

LEBANON OPPORTUNITIES

IDM Cyberia merger underway

Two leading local ISPs strike deal estimated worth \$100 million

IDM and Cyberia, the two leading Internet Service Providers (ISP) in the country, have agreed to merge their local operations pending required approval from the authorities. Together, IDM and Cyberia will become the largest ISP in the country. The deal is valued at an estimated \$100 million. The valuation of the deal was conducted by PriceWaterHouseCoopers. It was a stock swap, with no cash exchanging hands. Together, the two companies will be owned by a newly established holding company that will also include GDS, a data service provider (DSP) owned by ATG holding. Data Service Providers (DSPs) provide wireless network connectivity, while Internet Service Providers (ISPs) sell internet to consumers. Both ISPs and DSPs need to operate simultaneously for a firm to serve its clients.

TWO BECOME ONE...

Chairman of IDM, *Antoine Fadel* will be the chairman of the new holding company, and the CEO of operations will be *Bassam Jaber*, currently running Cyberia. Cyberia will have a 16 percent ownership in the new entity. Initially, both companies will operate under their two distinct brands, although their operations will be merged. Cyberia will also become a DSP. The deal covers only local operations. IDM had earlier created Intrasky through a merger with Lunasat, for its operations outside Lebanon. IDM (IncoNet Data Management) is owned by GlobalCom Holding (ATG and Audi Saradar Investment Bank through a structure of several holding companies - 62 percent) and TeleInvest (*Georges and Maroun Chammas* - 38 percent). IDM is the result of a merger between the two companies IncoNet and Data Management. Cyberia is owned by the Hariri group through Oger Telecom (95 percent) and

Saudi Oger (five percent). The company is licensed in Lebanon under the name Transmog. Headquartered in Saudi Arabia, Cyberia started its operations as an ISP in Lebanon in 1995.

MORE TO FOLLOW

"The merging of IDM and Cyberia will encourage more consolidation within the ISP sector," according to Khaldoun Farhat, CEO of Terranet (ISP) and Cable One (DSP). Farhat said that all ISPs operating in the country have considered consolidation deals. "Mergers are healthy and bring many benefits to the business, and we (Terranet and Cable One) have been approached by local and international players seeking a merger," he said. Farhat did not rule out a potential merger of Terranet and Cable One with another international or local player. However, he said, there are always other options to develop investments in the sector, such as venturing in to new technologies, and partnering with international players to expand the scope of services. According to Farhat, the public authorities will not stand in the way of the merger of IDM and Cyberia. He said that delays could occur for operational reasons, as often happens with merger deals. There are 15 licensed ISPs and nine licensed DSPs in the country. Only a handful of those have a significant market share. IDM, Cyberia, and GDS, together have a dominant share, much above fifty percent.

COMPETING WITH GIANTS

The merger between IDM and Cyberia will not be for the good of consumers, according to *Louis Hobeika*, former chairman of Sodeltel, an ISP that is half owned by the government. "A merger of such a size could be unfavorable for competition in the market," said Hobeika. He said that larger

companies often have more power in determining market prices. The Telecommunications Regulatory Authority (TRA), established in 2002, is tasked with liberalizing telecommunications services. The TRA's duties include encouraging competition in the telecom field, and preventing non-competitive behavior. The TRA is also responsible for issuing, amending, suspending, and withdrawing licenses. Some have faulted the TRA of limiting its role to controlling the quality of services provided by the sector. Various ministers of telecommunication have successfully clipped the wings of the TRA, leading its chairman to resign and pursue other opportunities outside the country. Hobeika said that while the deal is pending completion of procedures at the Ministry of Telecommunications, the authority that should approve such a consolidation deal should be the Ministry of Economy and Trade.

MOVING INTO 3G

In 2009, the TRA issued a Significant Market Power (SMP) regulation in which it singled out telecommunication service providers with a significant market share for tighter control over pricing and the quality of services. A competition draft law has been shuttling between the Parliament and the Cabinet for just under ten years without being adopted. IDM and Cyberia, like other ISPs, are gearing towards providing 3G data services, thus competing with Alfa and MTC. This is pending the approval and licensing of the Ministry of Telecommunication.

Reported by Hanadi Chami

