year.
- as Although Gilat has sufficient cash on hand to pay for the acquisition, Gilat intends to add a credit facility to provide additional flexibility. Regardless, Gilat should remain substantially debt-free following the acquisition.
- as We assume that the \$147M earn-out (if fully paid) will be paid out in a mix of stock and cash over two years beginning in 2025. Assuming a 50/50 split between cash and stock, the cash portion could essentially be paid from Stellar Blu 2025-2027 cumulative EBITDA of \$134M.
- as Net-net, even at a \$245M acquisition price, Gilat should remain substantially debt-free.

## Final Conclusion

Gilat's acquisition of Stellar Blu was a bold, potentially game-changing bet on ESA technology that will quickly become the default solution for in-flight connectivity. The acquisition will immediately establish Gilat as the market leader for aviation ESAs, allowing it to leverage its technology portfolio into large adjacent markets.

Financially, the transaction gives Gilat a potential path to achieving AEBITDA of \$150M by 2027 while leaving the company substantially debt-free and cash flow positive (Stellar Blu, independently, in 2H25).

While investors apparently reeled at the headline acquisition price (the stock was down ~15% post-announcement), our valuation scenarios would suggest that the purchase price was reasonable to attractive. Furthermore, the acquisition has the potential to redefine Gilat's strategic positioning within the industry while transforming Gilat into a high-growth company.

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