

Multimedia provider

Summary of the Operation Performance Evaluation Review

November 2005

THE PROJECT

The borrower was established by a group of entrepreneurial engineers as a joint-stock company in the country of operations. Through a series of mergers and acquisitions of cable TV (CATV) providers and internet service providers, the borrower has become one of the major players in CATV and internet service markets. In addition the borrower began offering fixed line telephony services.

The borrower identified a strong need for investment to maintain its market share. The investment aimed to:

- (i) upgrade the existing network to two-way operations and expand its fibre optic cable network, thereby increasing the capacity of traffic
- (ii) acquire further small CATV and internet operators, thereby increasing the number of subscribers.

The borrower's relationship bank and another finance company approved two loans. To complement the financing needs the EBRD and another lending institution joined the project, approving two more loans. These four loans are all senior and parallel albeit the lending terms and conditions are more or less similar. The loans were signed and became effective in the autumn of 2003.

PROJECT RATIONALE

At the appraisal stage, the project was considered to be fulfilling the Bank's mandates based on the expected transition impact derived from supporting a medium-sized company in the multimedia sector that was new to the Bank's portfolio for the country of operations. The project rationale for the borrower was compelling. In the country of operations, mergers and acquisitions are the best way to increase the number of subscribers for a multimedia company quickly. The service quality can also be improved through modernisation of existing facilities. The investment was expected to fulfil the borrower's needs in a highly competitive market.

ACHIEVEMENT OF OBJECTIVES

The objectives of the investment set at the appraisal stage are

- i) to increase the number of CATV subscribers through successful acquisitions
- ii) to increase the number of internet and telephony subscribers
- iii) to modernise parts of the existing and acquired networks in order to improve the quality of services.

Acquisitions. The borrower acquired a total of 16 companies including seven internet service providers, two CATV companies and four CATV and internet connection providers. About 200,000 CATV subscribers have been gained through acquisitions under the project.

Number of subscribers. The number of subscribers has increased significantly through acquisition and has exceeded the appraisal estimates.

Modernisation of facilities. The borrower completed modernisation and upgrading work using its own funds and part of the loans. The modernisation and upgrading component of the project was therefore achieved and exceeded.

Service quality. Many of the acquired companies were small and unable to invest in better quality equipment and infrastructure. Thus the quality of services of such companies was often poor. Once each small company was incorporated into the group, it needed to meet the borrower's quality standard. Therefore, subscribers to the acquired companies could clearly see the improvement in quality.

OVERALL ASSESSMENT

The project rationale was strong at appraisal in the sense that the project has greatly enhanced the Bank's portfolio for the country of operations and the communications sector.

The transition impact of the project is considered to have been particularly dynamic in delivering the expected benefits to the users. The project has shown a positive performance in respect of the environment, which underwent some change. The borrower has met the international institutions' environmental requirements and has been certified for ISO 14001 during project implementation.

The borrower was originally a medium-sized local company, which strove for a sizeable financing from international financial institutions as this was not available in the country of operations. It has shown highly satisfactory results in its financial performance and the acquisitions made have had significant positive effects.

TRANSITION IMPACT AND THE BANK'S ADDITIONALITY

The borrower has renewed its business standards to keep up with international standards. The transition impact mainly comprised:

- (i) increased competition in CATV and internet provisions as well as in the liberalised voice telephony market
- (ii) market consolidation and restructuring through acquisitions and mergers, which resulted in enhanced private ownership and standardised services to the communications users
- (iii) penetration of new business conducts and skills transfer of good practices in the market.

The transition impact on the economy in general included:

- (i) lowered tariffs in fixed telephony services as a result of new entrants
- (ii) demonstration effects of the financing from several international financial institutions.

Environmental impact

As agreed in the board document at appraisal, the borrower achieved ISO 14001. The borrower is the only company in the communications sector which has been awarded ISO 14001 in this country of operations. The project has caused some environmental change.

Bank's additionality

The Bank's financial additionality of the project consisted of two elements:

- (i) the scarcity of external financing in the multimedia sector in the country of operations
- (ii) the contribution to a large size of financing from the international financial institutions.

The sizeable financing, of which the Bank provided an important amount, enabled the borrower to create a significant advantage for the viable and sustainable growth of its businesses. The investment contributed to transforming a promising medium-sized entrepreneur into an established market player in the sector.

BANK HANDLING

Two aspects of the Bank's handling of this project are assessed:

- (i) project design and appraisal process
- (ii) monitoring and implementation of the project in compliance with the Bank's policy, rules and guidelines to maintain the efficiency, efficacy, effectiveness and quality of the project.

Bank handling is rated as *Excellent*.

This is chiefly attributable to:

- (i) the borrower's high calibre in its specialised areas and cooperativeness with the Bank
- (ii) the operation team's diligence and good coordination between headquarters and the Resident Office
- (iii) a relatively short implementation period
- (iv) well balanced lending terms and conditions including mandate-related covenants.

KEY ISSUES AND LESSONS LEARNED

Project delivery time is a critical element for a fast-moving highly competitive businesses.

The borrower advised the OPER team that the Bank was very efficient and professional in its delivery of the loan. Acquisition activities require quick decisions and swift actions in every aspect such as technical, operational, financial and legal. Lenders who support acquisition financing also need to be highly responsive and bound to the strictest confidentiality in order to maximise the benefits from acquisition. A parallel financing structure, which could have often been more time consuming than common terms co-financing for the borrower, turned out to be successful and even more efficient in the project.

Project preparation, documentation and disbursements can be a time-consuming exercise in particular when dealing with several international financial institutions. A timely loan delivery from each lender facilitated project implementation in this case. The success of the project was mainly due to the short project delivery time achieved in cooperation with the borrower and the other lenders.

Client selection is the key to success.

The borrower was recognised in 2004 by the regulator as one of the six "significant market powers" in the country's communications sector. This proved a significant leap from a medium-sized local joint-stock company. The Bank had already recognised the value of the borrower as a potential client. The Bank was confident that a successful performance of the borrower in mergers and acquisitions would impact directly on the transition of the communications sector. The borrower advised the OPER team that they were initially sceptical of international financial institutions due to their perceived bureaucracy and inefficiency. However, this perception changed because of the Bank's handling of the project. The borrower's capacity for implementing international standards should be noted. Where a high-calibre company has a solid, concrete investment plan with high receptiveness and readiness for transition, the Bank's facilitation of project implementation can be conducive to transition impact.

For corporate finance, the selection of a borrower is key for commercial success, which is the precondition for delivering the transition impact. Keeping a close watch on the local market and potential clients allowed the Bank to identify a high-calibre prospective client with significant transition potential.

Sector and country expertise is important for good project design

The security package offered to the third lending institution and the Bank was different from that for the loans from the first two lenders. The first two lenders only collateralised the physical assets. In addition to customary assets used as collateral, the agreement with the Bank and the third lender included the subscriber list and billing information as collateral. These elements are the most valuable, although, intangible assets that the company possesses. This has significantly enhanced the quality of security for the lenders in practical and operational terms. This is the first time that such a security package has been used in the Bank, which led to some technical problems although these were overcome by the operation team. This successful project has emphasised that sector expertise and knowledge of local practices are two essential elements to ensure project success in the countries of the Bank's operations.

These two elements helped the project deliver a balanced achievement in every respect, particularly in generating the comprehensive security package outlined above. This differentiated the Bank from the other lenders in the project. Sector expertise helps instil international best practice into the project and local knowledge helps ensure the implementation of such practices. Since such essential skills are widely recognised by the parallel financiers and the borrower, project implementation was expedited and overall project quality was enhanced. The Bank added value to the project by introducing better way of ensuring security in the multimedia market. This demonstrates the Bank's capacity to lead deals in a cutting edge sector in the country of its operations.