

Reality Check

Sondhi Limthongkul's dreams have grown beyond his means. To convince international investors to finance his Asian media empire, he has to get his house in order.



Thai publishing tycoon Sondhi Limthongkul: Visionaries aren't always the best managers.

By Andrew Sherry in Bangkok and Hong Kong

In an otherwise forgettable 1970s Hollywood movie called *Bubble-Gum Rally*, a dashing Italian jumps into the driver's seat of a sports car. He flings his white scarf over his shoulder, then reaches up and snaps off the rear-view mirror. The first rule of Italian driving, he tells a startled passenger, is that what's behind you doesn't matter.

Chances are Sondhi Limthongkul never saw the film, which came out after his university days in Los Angeles. But he didn't need the driving lesson. Ever since the young graduate returned to Thailand, he has been racing full speed ahead with nary a glance over his shoulder. After working as a journalist through the politically charged 1970s, he launched a slew of publishing and other ventures that neatly caught the wave of Thailand's economic growth. He pushed into regional publishing in 1992 with the monthly *Asia, Inc.*; his flagship daily newspaper *Asia Times* followed last year.

Now the 49-year-old Sondhi has set his sights on the skies above Laos, where he wants to place a pair of state-of-the-art satellites that would blanket Asia with digital-television signals. He has said the satellites, which will cost at least \$480 million to fly, "will probably be my last link in composing the jigsaw puzzle" tying his media and telecoms interests into an empire big enough to fight off Western media titans like Rupert Murdoch. His outspoken pursuit of that vision—providing an "Asian perspective" on the news—has propelled the combative Thai-Chinese entrepreneur to a prominence that far exceeds his net worth.

But as Sondhi looks to the stars, cash-flow problems with his terrestrial empire, the M. Group, are dragging him back down to Earth. Salary payments at his flagship *Asia Times* were delayed in both March and April; staff at *Asia, Inc.* were also paid late. Sondhi's pockets had seemed bottomless, but that was before his Thai businesses and other traditional founts of cash—the Thai stockmarket and local banks—were hit by the country's worst economic downturn in years.

For all that debris on the road, Sondhi continues to push ahead at full throttle. But for the first time during his empire building, he must rely on overseas investors to raise the massive amounts he needs for his Asian dream. To convince them to sign on, he must show he can provide management, not just vision. Ironically, big parts of his Asian multimedia empire could end up in the hands of Western moneymen if he succeeds.

To Sondhi's credit, he's already attacking the management problems that plague the sprawling M. Group. Last year, he brought in a pair of New York executives to start reorganizing the private and public publishing interests into a new company, Manager Media International, with an eye to listing it on the Nasdaq. The executives, Ned Kennan and Gary Knell, say they've ballasted several unprofitable units, cut back others and are on the verge of bringing in foreign companies as partners for a number of the publications. To stay liquid, the M. Group has also been selling assets.

One asset they are determined to keep, though, is the satellite venture, Asia Broadcast & Communications Network. M. Group Vice-Chairman Kennan says the group is fighting off a bid by the satellite builder and part-owner, Loral Space & Communications, to take over leadership of the consortium. "We were told that if

up on schedule by December, and the second in mid-1998. Laos is supplying the orbital slots under a joint-venture agreement. The satellites are to beam both digital-TV signals and high-speed Internet access across Asia. ABCN announced a stock swap in March with California-based Osicom Technologies, a supplier of on-line technology. With deals like this one, Sondhi's sending a signal: When media, telecoms and the Internet converge one day, he wants to own the crossroads.

It's a brilliant vision, but selling it to investors won't be easy. Becoming a successful satellite broadcaster in Asia takes much more than a satellite. In each of the countries covered by the satellites' region-wide footprint, ABCN will have to tackle government regulations and set up distribution and marketing networks, which will in turn have to convince customers to shell out for 50-centimetre dishes and decoders (currently about \$500), and often new televisions to receive the digital signal.

Furthermore, to stand out in Asia's crowded broadcast field, the network will also have to develop specially tailored programming for the various markets. This can be a costly proposition: Murdoch's StarTV has pushed back its break-even target by several years, due largely to the cost of developing programming for specific Asian countries.

"It's a wonderful market, and on paper

could cost as much as \$900 million, he says. But he adds that financing is on the way: The members of the ABCN consortium—the M. Group, Loral, Japan's Itochu, French satellite launcher Arianespace, EchoStar Communications Corp. of the United States, Telesat Canada and Thailand's UCOM—have raised enough equity to convince financiers to underwrite a bond issue.

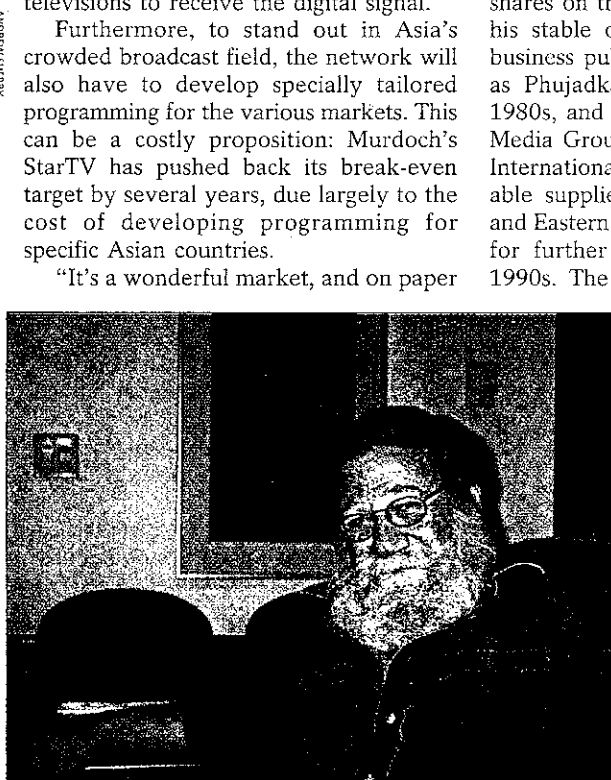
Kennan declined to be more specific on the numbers, but Vizas, before stepping down as chief executive, told an interviewer that the project was capitalized at \$125 million, with 65% owned by the M. Group. Sondhi was seeking to raise another \$350 million through the debt issue by mid-year, he said.

This is a quantum leap from the way Sondhi has traditionally financed his ventures: by reinvesting profits, borrowing from Thai banks, and floating shares on the local stockmarket. He built his stable of Thai and English-language business publications—known alternately as Phujadkarn or Manager—during the 1980s, and took them public as Manager Media Group in 1990. Floating shares of International Engineering (IEC), a profitable supplier of mobile-phone handsets, and Eastern Printing brought Sondhi funds for further expansion during the early 1990s. The three listed companies form the core of the M. Group, Sondhi's private holding company.

Now, though, Sondhi has no choice but to look elsewhere. This is no time to issue shares in Bangkok: The Stock Exchange of Thailand's main index has dropped 29% since the start of the year. M. Group revenues, much of which come from advertising, have taken a hit too. Though Kennan says the impact of the business downturn "is not that severe," competitors are doubtful. "We've lost half of our display advertising,

and the fringe publications have been hit even harder," says an executive from one of Bangkok's major dailies.

Last year, revenue for Sondhi's three Thai-listed companies stagnated at around \$185 million. IEC produced \$15.31 million of the \$15.8 million in combined profit, but it's the company Sondhi owns the least of—a 17% stake, according to the M. Group. Manager Media, where he's 52% owner, barely broke even, and that was only due to more than \$10 million



Organization men: Sondhi has brought in Gary Knell (left) and Ned Kennan to restructure his empire.

we didn't accept . . . we wouldn't be able to get the necessary financing," he says. "But it has become clear now that it isn't the case." New York-based Loral declined to comment.

There's no question that getting ABCN up and running is Sondhi's new obsession, the linchpin of his empire. When American Chris Vizas stepped down in early May as chief executive officer of ABCN, Sondhi took over the post himself.

Kennan says the first satellite will go

he seems to have an interesting product," says Simon Twiston Davies, editor of *Asiacom*, a fortnightly TV and telecoms newsletter. "But note the problems Star has had in gaining access to individual markets. That's the same thing Sondhi Limthongkul is going to face."

Kennan, during an extensive interview at the M. Group's elegant Bangkok compound, says ABCN had taken "all of those hurdles" into account. That's why the entire project, including programming,




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in asset sales.

Some analysts wonder how Sondhi can keep financing his existing empire, let alone expand it. True, he gets revenue from a stable of profitable trade publications in Singapore. But the privately held *Asia, Inc.* and especially the *Asia Times* continue to drain cash: Sondhi said in September that he had already spent \$150 million on his push into regional publishing. Yet the M. Group is pushing into areas that demand even more investment. The satellite is the biggest one, but IEC is aiming to become a telecoms service provider, with a joint venture called Wireless Communications Service. And he continues to launch new publications, including, in October, *The Chinese*, a glossy Hong Kong-based Chinese-language monthly aimed at Overseas Chinese.

"He's in a lot of very sexy businesses, but they all have high fixed costs and high front-end investment," says Rob Collins, director of Asian Equity Research in Bangkok. "He has financed them by more equity and more debt, instead of building a base of strong cash-flow positive businesses that he can leverage."

Collins fears Sondhi could be setting himself up for a fall. In the high-cost industries he is entering, the strong are typically the ones who survive. "If you're not No. 1 or No. 2, you're in trouble," Collins says. "He's in all those areas, and he's not No. 1 in any of them."

Certainly, the road to profitability looks like a long one for the *Asia Times*. The May 12 edition of the regional business newspaper contained less than one page of total advertising—including a quarter-page plug for sister publication *Asia, Inc.* Nearly halfway into its second year, all but a small percentage of the 36,000 copies printed each day are still distributed free, according to Kennan. (The *Asia Times* competes with *The Asian Wall Street Journal*, which like the REVIEW is owned by Dow Jones & Co.)

"Most of us believe in the vision of the *Asia Times*—writing specifically for an audience in Asia," says one correspondent. But with salaries paid weeks late in both March and April and expense claims going unreimbursed for months, he adds, many staff feel they have no choice but to start looking for jobs elsewhere.

An e-mail that *Asia Times* Editor-in-Chief Pansak Vinyaratn sent to staffers in April raised as many questions as it answered. It affirmed that the newspaper was the M. Group's "highest publishing priority," and said staff would be paid once the group received a remittance of funds. "These funds are derived from the sale of equity shares in an M. Group cellular-phone service provider to a South Korean

telecoms group." Along with the assurance, a caution: "All *Asia Times* employees are advised not to incur any expenses on their own account that put them at further personal risk."

Staff weren't the only ones who found the message confusing. Was Sondhi selling a stake in Wireless Communications Service, a listed asset, to meet payroll at his privately owned *Asia Times*? (SK Telecom Co., South Korea's largest mobile telecoms service, announced on May 9 that it had paid about \$150 million for a 20% stake in WCS, which had been 48%-owned by the M. Group.) Kennan says

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 Every once in a while
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—Gary Knell,
 key Sondhi aide and president of
 Manager Media International

not: The WCS equity sale produced personal gains for "some of our senior executives" who used the profits as collateral for bank loans, which in turn were used to fund the *Asia Times*.

Byzantine transactions like that are precisely what deter institutional investors from Sondhi's sprawling, cross-held empire. Almost no foreign brokerages and few Thai ones bother to track the opaque, relatively small-cap group. Those that do tend to follow only IEC.

Stockmarket regulators in the U.S., where Sondhi wants to float his newly formed Manager Media International, require transparency, which is precisely what Kennan and Knell are meant to bring. The bearded, Israeli-born Kennan, who is MMI's chief executive in addition to his M. Group post, previously ran a research firm that, he claims, dispensed advice to dozens of leading corporations and several foreign governments. He acknowledges that when he arrived in mid-1996, he found companies, such as a Bangkok animation firm, that were on M. Group's books but not actually doing anything.

"This company is like an onion. You keep peeling away a layer to find another layer," adds Knell, MMI's president and general manager. Along with the valuable,

he says, "every once in a while you find a rotten layer." Knell is a former senior executive for the Children's Television Workshop, producers of *Sesame Street*; he's also a lawyer who worked at the U.S. Senate. Like Kennan, he had no Asian experience before moving to Bangkok in November, but he professes to believe in Sondhi's vision.

Certainly, Sondhi is no conventional dollars-and-cents businessman. He got his start in journalism as a reporter on the University of California at Los Angeles' *Daily Bruin* during the late 1960s. Later, working as a journalist in Thailand in the 1970s put him at the heart of his own country's democratic awakening.

But it's his outspoken pursuit of an Asia-wide media empire to break what he calls a Western monopoly on news in the region that's vaulted him to international prominence. "Why accept foreign news reports on Asian business?" said an *Asia Times* promotional campaign.

"Khun Sondhi has a vision to do good things in the world," Knell says. "Does he have the business acumen to go along with it at all times? No." But, Knell adds, Sondhi is now pushing to reorganize his empire at a pace that no conventional American or European company could match. (Although Sondhi did not agree to

an interview for this article, Knell and Kennan spoke at length about the group.)

Knell and the rest of Sondhi's team aren't just making cosmetic changes. In the past year, they say, several "underperforming" interests have been shut down, sold or downsized. The Manager business publications in Bangkok, for example, have laid off dozens of staff. "We're trying to get down to basics," says Knell.

But the rush to consolidate Sondhi's sprawling publishing interests has forced some hard choices, notably the face-losing decision in May to abandon plans to turn *Asia, Inc.* into a fortnightly or weekly magazine. Eight months earlier, Sondhi had trumpeted his hiring of Jim Rohwer, a respected Asia correspondent, to accomplish the goal. Rohwer, who had approached several potential investors early this year about backing the venture, left the magazine when the plan was dropped. Knell contends that *Asia, Inc.* is on the brink of breaking even as a monthly, and it would be foolish to enter a costly war with the region's established weeklies.

Sondhi's top publishing priority, his lieutenants say, remains the *Asia Times*. "There is a market for this paper," says Knell. "Are there changes necessary? Yes, on both the editorial and business sides. Some will

be more radical than others." Knell says it's too early to give full details, but the group did announce that the newspaper is getting a new sales director. Knell also confirmed that Editor-in-Chief Pansak, who doesn't have a reputation as a hands-on manager, has been named M. Group editorial director, and his deputy, Uwe Parpart, has been named executive editor.

Kennan and Knell say they have another reason to get group publications in order: They aim to take several into joint ventures with international partners this year. They declined to elaborate, but industry sources say Dutch trade-publishing heavyweight VNU is buying into Sondhi's *Asian Advertising & Marketing* weekly. VNU declines to comment, except to say it only announces moves once it has reached a definitive agreement with the other party.

"I think what we're seeing now is a desperate attempt to rationalize all the products he has brought together," says Ken McKenzie, publisher of rival Hong Kong-based weekly *Media*. "It's a logical attempt to save the bacon." If Knell "can bring sanity to the existing interests, perhaps it can be saved."

But there's still a lot to be done. M. Group executives haven't even decided

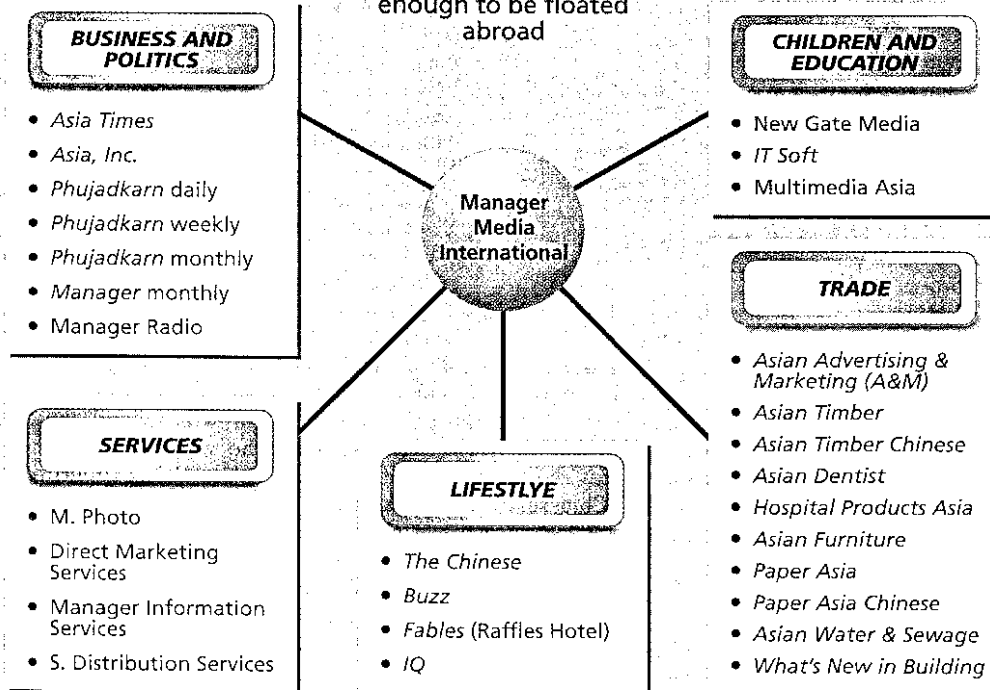
whether MMI will be headquartered in Bangkok, Hong Kong or Singapore. Sondhi's other publications include a lifestyle magazine, *Buzz*, in Los Angeles, and his business interests sprawl as far as Australia, where he has a packaging venture, and Indochina and southern China, where he's trying to set up a chain of hotels.

If Sondhi can't win new financing soon, will he run out of time? The answer probably lies in how many of his assets he is willing to sell. Some media-watchers see signs that his empire is imploding, but he has confounded sceptics before.

"Every time he goes to the markets, people say he's finished," says Steve Stine, a former *Asia, Inc.* reporter who's now an analyst with Coopers & Lybrand in Kuala Lumpur. "I remember when I joined *Asia, Inc.*, people said 'What are you doing?' They said it would only last six months." The magazine is now five years old, and Stine says of his former boss: "Don't underestimate him." ■

ORDER OUT OF CHAOS

The M. Group is racing to reorganize its jumble of publishing interests into a new company, Manager Media International, transparent enough to be floated abroad



Source: M. Group

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