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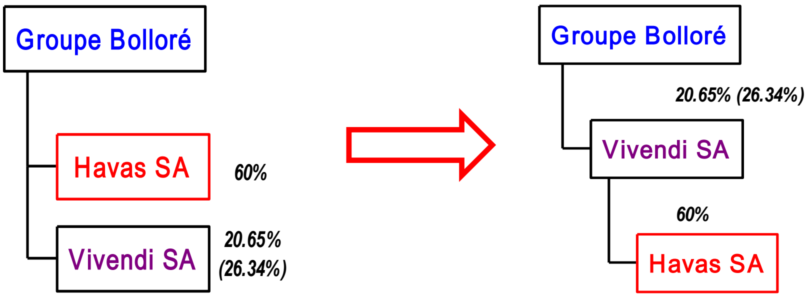
Havas SA: Vincent Bolloré's quest to create a media powerhouse

On May 11, 2017, Vivendi SA submitted an indicative offer to purchase Groupe Bolloré's 60% in French media and communications player Havas SA. Groupe Bolloré directly and indirectly owns 20.65% of Vivendi SA and 26.34% of its voting rights. The offer valued Havas at €9.25/share, or an 8.8% premium over its unaffected share price prior to the announcement and marks yet another iteration of Vivendi's acquisition spree since Vincent Bolloré took over as Chairman. With an enterprise value of just over €3.88 billion, Havas was valued at 10 times EBITDA, roughly in line with recent transactions. From a strategic standpoint, while minority shareholders at Groupe Bolloré may cheer the deal, their counterparts at Vivendi would be wise to question the rationale of adding yet another business to Vivendi's portfolio and whether combining a company that buys advertisements for clients from media outlets with a company that owns some of these very same outlets will create value. One does not have to look far behind to recall a time when Vivendi engaged in an ill-fated acquisition binge.

The proposed deal

On May 11, 2017, *Vivendi SA* launched its bid to purchase the 60% of *Havas SA* owned by *Groupe Bolloré*. The latter controls Havas through an intricate pyramid structure where by it holds just under 6% directly with the remaining stake split between its affiliates, *Financière de Sainte Marine*, *Compagnie du Cambodge*, and *Société Industrielle et Financière de l'Artois*. At price of €9.25/share, this values the transaction at €2.33 billion resulting in an enterprise value of €3.73 billion (including a net cash position of €149 million).

Figure 1: Groupe Bolloré will continue to control both companies in the pyramid



Source: *Groupe Bolloré Reference Document, simplified organizational chart*

With an estimated EBITDA of €377 million and revenues of €2.28 billion at the end of FY2016, the deal valued *Havas* at 9.9 times EBTIDA and 1.64 times revenues. These valuations appear to be broadly in line media deals in the United States during 2016 which reported median EV/Revenue and EV/EBITDA of 2.1 times and 11.2 times respectively. A cursory analysis of *Havas*' largest competitors, namely WPP, Omnicom, Publicis and Interpublic revealed that they were trading at an average of 1.57 times revenues and 10.31 times EBITDA. The premium paid by Vivendi does not appear to be excessive based on peer multiples.

Figure 2: Takeout multiples for Media & Marketing transactions in United States and peer group multiples

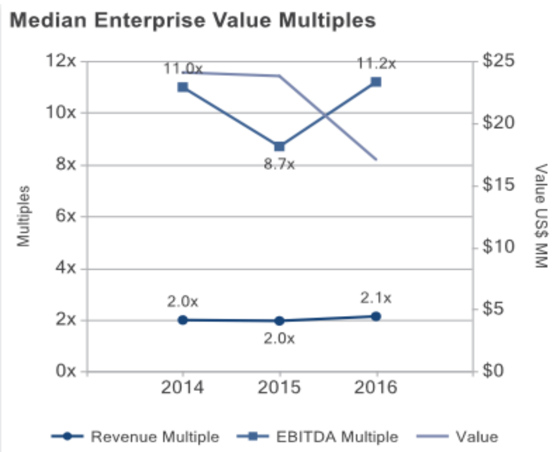


Figure 2. 2014-2016 median value, revenue, EBITDA comparison.

# shares Havas	420
offer price	9,25
Havas Equity	3 882
Net Debt	- 149
Enterprise value	**3 733**
EBITDA 2016	377
EV/EBITDA	**9,90**

Company	EV/Revenue	EV/EBITDA
WPP Plc	1,78	11,06
Omnicom Group	1,52	10,16
Publicis SA	1,57	9,91
Interpublic Group	1,42	10,11
Average	**1,57**	**10,31**

Source: *BerkeryNoyes, Media & Marketing Industry, Full year 2016 M&A trend report*; Seeking Alpha; ECGS calculations

Market observers will be quick to discern that spending excess cash to acquire a profitable company the likes of Havas will most certainly be accretive to the bottom-line. In such a low interest rate environment, Vivendi's net cash position will enable it to derive added value from acquisitions in the form of higher EPS. Case in point was the positive reaction among investors as Vivendi shares rallied 4.68% post-announcement on May 12, 2017. Unsurprisingly, Havas shareholders had more reason to celebrate as the takeout price represents a 20% premium over the average share price in the preceding twelve months. Heading off gains of 9.2% on May 12, 2017, Havas shares delivered a gain of 3.75% to its majority shareholder Groupe Bolloré. It is abundantly clear that the acquisition is nothing more than a lucrative 'internal organization' that has ultimately benefited Groupe Bolloré in its capacity as majority shareholder of both Havas and Vivendi.

A compelling strategic rationale?

The crown jewels of the Vivendi empire are *Universal Music Group (UMG)* and *Canal+ Group* which collectively account for almost 97% of revenues. Whereas *UMG*, buoyed healthy growth in recorded music, music publishing, and merchandising, reported a 60 basis point increase in EBITA margins to reach 12.2%, the same cannot be said for *Canal+*. This was due to a protracted decline in the individual subscriber base for pay-TV in mainland France and lower revenues from *Studiocanal*, all of which shaved 360 basis points from EBITA margins. The closing of the acquisition of *Gameloft* in June 2016 contributed €132 million to revenues during the year.

Vivendi's investment portfolio now includes stakes in *Telecom Italia* (23.94%), *Mediaset* (28.80%), *Telefonica* (0.98%), *Ubisoft* (26.80%), and *Groupe Fnac* (11.27%). The company has spent almost €4 billion in each of FY2016 and FY2015 on acquisitions and investments in affiliates.

Vivendi : the Empire strikes back ?

France's historic "Compagnie Générale des Eaux", renamed "Vivendi", was often seen by the financial community as the quintessential conglomerate trading eternally at a discount to its Net Asset Value (NAV). After going down a path not short of its fair share of public scandals, Vivendi heeded the market's call and began shedding assets: Telecom assets (SFR, Maroc Telecom, GVT) and gaming (Activision Blizzard). Soon Vivendi found itself with new management at the helm, a mountain of cash, and two assets: Universal Music and Canal +. Activist investors from across the Atlantic lead by Peter Schoenfeld then demanded that Vivendi share this largesse with its shareholders in the form of exceptional dividends and called for the spin-off of its two remaining assets. From its glittering headquarters on Paris' chic *avenue de Friedland*,, Vivendi suddenly found itself grappling with an existential crisis; gone were the glory days of reckless empire-building. Or where they?

At the April 2015 annual general meeting, Vincent Bolloré walked into the Olympia concert hall in Paris and passionately argued the case for a revived Vivendi. Natural synergies would be reaped from the collaboration between Universal Music and Canal+, he triumphantly announced plans to create a global powerhouse in media content. Two years later and Vivendi's track record still raises eyebrows: investments in gaming (Gameloft, Ubisoft) at a time when investors still remember how Activision Blizzard was not deemed 'strategic' enough, and a hodgepodge of minority stakes in seemingly unrelated companies (Fnac, Telecom Italia, Mediaset). The company's foray back into telecoms put it at odds with Italian regulators triggering a humiliating retreat from Mediaset. And now with the Havas acquisition one cannot help but feel that the ghost of Jean-Marie Messier, master of the universe as the media used to deridingly refer to him, still haunts the halls of the company's executive suite. As Vivendi slowly becomes the conglomerate it once was, Groupe Bolloré can take comfort in what it does best: diversify risk through a series of unrelated acquisitions. The same cannot be said for minority investors who initially wanted to invest in a pure media content player but now have to contend with telecom assets and an advertising agency.

Media and publicity: a classic case of conflict of interest

A marriage between advertising and communications agencies and media content providers has always been an awkward proposition. The temptation for Vivendi to direct Havas advertisers to some of its prized content assets (Canal+, C8, CStar, CNews etc…) may simply be too great. It is not inconceivable that advertisers may choose to shun Havas in favour of its competitors in order to avoid this glaring conflict of interest.

The perceived neutrality of an advertising agency specialising in the purchase and management of media slots for its clients is paramount for its success. Without it, an agency cannot act impartially and in good faith to the benefit of its clients. As part of the Vivendi umbrella, this may very well be perceived as a value-squandering proportion which could ultimately be reflected in an even steeper discount to NAV.

Dubious synergies

Yannick Bolloré, boss of Havas, and his father would not hesitate to remind us that Vivendi will advance Havas' expertise in monetizing advertising space for clients and provide it with a coveted stream of data. One could alternatively argue that Vivendi is already benefiting from said monetizing through its existing relationship with Havas, and for that matter, its competitors. Can the ‘internalisation’ of this expertise therefore be truly dubbed as synergies?

CONCLUSION

Although the premium paid to acquire Havas is surely in the interest of former Havas shareholders, it does not answer the bigger question regarding the lack of strategic clarity at Vivendi. All the signs point to a return to its old conglomerate ways, but this time with a potential conflict of interest that arises from putting an advertising placement agency and media providers under the same roof.

The Havas acquisition increasingly appears to be an internal reorganisation ostensibly pitched by Groupe Bolloré as some magic wand designed to create a media content powerhouse. It raises concerns over Vivendi governance and potential lack of autonomy toward its main shareholder. Much to the chagrin of minority investors, Groupe Bolloré was craftily able to use its minority shareholding to institute double voting rights at Vivendi with no potential acquisition in sight. After that, independence rate and seniority at supervisory Board level declined substantially. This leaves minority shareholders at the whims of Vincent Bolloré and his magic trick made of asset diversification strategy. However, investors do not like magic, they prefer tangible returns and the fact that Havas CEO, Yannick Bolloré, announced in late August that he is unable to confirm their internal forecast of 2-3% organic growth is a disappointing first step for Vivendi-Havas marriage.

More generally, observers and investors questioned why this marriage was not subject to a shareholder vote. Indeed, in French Law, despite the significant change in Vivendi assets, shareholders are not invited to vote as long as the acquisition is paid in cash (no issuance of new shares). In 2015, the French Financial Authority (AMF) launched a consultation on the sales of assets and it was recommended to hold a consultative vote in such asset sale if the assets are deemed significant (>50%). Proxinvest recommended and still recommends to align the French rules with the UK Premium listing rules and that accordingly a binding vote of the general meeting of shareholders occurs before the adoption of any sale or acquisition of a significant asset. In such vote, a shareholder being a related-party involved in the transaction should not take part to the vote.