

Impact of Merger and Acquisition on Financial Performance and Financial Distress : Empirical Evidence from Indonesian Telecommunication Industry

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Abstract

Mergers and acquisitions is one of the company strategy to maintain and increase the financial performance, growth and diversification. Mergers and acquisitions in this study is a mergers and acquisitions made between the company in the same industry. Another goal of this merger or acquisition is the company can survive in a fierce business competition, for example, in the Indonesian telecommunications business that has experienced a market penetration over 100% and tends to saturation. Some examples of Indonesian telecommunication companies which has done the mergers and acquisitions or being acquired is Telkom Indonesia, Indosat, SmartFren and Bakrie Telecom. This study is intended to see the impact of this M&A activity to financial performance using some of the financial ratio, MVA, EVA, PER, PBV as the proxy, DSC and Altman Z-Score as the proxy of financial distress and market share of these five biggest telecommunication operator in Indonesia. The analysis using the paired T-Test shows there are significant differences for ROA and MVA on Bakrie Telecom, MVA and the Total Debt to Total Equity Ratio on SmartFren and some financial ratios, EVA, MVA, PER and PBV for Indosat and Telkom. The differences of these impacted variables are caused by the difference of post mergers and acquisitions duration for each observed company. The results also show that DSC as a proxy is more appropriate to describe the financial distress for these five Indonesian companies in comparison to Altman Z-Score. This paper also shows no change in market share for these five companies after merger and acquisition.

Keywords: Acquisitions, mergers, financial distress, financial performance

1. Introduction

Mergers and acquisitions is done by various company for various reasons. Some of them are to improve company's financial performance, liquidity, growth and diversification and also to reduce their business competitors. Improved the financial performance is one of the primary goal of M&A so that the company could still remain active and to strengthen their position in industry. The importance of improving financial performance is also be expected to improve the liquidity of the company as well as the value of the company to attract the investors. Many research related to M&A has been conducted in many countries such as Lebudi (2010) in South Africa, Refnes (2012) in Europe, Park et al. (2001) in global country, Shin et al. (2005) in USA and Mulyana (2012) in Indonesia

A Business strategy with mergers and acquisitions does not always manage to increase the value of the company and achieve the goals of the stakeholders. In the research conducted by Lebudi (2010) in South Africa highlighted the problem of change management in the NHLS (The National Health Laboratory Service) which is not successful because the company culture that has not prepared them well from the beginning so the merger will inhibit internal and external communications in order to achieve company goals. Park et al. (2001) analyzed the market reaction against the merger and acquisition announcements and the results show that this will give a negative impact on the market and give the negative effect also on corporate earnings. Mulyana (2012) analyze the determinants of M&A and its performance after M&A bank in Indonesia.

Some of sample for M&A in telecommunication industry are Bell Atlantic in 1993, a phone company in USA trying to merged with TCI, a cable TV company in USA, Telenor and Telia in 1999. In Indonesia, some of the M&A sample in telecommunication industry are SingTel acquired 35% Telkomsel since 2001, a subsidiary of PT Telekomunikasi Indonesia, Indosat merged with IM3 and Satelindo in 2003, FREN acquired Smart Telecom in 2011 and become SmartFren, Bakrie telecom acquired 35% STI in 2012, which has license 450Mhz and XL Axiata acquired 100% AXIS in 2013. Research done by Shin et al. (2005) show that one telco company acquired the other telco company was much bigger in size.

Refsnes (2012) doing research on the case of a successful merger and acquisition in the case of the merger between Statoil and Hydro in 2007 and merger and acquisition cases that fail i.e. Telenor and Telia in 1999. The case of the merger between Statoil and Hydro are said to be successful among them because of the similarity of the organizational structure and business strategy in common between the two companies. While the merger between Telenor and Telia said failed because of a difference in State and corporate culture. Telia is a telecommunications company that originated in Sweden while Telenor is a telecommunications company that originated in Norway. One of the business policies in the telecommunication sector to strengthen the position of

the company is to do mergers and acquisitions within the same sector and it does not always provide a success as expected by stakeholders.

Due to non robust result from all M&A research, it is important to re-examined more for this corporate activity impact in its financial performance and financial distress in Indonesian telecommunication industry.

This research has some advantages, which are analyze data from Jakarta Stock Exchange, although, research conducted by other researcher such as Pranowo (2012) also used same data source but not in particular for M&A in Indonesia telecommunication industry.

A cell phone user in Indonesia until March 2014 according to the data of Indonesian Ministry of communication is approximately 270 million. This amount exceeds the total population of Indonesia, which, according to the U.S. Census Bureau is only about 255 million in the same year. This data shows that roughly one person has more than one mobile phone number. This data also shows that the market penetration of mobile phone users was over 100% and the market, particularly mobile is currently more mature up to tend to the saturation and make business competition among operators of telecommunications network provider are increasingly fierce.

Various business strategies are done by telecommunications operators in Indonesia to keep them run the business as best as possible, one of its business strategy is mergers and acquisitions between companies in the same sector. At first, after the abolition of the telecommunication monopoly law in 1999, Indonesia had almost 12 Telco operator. Indonesia's cellular telecommunication currently is dominated by three large operators that using GSM technology and two operators that using CDMA (Code Division Multiple Access) technology, they are :

1. Telkomsel, as the subsidiary of PT Telekomunikasi Indonesia, is a GSM operator and 35% owned by SingTel which is the telecommunications company from Singapore
2. PT Indosat, is a GSM operator, 65% of its shares owned by Qtel, telecommunications company from Qatar
3. PT XL Axiata Group, is a GSM operator and 66,5% is owned by Axiata Malaysia
4. PT Smart Telecom is a CDMA operator
5. PT Bakrie telecommunication or known with its products, namely Esia is a CDMA operator.

Merger and acquisition activity is done with reason to strengthen the position of the company and the impact be expected is an increase in services provided to their user because they also get extra frequency bands. This extra frequency band can be optimized to deliver better services to the user which is be expected to increase the benefits for stakeholders as well as the improvement of the financial performance.

Another impact of mergers, acquisitions and privatization in the Indonesian telecommunications operators is the foreign parties that dominate the business of telecommunications in Indonesia today. It also should be a concern to all parties, the importance of the telecommunications sector today. Regulatory point of view must be considered these matter since telecommunication sector is part of the defense of the country aspect due to several cases of intercepts by foreign parties.

Telecommunication is also used to support financial transactions, this can be seen by the existence of several additional payment features that developed by the Telco operator. This is in line with the Government's less cash society program in 2007. Therefore, some business policy was taken by telecommunications operators are not only impact on business itself but also has an impact on Government policy as a regulator.

Other things observed in this study is financial distress of each observed company as the other aspect of their ability to pay their debt. This information is important not only to their investor but also to internal management to anticipate their bankruptcy. Financial Corporate bankruptcy prediction is the interesting thing for researchers to examine more, related models that will be used and also its application in some business sectors. Pranowo (2012) made the prediction that the company that has DSC (Debt Service Coverage) ≤ 1.2 were on the Financial distress and if the value is above 1.2 then do not experience Financial distress. This model is used to examine Indonesia companies listed on the Indonesia stock exchange during the period 2004-2008. Zaki et al. (2011) try looking at some of the factors that may affect the occurrence of financial distress in the conventional banks and Islamic banks in the United Arab Emirates. The results of his research is that the cost income ratio, equity to total assets, total asset growth and credit risk that occurred in the previous year will affect the occurrence of financial distress in the following year. Also, Kpodoh (2009) examining the bankruptcy and financial distress prediction in the mobile telecom industry in Ghana by using the Z-score and declared the existence of the relationship between corporate governance with the financial performance of the company that leads to financial distress.

Soon et.al (2012) examines the 44 companies listed on the stock exchange of Malaysia using Altman Z-Score method and financial ratios and its stated that the studies developed by Altman (1968) to predict the bankruptcy of a company can predict exactly 94% for a year before the bankruptcy case and 72% for the two years before bankruptcy occurs. It shows that Altman Z-Score and financial ratios can be utilized as a tool to forecast the failure of the company.

The company's bankruptcy risk can also be seen from the company's financial performance. One of the

researchers is Jung (2007), which stated that the company's financial performance can be viewed from two aspects to get more effective results analysis. Those are operational and top management aspect in financial activities using the WACC as a bench mark. One of research to look at the value of the telecommunication company in Indonesia is Arifin et al. (2012) that establishes the value prediction using two approaches, a market approach using P/E ratios and an income approach using the cash flow.

The framework of this study can be seen in figure 1. Financial ratios, PER, PBV, EVA and MVA are analyzed from the five telecom operators 's annual reports and comparing each financial performance before and after M&A. This study also calculates whether the company experiencing financial distress or not using DSC and Altman Z-Score. We try to figure out whether the merger and acquisition activity impacted the company's fundamental financial performance or not and also to see the risk of bankruptcy Indonesian telecommunications operator using the Altman Z-Score and DSC. Both methods are used to see which one is more describe the risk of bankruptcy or financial distress of Indonesia's five telecommunications operators.

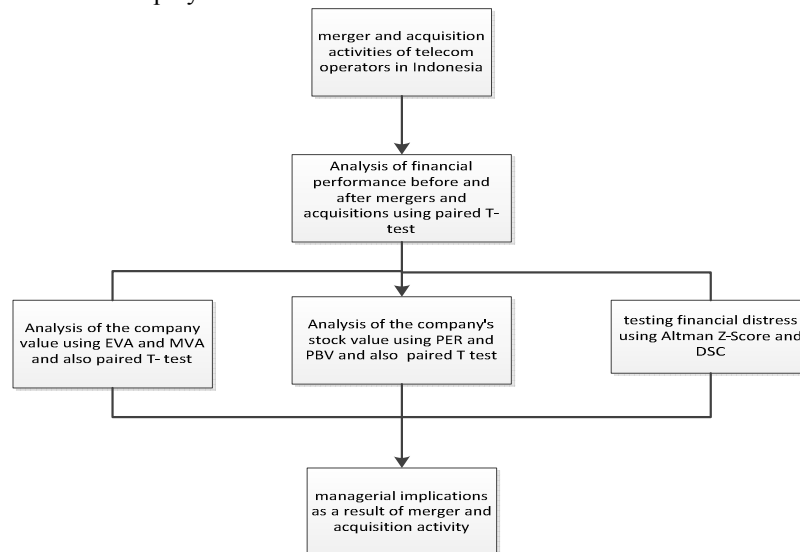


Figure 1 Analysis Framework

The paper is organized as follow. Section 2 discussed the data and methodology. Section 3 we discussed the empirical result and Section 4 is conclusion of the research.

2. Data and Methodology

The data in this study is using published and audited annual financial statements of 5 Telco operator that listed on the Jakarta stock exchanges. The period audited financial statement data used is 1999 to 2013 for Telkom and Indosat, while 3 other operators were based on their IPO year until 2014. The variables used in our evaluation are:

- Liquidity : this ratio can portray how well the company can deal with their short term obligation
 - a. Current ratio = (Current Assets/Current Liabilities)
 - b. Quick ratio = ((Current Assets - Inventories)/Current Liabilities)
 - c. Cash ratio = (Cash/Current Liabilities)
- Profitability : this ratio can describe how effective is the company management using their asset and shareholder's equity to generating income
 - a. Return on investment (ROI) = (Operating Profit/Invested Capital)
 - b. Return on equity (ROE) = (Net Income/Shareholders' Equity)
 - c. Return on asset (ROA) = (Net Income/Total Assets)
 - d. Net Profit Margin (NPM) = (Net Income/operating revenue)
- Solvency: this ratio can can portray how well the company can deal with their long term obligation. This ratio can give a better figure before the company entering the financial distress.
 - a. Total debt to total equity ratio = (Total Debt/Total Equity)
 - b. Debt to Total Asset ratio = (Total Debt/Total Assets)
 - c. Debt to Equity Ratio = (Total Long Term Debt/Shareholders' Equity)
- Measurement of Financial Distress using DSC value and the Altman Z-Score. We use the Altman Z-Score for non-manufacture company and emerging markets as the following equation (Altman, 2002) :

$$Z = 3.25 + 6.56T_1 + 3.26T_2 + 6.72T_3 + 1.05T_4$$

$$T_1 = (Current Assets - Current Liabilities) / Total Assets$$

$$T_2 = Retained Earnings / Total Assets$$

$T_3 = \text{Earnings Before Interest and Taxes} / \text{Total Assets}$

$T_4 = \text{Book Value of Equity} / \text{Total Liabilities}$

And the following threshold for Z-Score :

Z	Predicted
$> 2,6$	Non Bankrupt
$1,1 < Z < 2,6$	Gray Zone
$< 1,1$	Bankrupt

DSC = (total net income) / total debt service

- Company's value added calculation using :
 - EVA = EBIT x (1-tax rate) - (total net operating capital) x (WACC)

$$WACC = \frac{D}{D+E} Ke + \frac{D}{D+E} Kd(1-Tc)$$

Ke = cost of equity

Kd = cost of debt

Tc = tax rate

- MVA = total market value – total capital

- Company's share value calculation using :
 - PER = Closing price/Earning per share
 - PBV = Closing price/book value

The hypothesis in this research is:

H0: There is no significant difference between (Variable) before and after merger or acquisition

H1: There is a significant difference between (Variable) before and after merger or acquisition

The hypothesis are tested using paired T-test equal variance for all above the variable excluding Altman Z-Score and DSC.

$$T = \frac{\bar{X} - \bar{Y}}{S_p \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

\bar{X} = Mean sample X

\bar{Y} = Mean sample Y

S_p = Pooled standard deviation

n = sample

3. Empirical Result

3.1. Financial performance each company

Variable	Significantly different			
	BTEL ^a	FREN ^b	ISAT ^c	TLKM ^d
Current ratio			X	X
Quick Ratio			X	X
Cash ratio				X
ROI				
ROE				X
ROA	X			X
NPM				
Debt to total asset ratio				
Total Debt to Total Equity Ratio		X		
Debt to Equity Ratio			X	
EVA			X	X
MVA	X	X	X	X
PER				
PBV			X	

^acalculated using paired T test at, alpha = 5%, using data 2 years before and 2 years after acquisition

^bcalculated using paired T test at, alpha = 5%, using data 2 years before and 3 years after acquisition

^ccalculated using paired T test at, alpha = 5%, using data 2 years before and 10 years after acquisition

^dcalculated using paired T test at, alpha = 5%, using data 2 years before and 12 years after acquisition

3.1.1. Bakrie Telecom (BTEL)

PT Bakrie Telecom, Tbk is the FWA (Fixed Wireless Access) operator, which was established in August 13,

1993 under the name of PT Radio Telephone Indonesia (Ratelindo) and changed its name to Bakrie Telecom in 2003 and became operator of CDMA (Code Division Multiple Access) until today, Bakrie Telecom done IPO in 2006 with the code BTEL in JSE. Statistical test results in table 2 showed that the acquisition of the 35% STI in 2012, does not give a significant difference in financial performance between before and after acquisition except its ROA and MVA. In addition, BTEL also predicted to potentially bankrupt and having financial distress within 2 years after the acquisition that is starting in 2013.

BTEL profitability as in Figure 2 has begun to decline since 2011 due to declining net profit up to losses and the most experienced decline is ROE in 2012. In this 2012, BTEL does 35% STI's (Sampoerna Telecom Indonesia) stock acquisition. The increase in debt has occurred since 2009. In 2009, BTEL obtain additional short-term bank loans of Rp 235 billion. The increase in current liabilities on average reaches up to 330.8% in 2014. The increase of this current debt further lowered BTEL's liquidity, while cash obtained from customers is decreased.

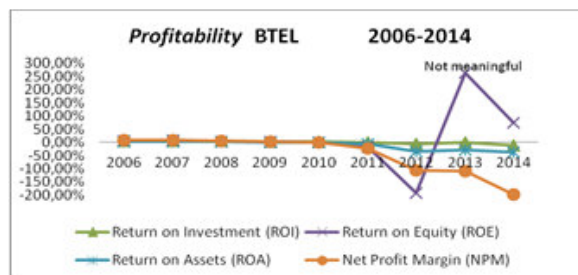


Figure 2 Profitability BTEL

BTEL began to do the operational cooperation with FREN in terms of lease network in 2014, expected both CDMA operators can rise from adversity as today CDMA operator began to be abandoned by its user and more focus as a data service provider which is more dominant compared to voice services and SMS today. Both CDMA operators are planning to participate in the 4G services that provide data services with faster data speed.

Another thing we can see is EVA BTEL, an increase in the proportion of debt in the capital structure while the proportion of its shares declines due to the deficiency of capital since 2013. This means that since 2011, BTEL not able to provide economic added value for the investors because the level of the risk is higher. This is evident from the increasing number of debt and cannot be paid by its capital. And this condition also reflected in PER and PBV, its value also decreasing and PBV value tends to lower than 1.

During the observation period, BTEL showed poor financial performance and the company does not generate added value since EVA and MVA tend to be negative. BTEL largest capital structure is debt. Debt restructuring and rights issue used by BTEL to address the financing problem. BTEL do the rights issue in 2012 and it was also used to finance the acquisition (bakrietelecom.com, 2012). That is why the results of this study did not see the BTEL improvement in financial performance due to the acquisition and instead are in financial distress for 2 years after the acquisition if we use DSC value interpretation. We cannot using Altman Z-Score because the company is not bankrupt yet as predicted by Altman Z-Score. The real difference in BTEL financial performance before and after the acquisition may not be felt in the short term due to this action implemented two years before the observation.

3.1.2. SmartFren (FREN)

SmartFren is a merger of two telecommunication operators, Smart Telecom and Mobile 8 in 2011 which listed on the stock exchange under the name FREN. FREN is the code of Mobile 8 on the JSE which started IPO in 2006. In 2011, mobile 8 acquired a 99.9% stake Smartel. The impact of this activity is Mobile 8 get additional frequency spectrum and operational efficiencies, the merging brand, customer service and other operational activities. Both companies have a license to provide CDMA Blackberry services.

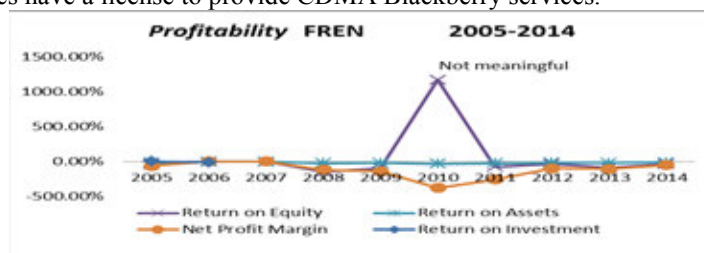


Figure 3 Profitability FREN

FREN's NPM as seen in Figure 3, the value reach the lowest in 2010 due to its net income decreased almost 100% compared to 2009 and its value began to increase again after the merger in 2011 and followed by the increasing of net sales FREN. Also in 2011, FREN concentrate on data services and introduce a slogan I hate slow. This strategy, manages to increase revenues into around RP 954 billion, which previously was Rp 376

billion. Increasing in operating revenues is followed by an increase in operating costs and ultimately make FREN still posted a net loss. Their biggest operating expense in operating expenses, maintenance and telecommunications services. This increase occurred as a result of consolidation between Mobile 8 and Smartel and mostly occurs due to the increase in rental expenses of telecommunications infrastructure space. This is reasonable considering the consolidation process between the two companies is still going on.

Statistical test results in table 2 show that FREN merger activity in 2011 did not give a significant difference to the financial performance FREN except MVA and total debt to total equity ratio. FREN's ability to pay its debt decreased in value. Impairment of solvency is largely due to the increase in total debt compared to its equity value. An increase in current debt in 2011 largely due to the debt of frequent use and long-term debt is more widely used for the purchase of network infrastructure. FREN also estimated to potentially bankrupt and in financial distress within 3 years after the acquisition. There is no formal announcement has been made for this company bankruptcy, so we use the DSC as the proxy of FREN financial distress.

At the beginning of the IPO, the market still reacts positively and appreciate the stock high enough. PBV FREN shows that the market price is almost 3 times the audited book value. In 2011, PBV FREN is 1.8 which means FREN stock market price is 1.8 times the price book yet because it is not supported by a good financial performance which lead PBV value become less than 1, which means FREN stock market price below the price book.

3.1.3. *INDOSAT (ISAT)*

Indosat merged with Satelindo and IM3 in 2003 under the name of PT Indosat and listed on the JSE with name ISAT. Indosat is currently the second-largest telecommunications operator in Indonesia after Telkom.

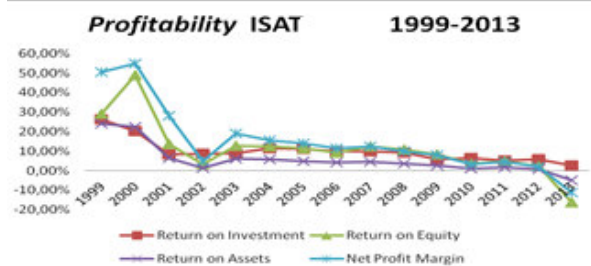


Figure 4 Profitability ISAT

In 2013, Indosat recorded a net loss of Rp 2.6 trillion. Operating revenues increased, but operating expenses increased also causing the company a loss. Indosat does not distribute dividends in 2014 due to its financial performance in 2013. In addition to losses due to the increase in operating expenses as well as a higher loss on foreign exchange and it impacted its to financial performance as seen in Figure 4. Loss on foreign exchange in 2013 is Rp 3 Trillion which previously was Rp 789 billion. Indosat relies on an increasing proportion of debt in its capital structure which reached 70% in 2013.

Statistical test results in Table 2 show that the ISAT merger activity in 2003 did not give a significant difference to their profitability and solvency before and after the merger activities, but there is a significant difference for liquidity, total debt to total equity ratio, PBV, EVA and MVA. Indosat is never in a state of financial distress.

For older players in telecommunication industry such as Indosat, the impact of the merger can be seen in a period of more than 5 years after the activity. Indosat debt level is increasing and 42.7% are in foreign currency, made Indosat exposed to financial risk when the rupiah depreciation occurs and its impact is loss in 2013. Rupiah's value stability against foreign currencies plays an important role because almost half of Indosat debt is in foreign currencies. So that the increased revenue will be reduced by increased in operating expenses also. Another difference that can be felt is the decline in liquidity after the merger because of the increase of current debt. MVA also declines as the stock price continues to drop while EVA increases as operating profit also increase despite a decline in net profit.

Indosat PBV value in 2012 is above the Indonesian telecommunications sector. Investors are still willing to buy Indosat's stock more expensive. This was due to positive financial performance, although the loss in 2013. Investor seen this loss only going to happen in the short term because until now, Indosat has not been in financial distress.

3.1.4. *Telkom (TLKM)*

Telkom is Indonesia's oldest telecommunications company and is the only telecommunications operator that 53% owned by the Indonesian government. At first, Telkom is the only telecommunications company Indonesia and has the right to provide domestic and international telecommunications services until international telecommunications rights given to Indosat in 1980. Telkom as the oldest players in the telecommunications Indonesia until now is still the number one Indonesia's telecommunications operator in terms of revenue sharing and market share. In 2002, 12.7% of Telkomsel shares bought by SingTel, which is one of the Singapore

telecommunications company and until now the majority of Telkomsel shares as much as 65% owned by PT Telkom and 35% owned by SingTel.

Statistical test results in Table 3 shows that the stock acquisition Telkom by SingTel in 2001 give a significant difference to the EVA, MVA, ROE, ROA and liquidity before and after the acquisition. Telkom is not in a state of financial distress and not potentially bankrupt from 1999 until 2013. The impact of the rising value of the EVA's post-acquisition can only be felt after 12 years of acquisition. The difference value of EVA can be felt in the long term. Telkom is one example of the increased value of the EVA post - acquisition due to as an older player in this industry so it is more stable in managing the business.

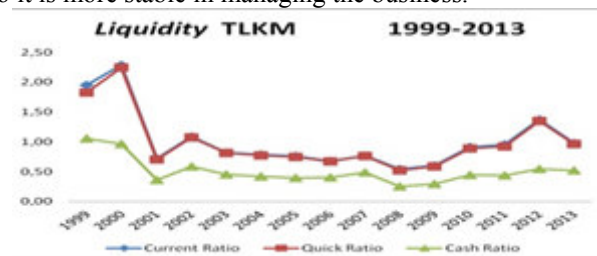


Figure 5 Liquidity TLKM

Telkom 's liquidity is decreased after the acquisition of Telkomsel by SingTel since 2001 as seen in Figure 5. The increase in current liabilities Telkom is partly in foreign currency. This made Telkom was exposed to the financial risk if Rupiah fell compared to foreign currencies. An increase in cash obtained from customers was smaller than the increase in current debt, causing a decrease in the cash ratio Telkom to an average of 43.6%.

3.1.5. XL Axiata (EXCL)

XL has started operating since 8 October 1996 under the name of PT Excelcomindo Pratama. The initial coverage area is Jakarta, Bandung and Surabaya. XL is a subsidiary of TM (Telekom Malaysia) group in 2005 and IPO with name EXCL. XL is the third largest telecom operator's in terms of revenue share and market share after Telkom and Indosat. In 2008, XL AXIATA owned by Axiata group as much as 83.3% and owned by the public as much as 33.5% after AXIATA and ETISALAT release some of its shares since 2010 to increase the liquidity. Although EXCL having increasing liquidity as seen in figure 6 after acquisition but EXCL still having loss income in 2014 due M&A.

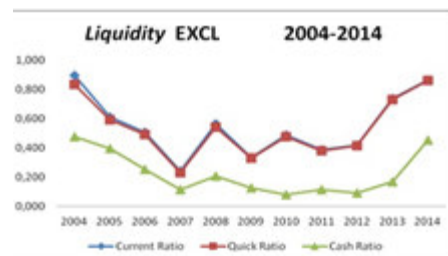


Figure 6 Liquidity EXCL

In 2013, XL acquired AXIS which is also one of the GSM operator in Indonesia. This acquisition cost is obtained from the loan agreement with AXIATA Group Berhard which is the majority owner of XL. The purpose of this acquisition, according to its annual report in 2014 are CAPEX efficiency, to support government programs of the national broadband program and to get additional frequency spectrum capacity.

XL 's PER in 2013 is above PER sector means that the market expects this acquisition activity will give them a profit so the price tends to be expensive. The same thing happened in its PBV values which is more than 1, means investors are still willing to pay the stock price more expensive than its book value and as shown in table 4, XL is not financial distress although XL suffer losses in 2014 estimated as due its acquisition activity which give bigger operating expenses compare to last year. Altman Z-Score for XL is bankrupt and we cannot use this since no formal bankrupt announcement being made. The statistical test for XL cannot be made due to the period after acquisition is only 1 year.

3.2. Financial Distress

As we can see Table 3, is the test financial distress using DSC and Altman Z-Score. Only Telkom and Indosat are not in Financial distress although they done the M&A. EXCL having financial distress only in 2007 when released the second IDR bonds. Both CDMA Operator FREN and BTEL are in Financial distress after M&A.

Table 2 Financial Distress test

Year	Z-Score					DSC				
	TLKM	ISAT	EXCL	SmartFren	BTEL	TLKM	ISAT	EXCL	SmartFren	BTEL
1999	Not Potentially bankrupt	Not Potentially bankrupt				Not FD	Not FD			
2000	Not Potentially bankrupt	Not Potentially bankrupt				Not FD	Not FD			
2001	Not Potentially bankrupt	Not Potentially bankrupt				Not FD	Not FD			
2002	Not Potentially bankrupt	Not Potentially bankrupt				Not FD	Not FD			
2003	Not Potentially bankrupt	Not Potentially bankrupt				Not FD	Not FD			
2004	Not Potentially bankrupt	Not Potentially bankrupt				Not FD	Not FD			
2005	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt			Not FD	Not FD	Not FD		
2006	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Not FD	Not FD	Not FD	FD	Not FD
2007	Not Potentially bankrupt	Not Potentially bankrupt	Grey Area	Not Potentially bankrupt	Not Potentially bankrupt	Not FD	Not FD	FD	Not FD	Not FD
2008	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Grey Area	Not Potentially bankrupt	Not FD	Not FD	Not FD	FD	Not FD
2009	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Potentially bankrupt	Not Potentially bankrupt	Not FD	Not FD	Not FD	Not FD	Not FD
2010	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Potentially bankrupt	Not Potentially bankrupt	Not FD	Not FD	Not FD	Not FD	Not FD
2011	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Potentially bankrupt	Grey Area	Not FD	Not FD	Not FD	FD	Not FD
2012	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Potentially bankrupt	Potentially bankrupt	Not FD	Not FD	Not FD	FD	Not FD
2013	Not Potentially bankrupt	Not Potentially bankrupt	Not Potentially bankrupt	Potentially bankrupt	Potentially bankrupt	Not FD	Not FD	Not FD	FD	FD
2014			Not Potentially bankrupt	Not Potentially bankrupt	Potentially bankrupt			Not FD	FD	FD

3.3. Market Share

We used the annual report to calculate the numbers of subscribers for each Indonesian Telco operator to get the market share among those 5 companies as seen in table 3. The result shows no difference in the market share biggest position in the period 2011 to 2014 after all the operator M&A and the order are Telkom, Indosat, XL, BTEL and FREN.

Table 3 Market Share

Company	User (in Mio)			
	2011	2012	2013	2014
BTEL	14,6	11,7	12,04	11,65
EXCL	46,4	45,75	60,55	59,64
FREN	7,6	11	11,3	11,93
ISAT	51,7	58,5	59,6	63,2
TLKM (seluler)	107	125,1	131,5	140,56

4. CONCLUDING REMARK

The impact of these M&A in financial performance and financial distress for the Indonesian telecommunication industry is more visible in the long term period after this activity. These M&A activity also reduce their competitor number but not change their market since the older player in this industry already stable in their operation activity. Same technology also be their biggest consideration when they start to prepare the M&A in order to get the efficient operational cost. The biggest financial risk of the Telco operator is the foreign currency exchange rate because they spent in USD for CAPEX and get most in Rupiah from their customer. Settling debt and improve liquidity should be the focus for telecommunications operators in order to attract more investors in this industry. In line with government suggestion, the main reason of these M&A activity is the additional of frequency channels and the efficiency of operational activities in order to still be able to survive in this industry. These additional frequency channel and license is important to all telco operator to improve their network availability to get more customer. So Indonesian government recommends for telecommunication operators to conduct the consolidation or merger within the industry. From the government side, it is a prudent step and win-win solution for the company because the government can do the rearrangement of the existing frequency blocks that owned by Telco operator today and the benefit of the operator is additional bandwidth license. This additional bandwidth licenses must be fully utilized to improve the quality of service and the number of customers. Operational efficiency must be done to avoid the loss to sustain. If enlarging the market share is the objectives of the mergers and acquisitions, then the management need to consider since the market is already mature.

DSC value is more appropriate to portray the financial distress in Indonesian telecommunication operator since Altman Z-Score cannot predict exactly the bankruptcy for this sector because all those 5 Telco still remain operating actively until today.

Future research can be done to analyze more impact with longer duration after the M&A activity and to explore more reason of M&A from non financial point of view.

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