Why G* can survive

Badar:

The G* business model is terribly misunderstood, even on this forum where people have had a chance to get all the information about it. So let me start with a recap of the "original" business model. In the beginning there we four kinds of shareholders or partners: Loral is the largest partner because they would have had the largest benefit from building and operating the system. Next in line was Qualcomm who was looking for one more way to benefit from their CDMA technology. They recruited service providers to sell the system to the public. These service providers have between them 100 million cellular customers. If they could sell G* service to 1% percent of them then G* would break even. If they could sell G* to 7% of them, they would fill the G* system's first stage to capacity. Believe me, these numbers are very enticing and this was the original marketing plan. The fourth partner, of course, is Globalstar Telecommunications Ltd. (GSTRF - us!) whose job was to bring in money from the stock market.

Of these four, three did their jobs very well. Loral has the system up and running and the satellites are better that expected, their useful life will be ten years and not seven and a half as the originally expected. Qualcomm got CDMA working and built the gateways for the service providers. G*TL brought in the capital from the stock market.

The service providers fucked up!

There are many reasons including the exorbitant licenses that they had to pay to their governments for cellular spectrum. In any case, they are not willing to lower rates and compete against themselves. Usually when a company is not willing to eat its own lunch someone else will. This will cost service providers down the line.

It is important to realize that the original marketing plan sounded just fine on paper and that there would be no proof to the contrary until some time after they started selling the service to the public. That would be the second or third quarter of 2000.

Whatever the reason for the marketing flop, Bernie Schwartz saw it quite
quickly and decided to do something about it. This is what gave birth to the idea of the vertical markets. I don't know if it will succeed or not, but I have to give Bernie very high marks for being on the ball, realizing the big mistake they made and trying to fix it. That is what you expect from a great manager.

The change from the retail market to the vertical market is not easy. First of all, the existing marketing team of the service providers is totally useless for this job, they only know how to sell retail. Globalstar has to build a sales and marketing team from scratch for these new markets. Second, you need new equipment and new software for the vertical markets, for example, encryption for military use, antennas and other stuff for aviation and automobiles. You have to make changes to the gateways to transmit data in addition to voice. To compound the difficulty, this change is taking place just when the economy is tanking which makes the sales job that much more difficult.

And that is where we are today and I can finally answer your question!

>>>Why do you say that there could be still huge upside potential?

People gauge success or failure of a venture by comparing its current value with the original amount they put into it. Using this method, I have lost 90% of my investment so far. But since you cannot undo the past, each game starts anew each day. For all practical purposes, the past is irrelevant except as a school. My "current" investment in G* is not the money I originally put into it but the current market value of my shares, about a dollar a piece. So let's examine the business from that point of view.

The potential for revenue of the system has not really changed very much if you accept the idea that these new vertical markets have a higher need of the service than the original retail market. What has increased tremendously is the risk of bankruptcy for lack of funds. If earlier, with lower risk, the shares were worth while buying at $10 then today, with the same revenue projection but a ten fold increase in risk, they are worth buying at $1. This is why you talk about the risk/ reward ratio. At this time the risk is 10 times higher but since you are starting with a share price that is also ten times lower your potential reward is also ten times higher and so the ratio has not changed.

I want to remind you that any business that you buy into that has no customers
and no revenue is a high risk deal. G* has always been highly speculative because it is just starting up. It is not a case where a going concern suddenly stopped having revenue. G* is still a startup with all the risks of a startup.

>>>My question is why not to save the remains and try to invest some where else?

That is a decision that each investor has to make for himself. When I consider where I was financially in January 1998 and where I am now (earned 30% of which I spent a little over 1/2 and reinvested the rest), and considering my current exposure to G* -- 4% of the portfolio which is less that when I bought the bulk of it -- my decision is that G*, for me, is a good risk considering the exposure I have.

These numbers will come out differently for different people and each one has to come up with a value judgment. To put it more bluntly, if G* goes broke, the amount of money I will lose is not a big deal considering the size of my portfolio in comparison to my needs. If you decide (as I have) that you will own 12 stocks in total, then the average holding will be about 8% each. G* at 4% is not a problem for me. It would be a problem if it was 30% or more of my total. I hope this answers your question.

Denny

"Demand creates queues. Supply gets rid of them."