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Vivendi investors twist and shout over payouts

Adam Thomson in Paris, Matthew Garrahan in New York and Henry Mance in London



Over the years, Peter Schoenfeld has avoided the sort of aggressive, school-bully image that accompanies so many of his US hedge-fund peers. He has generally sidestepped media attention — and has only occasionally turned activist.

But the 70-year-old New York investor, once dubbed Wall Street’s “quiet professor of merger arbitrage”, this week took the gloves off in a highly public manner to take the fight to Vivendi. His aim? A share of the €9bn in cash that he believes the Paris-based media group should pay out to its shareholders.

A secondary objective, he says, is to get Vivendi to spin off Universal Music Group, one of its pillars and the world’s largest recorded music company. “UMG needs to be spun out to unlock value,” a white paper he sent to Vivendi management said this week.

Mr Schoenfeld’s immediate demand, launched by his fund, P Schoenfeld Asset Management (PSAM), speaks volumes about Vivendi’s startling transformation over the past two years.

Once a bewildering dotcom-era shopping trolley of telecoms, media, television and even video gaming assets, Vivendi owns just two significant companies today: Canal Plus, the pay-TV business, and UMG.

The rapid scaling-down, applauded by investors, has parallels elsewhere: over the past six years, Time Warner has sold its cable business, print publishing company and unwound its disastrous merger with AOL.

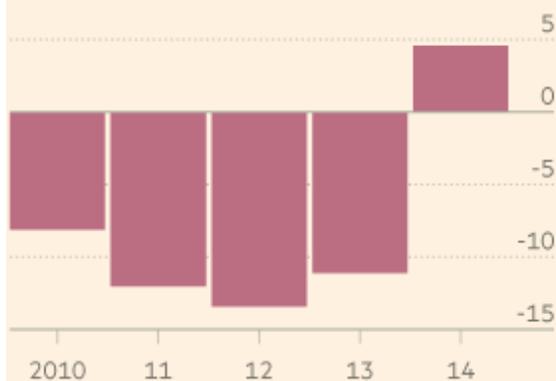
But the revamp, which has resulted in disposals since July 2013 of more than €35bn, has also replaced one problem with another. A group once dogged by suffocating amounts of debt now has too much cash, according to critical investors.

Vincent Bolloré, group chairman and Vivendi’s largest shareholder with just over 8 per cent, said in December that he wanted to create “Bertelsmann à la française” — referring to the German, privately held media conglomerate that controls broadcaster RTL, publishers Penguin Random House and magazine group Gruner + Jahr.

But some investors want changes to his approach. Both PhiTrust, a Paris-based investment house, and PSAM have submitted shareholder resolutions for the annual meeting next month.

Vivendi

Net cash (€bn)



Source: company

PSAM, which holds 0.8 per cent of Vivendi's shares, calculates that once the last of the asset sales has been completed later this year, Vivendi will be sitting on an €18bn combination of cash and marketable securities — against a market capitalisation of €31.1bn.

“It is an irrational amount,” Mr Schoenfeld said on Tuesday. “If we leave them with €18bn, they will never have to come back to shareholders for anything.”

PSAM has calculated that a €9bn dividend payout would leave Vivendi with €5bn with which to make acquisitions and grow. “We are not really reducing the flexibility of the company,” he said. “We are just not

allowing them to do anything unreasonable.”

On Tuesday, Vivendi dismissed PSAM's demands, saying: “All this American hedge fund is trying to do is dismantle the group and get a lot of cash now. This is not our strategy.”

PhiTrust, meanwhile, wants Vivendi to exempt itself from a new French law that would give longer term shareholders such as Mr Bolloré twice as many votes as new investors.

Vivendi, which started life as a water utility under Napoleon III, said recently that it planned to return €3bn to shareholders over the next three years via dividends. In addition, it has announced a share buyback programme for up to €2.7bn — though only at a maximum of €20 per share, well below Tuesday's price of €22.97.

Meanwhile, the group said it is on the lookout for acquisitions using “rigorous investment criteria” and exercising “strict fiscal discipline”. Urging patience, Arnaud de Puyfontaine, chief executive, last month said: “Rome wasn't built in a day.”

Yet investors and analysts complain about a lack of visibility, particularly from Mr Bolloré.

One leading shareholder told the FT this week: “As a shareholder, you expect to know, and you want to hear, what they are going to do but there is very little to go on.”

Claudio Aspesi, media analyst with Bernstein Research, agrees, saying, “It's like playing poker against someone who sees many more cards than you do. All you can hope is that his interests are aligned to yours — but you have no way of knowing.”

Vivendi could join the rush for video content — acquiring small independent production companies,

Profiles of the players

Peter Schoenfeld

Vincent Bolloré

Vivendi

Share price (€)



Source: Thomson Reuters Datastream

British broadcaster ITV or even Sky, Europe's largest pay-TV group by subscribers. But valuations are high. Cable group Liberty Global recently called ITV, which trades at about 16 times this year's expected profits, "awfully pricey".

Newspapers and magazines would come at significantly lower multiples. Another possibility would be to extend Canal Plus into Africa, following other French groups such as Orange and Mr Bolloré's eponymous holding company.

Scaled back: recent Vivendi divestments over €1bn

Since 2014 (€bn)



Source: Dealogic

FT

Spotify, the market leader in streaming, and with new streaming services coming from Apple and YouTube, there should be new sources of demand for UMG's product.

As the world's largest music company by market share, UMG is responsible for some of the best-selling acts in the industry, ranging from Katy Perry to Sam Smith. UMG also owns the Beatles catalogue, which it acquired when it bought EMI for \$1.2bn in 2012.

"What streaming does is unbundle music in a different way at a price point that is attractive to consumers," said Mr Aspesi. "This is a good moment for UMG."

But will Vivendi ever sell? Mr de Puyfontaine recently answered that question. "Over my dead body," he said bluntly.

Vivendi says that holding both music and television assets will create important synergy and business opportunities at a time when technological convergence has made it possible to watch and listen to content on everything from the handheld smartphone to a 90-inch television.

Vivendi insisted this week that the majority of its shareholders were "satisfied" with the group's medium-term strategy. But many analysts are less convinced; they say that synergies between television and music have yet to be revealed.

It is far from clear whether any of the resolutions will carry the day when they are put to investors at the annual general meeting on April 17. But together they have put concerns about Vivendi's approach squarely atop the agenda.

Profile: Schoenfeld, self-confessed 'deal junkie'

Yet it is hard to imagine that any of these options would consume Vivendi's cash. "We are talking about bits and pieces, which are nothing compared to Vivendi's war chest," said Stephane Beyazian, an analyst at Raymond James.

Even as Mr Bolloré talks about building a conglomerate, some analysts think Vivendi should go at least one step further and sell off UMG.

The music industry has endured a torrid decade because of piracy and changing consumer habits but streaming offers a path to future growth, analysts say.

UMG is currently renegotiating music licences with

Peter Schoenfeld is the soft-spoken Wall Street activist investor currently locked in a transatlantic war of words over the future of Vivendi with its board, *writes Elizabeth Paton*.



The life-long New Yorker, who began his career in the arbitrage division of White Weld & Co, spent 19 years working his way through the ranks at investment bank Schroders. He was vice-chairman of the US division for seven years before leading a team from its trading desk to start his own hedge fund, P Schoenfeld Asset Management, in 1997.

The fund has been a shareholder in Vivendi for three years and holds a 0.8 per cent stake. PSAM tends to stay out of the limelight when compared with louder, flashier rivals, and is only an occasional activist. As chief investment officer, Mr Schoenfeld has previously pushed for deals at companies including Jos A Bank, and opposed T Mobile USA's proposed merger with MetroPCS in 2013.

PSAM oversees about \$3bn in assets and is organised around three strategies: event-driven activity, merger arbitrage and credit opportunities. Half of those funds are in investments outside the US. Whether it is taking a position against corporate behemoths like Vivendi or Deutsche Telekom, or the unfolding fate of the European financial system, Mr Schoenfeld relishes a Continental opportunity.

“This is what we do: we're deal junkies and this is just another form of deal, from our perspective,” he told the FT of the unfolding eurozone crisis in 2011.

“The world is confusing, but we like it when it's confusing.”

Beyond the boardroom, Mr Schoenfeld sits on the board of New York University's Stern Business School, from which he graduated with an MBA, and has donated significantly to the Republican party. He hit headlines in 2011 after he sold his Manhattan apartment, which took up the entire 26th floor of the Carlyle Hotel, for \$15.5m.

Profile: Bolloré, Vivendi's largest shareholder

Since taking over the family business of manufacturing paper for cigarettes and bibles in 1981, Vincent Bolloré has patiently built his holdings into a formidable empire with 55,000 employees, annual revenues of more than €10bn and a market capitalisation of almost €15bn, *writes Adam Thomson*.



When he is not working, Mr Bolloré likes to collect comic books and the labels from sparkling-water bottles. But the father of four and close friend of centre-right former President Nicolas Sarkozy has a new interest these days: Vivendi.

As the group's largest shareholder and its chairman since last year, Mr Bolloré has steadily extended his control of the content and media group — even though

he holds less than 10 per cent of the shares.

Last year, Hervé Philippe joined Vivendi as chief financial officer from Havas, the advertising agency, which Mr Bolloré now controls. More recently, Mr Bolloré drafted in two allies to sit on the Vivendi supervisory board: Tarak Ben Ammar, the film producer; and Dominique Delport, also from Havas.

And his influence could increase further: a new law passed last year by the French government grants double voting rights to investors who have held nominative shares for at least two years, unless shareholders decide otherwise in a general meeting. Mr Bolloré, who has built up a stake of 8 per cent over the past three years, would be one of the main beneficiaries.

But PhiTrust, a Paris-based trust, has forced Vivendi to add a resolution on the issue of double voting rights at its forthcoming AGM — a move that was not part of the group's plans.

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