SES COMPANY DEVELOPMENT PROSPECTS ACCORDING TO THE MARGINAL EFFICIENCY OF THE INTEGRATION PROCESSES

Olga Pizhuk

Abstract: *In the article the change of the SES Company value and its competitive position as a result of the integrated growth strategy are defined by use the income approach. Recommendations for geographic directions and extent of further mergers and acquisitions are reproduced on the basis of the coefficient of the integration marginal efficiency.*

Keywords: *the enterprise management, strategy, merger and acquisition, marginal efficiency, value of the company*

JEL Classification: G 11

1   INTRODUCTION

Increase of global market competition encourages its members to look for the new prospects of economic growth all the time. And integrated processes of companies have become a natural reaction to the excess of free capacities and the large number of market players. However, such processes often have a spontaneous character, and as a result, only a third of them are successful. Therefore, researching of the possible directions of integrated strategy effective implementation in a competitive market is particularly actual.

It is important to note that investigated subjects are reflected in scientific works of foreign and domestic scientists. The most significant results of theoretical rationale of enterprise integrated strategy are presented in the works of the following authors: A. Thompson, A. Strickland, K. Bowman, J. Bouer, A. Mazaraki, M. Bosovska, A. Kuzmin, R. Shulyar, B. Shukalovych, Pozhidayev R., R. Bogachev, M. Slynko and others. Despite the considerable attention to this subject, issues of formation and effective implementation of the company integrated development strategy based on the marginal efficiency of integration processes are not described enough.

The purpose of this research is theoretical rationale and formation of practical recommendations for the possible directions of implementation of the company's integrated growth strategy as a mean for gaining of competitive advantages.

2 MERGERS AND ACQUISITIONS AS A KIND OF STRATEGIES OF ENTERPRISE INTEGRATED GROWTH

Integrated growth strategies are the base for any company and aimed at the increasing scales of its activity due to the addition of new structures [1]. There are several ways to implement an integrated growth strategy, among which it is important to highlight the establishment of alliances, strategic partnerships, joint enterprises and mergers and acquisitions (M&A) [2]. The latter are a relatively new form of competitiveness generated by fierce competition and based on processes of capital concentration. Their essence is that one of the companies, which has specific competitive advantages, can achieve synergy by completing a merger or acquisition of other company, which has the complementary competitive advantages.
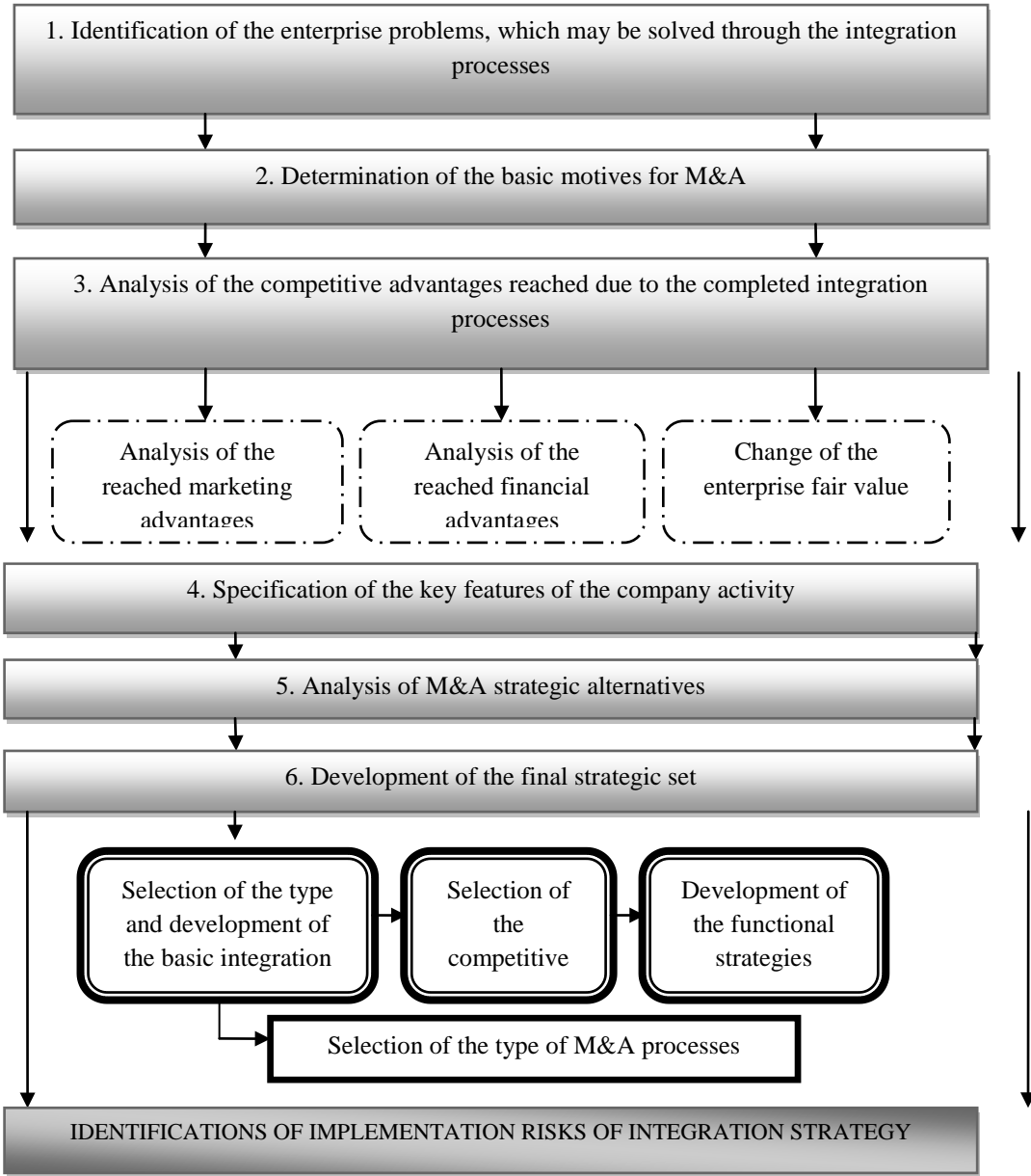
The qualified approach for the formation and implementation of the growth integrated strategy is necessary to deprive the M&A of spontaneous character.

The first stage of development of the M&A strategy must be an identification of problems of enterprise activity, which could be solved through integration processes; such identification forms the basic motives of merges and acquisitions process (figure 1).

If the company provides such processes not for the first, it is necessary to analyze, did it achieve the competitive advantages as a result of M&A. Herewith, the enterprise chose itself, which advantages must be analyzed, and likely the advantages related to the basic motives will be chosen. If results of analysis significantly deviate from expected, it is worth to investigate, due to the influence of which factors it has happened, and simultaneously detect the weak links in enterprise activity or additional reserves, which was not taken to the attention in the forecast.

Diagnostics of effectiveness of prior M&A is followed by the consideration of alternatives for further strategic development and the formation of the strategic set.

Figure 1: Mechanism of Development of M&A Strategy

```
┌─────────────────────────────────────────────────────────────┐
│ 1. Identification of the enterprise problems, which may be    │
│    solved through the integration processes                   │
└─────────────────────────────────────────────────────────────┘
                              ↓
┌─────────────────────────────────────────────────────────────┐
│ 2. Determination of the basic motives for M&A                 │
└─────────────────────────────────────────────────────────────┘
                              ↓
┌─────────────────────────────────────────────────────────────┐
│ 3. Analysis of the competitive advantages reached due to the  │
│    completed integration processes                            │
└─────────────────────────────────────────────────────────────┘
     ↓              ↓                 ↓                ↓
┌──────────────┐ ┌──────────────┐ ┌──────────────┐
│ Analysis of  │ │ Analysis of  │ │ Change of    │
│ the reached  │ │ the reached  │ │ the          │
│ marketing    │ │ financial    │ │ enterprise   │
│ advantages   │ │ advantages   │ │ fair value   │
└──────────────┘ └──────────────┘ └──────────────┘
┌─────────────────────────────────────────────────────────────┐
│ 4. Specification of the key features of the company activity  │
└─────────────────────────────────────────────────────────────┘
                              ↓
┌─────────────────────────────────────────────────────────────┐
│ 5. Analysis of M&A strategic alternatives                     │
└─────────────────────────────────────────────────────────────┘
                              ↓
┌─────────────────────────────────────────────────────────────┐
│ 6. Development of the final strategic set                     │
└─────────────────────────────────────────────────────────────┘
   ┌──────────────┐    ┌──────────────┐    ┌──────────────┐
   │ Selection of │ →  │ Selection of │ →  │ Development  │
   │ the type and │    │ the          │    │ of the       │
   │ development  │    │ competitive  │    │ functional   │
   │ of the basic │    │              │    │ strategies   │
   │ integration  │    │              │    │              │
   └──────────────┘    └──────────────┘    └──────────────┘
           ┌──────────────────────────────────┐
           │ Selection of the type of M&A     │
           │ processes                        │
           └──────────────────────────────────┘
┌─────────────────────────────────────────────────────────────┐
│ IDENTIFICATIONS OF IMPLEMENTATION RISKS OF INTEGRATION STRATEGY│
└─────────────────────────────────────────────────────────────┘
```

Source: Own

According to the concept of Joseph Bower, the professor of Harvard Business School, the key features of any enterprise are its resources, process and values. Resources are all tangible (cash, materials, etc.) or intangible (information, brands and mutual relations, etc.) assets. Processes are all actions, which turn resources into goods and services. Values indicate

the general ideas, what company owes to its employees and what employees owe to the company; what decisions made by employees are approved by the company and what are the decisive factors. The contradictions between mentioned parameters frustrate the sense of conclusion of the M&A agreement.

Identification of the type of integration strategy, which mostly appeals to the enterprise according to the key features of its activity, is a start of development of strategic set of integration processes management.

Success in the M&A market is inherent those companies, which follow the modern integration strategies, among which are: a strategy of exceed power, a geographically-competitive strategy, a differentiation strategy, an innovative development strategy and an industry convergence strategy. Each type of strategies should be detailed by three key parameters mentioned above – resources, processes and values.

The next step is choosing the competitive strategies for new strategic business units in existing markets or existing strategic units in new markets formed as a result of integration strategies. Thereafter the functional strategies are developed; they describe the target position of production, marketing, financial, personnel fields to ensure the implementation of higher level strategies.

Mechanism for the development of M&A strategies necessarily must be complemented by analysis of risk, which could significantly affect the effectiveness of M&A processes of the enterprise.

Thus, Mikhaylo Kolisnyk, the Professor of Finance of Kyiv-Mohyla Business School, emphasizes that change of ownership structure could lead to deterioration of consumer brand perception and, as a result, to the reduction of sales volume. Besides, the scientist observes that reorganization is a key moment for the company personnel, who could lose its confidence in the future. Investigations indicate that in modern multicultural business environment about 80% of M&A risks are related to the poorly controlled cultural integration. As a rule, managers tend to focus on assets like finance and simultaneously neglect the issues of organizational culture.

After a certain amount of time in post integration process, it is worth to verify the effectiveness of the company, for example, by calculating the change of its integrated financial coefficients or identifying its investment attractiveness.

For the purpose of this research, the SES Company, one of the largest satellite operators in the global market, was chosen. Under conditions of the fierce competition in telecommunication field, an implementation of M&A strategy is necessary, because consolidated companies have better opportunities to introduce the new digital technologies, decrease the costs and as a result – to reduce the prices with simultaneous increase of services reliability in the event if one of the satellites fails.

3   DIAGNOSTICS OF EFFECIENCY OF M&A STRATEGIES OF THE SES COMPANY

The SES Company began its M&A processes in 2000 after the redemption of 50% of the satellite operator's «Nordic Satellite AB» shares. The following integration processes had such chronology: in 2006, SES acquired the company «New Skies Satellites», created by its main competitor – satellite operator «Intelsat»; in 2007, 100% of «GE Americom» shares were purchased from «General Electric» corporation; in 2010, the company «YahLive» was established jointly with satellite operator «YahSat» for DTH-broadcasting for new regional markets. In 2011, SES established a strategic partnership with the Russian satellite operator «Gazprom Space Systems». Also in this year share of the analyzed companies in the satellite system O3b Networks has reached to 38.79%.

As a result of integration processes mentioned above, the regional operator SES has turned into a global company, which is able to provide services on all continents for 99% of world population [4]. Today, its market share by total revenue is 21%, which is lower by 2% than the share of the absolute leader – the «Intelsat» Company. Since one of the motives for implementation of M&A is an increase of business value, the calculations of difference in company value before and after the conclusion of such agreements are expedient. Expanding market share of SES through joining the customer base of competitors has affected its cash flows. That's why it is proposed to estimate the value of the company based on the income approach, namely using Discounted Cash Flow (DCF) method [5].

Company value at the beginning of 2013 is determined by using assumptions about future changes in components of calculation (*tabl. 1*). Historical data indicate that income growth rate varies from 1 to 5% every 3 years. And the largest income growth rate for analyzed period is expected in 2015, the reason

of which is the commercialization of satellites SES-6, ASTRA 2E, SES-8, ASTRA 5B, ASTRA 2G, SES-9. Operating costs will be reduced to 25% due to the SES' integration processes.

The company uses the straight-line method of depreciation, which will decrease from €500 mln in 2013 to €350 mln in 2017. Descending depreciation dynamics is related to the company's planned reduction of capital costs: €670 mln in 2013 and €450 mln for each following year of the forecast period. Because of the large number of loans and the issuance of Eurobonds net working capital will be negative; its rate will fluctuate cyclically during the forecast period from €986.3 mill to -€284.1 mln. The highest value of net working capital will be at the end of the forecast period, because it is believed that the company gradually will reduce its need for debts. Forecast of parameters allows the calculating of expected free cash flows *(FCFi)* for each year:

$$FCF_l = NOPLAT - Net\ investments, \tag{1}$$

where *NOPLATi* – net operating profit after tax of year *i*.

The weighted average cost of capital *(WACCi)* is taken as a discount factor to calculate the discounted cash flows with using the weight of equity (*We*) and debts *(Wd)* in the company structure, the cost of equity *(Ce)* and debts *(Cd)* and the tax rate (*T*):

$$\mathrm{WACC}_l = W_e \times C_e + W_d \times C_d \times (1-T) \tag{2}$$

Table 1: Calculation of Discounted Cash Flows for the Period of 2013-2017 Based on the Experts' Assumptions, €mln

	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1,736	1,733	1,828	1,863	1,881	1,975	2,015	2,035
- YoY	2.0%	-0.2%	5.5%	1.9%	1.0%	5.0%	2.0%	1.0%
Operational costs	439.3	458.5	481.4	465.7	470.3	493.9	503.7	508.8
EBITDA	1,296	1,275	1,347	1,397	1,411	1,481	1,511	1,526
EBITDA margin	74.7%	73.5%	73.7%	75.0%	75.0%	75.0%	75.0%	75.0%
Depreciation and amortization	499	466.4	556.1	500.0	475.0	450.0	350.0	350.0
EBIT	797	808	791	896	936	1,032	1,161	1,176
EBIT margin	45.9%	46.6%	43.2%	48.1%	49.8%	52.2%	57.6%	57.8%
Tax rate	0.293	0.296	0.296	0.296	0.296	0.296	0.296	0.300

NOPLAT	563.44	569.38	556.91	631.2	659.4	726.7	818.1	828.7
NOPLAT margin	32.5%	32.9%	30.5%	33.9%	35.1%	36.8%	40.6%	40.7%
Current assets	644.7	639.6	696.3	703.7	703.7	703.7	703.7	703.7
Current liabilities	1,921	1,578	1,983	1,279	1,690	1,141	1,253	988
Working capital	-1,276	-938	-1,287	-575	-986	-437	-549	-284
Capital expenses	804.5	834.5	634	670.0	450.0	450.0	450.0	450.0
Capital expenses in % of sales	46.4%	48.2%	34.7%	36.0%	23.9%	22.8%	22.3%	22.1%
Change in working capital	-731.9	337.4	-348.4	711.5	-411.0	549.3	-112.1	265.0
Net investment	-426.4	705.5	-270.5	881.5	-436.0	549.3	-12.1	365.0
Free cash flow	989.8	-136.1	827.4	-250.3	1,095	177.4	830.2	463.7
WACC	5.59%	5.71%	5.18%	5.18%	5.18%	5.18%	5.18%	5.18%
Period	–	–	–	1	2	3	4.00	5.00
Discount factor	–	–	–	0.95	0.9	0.86	0.82	0.78
Discounted cash flow	–	–	–	-238.0	990.2	152.5	678.3	360.2
Growth rate of terminal cash flow	–	–	–	–	–	–	–	2.5%

Source: Calculated by the author on the basis of materials: [4], [5]

At the beginning of 2013, the weight of equity capital has amounted to 66.8%, the weight of debts– 33.2%. The cost of the debts is calculated as the average rate on loans – 5.83%. The cost of equity is calculated in the following way:

$$C_e = R_f - \beta \times P_r, \tag{3}$$

where R_f – risk-free rate; P_r – country risk premium [5].

Average risk-free rate for 2012 was 0.95%; coefficient β (0.82) is calculated as the average value for the last 5 years; and risk premium (5.8%) is taken for Luxemburg (the company headquarters is situated there). Therefore, the WACC value is obtained at the level of 5.18%.

The fair value of the company is defined in this way:

$$\text{Fair value} = \sum \text{DCF}_i + Termanal\ DCF - Net\ debt \tag{4}$$

$$Terminal\ DCF = \frac{FCF_n}{(WACC - Growth\ rate\ of\ ter\min al\ cash\ flow) \times (1 + WACC)^i}, \tag{5}$$

where FCF_n – free cash flow in the last year of the forecasted period.

Thus, as a result of the expert assumptions and the calculation mechanism described above under the net debts of €3,987.7 mln, the fair value of the company at the beginning of 2013 was equal to €11,397.16 mln.

Due to this, SES' value per share at the end of analysed period (end of 2012 – beginning of 2013) of M&A processes reached the following level:

$$\text{Target price } per \ share_{2013} = \frac{\text{Fair enterprise value}_{2013}}{\text{Number of shares}_{2013}} \tag{6}$$

$$\text{Target price } per \ share_{2013} = \frac{€11,397.16 \quad m\ln}{437.68 \quad m\ln} = €26.05$$

According to the Thomson Reuters database, the market value per share at the date of valuation was €23.51. So, the upside potential, i. e. the percentage of excess of fair (or target) price over the current market price, at the beginning of 2013 amounted to:

$$Upside \ potential_{2013} = \left(\frac{\text{Target price } per \ share_{2013}}{\text{Current price per share}_{2013}} - 1 \right) \times 100\% \tag{7}$$

$$Upside \ potential_{2013} = \left(\frac{26.05}{23.51} - 1 \right) \times 100\% = 10,83\%$$

Since the upside potential falls into the interval *Current price per share=±15%*, the investment recommendation for the SES Company share is Hold.

However, the question of the value of the company at the beginning of the analyzed period of M&A is still open. Since the financial statement 2006-2009 contains consolidated data, where indicators of integrated companies are already included, it is expedient to set assumption about what possible cash flows would be, if the company had not begun the M&A processes. That's why it is assumed that income for 2005-2009 would be increased by an annual average rate of growth – 2.07% starting with the indicator of 2005 in €1,258 mln. WACCi rates are diversified by years. As a result, the company value at the beginning of 2005 would be €8,841.32 mln. Increase of value as a result of the integration processes for 2006-2012 is equal to:

$$K_{\text{Fair value}} = \frac{\Delta \text{Fair value}}{\text{Fair value}_{2005}} \qquad (9)$$

$$K_{\text{Fair value}} = \frac{11{,}397.16 - 8{,}841.32}{8{,}841.32} = \frac{2{,}555.84}{8{,}841.32} = 0.29 \ or \ 29\%$$

Due to the M&A, the SES Company not only eliminates the competitors, subordinating them to itself, but also reduces the internal costs, using the economies of scale: with the increased number of satellites the company is able to conclude the larger amounts of contracts, provide services for the wider range of consumers, conduct the joint marketing policy, reducing the fixed costs for a conventional unit of service.

Nevertheless, too bulky size of the company could lead to the negative scale effects: costs could increase as a result of complication of management, increase of the number of administrative staff and expenses for transportation and communication between units, which are located throughout the world. Therefore, it is necessary to determine the index of the marginal revenue of integration processes, which can be represented as the ratio of gross revenue and gross costs of the company:

$$\text{IR}_{i} = \left[\frac{GR_i - GR_0}{N_i - N_0} \right] : \left[\frac{GC_i - GC_0}{N_i - N_0} \right], \qquad (10)$$

where IR_i – the index of the marginal revenue of integration processes;

GR_i, GR_0 – gross revenue after and before the integration accordingly;

GC_i, GC_0 – gross costs after and before the integration accordingly;

N_i, N_0 – the number of enterprises after and before the integration [9].

If the result is greater than one, it means that marginal revenue exceeds the marginal costs, and integration processes are effective at this stage. If the result is less than one, it means that marginal revenue is lower than marginal costs, thus the continuation of the company activity in such complement is inefficient.

4   PROSPECTS OF THE SES' DEVELOPMENT BASED ON THE MARGINAL EFFICIENCY OF INTEGRATION PROCESSES AND RISK ANALYSIS

Calculation of the marginal revenue of SES' integration processes is represented in the Table 2, where indicators of 2005 are the base of comparison. Accordingly to this estimate, index of the marginal revenue of integration processes had been decreased from 1.1754 in 2006 to 1.0440 in 2008, what is a natural change of this index for the same number of enterprises, incorporated to main company. In 2009, when the number of integrated enterprises had increased by another one, the index of the marginal revenue of SES' integration increased to 1.2324, what is explained first of all by almost invariable sum of gross costs. For the next years, this index had been decreased to 1.0074 in 2012; and the reason of it is the higher growth rates of gross costs than growth rates of gross revenue for 2010-2012. According to the table, the optimal quantity of integrated enterprises in the complement of SES is 9, because in this case the index of the marginal revenue of company integration is maximally approaching to one.

Table 2: Calculation of the Index of the Marginal Revenue of SES' Integration Processes

	2005	2006	2007	2008	2009	2010	2011	2012
Gross revenue	1,258.0	1,615.2	1,610.7	1,630.3	1,701.6	1,735.7	1,733.1	1,828.0
Gross costs	886.2	1,190.1	1,207	1,242.8	1,246.2	1,343.2	1,349.8	1,452.0
Number of enterprises	5	6	6	6	7	8	9	9
Marginal revenue	–	357.2	352.7	372.3	221.8	159.2	118.8	142.5
Marginal costs	–	303.9	320.8	356.6	180.0	152.3	115.9	141.5
The index of marginal revenue of integration	–	**1.1754**	**1.0994**	**1.0440**	**1.2324**	**1.0453**	**1.0248**	**1.0074**

Source: Calculated by the author on the basis of materials: [4], [7]

That's why SES must carefully approaches to the selection of probable variants of further integrated growth strategy. So, European and American markets of satellite services are developed enough, because the population of these regions has been using such services for a long time and first satellite companies have appeared namely there. In a number of countries analog television is completely replaced by digital (figure 1). That's why potential consumers' base among the householders is almost exhausted there: supply of services often exceeds the demand for them.

It stimulates the diversification of services, which is becoming the key term to attract the new customers. A striking example of it is that under the conditions of limited growth of budgets the USA and NATO governments and military structures more often use the resources of commercial satellite operators, which are much cheaper than specialized military systems. According to this reason, SES' company has formed the separate department for work with military customers, total sales of which in 2010 was 8% of company's total revenue. Also it is important to note that the USA government has brought nearly 10% of SES' total revenue in 2012 [4]. The saturation of "old" markets by services of satellite television led to the increase of prospects of those regions, where the analog television will turn off the next few years: in 2015 – in Ukraine and Belarus, in 2016 – in Brazil, up to 2017 – in Russia, up to 2020 – in China, in 2022 – in Mexico. Free market niches will appear, and analyzed company will be able to fill them [6].

Figure 2: Dynamics of Number of European Householders by Used Types of Television
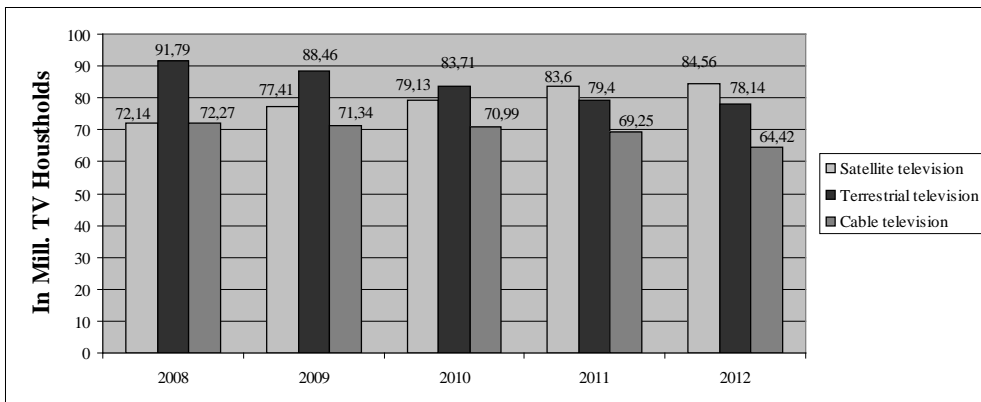
Source: [4]

However, the risk of doing business in regions of Latin America and Africa is the unevenness of effective demand, where the large part of population lives below the poverty line, and signal reception means are concentrated only in the biggest cities. Fixed starting value of the satellite with areas of coverage in these regions makes SES sensitive to the number of subscribers. This risk is especially noticeable at the early stages of penetration into the new markets, when the number of customers is relatively small.

In comparison with the SES Company, operators from East Europe are late in the extension of orbital fleet. But in this region the main risk of introduction

of satellite services is the fraud of TV companies, which violate the rights on content: under the free access to a signal, the content can be distributed on the territory, which is not provided by agreement with satellite operator. The danger is that dozens of new satellite operators are going to enter the regional markets of Asia, East Europe, Latin America and Africa till 2020, each of them will launch their own satellites, so competition in the industry will increase. That's why it is necessary to enter into M&A agreements namely with such young companies, which feel themselves quite uncertainly in the market.

To make market position stronger in the countries of East Europe, first of all, it is desirable to create the mass satellite platform, i.e. the medium market segment of the satellite television [6]. Since the analogue television broadcasting is discontinued, the householders of this region must be provided by satellite television broadcasting for mid-market tariffs. That's why it is recommended to apply the strategy of optimal costs at the competitive level for such strategic business unit of SES as satellite television in East Europe. According to this strategy, the costs are decreasing until the quality of services becomes significantly worse.

It is more appropriate to apply the strategy of focused differentiation at the competitive level for West European and American countries, because the competition between satellite operators in these regions is the fiercest, and population, the incomes of which, is higher than incomes in East Europe, agrees to pay higher price for that additional benefits of services, which other satellite companies cannot offer.

The developed strategic set may be complemented by quantitative risk assessment, because the qualitative description of probable threats is insufficient for understanding the influence scale of negative factors. For this purpose, it is proposed to specify the likely change of company value per share in case of an unwanted environmental conditions caused by risk factors; one of the advisable methods of such identification is the Monte-Carlo simulation.

Essence of the method is a generation of the large number of projections of price per share depending on random variables. An expectation and standard deviation is assigned for each variable, due to which the likely variants of output indicator (value per share in this case) are placed in a Gaussian curve, which have two axes: numerical output indicator and frequency of this value among the total amount of generated values [7].

The quality of simulations largely depends on the selection of adequate input indicators – risk factors [8]. Thus, it is necessary to include to the simulation the risk of failure of the acquired structures satellites as well as the satellites launched in cooperation with other operators. Risk of satellite failure could cause the company inability to provide the satellite signal from the certain orbital position, which makes the services inaccessible for the clients. Therefore, this factor influences directly on likelihood of company revenue reduction. On the other hand, the SES Company mitigates the specified risk through backup strategy, according to which its clients, who used the signal from faulty satellite, could use the signal from another satellite in the same satellite group. This switching is not lasting, due to which company losses from the failure of services reduce significantly.

Given these arguments and also the actual data on analyzed company losses caused the satellite failure and frequency of such events, it is found that the worse deviation of company yearly revenue within 15% is possible with probability of 20%. If the environmental conditions are the most favorable, the revenue increase by 10% will be possible with the probability of 30%. The most possible revenue (with probability of 50%) is taken from the DCF forecast. That is why the following numeral standard deviations of the company revenue were obtained taking to the attention the risk of satellite failure (table 3):

Table 3: Standard Deviations of Revenue due to the Risk of Satellite Failure

	2013	2014	2015	2016	2017
Standard deviation	232.65	234.98	246.73	251.67	254.18

Source: Calculated by the author on the basis of materials: [4], [7].

One's more threat of the SES Company is the increased competition between the big four satellite companies (Intelsat, SES, Eutelsat, Telesat) in the "old" markets and strengthening the positions of the national satellite operators in the new markets. If the demand for satellite services grows at a slower pace than the supply of them, the analyzed company will have to reduce the tariffs to keep its customers. This will certainly lead to the reduction of EBITDA and EBITDA margin. However, the company mitigates the factor of increased competition through the diversification of activity (for example, the formation of specialized units for military structures, marine connection and business service). Using the same algorithm as for the first-described risk factor, it is

detected that the standard deviation of EBITDA margin is 9% approximately for each year of forecasted period. So, the table with input data for simulation is taken the following form.

Table 4: Input Data for the Monte-Carlo Simulation

Parameter	Expectation	Standard deviation
Revenue, €mln:		
2013	1,918.61	232.65
2014	1,937.8	234.98
2015	2,034.69	246.73
2016	2,075.39	251.67
2017	2,096.14	254.18
EBITDA margin	0.7725	0.09
Depreciation and amortization, €mln:		
2013	500	–
2014	475	–
2015	450	–
2016	350	–
2017	350	–
Tax rate	0.3	–
Net investment, €mln:		
2013	824.52	–
2014	-332.5	–
2015	549.3	–
2016	-12.1	–
2017	265	–
Discounted factor		
2013	0.975	–
2014	0.927	–
2015	0.881	–
2016	0.838	–
2017	0.797	–
WACC, %	5.18	–
Growth rate of terminal cash flow, %	2.5	–
Number of shares, mln	437.68	–
Net debt, €mln:	3987.7	–
Free cash flow of 2018, €mln:	504.5	165.97

Source: Calculated by the author on the basis of materials: [4], [7].

According to the risk factors, Monte-Carlo simulation indicates the most probable share price of the SES Company at the level of €25.01.

Figure 3: Result of Monte-Carlo Simulations of Risk Influence on the SES Company Share Price
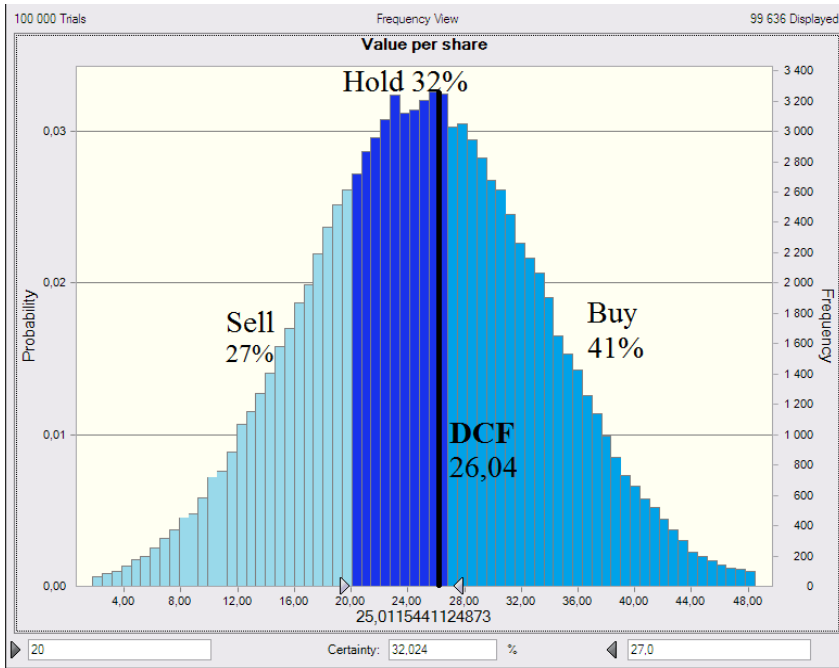
Source: Calculated by the author on the basis of materials: [4], [7].

Obtained price is less than the price calculated by DCF model (€26.04), because in case of an unwanted condition of the company activity as a result of negative influence of risk factors the fair value of the company and also the estimated share price will be decreased.

5   CONCLUSION

Synergistic effect of SES' merger and acquisition for 2006-2012 has positive effect for growth of the fair value by 29%. But if trend of marginal revenue decrease and marginal costs growth remains for the next years, it will be necessary for SES to carefully approach to choice of a variant of M&A, forecasting as accurately as possible the sum of revenue and costs, to which such processes could lead. Integration processes of coming years must not be so intensive as M&A operations of past periods, because the index of marginal revenue of integration is only slightly greater than one and consequently the threat of negative scale effect is possible. That's why it is

desirable to balance the SES' M&A processes towards the regional operators in emerging markets with the creation of strategic partnerships with telecommunication companies and media in the "old markets" to achieve in this way the additional competitive advantages.

It is important to remember that addition of new structures in highly technological industries may be associated with multiple risk such as the purchase of troubled assets; in case of the SES Company, the following risks exist: the failure of satellites of acquired companies; the revenue shortfall due to the price competition with the domestic operators in emergent markets, to enter in which is possible due to the acquisition of the local small companies. The Monte-Carlo simulation allows identifying the change of investment attractiveness of the SES Company due to the influence of the two latter risk factors. According to the obtained results, the investment recommendation to hold shares was approved; however the probable price is reduced by more than 4% in comparison with the price estimated by DCF model.

REFFERENCES

[1]   Thompson A.A. Strategic Management: Consept and Cases / A.A. Thompson, A.J. Strickland. – 4-th ed. – Texas: University of Alabama, Business Publication Inc., Plano, 1987.

[2]   Інтеграційні стратегії. [Електронний ресурс]. — Режим доступу : http://www.advanter.ua/index.php

[3]   Bower J. L. Not All M&As Are Alike — and That Matters. — Harvard Business Review. — March. — 2001. — P. 93—101.

[4]   Official site of company SES. — Mode of access: http://ru.ses.com

[5]   Valuation tecniques // [Electronic resource]. — Mode of access: http://www.bc.edu/

[6]   Перехід на цифрове мовлення в Україні: стан на 2012 // [Електронний ресурс]. — Режим доступу: http://www.aup.com.ua/

[7]   Лукашов А. В. Метод Монте-Карло для финансовых аналитиков / А. В. Лукашов // Управление корпоративными финансами. — 2007. —№1 (19). — С. 22-38.

[8] Никитушкина И. В., Болотникова И. И. Риски в сделках слияния и поглощения / И. В. Никитушкина, И. И. Болотникова // Вопросы экономики и права. — 2011. — №5. — С. 123-131.

[9] Євдокимов Ф.I. Методи оцінки ефективності злиття та поглинання / Ф. I. Євдокимов, Розумна Н. В. // Научные труды ДонНТК. Серия: экономическая. — 2013. — Выпуск 32. — С. 51-58.

[10] Крылов А. Глобальный спутниковый оператор SES — 11 лет успешного развития в XXI веке / А. Крылов // Глонасс. Межотраслевой журнал навигационных технологий. — [Электронный ресурс]. — Режим доступа: http://vestnik-glonass.ru

AUTHOR

doc. Ing. Olga Pizhuk, CSc., National State Tax Service University of Ukraine, K.Marx str., 31, Irpin, Kyiv region, Ukraine, e-mail: kaf_ekonom_pidpruemnuctwa@ukr.net