# Web Summary
# Operation Performance Evaluation Review
# March 2011

## THE PROJECT

The EBRD made an equity co-investment with a leading regional private equity fund manager in a company set up to consolidate the local country's regional cable TV market. Later the consolidating company merged with another operator, forming a parent company ("the Company") to become a single national operator. The Company integrates recently acquired businesses into the Group and focuses on growth, both organic and by acquisition if appropriate targets come to market.

## OVERALL ASSESSMENT: Partly Successful

**(Overall Ratings: Highly Successful, Successful, Partly Successful, Unsuccessful)**

The EBRD's Evaluation department rates the Project's overall performance as *Partly Successful*, due to some favourable outcomes in a difficult market, despite yielding a negative investment performance for the EBRD to date. The Project's rationale was to increase competition and expand the market in cable TV, telephony and broadband internet services. The Company expanded its operations by acquiring regional cable TV operators but fell somewhat short in improving service quality and offering new value-added services, for *Satisfactory* achievement of project objectives. Transition impact is *Satisfactory*: The Company has transformed smaller firms into a better-managed group, but abandoned telephony competition plans, perhaps due to the licensing risks, and did not achieve the operational and transition impact objectives telephony. Bank handling was *Satisfactory*. A key drawback is that, after the Project dropped the transition objectives in the telephone sector for unclear reasons, this development received little notice at the EBRD and could have become a matter for corrective action and policy dialogue. The Company could still enter the VoIP market to increase telephony competition. The Bank's investment performance has been *Unsatisfactory* due to factors outside of the EBRD's control. The economic crisis and the political situation in the country have resulted in significant reductions in the valuation of the EBRD's investment.

| CATEGORY | RATING | COMMENT |
|---|---|---|
| ADDITIONALITY | ■■□□ | The Bank's additionality is rated as *Verified only in part*. It was stated at appraisal that the private equity fund manager found it difficult to raise the amount needed for co-financing. Considering that another investor invested in the Company in connection with the merger one year after Board presentation and that several private equity firms invested directly in the Company at the time of the Bank operation, it seems that it had no difficulty in raising funds. |
| **EFFECTIVENESS** | | |
| ACHIEVEMENT OF OBJECTIVES | ●●●●○○ | The achievement of project objectives has been *Satisfactory*.<br>1. **To acquire and consolidate regional cable operators (achieved)** The consolidation of regional cable operators has largely been achieved to plan: the number of homes passed was 94 per cent of the plan; subscribers 90 per cent; analogue 77 per cent; digital 29 per cent and internet 99 per cent. The shortfalls happened because the number of acquisitions has been below plan; a portion of funding remains unspent of the Company's initial equity capitalisation. The number of potential acquisitions fell because high prices persisted from the pre-crisis time and the economic crisis cut demand for services and the growth in subscribers. Revenues are well below plan at 67 per cent. |

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| | | 2. **To improve capability of acquired telecom networks (not achieved)**<br>The management claims that it was economic to install digital head-ends only in the few regional operations with 50,000 or more subscribers, so the rollout of digital capabilities has performed well below plan. The Company could have done more to improve technical standards and capacity of acquired networks, particularly since it had cash that could not be used for further acquisitions. The result is that the Company has not been able to penetrate the internet market to gain market shares and is facing strong competition in this area. |
| **COMPANY FINANCIAL PERFORMANCE**<br>**PROJECT FINANCIAL PERFORMANCE** | ●●●●●○<br>●●●●○○ | To date the Company continues to make profits, increases revenues (expressed in local currency) and has no debt. EBITA and revenues are below plan due to lower subscriber numbers.<br>Initially the investment in the Company enabled the merger at equal valuation terms. A drawback is that some funds remain unspent. |
| **EFFICIENCY** | | |
| **BANK HANDLING** | ●●●●○○ | Bank handling has been *Satisfactory*. The Bank has had a nominated board member since the initiation of the project. One key drawback is that when the Project dropped the transition objectives in the telephone sector, the EBRD remained passive when corrective action and policy dialogue were possible. A further significant drawback was the complex financial arrangements which created administrative difficulties within the Bank, because the EBRD was both a limited partner of the private equity fund and a co-investor in the Company. Also, the OPER team is not convinced that investment via a secondary holding company, rather than directly in the Company, brought any benefits to the EBRD. |
| **BANK'S INVESTMENT PERFORMANCE** | ●●○○○○ | The Bank's investment performance has been *Unsatisfactory* due to the economic crisis and the political situation in the country that significantly reduced the valuation of the EBRD's investment in the Company. |
| **IMPACT/SUSTAINABILITY** | | |
| **TRANSITION IMPACT** | ●●●●○○ | Transition impact is *Satisfactory*: The Company has evolved from a collection of fragmented, non-transparent companies with poor quality and limited services to a consolidated company with continually improving service offering, quality, management, customer care, accounting standards and corporate governance. Unfortunately the Company abandoned telephony competition plans due to an inability to obtain a license in a protected market, therefore, the Project did not achieve the operational and transition impact objectives in that sector. |
| **ENVIRONMENTAL AND SOCIAL IMPACT** | ●●●●○○ | The Company complies with relevant environmental legal requirements. Sometimes it suspends its fibre optic cables in the air between high-rise buildings which is not good practice. Environmental and social impact is *Satisfactory*. |

| **General** | **Additionality** |
|---|---|
| ●●●●●● Excellent<br>●●●●●○ Good<br>●●●●○○ Satisfactory<br>●●●○○○ Marginal<br>●●○○○○ Unsatisfactory<br>●○○○○○ Highly Unsatisfactory | ■■■■Verified in all respects<br>■■■□Verified at large<br>■■□□Verified only in part<br>■□□□Not verified |

## LESSONS LEARNED

**The Bank should be aware of the risk that successful market consolidation creates a protected duopoly or oligopoly market.**

To mitigate this risk, the Bank should make a long-term market assessment at the time of appraisal. Such an assessment should include analysis of different project outcomes and identification of measures that can be taken to avoid undesirable market concentration. These could include support to the telecom regulator to ensure legislation is in place for handling undesirable situations with dominant players.

**In the due diligence process at appraisal, the Bank should place special emphasis on licensing conditions for new market entrants.**

In situations when a public company provides telephone services, it is not sufficient to rely on government statements of intentions. Privatisation of telecommunications monopolies is time-consuming and often disrupted for political reasons. The Bank should assess risks and analyse consequences of liberalisation not taking place. Mitigation measures could involve dialogue with the government on privatisation and provision of assistance during implementation. The investment could be conditional on progress and use of special monitoring parameters and milestones.

**In markets being exposed to disruptive technologies, the Bank should make a thorough assessment of the competitive threat.**

In emerging markets, the window of opportunity for pure cable TV operations is quickly closing. In order for the Bank to be better informed when it should be exiting an operation, it needs better analysis of the competitive market if exposed to disruptive technologies. If the Bank does not have sufficient competence in-house, it should hire outside consultants for carrying out market analysis.

**In markets exposed to disruptive technologies, the Bank should consider appointing technical experts as its representatives on the board.**

In companies set up by private equity funds, the board normally consists mainly of financial experts and lacks sector expertise. The board therefore tends to focus too much on short-term financial returns rather than investing in the future to improve the company’s competitive position.