



Weekly Briefing

Slovenia Economy briefing:
The attempt to sale Pro Plus to United Group
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Summary

The sale of one of Slovenia's biggest media companies in Slovenia, Pro Plus, by its owner, Central European Media Enterprises, was announced in July 2017. The sale was under close supervision of Slovenian competition regulator, the Competition Protection Agency. The Agency informed the companies of its negative opinion in the beginning of November and the companies are now asked to respond, before the final decision is made.

History and background

In 1994 TV broadcast frequencies were given to several commercial stations, among others MMTV and Tele 95, which joined in 1995 to form the commercial TV station Pop TV. The company, Pro Plus was entered by a loan and later also formally, by the Central European Media Enterprises, an AT&T owned media and entertainment company, which owns and runs media companies in Central and Eastern Europe. Today, CME operates leading businesses in six Central and Eastern European markets with an aggregate population of approx. 50 million people. It broadcasts 36 television channels in Bulgaria (bTV, bTV Cinema, bTV Comedy, bTV Action, bTV Lady, and Ring.bg), Croatia (Nova TV, Doma, Nova World and MiniTV), the Czech Republic (Nova, Nova 2, Nova Cinema, Nova Sport 1, Nova Sport 2, Nova International, Nova Action and Nova Gold), Romania (PRO TV, PRO TV International, Acasa, Acasa Gold, PRO Cinema, Sport.ro, MTV Romania, PRO TV Chisinau and Acasa in Moldova), the Slovak Republic (TV Markíza, Markíza International, Doma and Dajto), and Slovenia (POP TV, Kanal A, Brio, Oto and Kino). The share of CME in Pro Plus started at 58 percent and was

gradually increased. In 2000, the company SuperPlus, in which the preponderant owner was Pro Plus, also bought another main commercial TV station, Kanal A, as a consequence of a merge between their owners, Central Media Enterprises and Scandinavian Broadcasting System. Lately, the Pro Plus company was not in very good condition, having net loss of 4.6 million in 2016 alone. Effectively, compared to other markets that Central European Media Enterprises is present in, this makes Slovenia with Pro Plus not only the smallest but also the least profitable. Additionally, with only 8 cents profit on 1 Euro of OIBDA, it also has the lowest margins, half less than its sister companies in Central European region.

The proposed sale to United Group

When Time Warner, the owner of Central European Media Enterprises, came into the ownership of AT&T, experts predicted that a sell-off could follow. After first attempts to sell off TV stations in Czech Republic and Slovakia, a predicted next step was for CME to leave Slovenia and Croatia as well. In July 2017, Central European Media Enterprises announced its decision to sell its broadcasting operations in Croatia and Slovenia to Slovenia Broadband S.à r.l., a subsidiary of United Group B.V., and that they expected to close the transaction by the end of 2017. United Group started in 2000 as a small cable company and has expanded in the next twelve years by acquiring and effectively becoming United group by joining in 2007 of SBB, Telemach Slovenia and Telemach BiH. After that, it made many acquisitions of cable TV operators, content platforms and mobile service providers. Its founder is Dragan Šolak, who is now allegedly one of smaller owners. Today United Group owns telecommunication operators and media companies in six countries of the former Yugoslavia, numerous TV programs ((N1, Sport Klub, Cinemania, Grand televizija, Orlando Kids ...) and around 15,000 km of optical cables over the Balkans region, connecting almost 3.6 million households. These numbers

are twice higher today than they were in 2014, when the company became majority-owned by KKR fund, a leading global investment firm with 20 billion investments in media and ICT. Apart from KKR, the European Bank for Reconstruction and Development (EBRD) is a co-investor in the company.

As part of the sale, in addition to the Slovenian TV stations, run by Pro Plus, the United Group would take over four TV stations in Croatia: Nova TV, Doma, Nova World and Mini TV. The cash purchase price was €230.0 million. The combined OIBDA for the companies in Croatia and Slovenia for the twelve months ended March 31, 2017 was \$13.8 million. Proceeds from the selling will be used to repay the 250.8 million euros term loan due 2018. The acquisition of Pro Plus by United Group immediately became a target for an investigation of Slovenian Competition Protection Agency, especially due to the benefit that the acquisition of Pro Plus would have for United Group's Telemach Company. At the end of 2016 Telemach had the mobile telephony market share of around 17%, but has after the acquisition of Tušmobil became one of the three leading companies in this field, with more than half million mobile phone users as of July 2018. It also has around 21% share in the mobile broadband access, around 180,000 subscribers to TV channel packages. As a cable operator and cable TV provider Telemach would greatly benefit from the acquisition, because it would enable it to get better conditions for the TV programs owned by Pro Plus. In the beginning of 2018 Pro Plus started charging the use of their channels, simultaneously making a deal with the cable TV providers to include those in their basic channel scheme. This means that the customers would eventually be charged few Euros extra, even for their basic cable TV packages. By the acquisition, Telemach as the cable TV provider would be able to have those TV programs at a better price, unabling other cable TV operators to provide competitive offers. A similar case already happened in the autumn of 2013, when SiolTV, another cable TV provider, had to exclude several very popular sport programs from their cable scheme. Adria Media Limited Company, part of the United Group, started to ask of them progressively higher fees for the use of

those channels, raising them to a five-times higher cost in two years. At the same time, Telemach, which belonged to the same group, could still offer those programs at the initial five-time lower rate. The Pro Plus company was also under investigation for an advertising issue. Pro Plus is one of the main players in advertising, collecting three fourths of all the advertising income in Slovenian media. It became public that the company has since 2003 forced the advertisers into exclusivity, giving them enormous, even 90% discounts in return for them not advertising with other TV providers. Following the request of two other competing TV stations, TV3 and (the national) TV Slovenija, the Competition Protection Agency started a legal procedure against Pro Plus for these violations. The lawsuit went all the way to the European Human Rights' Court where the lawsuit was eventually abolished due to procedural errors.

Investigation of the Competition Protection Agency

In March 2018, the Competition Protection Agency started their investigation on the proposed sale-off. Their analysis focused on the consequences of the sale of Pro Plus for the Slovenian telecommunications and media market. The sale of Pro Plus to United Group would construct an unprecedented telecommunication-media conglomerate. The Competition Protection Agency issued its summary of the relevant facts in the beginning of November to the companies in question. The Agency opposes the sale, because it would cause an overlap in the same relevant markets and it would lead to connections which would hinder competition in the connected markets. It identified several risks. Firstly, it identified a possibility of permanent coordinated action with other operators in the market. Secondly, their opinion was that the sale could provide a greater possibility of worsening of the conditions for obtaining TV programs for other TV operators, especially by raising the license fees. Thirdly, they identified a greater possibility that Telemach cable TV subscribers would not have the access to competition TV programs, or, that Telemach would place them on higher-number positions on

the program lists and in the program schemes/packages which are available to a smaller number of subscribers. Finally the new conditions could, according to the opinion of the Competition Protection Agency, provide the unified company with a possibility to obtain sensitive business information about their competition, which would in turn give them substantial business advantage.

Following this summary of relevant facts, United Group was given a month and a half's time to provide their comments to these claims. It can also propose corrective measures, with which it would remove the reasons for the negative opinion. After that, the agency will issue its final decision.

Conclusions

The sale of the Pro Plus to the United Group is an unprecedented attempt in Slovenia to merge large scale cable and mobile phone operators with media providers. The result of the assessment of the Slovenian Competition Protection Agency and its final verdict on the matter will provide an important precedent in these issues, not only for Slovenia but also in the region, since most of these companies operate in the Central and Eastern Europe, with a particular emphasis on the countries of the former Yugoslavia and the Balkans.