

## “N” gifted to TVN

# The downfall of satellite television

During recent days, TVN (Polish TV-station company) shareholders were told that they have indirectly become the exclusive co-owners of the “N” satellite television. TVN took ownership of all shares belonging to the digital television platform. TVN’s board of directors is busy persuading them of all the benefits of the new acquisition, including activity diversification, an increase in revenue, a synergy effect, and most likely, several other blessings along the way.

So, have the sellers got it wrong? The previous co-owners of “N” are keeping silent on the subject, which is a great shame, as their reasoning could prove equally fruitful. It is, however, an undisputed fact that a small group of people got rid of shares in the “N” for the benefit of the general public – TVN share ownership. It is also certain that the greater majority of TVN shareholders had (virtually) no say in this matter, and those who influenced the decision to acquire the shares for TVN had very close ties to the sellers. This may be an appropriate time to enquire about a potential conflict of interest during the transaction. And if such a conflict did occur, then who on TVN’s side determined the transaction terms? Was an expert appointed for the purpose of valuing the acquired shares? Despite the mirror-like nature of the transaction, in a scenario where there is talk of a conflict of interests, one would expect that the seller would make sure an independent entity was present for the purpose of the valuation.

### „N’s” inferiority spells more profit for TVN?

TVN was obliged to pay the seller of „n” an additional bonus in the event that the transaction subject demonstrated technical parameters exceeding an average performance. Subsequently, a reserve amount was set for any potential liability.

TVN largely dissolved the above reserve, informing shareholders of this fact on the pages of its 2009 report, by presenting a tidy profit in the sum of 154 million zloty (PLN). As a consequence of overestimating its conditional payment, it also increased its equity. However, can this information be regarded as beneficial? It appears that it should be viewed as no more than “neutral” as far as an assessment of TVN is concerned. Nevertheless, as may be believed, the profit resulting from overestimating the liability remained, as did the corresponding increase in equity. A lasting change would therefore be eluded in significant terms from a way of the assessment of the company based on the elimination of one-off factors.

Thus, what is most valid in terms of the overestimation of conditional liability? Most of the time, assets are presented on balance sheets according to their fair value. So, if at some point “N” started displaying inferior characteristics, which resulted in the anticipated bonus being underestimated for the benefit of the sellers, then would “n” be overestimated at the same time in TVN’s assets and if so, to what extent? However, it would then be difficult to speak of a profit, especially one resulting directly from the overestimation of a liability, and hence the above presumption of no discount for “N” in TVN’s assets. Nevertheless, it would be strange indeed if there was a lack of balance between the drop in “N’s” value according to the sale transaction criteria and its value in TVN shares. If such a discord did occur, then it is most likely that TVN would be able provide an explanation, one which should indeed be of great interest to the company’s shareholders, and to the wider market alike, due to its creative approach to fair value.

### **A mouse instead of the remote control**

The original reason for the transaction in “N” television shares may not lie with the synergy effect, the scale of activity, the diversification of revenue or the purchaser etc., but may indeed be the result of the way satellite television is perceived by the seller.

Generally speaking, every television station loses shares in the advertising market to the Internet. This is a tendency, which is firstly, highly dynamic and secondly, a long-lasting trend. Taking these factors into account, one should very carefully value each television business, including TVN and the platform “n” of satellite television.

The television stations are under constant pressure from the Internet, which is forcing evolutionary changes on broadcasters. One of these is the development of topical programmes. TVN belongs to a group of stations, which offer an ever-expanding package, in line with market demands, however, with a hefty price tag attached for television broadcasters. No television can compete with the Internet, where the user can choose the topic which interests them at a particular moment in time, in terms of satisfying the full range of subject areas. Development of topical television programmes may turn out to be merely a failed attempt to stop viewers from ebbing away towards the Internet.

### **Video-Internet**

The Internet is not only a substitute for television, which competes for consumers’ time but also a direct competitor in the battle for the same product. The growing availability of broadband Internet means that video streaming is becoming commonplace.

The fact that the Internet provides ever-increasing competition for television stations no longer surprises. From an investor’s point of view, one should realize that historical results of television stations and their futures are two different realities. The dramaturgy of changes is most likely much higher than when the situations are viewed through a market, where the investors invariably base them largely on historical results.

### **Reverse channel**

The Internet is characterised by a reverse channel, which allows the selection of required content at any given time. Traditional television is lacking in such an option. Therefore, in order for television transmission to compete with the Internet, it is more and more frequently supplemented with a user channel. VoD (Video on Demand) is a solution aimed by package distributors at increasing the attractiveness of television products. Cable networks such as UPC, Multimedia, Aster or Vectra offer VoD, and prepare the technical setting for interactive television. This form of distributing television programmes with a reverse channel is definitely the way to gain/keep television clients. This is where the difficulties start to mount for satellite television broadcasters. A reverse channel in the form of a satellite link is not an option for the general public, and is determined amongst other things by the price of the satellite receiver and transmitter packages.

### **TVSAT a declining technology**

Apart from the lack of a reverse channel, satellite television is losing out to other forms of transmission due to a long signal delay. The route an electromagnetic wave takes to reach the satellite and back again, means a delay of at least 230 ms. As this is a very high frequency signal, its processing and amplification causes a much longer delay due to high inductance. Just how long the signal time delay is, can be seen in the case of so-called live connections by satellite links. This fact determines the lack of competition of signals transmitted from a distant geostationary orbit; in particular, it means that the Internet will not develop this way.

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For the television signal recipient the delay is clearly noticeable, for example, if one television station transmits a soccer match using terrestrial broadcasting stations or the Internet, and another uses satellite distribution, then the earliest the viewers in the pub linked to the satellite will know of a goal, will be from hearing the cheers coming from the neighbouring pub which is using terrestrial TV reception.

### **CYFROWY POLSAT the best of the worst**

CYFROWY POLSAT (DIGITAL POLSAT – TVSAT platform) is investing in the network to send data, thanks to which it will be able to provide a reverse channel for satellite broadcasting. The modernisation of decoders, which is necessary in this instance, is included in the strategy of owning a company manufacturing television receiver kits. Further down the line, the constructed network will be able to take over personalised distribution of television programmes. CYFROWY POLSAT (Digital Polsat) stands out in a positive way in the competition and realises the necessity for a technological evolution.

It is worth mentioning, that CYFROWY POLSAT is heading in the direction of a data transmission service company, where there is also room for the changing technology of television signal transmission, but also for telecommunication services and the internet. Aside from the development of a wireless network, CYFROWY POLSAT is interested in voluminous skeleton networks, and in a few years time, the company controlled by Zygmunt Solorz (the founder of POLSAT GROUP), may become a leader not only in the market of television signal providers, but may also occupy a good position in the telephony market, both landline and mobile. In addition, all products will fit within the main category of data transmission (the Internet) performed in a mix of cable and wireless transfer.

CYFROWY POLSAT's strategy does not guarantee that its business should be judged exclusively in a positive light, the strongly competitive market is a significant threat, which also affects the current business core which is television picture distribution. However, CYFROWY POLSAT has a significant edge over the rest of the pack amongst other satellite platforms.

### **All-in-one connection**

UPC, VECTRA, MULTIMEDIA and ASTER (cable-TV/Internet operators) networks are offering to deliver digital television via cable/Internet links. In this instance, a reverse channel (the Internet) came before the offer of a digital television signal, treated as an additional complementary product, which took advantage of the existing network of data transmission.

As can be seen on the television signal distribution market, many changes are taking place, and the future shape of the market will be determined by a technology. It does not give long-term chance for geostationary satellite television.

### **Terrestrial television moves closer to the viewer**

The commencement of digital terrestrial television broadcasting will be the turning point for depart from satellite television. Common access to digital channels, the majority of which are broadcast free of charge, and the option to transmit High Definition (HD) quality channels in the DVB-T MPEG4 terrestrial standard, accepted in Poland, creates a very demanding perspective for satellite platforms.

To date, satellite broadcasters benefited the most from the lack of a digital terrestrial signal, a significant part of their client portfolio consisting of those living in rural areas, who had to choose between viewing three or four poor quality channels, no television and the purchase of a satellite set.

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The introduction of digital terrestrial television cannot be put off any longer, as Poland is becoming an outsider not only within Europe; African and South-American countries are also beginning to overtake us. Digital terrestrial television, apart from a new way of signal distribution, signifies being open to new television broadcasters, including local ones. This prospect is thus extremely unfavourable for the current broadcasting platforms, as well as the dominant television stations (which often also play the role of distributors).

In such a technological environment, where broadband Internet will lead the way within urban agglomerations, and outside of the city, viewing of digital terrestrial television becomes commonplace, a small group of owners of the satellite platform “N” has got rid of a declining solution for an excellent price from their point of view.

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