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Island hopping

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HIGHLIGHT: With deep pockets, Denis O'Brien is busy expanding his cellular business around the Caribbean.

Denis O'Brien says he was caught off guard in late 1999 when Norwegian telecom Telenor ASA made a hostile offer for the Irish carrier he founded and ran, Esat Telecom Group plc. Telenor already had a stake in Esat and offered \$1.6 billion for the wireline, Internet and wireless services company that O'Brien had started in the early 1990s to challenge the Irish telephone monopoly. Telenor boosted its offer in what became a highly publicized takeover attempt but ended its pursuit when British Telecom plc (now BT Group plc) agreed to pay \$2.5 billion January 2000.

"The sale surprised everybody," says O'Brien. "It surprised us as well."

Surprise or not, the sale made him \$300 million richer. That has helped O'Brien with his latest project, a Kingston, Jamaica, company called Digicel Ltd. that in some ways resembles Esat. Digicel has become the fastest-growing mobile operator in the region by entering markets that are opening to competition. While his latest company is building and buying its way across the Caribbean, O'Brien says he's not focused on another lucrative exit. "You've got to manage and run a business and make all the strategic moves on the basis that nobody's ever going to come near you and buy your business," he says. Digicel introduced its maiden Jamaican wireless service in April 2001 after winning a mobile license in a government auction. Within a year, it had more subscribers than the local landline and mobile incumbent, Britain's Cable and Wireless plc. While many North American, European and Asian markets have four or more competitors, Jamaica and the islands neighboring it have only recently allowed rivals. "The last region of the world where there was no competition to the incumbent, and there was an agenda of liberalization, was the Caribbean," O'Brien says. From Jamaica, Digicel has expanded into Aruba, Barbados, Curaçao, Cayman Islands, Grenada, the Grenadines, St. Lucia and St. Vincent. It is preparing to launch services in Anguilla, Antigua and Barbuda, Bermuda, Dominica, Haiti, St. Kitts and Nevis and Trinidad and Tobago.

It also has spectrum licenses in Guadeloupe; Martinique; St. Barths, and St. Martin and has plans to operate in those places as well. The privately held company does not report financials, though the credit agency Moody's Investors Service says it had \$477 million in revenues during the fiscal year ending in March.

Digicel has established itself in Caribbean markets either by purchasing wireless spectrum and building a network, or by acquiring an existing operator. "Digicel has really been aggressive at entering markets in this liberalization phase," says Marc Einstein of the Cambridge, Mass., consultancy Pyramid Research Inc. On Nov. 12, it announced an agreement to buy 67% of the Antigua and Barbuda-based carrier

Apua/PCS. Digicel also won a June auction for spectrum licenses in Trinidad and Tobago and says it will spend \$190 million in the nation. It acquired Curaçao Telecom NV in March for an undisclosed sum that O'Brien says is "less than \$50 million."

The company bought the Caribbean operations of Cingular Wireless, a partnership between SBC Communications Inc. and BellSouth Corp., for less than \$100 million in June.

"They came in early, found an opportunity early and stuck it to the incumbent early," says Pyramid analyst Thomas Abreu. Digicel has used investment banks on some deals, and done without them on others.

The company retained Lehman Brothers Inc. for the Cingular purchase but did not hire a banker for the Curaçao acquisition because of its size. Citigroup Inc. has led the company's bank financings, and the company hired Citigroup and J.P. Morgan Chase & Co. for a \$300 million bond issuance in July. Though only recently introduced, liberalization has affected local phone markets. "We've traditionally thought of wireline as being the entrenched monopoly — the firm with the market power," says Mark Jamison, director of the **Public Utility Research Center** at the University of Florida's Warrington College of Business. "The wireless company is now the one that looks like it is going to dominate." Other challengers have arisen, such as LaqTel Ltd. in Trinidad and Tobago and Oceanic Digital Jamaica Ltd., though they are still fledgling operations. Jamison says that the new wireless providers have been good for citizens and for the islands' economies, though he says there are concerns that the competition may ease. "Maybe some players exit or merge," he says, "and we have consolidation."

O'Brien, 47, studied history and politics at University College Dublin and got an M.B.A. from Boston College. Aside from Digicel, his businesses include radio stations in Ireland and the Czech Republic and the Portuguese golf resort Quinta do Lago SA, where he lives.

O'Brien's £315 million (\$548 million) fortune ranks 17th on The Times' list of Ireland's wealthiest individuals, largely because of the sale of Esat, the company he founded in the early 1990s to challenge the incumbent Irish wireline provider Telecom Eireann, now Eircom Group plc. Like Digicel, Esat moved aggressively. It developed an Internet business and acquired some online companies. It added wireless operations when it prevailed in a 1995 auction for Ireland's second spectrum license, and became the second-largest Irish mobile company.

An investigation by a Dublin tribunal into Irish government officials has raised inquiries about the 1995 auction and whether payments from Esat affected the outcome. O'Brien says he and his company are not under investigation and denies that Esat obtained the licenses improperly.

"We won because we had ability and because we went into an awful lot of detail," he says. "We were the largest competitor to the incumbent."

Not all of O'Brien's plays escaped the recent telecom crash. He had a stake in Amsterdam's VersaTel Telecom International NV, which sought bankruptcy protection in 2002, but says his investment was profitable despite the company's problems. Shareholders did not lose all of their equity in the VersaTel restructuring, and the telecom has recently agreed to a \$1.5 billion buyout with Sweden's Tele2 AB. He also had a what he calls a small investment in network operator 360networks Corp., a Canadian company that relocated in Seattle following its Chapter 11 restructuring.

"The timing was wrong for 360," he says. Digicel, a wireless company in growing markets, looks to be a safer investment, though it has already seen friction. Earlier this year, O'Brien had a dispute with minority investor Ossie Kilkenny, a prominent Irish businessman who is perhaps best known as the former accountant to the band U2. The sides litigated but settled out of court, with O'Brien buying out Kilkenny.

Moody's gives Digicel credit for expanding its business quickly. In Jamaica, for example, more than 70% of mobile phone users are Digicel customers. While the company has expanded in other markets, 95% of Digicel's \$165 million in annual Ebitda comes from Jamaica. Moody's raised concerns that the company's reliance on Jamaican dollars to service U.S. debts presents a risk and about the affect the recent deals will have on free cash flow.

Integrating the Ebitda-negative Cingular businesses are another challenge. The acquisition includes operations in Anguilla, Antigua and Barbuda, Barbados, Bermuda, the Cayman Islands, Dominica, Grenada, the Grenadines, St. Kitts and Nevis, St. Lucia and St. Vincent, as well as spectrum licenses in Curaçao, Jamaica and the French West Indies that had lagged under its previous owner.

"Cingular was not putting money into the former AT&T Wireless Services markets it is selling to Digicel, so Digicel has work ahead to optimize those markets," says Tammy Parker of Informa Telecoms & Media in Longmont, Colo.

While the islands of the Caribbean are emerging markets, there are similarities to Europe. About 80% of potential customers in Jamaica have mobile phones, O'Brien says, which is on par with European levels and exceeds North America's roughly 65% market penetration. Digicel has used marketing tactics that O'Brien deployed in European radio. In one promotion, dubbed The Fugitive, contestants try to finger an anonymous person who visits public places and gives clues about his whereabouts and identity over the radio. Prizes run to several thousand dollars. "We did that in Barbados, and it was a knockout," he says. "We've done that in Ireland and the Czech Republic."

As wireless penetration rates increase, growth becomes more challenging. "They are not growing as fast as they were," Abreu says of such places as Jamaica that have boosted Digicel's top line. Large markets such as Puerto Rico and the Dominican Republic are already competitive, and many of the islands that are opening their systems are small. The company may be able to duplicate some of the success of its Jamaican operation in Trinidad and Tobago. Haiti has low market penetration but is also a poor country. "They have already capitalized on this strategy of catching people off guard," says Einstein, who suggested that Digicel could look to new markets, such as the Middle East, or could develop a wireline business.

There is speculation that Digicel could bid for regional assets owned by Centennial Communications Corp., a Wall, N.J., carrier that provides wireless services in rural U.S. markets and the Caribbean. Centennial is reviewing strategic alternatives for its various businesses, but the carrier uses a different wireless technology than Digicel, which could be problematic. A recent Merrill Lynch & Co. report predicts "limited synergies in a transaction between these two entities and [it] would purely be an empire building exercise."

O'Brien says that Digicel is focused on its upcoming launches. As for a possible takeover, he says, "luckily we are bidproof because we are private." Some of the North American carriers that could afford such a buyout have been concentrating on the U.S., a large market with growth potential. Cingular sold its businesses in the region to Digicel, and in January, BellSouth sold its Latin American operations to an affiliate of Spain's Telefónica SA. Telefónica and Carlos Slim Helú's América Móvil SA de CV have been carving up Latin America through M&A and, if interested, could be same caliber of suitor that Esat found in BT.

Whatever side of a transaction he is on, O'Brien says he applies a lesson from the Esat sale. "There is always a good time in a deal to go for a walk, with the buyer and seller only," he says. Advisers often abound on a large telecom transaction, and toward the conclusion of the negotiations too many

dealmakers can stifle talks. "Going into a room full of testosterone on both sides," he says, "is not conducive to getting a happy deal."