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BUSINESS DAY

Vivendi Chairman's Group Increases Stake in Company

By DAVID JOLLY MARCH 27, 2015

PARIS — Vincent Bolloré, the chairman of the French media group Vivendi and one of France's richest men, appears to be gearing up for a fight.

The family-controlled Bolloré Group said on Friday that it had raised its stake in Vivendi in the face of attack from an American hedge fund that included demands that it turn over more money to shareholders and sell the Universal Music Group, the company behind artists like Katy Perry and Kanye West.

Mr. Bolloré increased his Vivendi stake to 10.2 percent from 8.15 percent, at a cost of 632 million euros, or about $693 million. On Thursday, he raised €601 million through the sale of a 22.5 percent stake in the advertising group Havas, a sale that still left him with 60 percent ownership.

While Mr. Bolloré has said that he wanted to continue increasing his stake in Vivendi, the announcement suggests a defensive move just weeks before a showdown at the company's April 17 shareholders' meeting. There, the American hedge fund, P. Schoenfeld Asset Management, which owns less than 1 percent of Vivendi, is hoping to gain shareholders' backing for its demand that Vivendi shake loose €9 billion of the cash it has generated in recent years through the sale of what management had identified as noncore assets.

Mr. Bolloré "must see more value in Vivendi at the moment than he does in Havas," said Claudio Aspesi, an analyst at Sanford C. Bernstein in London. "And the fact that he's putting more of his money into Vivendi may convince shareholders that his interest there will be more closely aligned with theirs."

The statement on Friday did not explain Mr. Bolloré's rationale, and the company did not immediately respond to requests for comment.

P. Schoenfeld Asset Management urged the company last year to sell Universal Music outright, a demand Vivendi's management said this week that it had rejected. The fund and some other investors would like to see the unit sold because they think its real value is masked by its presence inside the media conglomerate.

Vivendi's shares were trading at just under €23 on Friday; they are up about 21 percent over the last year.

"Vivendi is undervalued relative to its intrinsic value of approximately €25-€27.50 per share and should restructure its capital allocation strategy to close the discount to its sum of the parts valuation," the American hedge fund said in a news release. The fund did not immediately respond to requests for comment.

Vivendi argues that meeting the hedge fund's cash demand would reduce its flexibility and options for growth. It notes that last year it handed back €1.3 billion to shareholders and is planning to return an additional €5.7 billion over the next three years through a combination of dividends and stock buybacks.

Universal Music is the world's biggest music company, last year generating about half of Vivendi's annual revenue of €10.1 billion. Universal Music represents, along with Canal Plus, the French pay-television business, almost all of what will be left of Vivendi after the company completes the asset disposals it has undertaken as part of its strategy of becoming a pure, global media company.

A sale of the music unit would represent a rejection of that strategy and, in effect, a dismantling of the company. There are some who think that is precisely the point.

"I struggle to understand the logic" in Vivendi's approach, Mr. Aspesi said. "This is Vivendi's third management team, dating back more than a decade, trying to find tangible synergies between the music business and the rest of the media portfolio. I'm skeptical that they ever will."

The problem, he said, is that Vivendi is trying to hold onto a model that most media companies are rejecting, with Time Warner, which spun off its Warner Music Group and Time Inc., being the most famous example.

On its way toward remaking itself, Vivendi has unloaded assets worth about $30 billion, including the French cellphone company SFR, Maroc Telecom and GVT, its wholly owned Brazilian telecommunications subsidiary.

If Universal Music were to go on the market, there would probably be no shortage of potential buyers. In recent years, both John C. Malone's Liberty Media and the Japanese billionaire Masayoshi Son's SoftBank Corporation have been said to be interested. Analysts put the value of a stand-alone Universal Music at €8 billion or more.

Mr. Aspesi acknowledged that spinning off Universal Music would have the benefit of allowing the market to set its value, but he argued that there was no rush to sell. Rather, Vivendi might find that its value rises if streaming services like Deezer and Spotify make the unit's catalog more valuable.

Vivendi is also facing a revolt from the American hedge fund and a French investment fund, Phitrust Active Investors, over its plan to institute double voting rights for long-term shareholders. That plan, made possible under the so-called Florange law and already adopted by around half of the members of the CAC 40 index of stocks, is meant to make it possible for French companies to plan for the long term without having to grapple with precisely the kind of distractions Vivendi is facing.

Still, there may not be any major fireworks at the shareholders' meeting next month. The American investor's stake is too small to affect the final outcome, and the default for most shareholders is to support management.

The only surprise might be if proxy advisers urge investors to vote against the Florange law plan.