
Boeing Acquisition of Hughes Space and Communications (HSC) Businesses

January 13, 2000

Boeing Space & Communications Group (S&CG) + HSC

***.... Creates Preeminent Space-Based
Information and Communications Company***

Transaction Summary

- **Purchase of Hughes Space and Communications Company (HSC) and related operations**
- **Purchase price of \$3.75 Billion; 1.3x Sales; 8.8x EBITDA**
- **All cash transaction**
- **Subject to customary regulatory approvals**
- **Structured as a stock purchase agreement with 338(h)(10) tax election, allowing for significant benefits (\$500M value)**

Acquisition Rationale

- **Combines HSC leadership in space communications systems with Boeing's large scale systems integration skills**
- **Creates a world class capability in system of systems solutions**
- **Adds outstanding technology and intellectual capital**
- **Significantly expands opportunities in classified market**
- **Broadens product base in Air Traffic Management (ATM), broadband communications services to mobile users, and integrated military systems**

Unparalleled Capability to Integrate Space, Air, and Terrestrial Information and Communication Systems

Financial Benefits

- **Accretive in first full year of operation**
- **Immediately increases S&CG sales and earnings by 35%**
- **Creates \$10B per year operating unit within Boeing**
- **Provides synergistic revenue and earnings growth**
- **Significant cost reduction opportunities available**

Long Term Value Creation Will Be Substantial

S&CG + HSC Strategic Fit

Competency

Low

High

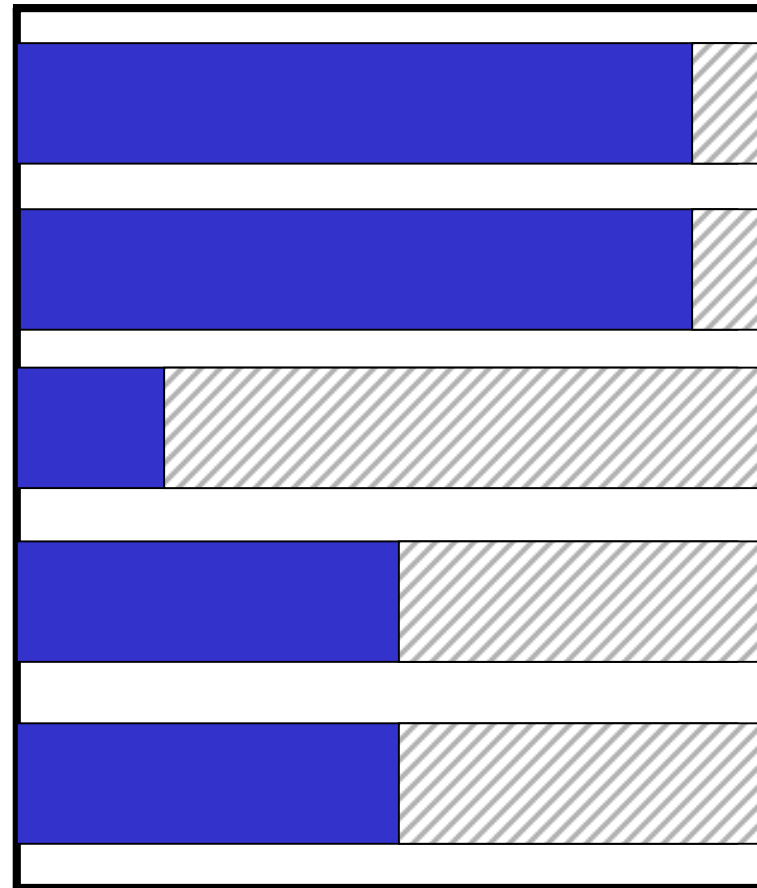
Platform
Knowledge

Large Scale
Systems Integration

Communications
Systems

Reconnaissance/
Surveillance

Imaging & Laser
Systems



Boeing



HSC



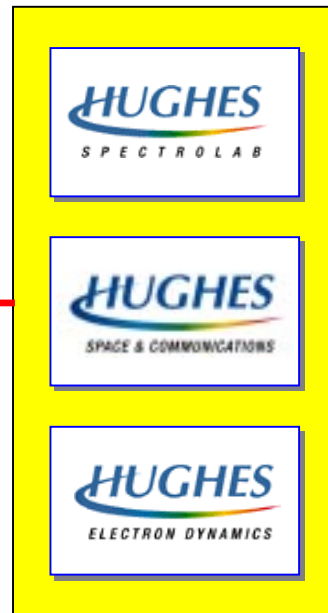
Creates World Class Systems of Systems Capability

HSC Overview

***.... World Leader in Satellite
Communications Systems***

Hughes Space and Communications Company (HSC)

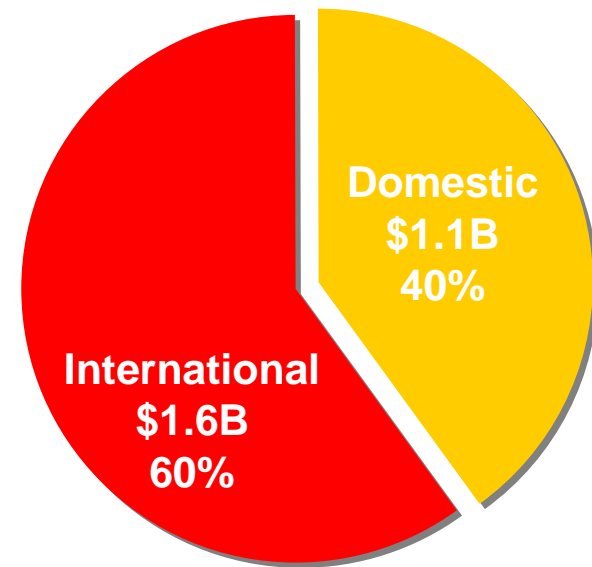
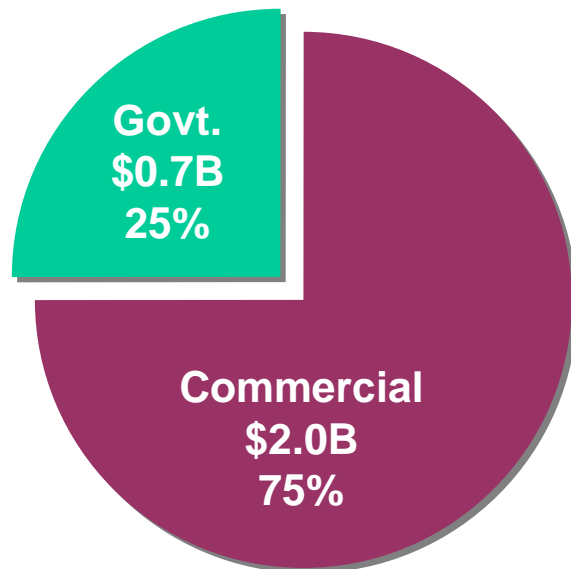
Hughes Electronics



- World leader in space-based communications
- Center of technical excellence and intellectual capital
- State-of-the-art satellite design and manufacturing facilities
- Broad product base
- Extensive knowledge of customers and markets

HSC Overview

- **Pioneered Commercial Satellite Industry**
- **Market Leader in Government and Commercial Segments**
- **Launched 180+ Satellites to Date**
- **Current Backlog 37+ Satellites; \$4.1B+**
- **Highest Production Rate in Industry**



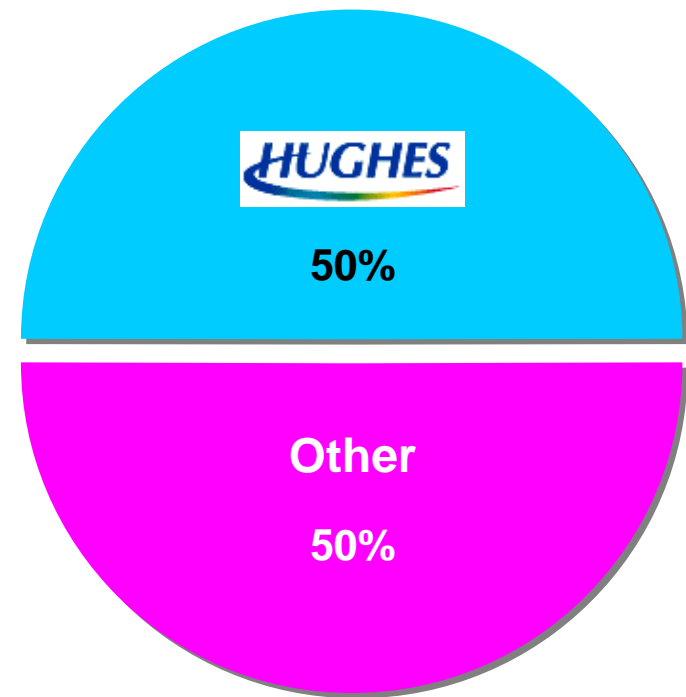
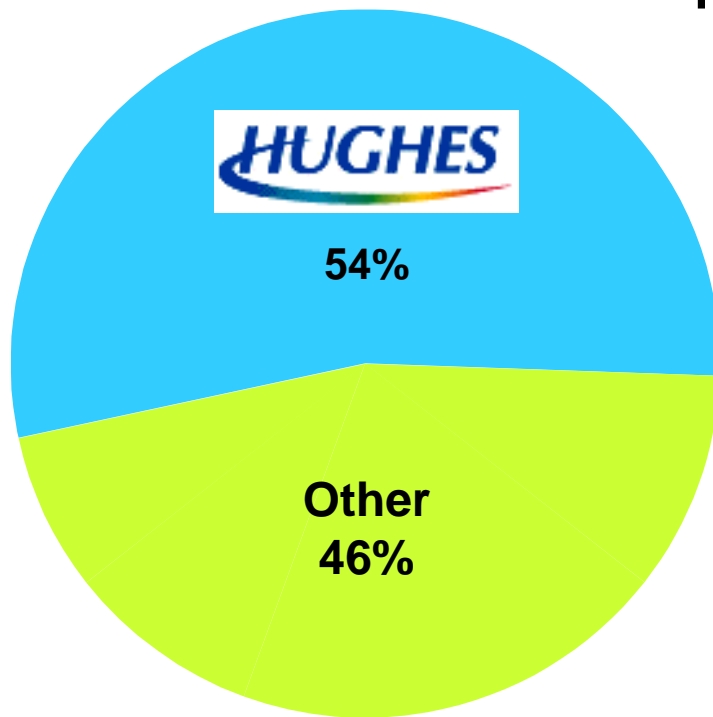
1998 Sales

HSC Leads in Satellite Communications

Commercial Communications

Government Communications

1995 - 1998



In 1999, HSC Continues to Lead the Market

Boeing S&CG Overview

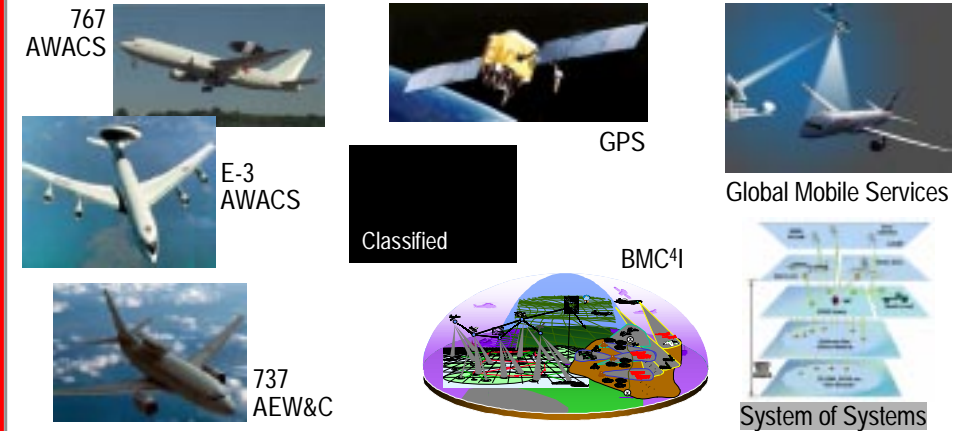
***..... World Leader in Large Scale
Systems Integration***

Space & Communications – Markets Served

Launch Services



Information & Communications (I&C)



Human Space Flight & Exploration



Missile Defense & Space Control



Information & Communications is a Key Growth Market

Boeing Space & Communications Group (S&CG)

Information & Communications Strategy

Grow the Business by Providing:

- *System of Systems Solutions to Government Customers*
- *Broadband Data Delivery Systems and Services to Mobile Customers*

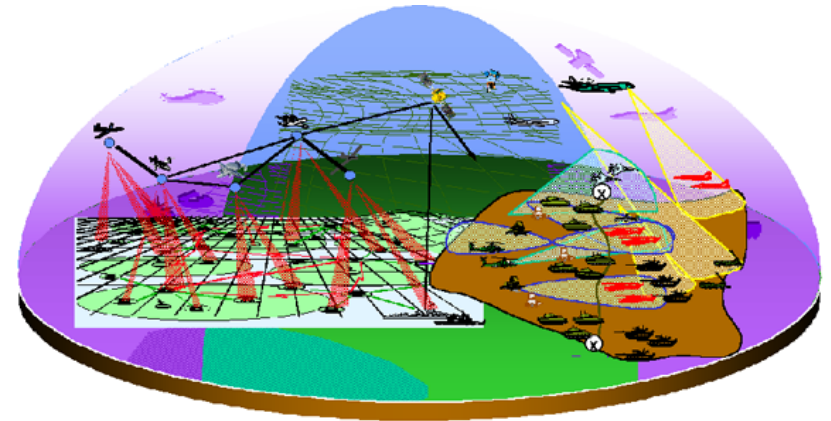
This Acquisition Supports Our Strategy

Information & Communications Synergistic Near Term Initiatives

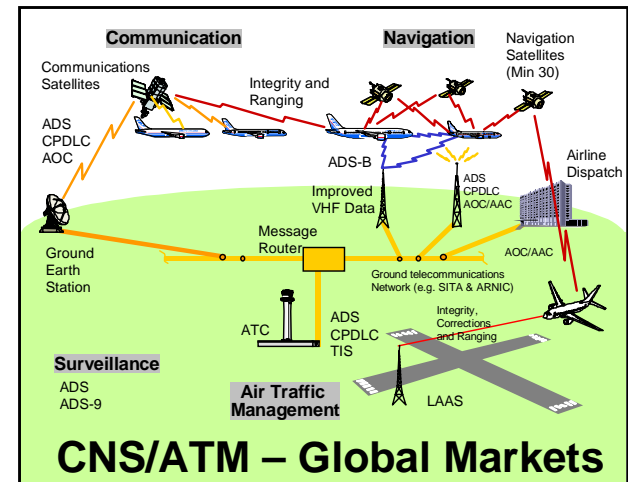
Broadband Mobile Services...



**Classified
Programs**



Integrated Military Systems



Commercial Information & Communications Leveraged Opportunities

- Asset Tracking & Logistics Support
- Integrated Communications and Navigation Systems
- Additional Classified Programs
- Decision Support Systems
- Mobile E-Commerce
- Health Monitoring
- GPS Privatization / Augmentation
- Situational Awareness (Civil & Commercial)
- Aeronautical Systems for Last Mile Connectivity



Integrated Solutions for Mobile Customers

Financial Summary

Financial Highlights

- **Purchase price \$3.75B cash**
- **338(h)(10) tax benefit election; \$500M value**
- **Elimination of corporate allocations; \$550M value**
- **Cash funded internally**
- **\$2.5B goodwill**
 - **15 year tax amortization**
 - **20 year book amortization**
- **Accretive in first full year of operation**

338(h)(10) Tax Benefit

- **Allows Stock Purchase to Be Treated As Asset Purchase for Tax Purposes**
- **Purchase Price** **\$3.75B**
Less: Existing Tax Basis **1.10**
“Asset Write-Up” **\$2.65B**
- **Assumed Tax Life** **15 Years**
- **Annual Increase in Tax Benefit** **\$65M**

NPV of After Tax Benefit	\$500M
---------------------------------	---------------

Valuation Perspective

Analyst range of valuation	\$2,400M - \$3,400M
Tax benefit from 338(h)(10) election	~\$500M
Elimination of corporate allocation	~\$550M
Subtotal	<u>\$3,450M - \$4,450M</u>
Incremental revenue/cost synergies: each \$100M of annual pretax earnings	\$700M

Opportunity to Create Substantial Value

Earnings Perspective

Earnings	\$2.5B - \$3.0B Revenues @ 9% Margin	\$225M - \$270M
Foregone Interest	\$3.750B @ 5%	(\$188M)
Goodwill	\$2.5B @ 20 years	(\$125M)
Cost Savings	Corporate allocation/other	\$100M
		<hr/>
Pre-tax subtotal		\$12M - \$57M
After-tax (37% rate)		\$8M - \$36M
		<hr/>
EPS (900M shares)		<u>\$.01</u> - <u>\$.04</u> accretion

Multiples Perspective

Gross Purchase Price	\$3,750M
Less: Value of Tax Shield	<u>(500)</u>
Net	<u>\$3,250M</u>

	<u>1999E</u>
Sales	\$2,400M

Implied Sales Multiple	1.3x
------------------------	------

	<u>1999E</u>
EBITDA, before one-time charges	\$300M
Addback: Corporate Expense	<u>70</u>
Adjusted EBITDA	370

Implied EBITDA Multiple	8.8x
-------------------------	------

Summary

- **The integration of HSC into the Boeing team provides an outstanding strategic fit**
- **The transaction will help expedite our information and communication growth strategy**
- **We are acquiring a world class business and leadership team**
- **Significant revenue and earnings synergy**
- **Financially attractive**

Long Term Value Creation Will Be Substantial

•Forward- Looking Information Is Subject to Risk and Uncertainty

•Certain statements in this release contain “forward- looking” information that involves risk and uncertainty, including projections for sales, revenues, margins, earnings, EBITDA, earnings per share, tax benefits, tax rates, revenue and cost synergies, foregone interest, goodwill, cost savings, market growth, completion of government and regulatory reviews and receipt of necessary approvals, statements regarding goals, and other trend projections. This forward-looking information is based upon a number of assumptions including assumptions regarding demand; internal performance; customer, supplier and subcontractor performance; and government policies and actions. Actual future results and trends may differ materially depending on a variety of factors, including the company’s successful execution of internal performance plans including research and development, production system initiatives, asset management plans, procurement plans, and other cost-reduction efforts; the cyclical nature of the company’s business, volatility of the market for certain products, future integration of Hughes’ space and communications business and related operations; product performance risks; action by regulatory agencies in regard to the proposed acquisition, and other regulatory uncertainties; collective bargaining labor disputes; performance issues with key suppliers, subcontractors and customers; governmental export and import policies; global trade policies; worldwide political stability and economic conditions; changing priorities or reductions in the U.S. Government or foreign government defense and space budgets; termination of government contracts due to unilateral government action or failure to perform; and legal proceedings. Additional information regarding these factors is contained in the company’s Annual Report on Form 10-K for the year ended 1998 and Form 10-Q for the quarterly period ended September 30, 1999.