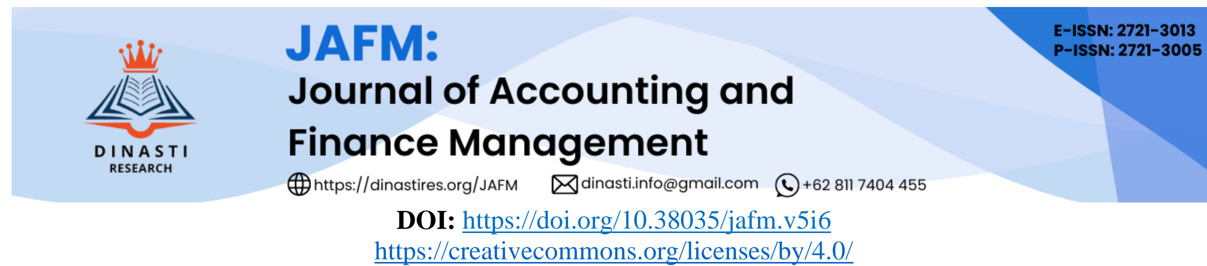

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PT MD Entertainment Tbk (Film) - PT Net Visi Media Tbk (Netv) Acquisition Deal: Valuation and Financial Due Diligence

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Abstract: This study evaluates the financial and strategic implications of PT MD Entertainment Tbk's (FILM) acquisition of an 80% stake in PT Net Visi Media Tbk (NETV). Indonesia’s creative economy, particularly the film and media sectors, presents significant growth potential, contributing substantially to GDP and employment. However, challenges such as financing constraints and the shift to digital transmission have disrupted traditional media, including NETV, which faces financial struggles. MD Entertainment, a leader in Indonesia’s film industry, pursued this horizontal acquisition to diversify into television broadcasting. This research applied methods such as Discounted Cash Flow (DCF) analysis, financial ratio evaluation, and synergy estimation to determine NETV's fair market value and the potential benefits MD Entertainment might gain. Findings highlight the acquisition’s strategic merit in strengthening MD Entertainment’s market presence and role in the creative economy. However, concerns remain over NETV's weak financial performance and the broader challenges in television advertising revenue, which is under pressure due to global economic trends and increasing competition from digital platforms. This analysis sheds light on key factors influencing mergers and acquisitions in the creative industry, offering valuable insights for stakeholders aiming to achieve financial and strategic objectives.

Keyword: Financial Due Diligence, Acquisition, Synergy Valuation, Media Industry

INTRODUCTION

The acquisition of an 80% stake in PT Net Visi Media Tbk (NETV) by PT MD Entertainment Tbk (FILM) signifies a major development within Indonesia's creative economy. MD Entertainment, recognized as a leader in the film industry, has strategically diversified its portfolio by venturing into television broadcasting through this acquisition. This decision is particularly noteworthy given the substantial contribution of Indonesia's creative economy to the national GDP, which stood at 11.9% in 2019. Despite this potential, the sector faces ongoing challenges, including difficulties in securing financing and adapting to the rapid shift towards digital platforms.

The transition of entertainment and media products to digital formats has resulted in decreased production and distribution costs, while concurrently establishing a new stage

characterized by greater competition among digital content producers. Consumers are anticipated to allocate significant time to digital media, while subscription costs are projected to remain stable. PwC consultants anticipate that per capita consumer expenditure in the entertainment and media sector will decline from 0.53% of average personal income in 2023 to 0.45% in 2027 (Creative Economy Outlook, 2023). and also the research firm Media Partners Asia (MPA) reported that Indonesia is the largest video media market in Southeast Asia, with sales totaling USD 2.56 billion in 2023. The market share of video media is categorized as follows: Free-to-Air (FTA) Television 39%, Online Video Advertising 35%, Online Video Subscription 14%, and Pay TV 12%. The MPA estimated that in 2023, the television sector faced an 11% revenue decrease, however there is possibility for recovery in subsequent years, with an anticipated stable growth rate reflecting an average CAGR of 4.4% (NETV Annual Report).

The television broadcasting industry, where NETV operates, has been under significant pressure. The television media industry is underpinned by two significant revenue streams, particularly in the Advertising Spot and Sponsorship sectors. These two are the primary reasons that sustain and generate revenue for the media industry, encompassing both television and digital media sectors. Declining advertising revenue a primary income source for traditional media have compounded the financial struggles of companies like NETV. Economic uncertainties, global inflation, and the transition from analog to digital broadcasting have further strained this sector. Because advertising spot and sponsorship more to online video, the online video advertising platform in the digital arena witnessed a growth of 12.2%, and is projected to achieve a CAGR of 11.3% over the subsequent five years. Advertising revenue on this internet video platform will be primarily controlled by User Generated Content (UGC) platforms like YouTube, Facebook, and TikTok

For NETV in particular, these challenges have led to liabilities exceeding its assets and a significant capital shortfall. However, MD Entertainment's acquisition aims to address these issues by restructuring NETV's financial position while capitalizing on potential synergies between the two entities.

This study examines the financial due diligence and valuation processes underpinning this acquisition. Utilizing methodologies such as Discounted Cash Flow (DCF) analysis, financial ratio assessments, and synergy evaluations, the research aims to determine the fair market value, synergy value of NETV and evaluate the strategic benefits that MD Entertainment could realize. The financial due diligence highlights the risks inherent in acquiring a financially distressed company, yet also reveals opportunities for MD Entertainment to strengthen its market presence and leverage synergies for long-term growth.

Findings from this research underscore the acquisition's strategic importance for MD Entertainment. By integrating television broadcasting into its operations, the company seeks to expand its market share in the creative industry diversify its revenue streams, and enhance its competitive positioning. However, the success of this acquisition is contingent upon MD Entertainment's ability to overcome the challenges posed by NETV's deteriorating financial performance and the broader issues within the television advertising sector

This analysis provides actionable insights for stakeholders in the midst of these mergers and acquisitions. By emphasizing the role of comprehensive financial evaluation, this study contributes to a deeper understanding of how strategic acquisitions can drive growth and innovation in a rapidly evolving media landscape.

METHOD

MD Entertainment and NETV in the concept of Horizontal merger and acquisition doing a research in internal analyst to find out the current condition of creative industry, then validate it by empirical analysis, author also analyze the situation and data from the company financial due diligence concept and after understand the concept of financial due diligence

author see financial performance analysis for both companies and doing valuation of company and the market and find the synergies value. There was several methods that author used to calculate the acquisition value, first is financial performance analysis, second Is Financial valuation analysis, and the last synergy value.

1. Financial Performance

a) Current Ratio

According to Gitman and Zutter (2015) the current ratio, one of the most commonly cited financial ratios, measures the firm's ability to meet its short-term obligations. A measure of liquidity calculated by dividing the firm's current assets by its current liabilities.

$$Current\ Ratio\ = Current\ Assets : Current\ Liabilities$$

b) Quick Ratio

According to Gitman and Zutter (2015) measure of liquidity calculated by dividing the firm□s current assets minus inventory by its current liabilities.

$$Current\ Ratio\ = \frac{Current\ Assets - \ Inventory}{Current\ Liabilities}$$

c) Liquidity Ratio

According to Gitman and Zutter (2015) the liquidity of a firm is measured by its ability to satisfy its short-term obligations as they come due. Liquidity refers to the solvency of the firm's overall financial position, or the ease with which it can pay its bills.

d) Gross Profit Margin

$$Current\ Ratio\ = \frac{Sales - \ Cost\ of\ good\ sold}{Sales} = \frac{Gross\ Profit}{Sales}$$

e) Net Profit Margin

According to Gitman and Zutter (2015) the net profit margin measures the percentage of each sales dollar remaining af- ter all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted.

$$Net\ Profit\ Margin\ = Earning\ available\ for\ common\ stakeholders : Sale$$

f) Return of total Asset

According to Gitman and Zutter (2015) measures the overall effectiveness of management in generating profits with its available assets.

$$ROA\ = Earning\ Available\ for\ common\ stockholder\ :\ Total\ Assets$$

g) Return of Equity

According to Gitman and Zutter (2015) measures the return earned on the common stock- holders' investment in the firm. Generally, the owners are better off the higher is this return.

$$ROE\ = Earning\ Available\ for\ common\ stockholders\ :\ Common\ stock\ equity$$

h) Price to Earning Ratio

According to Gitman and Zutter (2015) The price/earnings (P/E) ratio is commonly used to assess the owners' appraisal of share value. The P/E ratio measures the amount that investors are willing to pay for each dollar of a firm's earnings.

$$P/E\ Ratio\ \ = Market\ Price\ per\ share\ of\ common\ stock : Earning\ per\ share$$

2) Financial Valuation

a) Discounted Cash Flow

To value an asset, we have to forecast the expected cash flows over its life. In discounted cash flow (DCF) models, we usually resolve this problem by estimating cash flows for period and a terminal value at the end of the period. the most consistent way of estimating terminal value in a discounted cash flow model is to assume that cash flows will grow at a stable growth rate that can be sustained forever after the terminal year (Damodaran, 2006). In general terms, the value of a firm that expects to sustain extraordinary growth for n years can be written as:

$$\text{Value of a firm} = \sum_{t=1}^{t=n} \frac{expected\ CF_t}{(1+r)^t} + \frac{terminal\ value_t}{(1+r)^t}$$

b) Free cash flow to firm (FCFF)

Free cash flow to firm (FCFF) In discounting FCFF, we use the cost of capital, which is calculated using the market values of equity and debt. We then use the present value of the FCFF as our value for the firm and derive an estimated value for equity (Damodaran, 2006).

$$FCF = \text{NOPAT} + \text{D\&A} - \text{CAPEX} + \Delta \text{ Net WC}$$

c) Terminal Value

Since we cannot estimate cash flows forever, we generally impose closure in discounted cash flow valuation by stopping our estimation of cash flows sometime in the future and then computing a terminal value that reflects the value of the firm at that point. Assuming that the cash flows of the firm will grow at a stable growth rate. With stable growth, the terminal value can be estimated using a perpetual growth model (Damodaran, 2006)

$$\text{TV} = \frac{FCF\ x\ (1+g)}{(r-g)}$$

d) Wight Average Cost of Capital

According to pinto et.al (2015) WACC is the weighted average of the after (corporate) tax required rates of return for debt and equity, where the weights are the proportions of the firm's total market value from each source: debt and equity. As an alternative, analysts may use the weights of debt and equity in the firm's target capital structure when those weights are known and differ from market value weights.

$$WACC = \frac{MV\ (Debt)}{MV\ (Debt) + MV\ (Equity)}\ rd\ (1 - Tax) + \frac{MV\ (Equity)}{MV\ (Debt) + MV\ Equity}$$

3) Synergy Evaluation

a) Financial Synergy

When a firm with excess cash but limited investment opportunities merges with a firm having high-return projects but constrained access to capital, the combined firm can unlock additional value by funding projects that were previously unattainable.

Increased Debt Capacity: The combined earnings and cash flows of two firms may become more stable and predictable, allowing for increased borrowing. This creates a tax benefit through either higher cash flows or a reduced cost of capital.

Tax Benefits: Mergers can reduce tax burdens, such as by utilizing the net operating losses of one firm or increasing depreciation charges after an acquisition, resulting in tax savings and enhanced value for the combined entity.

$$V(AB) = V(A) + V(B)$$

RESULTS AND DISCUSSION

According to financial due diligence we can finding to generate of solution with the secondary data that author get and using the several ways to get an result to doing an analysis for the behind of the result acquisition MD entertainment acquiring NETV with 80% shares

and author also compared the NETV Value with other television industry that listed in Indonesia.

1. Internal Analysis
a) NETV Performance Analysis

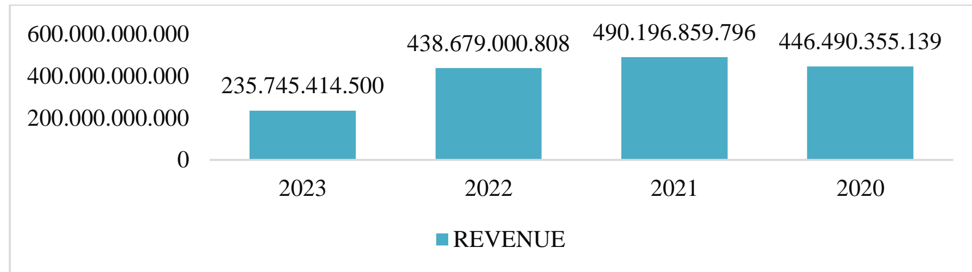

Figure 1 Revenue Growth
Source: Research Result

Multimedia creative industry especially in television has gain a several problem and challenges particulary in the advertusung sector, which remains the advertising sector is the primary source of revenue in the television broadcasting industry. As we can see the revenue of NETV in 2023 is very declining with revenue Rp 235 trillion, and the highest revenue in 2021 with Rp 490 trillion It caused because the declining advertising revenue along with economic growth in Indonesia

b) Financial Ratio

Financial ratio analysis will be carried out by cross-sectional analysis. The benchmark that will be used for this cross-sectional analysis is the competitor of NETV, because in the television media only 4 industry that listed namely PT Media Nusantara Tbk (MNCN), PT Visi Media Asia (VIVA), and PT Surya Citra Media Tbk (SCMA).

c) Liquidty Ratio

Based on figure 2 NETV tends to have low liquidity ratios, namely the current ratio of 0.45 times, the quick ratio of 0.08 times. Normally the company must have a minimum ratio of 1 - 2 times which means the company is able to pay its short-term debt. But for NETV their have a challenges to be able pay short term debt. It can be seen based on the average of television companies in Indonesia, the average of current ratio is 2.69 times, and the quick ratio is 1.72 times according these criteria, NETV liquidity ratio is still below the average for television companies industries.

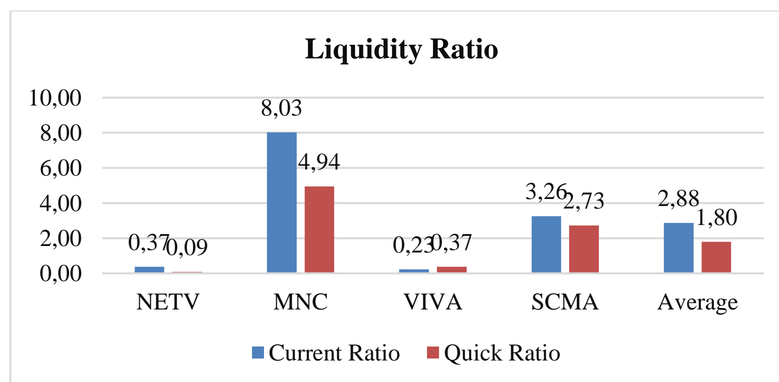

Figure 2 Liquidity Ratio Industry
Source: Research Result

If we look at Figure 3 bellow, NETV liquidity ratios from 2022 - 2023 tend to decline and are in 0.37 times and 0.09 times but from 2021 to 2022 there is an increase around 0.66 and 0.17. With the number in 2023 we can assume that NETV is still far from being good. So if it is concluded based on theory, the liquidity ratio level of NETV is still not good and needs to be improved again at least to match the 3 others of companies that listed in television industry.

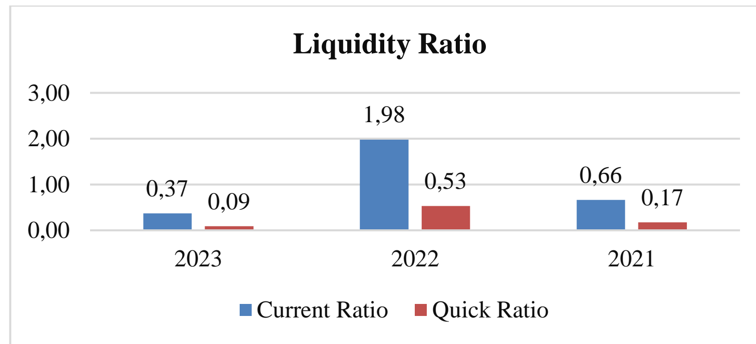

Figure 3 Liquidty Ratio NETV
Source: Research Result

d) Solvency Analysis

Based on Figure 4 televesion companies have a debt to asset ratio not really good in television industry the highest is 1,60 times, which means that the majority of the company's assets are financed by liability. A company with a debt to asset ratio in the range of is less than 1-3 times it can be said to be ideal in this industry so the debt of the companies can be controlled and This means that even though the industry is capital intensive, the company is not heavily dependent on debt and A portion of the company assets are still funded through equity, which provides better financial stability.

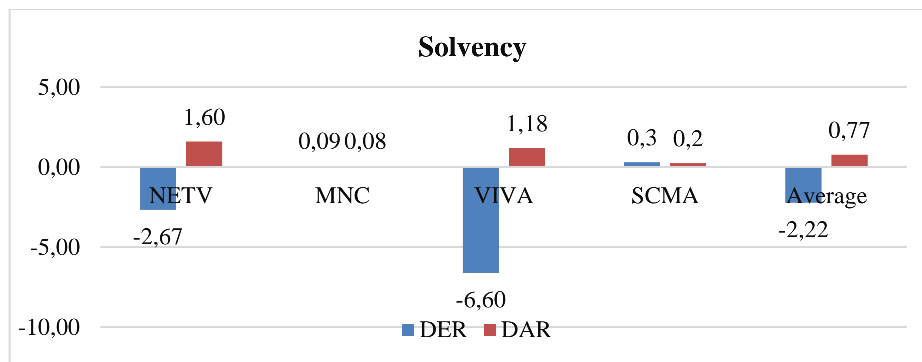

Figure 4 Solvency Ratio
Source: Research Result

e) Profitability Ratio

Based on Figure Below, the profitability ratios of television industry is very low, because the advertising industry is getting worst and the shifting for the tranisition digitalizaiton also impact, but in this research author find NETV are the lowest in all aspects compared to MNCN and SCMA. However, NETV performance is still much better than VIVA with its more negative profitability ratios.

2. Valuation

a) Discounted Cash Flow

Free Cash Flow to the Firm (FCFF) comprises essential elements like EBIT, capital expenditures, depreciation, and variations in working capital. The projected FCFF for NETV

from 2024 to 2028 indicates persistent difficulties. Historically, NETV has exhibited significant negativity, underscoring challenges related to operational inefficiencies, diminishing revenues, and elevated fixed expenses, exacerbated by external factors such as the shift to digital transmission. Future forecasts indicate that negative FCFF will continue from 2024 to 2028, attributed to inadequate revenue growth and limited profitability, notwithstanding expected operational enhancements.

The enterprise value is determined by discounting the predicted Free Cash Flow to the Firm (FCFF) with NETV's Weighted Average Cost of Capital (WACC) of 20.8%, indicative of the company's significant risk profile and high financing costs. The terminal value, indicative of long-term potential, is computed by applying a 4% terminal growth rate to the final year's FCFF and discounting it to present value using the same WACC. The enterprise value is the aggregate of the present value of anticipated free cash flows to the firm (FCFF) and the discounted terminal value. The equity value is calculated by modifying the enterprise value with the company's cash reserves and deducting its outstanding liabilities. The equity value divided by the total shares outstanding results in a fair value per share of Rp 50.41, markedly lower than the current market price of Rp 210, signifying a decline of -76%. This indicates that the prevailing market price exceeds the company's inherent value, underscoring the necessity for strategic and operational enhancements to rectify inefficiencies and realize value. Regarding FILM Free Cash Flow to the Firm (FCFF) comprises essential elements like EBIT, capital expenditures, depreciation, and variations in working capital. The projected FCFF for FILM from 2024 to 2028 indicates consistent increase. Historically, FILM's FCFF has exhibited variability, with initial negative cash flows evolving into positive figures as a result of enhanced profitability, prudent CAPEX management, and stabilized variations in working capital. Future forecasts suggest sustained positive Free Cash Flow to Firm (FCFF) from 2026 onwards, bolstered by robust annual revenue growth of 25% and effective cost management. The enterprise value is determined by discounting the predicted Free Cash Flow to the Firm (FCFF) with FILM's Weighted Average Cost of Capital (WACC) of 6.5%, indicating a reduced risk profile and financing cost relative to NETV.

The terminal value, indicative of long-term potential, is computed by applying a 4% terminal growth rate to the final year's FCFF and discounting it to present value using the identical WACC. The enterprise value is the aggregate of the present value of anticipated free cash flows to the firm (FCFF) and the discounted terminal value. The equity value is calculated by modifying the enterprise value with the company's cash reserves and deducting its outstanding liabilities. The equity value divided by the total shares outstanding results in a fair value per share of Rp 1,128.78, markedly lower than the current market price of Rp 3,580, signifying a downside of -68%. This indicates that the prevailing market price exceeds the company's inherent value, underscoring the necessity of upholding operational and financial discipline to realize expected growth and unlock long-term value.

b) Relative Valuation

Table 1. Relative Valuation NETV

	MNCN	SCMA	Average
Stock Price	304	153	23,29
EPS	10,16	9,18	
P/E Multiple	29,92	16,67	
EPS NETV		1,44	
Fair Price		33,54	
Down Side		-72%	

Source: Research Result

According to figure above the relative valuation for NETV is aligns with the DCF valuation which is the downside, eventhough the indicating a potential downside of relative valuation is -72%. This reflects that NETV current market price is slightly less than the market stock price compared to its fair price, so it can be conclude that NETV market price is higher than relative valuation and discounted cashflow.

Table 2. Relative Valuation FILM

	MNCN	SCMA	NETV	Average
Stock Price	304	153	119	43,08
EPS	10,16	9,18	1,44	
P/E Multiple	29,92	16,67	82,6	
EPS FILM	13,87			
Fair Price	597			
Down Side	-84%			

Source: Research Result

According to the figure above, the relative valuation for FILM (MD Entertainment) indicates a potential downside of -84%. This aligns with the derived fair price of IDR 597 compared to its current stock price, suggesting an overvaluation in the market. The Price-to-Earnings (P/E) multiple for FILM, when compared to competitors such as MNCN, SCMA, and NETV, shows that FILM's market valuation may be priced higher relative to its earnings. While competitors have varied P/E multiples, FILM's EPS of 13.87 and its calculated fair price suggest that the current market price significantly exceeds the fair valuation. Thus, it can be concluded that FILM's current market price reflects a premium over its relative valuation, indicating that the stock may be overvalued when assessed against its peers and intrinsic fair price.

c) Synergy

Table 3. Synergie Value

	FILM	NETV
Terminal Value	Rp 1.388.958.751.342	Rp (912.937.800.120)
Value of Firm	Rp 1.765.175.996.138	Rp (4.342.097.610.895)
Value of independent firms	Rp (2.576.921.614.757)	
Value of combined firm	Rp 1.418.050.413.287	
Value of synergy	Rp 3.994.972.028.044	

Source: Research Result

The synergy value assessed for the prospective acquisition of NETV by FILM, utilizing Damodaran (2023), uncovers substantial insights into the economic viability of this deal. The research reveals a synergy value of IDR 3,994,972,028,044, underscoring the potential additional value generated from a merger that utilizes the combined resources, operations, and market positions of the two companies. This signifies the prospective financial advantage gained from the amalgamation of the two businesses, propelled by operational efficiencies, cost reductions, expanded market reach, and revenue growth prospects.

The valuation of the merged entity is estimated at IDR 1,418,050,413,287, which, in comparison to the individual valuations of the firms, highlights a significant disparity. The independent valuation of FILM and NETV yields a negative figure of IDR -2,576,921,614,757, indicating that as distinct entities, the two enterprises are not achieving their full potential. This undervaluation likely arises from inefficiencies in resource allocation, restricted economies of scale, and maybe suboptimal operating structures within each organization. The substantial disparity between the synergy value and the independent values underscores the strategic significance of the combination. A substantial synergy value indicates that the merger of the

two enterprises would generate value unattainable by each entity alone. This may encompass cost synergies via the rationalization of redundant functions, augmented bargaining leverage with suppliers and distributors, and enhanced operational capabilities through pooled expertise and infrastructure. Moreover, revenue synergies may emerge from cross-selling opportunities, enhanced market penetration, and augmented pricing authority due to the fortified competitive stance of the amalgamated organization.

CONCLUSION

PT MD Entertainment Tbk's (FILM) acquisition of PT Net Visi Media Tbk (NETV) signifies a pivotal strategic maneuver within Indonesia's creative economy, a sector that substantially impacts the national GDP and possesses considerable growth potential. The acquisition seeks to diversify FILM's revenue by capitalizing on synergies between its film production capabilities and NETV's broadcasting platform, amidst the creative economy's shift towards digitalization. The television broadcasting sector confronts issues including diminishing advertising revenues, competition from digital media, and the move to digital platforms necessitating substantial time and expenditure.

Financial Analysis and Valuation NETV's financial analysis indicates an unstable financial statement, with liabilities amounting to IDR1.76 trillion, surpassing its assets of IDR1.16 trillion, leading to a capital shortfall of IDR569 billion. The valuation employing the Discounted Cash Flow (DCF) approach and Comparable Company Analysis indicates a fair market value consistent with the acquisition price of IDR 1.65 trillion for an 80% equity share. Furthermore, the synergy study revealed substantial development prospects that can be realized through: Cost Efficiency such as minimization of financial protection in administrative functions, content creation, and shared services. Revenue Growth such enhancing digital content provisions, broadening audience engagement via OTT and social media, and collaborating with streaming platforms. And also Enhancement of Financial Health the capital injection from FILM is anticipated to decrease NETV's liabilities to IDR1.08 trillion and elevate total assets to IDR2.16 trillion, therefore stabilizing NETV's financial framework. The analysis indicates that the acquisition of NETV aligns with FILM's strategic ambition to enhance its standing in Indonesia's creative and media sectors. Despite the risks posed by NETV's precarious financial framework and market fluctuations, the potential for synergy and growth in the digital sector offers compelling grounds for hope. This acquisition, via strategic planning and execution, can serve as a basis for FILM to attain sustained growth and enhance shareholder value.

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