

An Equity Note

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Our Thesis:

- Broadband is a monopolistic industry ripe for disruption
- Starry's at the inflection point of its J-curve adoption rate with millions of customers by providing fast internet for cheap
- Starry has a path towards \$1B in revenue & \$500M in EBITDA

Why We're Interested

Starry will IPO around a \$1.6B valuation.

A 15x multiple on 2026E EBITDA assumes a ~\$8.5B valuation

FirstMark Horizon Acquisition Corp (FMAC): Starry Internet Goes Public

In 2017, venture capitalist Keith Rabois [tweeted](#) one of the best start-up strategies of all time (see below):



Combine the above comments with Gavin Baker's [comments](#) on SPAC investments (see below, emphasis mine):

*“Between all the new IPOs, direct listings, and SPACs, the system has been overwhelmed. **The world’s largest asset managers don’t have enough analysts to keep up with all of the new companies that are going public.** Neither do hedge funds, ECM teams at investment banks and the research teams on the sell side.*

Hence, there are going to be a lot of exciting investment opportunities on the long side and on the short side in that cohort of companies. Some of them are going to go to zero, and some are going to be incredible stocks. There are a lot of inefficiencies in the market for new issues, and it’s a great area for anyone who is an investor to go do work in.”

The result is one of the most exciting SPACs of 2021: **FirstMark Horizon Acquisition Corp (FMAC)** and **Starry Internet**.

Starry Internet is rapidly disrupting the highly monopolized, low NPS industry with historically terrible customer service: **fixed broadband internet**.

The company will go public with a ~\$1.6B Enterprise Value. Currently, Starry passes 4.7M homes and sports 48,000 subscribers. Over the next five years, Starry has a path to reach 19M+ homes passed, 1.4M subscribers, and over \$1B in annual revenue at 40% operating profits.

Finally, Starry is backed by one of the most qualified SPAC sponsors we've seen with an all-star PIPE investor stack.

During this report, we'll unpack the following:

- Why fixed broadband is the perfect industry for disruption
- Starry's revolutionary yet straightforward solution for low-cost broadband
- The All-Star Line-up of SPAC and PIPE Investors

Fixed Broadband: The Perfect Industry For Disruption

Fixed broadband possesses almost every criteria in Rabois' above tweet. **There's little (to no) competition, high prices, and abysmal customer service.** Everything about fixed broadband works against the customer. Without competition, incumbents like Verizon and Charter can routinely gouge customers with restrictive contracts and hidden fees while reaping above-average operating profits.

As we mentioned above, monopolies breed poor customer service. For example, the average NPS (Net Promoter Score) for Altice, AT&T, CableOne, Charter, Comcast, Cox, Frontier, Verizon, and Windstream is **zero**.












These companies don't care, though. The fact is that nearly 70% of the United States broadband market **has only 1-2 cable providers**.

What Are The Existing Consumer Options?

Fixed broadband is *vital*. Broadband users consume 50-60x more data than mobile users. This means consumers have virtually no alternative when it comes to data consumption.

You *could* use mobile 5G, but you'd pay astronomical network costs and subscriber fees. But what about LEO (low earth orbit) satellites? LEOs offer higher latency at (again) substantially higher prices.

That leaves fiber and incumbent DSL/cable ... or the monopolies.

	STARRY	INCUMBENT		OVERBUILDER	EMERGING	
		DSL	CABLE	FIBER	LEO SATELLITES	MOBILE 5G
		 	 	 	 	 
COVERAGE	Wide-Area	Regional Monopolies	Regional Monopolies	Regional	Nationwide, Rural	Wide-Area
CAPACITY/SUBSCRIBER	High	Very Low	High	High	Low	Low
SYMMETRICAL SPEEDS	✓	-	-	✓	-	-
LATENCY	Low	Medium	Low	Low	Medium	Low
AVERAGE NPS ¹	61	-6.5	1	25	-	21
NETWORK COST	\$	\$\$\$\$	\$\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$
SUBSCRIBER FEE	\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$\$	\$\$\$

Despite all the great things monopoly status brings to the cable incumbents, Starry noticed four issues.

First, traditional broadband companies build *costly* networks that can't scale. We see this in digging trenches to lay fiber or building point-to-point wireless networks with awful unit economics.

Second, existing broadband operators rely on third-party R&D cycles, which reduce upgrade speeds and eliminate an operator's ability to control cost/product improvements.

Third, legacy spectrum providers (to compete with fiber) use a low band spectrum. The low band spectrum is unlicensed and low-powered, which leads to spotty access.

Finally, existing broadband operators built expensive, bespoke wireless standards instead of the global (already existing) WiFi (802.11) standard.

Starry saw these four issues and built something completely different. The company made a simple yet powerful product that leverages existing infrastructure to expand capacity at scale at a fraction of the cost.

Let's see how Starry solves these issues.

Starry: Disrupting Fixed Broadband At Scale

Starry is a fast-growing, highly disruptive fixed broadband provider doing two things exceptionally well:

1. Providing insanely fast last-mile spectrum internet to multi/single family and businesses
2. Offering the **highest quality** customer service in its industry

The company built its business around four fundamental principles.

First, Starry uses **existing infrastructure** to deploy its network assets. Think mobile cell towers and commercial/residential real estate buildings. By using the existing infrastructure, Starry can *aggressively* build out its network at low costs.

Second, the company **spent \$200M building its entire hardware and software stack**. Products include integrated chips for frequency conversion, phased arrays, intelligent antennas, and a cloud-based network management platform.

Owning the stack allows Starry to control the customer experience by increasing product upgrades at lower costs. All without vendor margins.

Third, Starry uses **licensed millimeter wave spectrum** instead of unlicensed, low band spectrum like the incumbents. This allows for faster download and upload speeds and broader coverage availability.

Finally, the company **built its business on the global WiFi 802.11 standard** without creating bespoke solutions for customers.

Starry's custom-built solution gives the company **complete control** from spectrum delivery to WiFi router management. Every decision translates to lower costs and better customer experiences.

But lower costs aren't just good for consumers. They're great for Starry's business. Here's how Starry's build-out compares to a competitor like Fiber (see below):

	PER HOME / PER SUBSCRIBER	~500K HOUSEHOLD MARKET
NETWORK COVERAGE	\$10 – \$30 Per Home Passed	\$5 – \$15 million
ALL-IN COST TO CONNECT¹	\$430 Per Subscriber (includes transceiver, router, labor)	\$35 million
SUBSCRIBER ACQUISITION COST¹	\$280 – \$375 Per Subscriber	\$30 million
IMPLIED EBITDA BREAKEVEN PENETRATION RATE	~4%	
TIME TO ACTIVATE TOTAL MARKET	~6-9 Months Depending on Size	

VERSUS A FIBER BUILD IN SIMILAR SIZE MARKET²

\$425 MILLION
Approx. Fiber Coverage Build Out and Subscriber Connection Cost

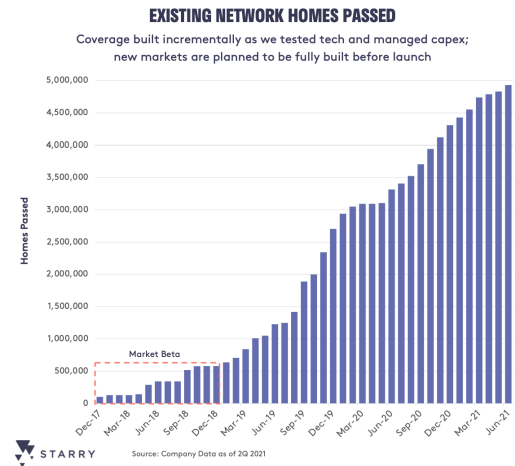
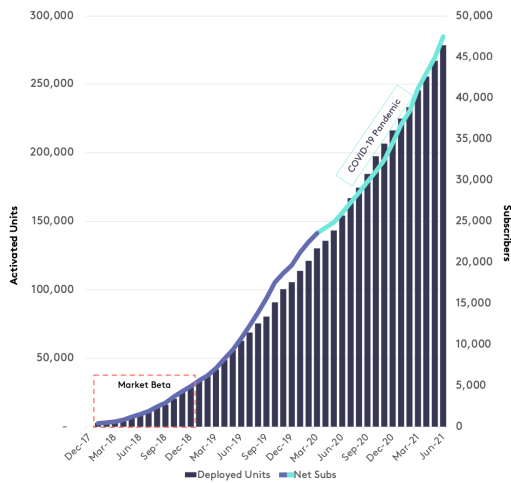
+30-40%
Fiber Implied Breakeven Penetration

To review, it **costs Starry ~\$65M** to connect households and acquire customers. **It costs fiber \$425M** to achieve the same coverage in a similar-sized market. Said another way, **fiber costs nearly 7x as much as Starry’s spectrum solution.**

This means **Starry only needs 4% market penetration to reach EBITDA profitability** compared to fiber’s 30-40% penetration breakeven rates.

So you’ve got the lowest cost customer offering with the lowest cost build-out model. Together, Starry creates a compelling case aggressively take market share. To do it, they need to win over the individual customer. **And they’re doing that today.**

The company went from a standstill in 2017 to 4.7M homes passed by June 2021. They also doubled subscribers during COVID (see below):



Starry has enough spectrum rights to cover 40M homes passed, giving it a **long** runway for future growth.

Customers are switching to Starry for two main reasons: **fast internet for cheap** and **exceptional customer service**.

Let's review the customer experience and why Starry's offering is significantly better than the incumbent option.

The Starry Promise: Great Speeds, Low Costs, No Frills

Starry offers a simple customer proposition. There are no credit checks, no extra equipment fees, no data caps, and long-term contracts.

Consumers can choose from four options:

- **Starry Connect:** \$15/month (30/30)
- **200 Mbps (base plan):** \$50/month
- **500 Mbps:** \$65/month
- **1 Gbps:** \$80/month

Each plan includes unlimited data, a free WiFi router, free installation, and **no hidden fees**.

The best thing about Starry is that you *only pay for the internet*. There's no unnecessary bundling for cable and phone. Customers LOVE it. Check out some of the [Trustpilot reviews](#) (see below):



2 days ago

I can't say enough good things about...

I can't say enough good things about this product and company. I went from about 4 to 7 mbps upload/120 mbps download with Comcast to now hitting 90 mbps upload/250 mbps download- those uploads are screaming fast which is such a huge advantage if you play video games online . All this at about 40 percent less. They have the feel of a small local business in the rare instance you need to call them (in my case had to change email associated with the account) for anything. They are actually probably the best company i've ever dealt with.

Plus they do cool marketing things like leaving small baskets of free tide pods in my apartment building laundry room, and over the last few years a couple free, random breakfast burritos or coffee and bagels delivered to my door courtesy of Starry Internet.



Sep 17, 2021

Starry has been absolutely wonderful

Starry has been absolutely wonderful. Aside for the steal we get in fast and affordable internet service, customer care is super thoughtful and responsive. I forgot my password and needed to reset and instead of having to wait on the phone for hours or having some complicated system to fix this, within 5 minutes I was on the line speaking to a live human who then helped me out within 5 minutes. Too, too valuable at a time when this kind of stuff gets so taxing!



Invited

Sep 17, 2021

Faster wifi for less

I switched to Starry from Comcast because I was tired of Comcast raising my rates every year or two for internet that wasn't particularly reliable. I was a little nervous about making the switch because Starry is a smaller company that I didn't know as much about, but I'm glad I did. Scheduling the install was really easy and the technician was quick and friendly. Since switching, I've seen a considerable increase in my internet speeds and I'm paying about 40% of what I was with Comcast. Couldn't be happier.

Starry has created an exceptional customer experience by providing high-speed internet at a fraction of the cost of industry incumbents.

The company's at the inflection point of its J-Curve adoption rate. It's no wonder the company has some of the strongest investors in the game backing their mission. Let's check them out.

FirstMark & PIPE Investors: A Star-Studded Cast

FirstMark is one of the best SPAC sponsors we've come across. The SPAC was founded by FirstMark Capital, a prominent technology venture capital firm founded in 2008. The venture fund's past winners are extraordinary and include:

- **Pinterest:** Lead seed-stage and invested in every round until IPO
- **Shopify:** Invested from Series A to IPO
- **DraftKings:** Invested in 2015 and every subsequent round
- **Riot Games:** Led first institutional investment

FirstMark was an *early* investor in Starry, so taking it public via its own SPAC makes sense. The company's also backed by **solid** PIPE investors, including Tiger Global Management and Atreides Asset Management (ran by our friend Gavin Baker).

We're also attracted to the sponsor-to-shareholder alignment structure. For example, 25% of Sponsor shares retained on transaction close and 75% subject to an earn-out structure with release triggers based on post-closing share price reaching \$12.50, \$15.00, and \$17.50.

Additionally, existing Starry shareholders will roll 100% of their equity and receive 71% of the pro forma equity. **Interests are highly aligned.**

And there's good reason to stay aligned with Starry's long-term growth prospects.

Thinking About Valuation: How Fast Can They Scale?

Starry will IPO at a ~\$1.6B enterprise value, including \$332M in net cash on the balance sheet. Of course, that valuation comes with **rosy** financial projections.

For example, the company expects to reach \$1.1B in revenue by 2026 at 84% gross margins and 47% adjusted EBITDA margins. To get there, they'd need to reach 25M addressable homes, service 19M of those homes, and retain 1.43M paying subscribers (6% penetration of available homes).

It's easy to get lost in the revenue growth. But let's think about the home penetration rate. 6% penetration within Starry's existing available network isn't a tremendous leap of faith to make.

If they're successful, current shareholders are paying ~3x 2026E EBITDA. What would market participants pay in 2026 if Starry hit those metrics -- 15 - 20x EBITDA? That gets us ~\$8.5B in Enterprise Value by 2026. **That's 4.5x higher than the current EV.**

Concluding Thoughts

Starry is led by its founder Chet Kanojia. Kanojia isn't new to the breakthrough/disruption game. Kanojia's previous venture, Aereo, allowed subscribers to view live and time-shifted streams of over-the-air television on Internet-connected devices.

Chet is a builder. He thrives on tackling (and solving) complex problems by providing *better* solutions to customers with exceptional customer service.

That's what makes Starry such an incredible opportunity.

Starry provides high-speed internet at a fraction of the cost without hidden fees or long-term contracts. It won't be long before millions of customers make the switch.