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The GMA Saga

Php52.5 billion. This is the magic number that Manny Pangilinan (MVP) has reportedly offered for the acquisition of the country's leading network, GMA-7, lock, stock and barrel. The three families controlling the network – the Gozons, Duavits, and Jimenezes – jointly own 80% of GMA-7. The offered amount is reportedly based on Enterprise Value which captures the estimated market values of the company's common and preferred shares as well as its debt obligations net of cash holdings.

Though the amount is considerable, this pales in comparison to the amount paid by MVP (thru PLDT) to the Gokongweis. Less than a year ago, MVP paid a whopping Php74.1 billion for the acquisition of Digitel, owner of the value-for-money mobile phone brand Sun Cellular. Like Sun Cellular, GMA-7 is a well-recognized company and fits very well into PLDT's convergence strategy.

Manny Pays Premium

MVP is known for paying top dollar for his acquisitions. The premium may not necessarily be justified in the short-term, but acquiring competition brings in synergistic gains and cost savings which will redound to the benefit of the enlarged entity in the long-run. In the end, the GMA-7 purchase will result in synergies with PLDT (See 4 April 2011 issue of the Philstar). Below are instances where MVP paid/offered premium valuation for listed companies:

- **GMA-7**. The controlling families reportedly wanted cash for this deal. At the stated offered value, GMA-7 would be trading at 26x trailing P/E.

- **Digitel**. The deal was consummated via a share swap with PLDT shares. At the reported value of P74 billion including the mandatory tender offer, the resulting P/E was skyrocket high considering profits were very small at that time. In 2011, Digitel even reverted to a loss.

- **Philex**. In 2009, MVP bought into Philex using a combination of direct buy-in and open market purchases. Our back of the envelope calculation suggests that his aggregate cost translated to a trailing P/E of 19.7x.

- **Meralco**. The acquisition was carried out nearly the same period as Philex. As the white knight in the deal, MVP bought a block from the Lopezes and purchased from the market. Aggregately, the costs translated to a trailing P/E of 26x.

Proven Companies

MVP's history of purchases suggests that he is not interested in start-ups. He prefers to buy established companies (or brands) with proven track records. With this strategy, turnaround time is much faster and dividend declarations could be much sooner. The acquired company sets ambitious growth plans while at the same time harnesses cost efficiencies. MVP foresees these synergistic gains and realizes them as they are folded into the group.

Take, for instance, his entry in Meralco. The distribution utility is currently embarking on an aggressive growth plan. The company is re-entering the power generation sector and intends to put up a power plant by 2014. At the same time, it is harnessing synergies with the PLDT group. Offering prepaid electricity is being pilot tested and should be ready for rollout in the near future.

GMA-7 is presently the industry leader in terms of audience share and ratings. It is very profitable and does not have debt on its books. A combined GMA-7 and TV5 would naturally widen its lead over ABS-CBN. This could favorably impact its contract renegotiations with advertisers. Furthermore, talent poaching, which severely drove up TV5's production costs, will be minimal. This should end the financial bleeding as talent can instead be shared by channels 5 and 7.

Media Convergence

In a prior article, *A Stock market 4-peat?* (**Philstar**, 13 February 2012), we wrote that *If GMA-7 falls prey, MVP will have under his belt an array of complementing assets in tri-media.* Having GMA-7 under MVP's umbrella will result in a stronger foothold in TV, radio, and print. All these contentoriented investments would redound to the benefit of PLDT. In the same manner, the combined broadcast networks of channels 5 and 7 can piggyback on PLDT's infrastructure network.

Going Abroad

The broadcast media sector is already in a mature state and therefore growth expectations are not that spectacular. Buying GMA-7 from a pure market share grab standpoint may not be financially rewarding. Many view that the door of opportunities lie in selling content in the region, say, for instance, in Indonesia, where MVP's group is present. If importing Spanish, Korean and other telenovelas has gained popularity here, selling the combined content of channels 5 and 7 can be viable as well in other markets. Speaking of which, it is worth noting that the country's longest running noontime show, *Eat Bulaga!*, is already in Indonesia having sold a franchise to a local network. It premiered only last month but is already No.1 in ratings with a considerable audience share.

Impact of Social Media

PLDT's move to integrate telco (access) and media (content) is a preparatory step towards greater competition from internet-based companies such as Facebook and Skype. MVP seriously views these as a threat to PLDT's long-term viability. With 28.8 million Facebook users in the Philippines (i.e., No.8 in world ranking), mobile texting has been significantly affected. Also, instead of overseas calls, one could simply use Skype to talk to loved ones and friends working abroad. These advances in technology has prompted PLDT to re-think its business model and evolve from a traditional telecom company into a multimedia service entity. To MVP, acquiring GMA7 will further the transformation of PLDT.

In the US, social media has become an outlet for media companies to expand market. Take, for instance, media and entertainment giant Timer Warner. The company is using Facebook as a platform to introduce traditional media entertainment online. It sells Warner Bros. movies directly on its FB page. This can be duplicated in a more dynamic PLDT. Through GMA-7, it can tap its vast resources in media content and sell them through social media.

Dealing with the Taipans

Perhaps there is no other CEO who has dealt with other taipans more than MVP. Like what we stated in the past, "*He buys out his target at a price that makes the seller happy. This is one of the reasons why he gets the deal done fairly quickly and in the process becomes allies with his targeted companies."* Below is a list of some of his acquisitions and the taipans he convinced to cede their businesses.

Target	Family
PLDT	Yuchengco / Cojuangco
Meralco / NLEx / Maynilad	Lopezes
Digitel	Gokongweis
TV5	Cojuangco
GMA-7	Gozon, Duavit, Jimenez ???

There are other prominent families that MVP had persuaded and many more are perhaps in the works. Right in our backyard, MVP bought into the mining companies of our fellow Philequity director Felipe Yap. In sports, the Smart brand is now part of Araneta Coliseum after bagging the naming rights from the Aranetas. MVP also managed to forge business partnerships with other taipans, some of whom he competes with in other areas of interest.

Partner in Business	Family
Oil exploration	Razon in Philex Petroleum
Power generation	Aboitiz in a coal project in Subic
Railway infrastructure	JV with Ayalas in PPP railways

Indeed, MVP's magic has not waned. He is still hungry for growth and acquisitions. If all goes well with GMA-7, who is next in the pipeline? The market is already anticipating his next big move.

Number 1

MVP's passion to always be at the top might be pushing him to acquire GMA-7. Being the current Top 3 player in the industry is simply unthinkable for him. In all his businesses, MVP always strives to be No.1. Just like in basketball, his teams are all driven for success. From the collegiate to the professional, all the teams he supported turned from winners to champions. TV5, with the addition of GMA-7, will once again make MVP the undisputed No.1.

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