
Vivendi pays for pay-tv business of Mediaset

Vivendi S.A. Market Cap; as of 15/05/2016: €25.68bn

Mediaset S.p.A. Market Cap; as of 15/05/2016: €4.59bn

About Vivendi S.A.

Vivendi S.A. is a French conglomerate operating in four main sectors: television and film, music, ticketing and publishing. This media giant manages its businesses through its subsidiaries Canal+ Groupe, Universal Music Group, Vivendi Village and Dailymotion. In addition, it holds an equity stake in affiliates such as Telecom Italia, Telefonica, Gameloft and Ubisoft.

The company started out as Compagnie Générale des Eaux (CGE) in mid-19th century as a water supply firm. Throughout the years it went through the diversification of its activities, and as a result it created Canal+ in 1984. Vivendi was also an important player in the telecommunication industry holding a significant equity stake in SFR, in which it later divested. Nevertheless, it still shows an appetite for the telecommunication industry as it became the owner of 24.90% of Telecom Italia's shares through recent acquisitions.

In 2016 Vivendi recorded revenues of €10.76bn, mostly coming from Canal+ (€5.51bn) and Universal Music Group (€5.11bn.). It is also one of the companies that composes the Euro Stoxx 50 index.

With the 14.35% stake in Vivendi, Groupe Bolloré is its main shareholder, while the rest of the shareholding structure consists of institutional and retail owners. BlackRock Inc. is the second biggest owner with 5.03% of equity stake.

About Mediaset S.p.A.

Mediaset S.p.A. is a Milan based mass media company founded in 1978 by former Italian Prime Minister Silvio Berlusconi. It started out as a local broadcaster – Telemilano – and it soon renamed itself to Canale 5. Besides this well-known Italian TV channel, Mediaset expanded its business not only in the television industry but also through many other media-related services both in Italy and abroad. As a result, Mediaset currently owns a range of businesses including advertising (Publitalia '80 and Digitalia '08), free and pay TV (Canale 5, Italia 1, Retequattro and Mediaset Premium), film production, news and web related services. Besides Italy, Mediaset also entered in the Spanish media industry when it acquired 50.1% of Telecinco's shares in 2003.

The company is also well known for its pay-tv service – Mediaset Premium – that among other content also holds the sole rights for broadcasting Champion's league football matches in Italy.

Before the deal with Vivendi was announced Mediaset SpA had a shareholding structure in which 33.59% of the company was in the hands of Fininvest - the financial holding company owned by Silvio Berlusconi. The remaining of the shares was hold by retail and institutional clients (62.7%) as well as the company itself (3.4%).

In 2015 Mediaset reported €3,524.8m in revenues which is 3.23% more than in 2014. The company derives its revenues mostly from Italian operations (72.46%), while the remaining portion comes from its activities in Spain. Pay TV services amounted to 22.44% of total net revenues and it recorded 3.78% YoY growth.

Deal Structure

The deal will consist of a stock swap through which Mediaset will transfer to Vivendi its existing treasury shares corresponding to 3.50% of its shareholding structure. In return Vivendi will hand to the Italian broadcaster 3.50% of their own share capital. The deal comes with a twist, as Vivendi will also gain control of Mediaset's crown jewel - Mediaset Premium. The deal therefore implies a €735m value for this pay-tv business. However, the Italian media group holds only 89% of Mediaset Premium, since the remaining 11% had been sold to Telefonica SA in January 2015. As part of the deal, Vivendi will also buy Telefonica's stake and take full ownership of the business.

The deal, after a period of due-diligence, is expected to be finalized on September 30th and it includes a lock-up clause which prohibits Vivendi from buying extra shares of Mediaset in the first year and from reaching a stake bigger than 5% in the second and the third year. Fininvest, Berlusconi's holding company and Mediaset's largest shareholder, will not have instead any particular limit in buying additional Mediaset's shares (beside those imposed by the Italian regulation on mandatory takeover bids.) Following the deal, Mediaset's CEO - Pier Silvio Berlusconi will join Vivendi's board of directors.

Deal Rationale

The deal wants to design and crystallize a strategic partnership between the two media groups. Together, the group will develop a content production on an international scale, adopting standards and language in line with the global market. The project will be enhanced by distribution through the television networks of the two groups in Italy, France and Spain. In fact, the deal confirms the will of Vivendi to build a strong presence in Southern Europe - a market that shares the same roots and the same cultural imprint. This agreement also represents an important step forward for Vivendi in its desire to become a large international group.

Through its Studiocanal division, Vivendi is already the first film producer in Europe and it has significantly strengthened its presence in the TV production with important investments in many independent production companies in Spain and Great Britain. With the acquisition of Mediaset Premium, Vivendi will expand its presence in the European pay-tv business reaching more than 13 million individual subscribers.

Overall, the partnership with Mediaset and the acquisition of the Premium segment represent crucial points in the plan of Vivendi's Chairman - Vincent Bolloré - to create a media platform capable to challenge giants like Sky and Netflix in Southern Europe.

The deal could also be seen as part of the personal plan of Mr. Bolloré to gain further influence and power in Italy. Mr. Bolloré is in fact already a very well-known figure in the Italian business community. His group holds an 8% stake in Mediobanca (second biggest shareholders after Unicredit) and a 24.9% stake in Telecom Italia through its control of Vivendi. Now he will add another strategic and iconic asset in his Italian portfolio.

Finally, the deal could represent an aged Silvio Berlusconi's will to divest and to sell the group he founded and still controls. Rumours say that the French billionaire Bolloré could acquire the entire group in 2019, after the expiration date of the lock-up clause. However, Pier Silvio Berlusconi declared that this deal does not represent by any means an exit of the Berlusconi family from the media business.

Vivendi's shopping spree

Mediaset is not the sole acquisition of Vivendi since the beginning of 2016. After having disposed of some of its subsidiaries, the company accumulated around €16bn in cash. Out of this amount, 6bn is planned to be returned to shareholders through dividends and share buybacks while 10bn is available for new acquisitions.

In April this year Vivendi announced the acquisition of 15% of Fnac, a French retailer of entertainment and leisure products and consumer electronics which it comes with the price tag of €54 per share. The acquisition which is worth in total €159m will be performed with the funds raised through reserved capital increase. This deal is expected to result in a strategic partnership in live events and ticketing business.

Furthermore, Vivendi has been building up its stake in Telecom Italia since mid-2015, which now amounts to 24,9% - giving Vivendi four out of 18 board seats. The rationale for this move is unclear to investors, since Telecom Italia has been performing poorly during the last couple of years, and Vivendi has been actively selling off its telecom assets in Northern Africa, France and Brazil. Furthermore, Telecom Italia is a heavily leveraged company with roughly half of the enterprise value in net debt. However, having control over the company, Vivendi can participate in its turnaround and deleveraging process. For instance, the disposal of the mobile phone masts business to Italian infrastructure company already commenced. In addition, the changes were further confirmed with the decision for the Telecom Italia's CEO - Marco Patuano to step down.

Lastly, Vivendi is actively expanding its stakes in video game businesses. It increased its holdings in Gameloft and Ubisoft to 29.86% and 15.90% respectively, spending a total of €160m. The move triggered their stock prices to surge by 17% and 14% respectively. The rationale for such investment is a vision that video games are a strategic operational fit for Vivendi's content.

Mr. Bolloré seems to be eager to turn Vivendi into southern European media powerhouse. Though the rationale behind some investments remains unclear, his reputation of a savvy trader keeps investors confident in Vivendi. This is reflected in the fact that the company trades at 14x EV/EBIDTA which is well above the industry average.

Market Reactions

The deal between Vivendi and Mediaset was announced on Friday, April 8, after the closing of the markets. On Monday and in the following days the market reacted positively. In particular, Mediaset gained 2.57% on Monday, 2.62% on Thursday and 4.51% on Wednesday. However, it should be taken into consideration that the deal was strongly expected so the Mediaset share price had already gone up by 5.36% before the announcement.

Financial Advisors

Neither Mediaset S.p.A. nor Vivendi disclosed the financial institutions that advised them on this deal.

Tags: Mediaset, Vivendi, Bolloré, Media, Telecommunications, Pay-tv, Berlusconi.

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.