

Vivendi (VIV.PA)

Why Vivendi May Not Be Cheap at €16; We Are Neutral

- **What's New in This Report?** — In this report we look at potential outcomes of the strategic review, focusing not only on potential sale values, but also on the growth/margins/cash flow profile of the businesses that are left behind. In terms of the hard numbers, we conclude that on an extreme best case there could be €10-25 of upside at Vivendi while on a worst case perhaps only €2-4 of downside. The devil, though, is in the details. We reach three important conclusions.
- **Conclusion #1: The Overwhelming Importance of SFR** — Although it is interesting to play around with the valuations of all the assets, it is important to remember that the swing factor is SFR. The valuation and performance of this asset, more than anything else, will determine the value of Vivendi longer term. See our Vivendi see-saw (Figures 1& 2 on page 5) for a graphic illustration of this point.
- **Conclusion #2: Change Must Be Substantial** — We conclude that single asset sales will not make a huge amount of difference. In fact in some cases – in particular for the fully owned entities – asset sales could actually make Vivendi's problems worse, diluting earnings and reducing dividend coverage to the point that further cuts might be required. Multi-asset sales are essential, in our view. See our Vivendi roundabout (Figure 3 on page 7) for another graphic illustration.
- **Conclusion #3: Extreme Scenarios Show Value But These May Be Unrealistic** — In order to drive significant value, we think mgmt will have to consider dramatic change and sell multiple assets. The upside potential if they go all the way to a total break-up could be significant, but so is execution risk. The most likely outcome, in our view, is a halfway house (VIV becomes pure media or focuses on francophone core) but valuation upside on these scenarios is much less pronounced.
- **Resuming coverage of Vivendi with a Neutral rating; €16 per share PT** — Following a period of restriction, we resume coverage of Vivendi with a fully updated investment case and financial model. While we do not see significant downside potential for Vivendi from current levels, nor do we think that upside is particularly easy to deliver. We resume coverage of Vivendi with a Neutral rating and a €16 PT.

Vivendi (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	28,878.0	28,813.0	28,685.1	29,376.3	29,636.4
Net Income (€M)	2,698.0	2,952.0	2,353.5	2,502.0	2,679.9
Diluted EPS (€)	2.19	2.38	1.82	1.92	2.05
Diluted EPS (Old) (€)	2.12	2.36	2.35	2.44	2.52
PE (x)	7.1	6.5	8.5	8.1	7.5
EV/EBITDA (x)	3.6	3.8	4.6	4.6	4.3
DPS (€)	1.40	1.00	1.00	1.00	1.00
Net Div Yield (%)	9.0	6.5	6.5	6.5	6.5

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	2
<i>from Buy</i>	
Price (04 Oct 12)	€15.49
Target price	€16.00
<i>from €19.35</i>	
Expected share price return	3.3%
Expected dividend yield	6.5%
Expected total return	9.7%
Market Cap	€20,501M
	US\$26,688M

Price Performance (RIC: VIV.PA, BB: VIV FP)



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VIV.PA: Fiscal year end 31-Dec						Price: €15.49; TP: €16.00; Market Cap: €20,501m; Recomm: Neutral					
Profit & Loss (€m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	28,878	28,813	28,685	29,376	29,636	PE (x)	7.1	6.5	8.5	8.1	7.5
Cost of sales	-14,561	-14,391	-14,056	-14,394	-14,522	PB (x)	0.8	1.0	1.0	1.0	0.9
Gross profit	14,317	14,422	14,629	14,982	15,115	EV/EBITDA (x)	3.6	3.8	4.6	4.6	4.3
Gross Margin (%)	49.6	50.1	51.0	51.0	51.0	FCF yield (%)	16.2	15.0	9.0	12.4	15.2
EBITDA (Adj)	8,309	8,493	7,774	7,969	8,272	Dividend yield (%)	9.0	6.5	6.5	6.5	6.5
EBITDA Margin (Adj) (%)	28.8	29.5	27.1	27.1	27.9	Payout ratio (%)	64	42	55	52	49
Depreciation	-2,483	-2,531	-2,621	-2,647	-2,639	ROE (%)	9.5	12.3	10.2	10.5	10.8
Amortisation	-855	-907	-510	-510	-510	Cashflow (€m)					
EBIT (Adj)	5,726	5,860	4,769	5,198	5,571	EBITDA	8,209	8,391	7,390	7,845	8,210
EBIT Margin (Adj) (%)	19.8	20.3	16.6	17.7	18.8	Working capital	387	-307	133	-53	36
Net interest	-492	-481	-602	-611	-598	Other	-2,133	-1,860	-1,329	-2,156	-2,027
Associates	195	-18	-25	-5	-5	Operating cashflow					
Non-op/Except	-10	651	0	0	0	Capex	-3,357	-3,340	-4,386	-3,127	-3,153
Pre-tax profit	4,564	5,105	3,632	4,072	4,458	Net acq/disposals	-785	-180	-1,605	497	0
Tax	-1,042	-1,378	-1,062	-1,252	-1,381	Other	1,370	4,245	-62	0	0
Extraord./Min.Int./Pref.div.	-1,324	-1,046	-553	-657	-737	Investing cashflow					
Reported net profit	2,198	2,681	2,016	2,163	2,340	Dividends paid	-2,674	-2,885	-1,745	-1,717	-1,731
Net Margin (%)	7.6	9.3	7.0	7.4	7.9	Financing cashflow					
Core NPAT	2,698	2,952	2,354	2,502	2,680	Net change in cash	-38	-6	-1,345	1,289	1,336
Per share data						Free cashflow to s/holders					
Reported EPS (€)	1.78	2.16	1.56	1.66	1.79		3,106	2,884	1,808	2,509	3,067
Core EPS (€)	2.19	2.38	1.82	1.92	2.05						
DPS (€)	1.40	1.00	1.00	1.00	1.00						
CFPS (€)	5.24	5.01	4.79	4.32	4.76						
FCFPS (€)	2.52	2.32	1.40	1.92	2.35						
BVPS (€)	19.44	15.59	15.46	16.15	16.97						
Wtd avg ord shares (m)	1,232	1,240	1,291	1,303	1,303						
Wtd avg diluted shares (m)	1,235	1,242	1,293	1,306	1,306						
Growth rates											
Sales revenue (%)	6.4	-0.2	-0.4	2.4	0.9						
EBIT (Adj) (%)	6.2	2.3	-18.6	9.0	7.2						
Core NPAT (%)	4.4	9.4	-20.3	6.3	7.1						
Core EPS (%)	1.9	8.7	-23.4	5.3	7.1						
Balance Sheet (€m)											
Cash & cash equiv.	3,310	3,304	1,959	3,248	4,583						
Accounts receivables	6,711	6,730	6,542	6,694	6,676						
Inventory	750	805	805	805	805						
Net fixed & other tangibles	8,217	9,001	9,889	9,744	9,626						
Goodwill & intangibles	32,537	31,843	33,857	33,553	33,757						
Financial & other assets	7,468	4,036	4,098	4,098	4,098						
Total assets	58,993	55,719	57,151	58,142	59,545						
Accounts payable	14,451	13,987	14,175	14,023	14,041						
Short-term debt	3,430	3,301	4,500	4,500	4,500						
Long-term debt	8,573	12,409	11,659	11,659	11,659						
Provisions & other liab	4,366	3,952	3,952	3,952	3,952						
Total liabilities	30,820	33,649	34,286	34,134	34,152						
Shareholders' equity	24,058	19,447	20,142	21,042	22,119						
Minority interests	4,115	2,623	2,722	2,965	3,274						
Total equity	28,173	22,070	22,865	24,008	25,393						
Net debt	8,693	12,406	14,200	12,911	11,576						
Net debt to equity (%)	30.9	56.2	62.1	53.8	45.6						

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For definitions of the items in this table, please click [here](#).

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Swings & Roundabouts

What a year!

Although much has changed since the announcement of the EMI deal in November 2011 – including the weighting of the group to telecom assets (now 55% and forecast to fall to 51% by 2014E), the CEO and both the level and format of the group's annual dividend – some things remain the same. The most notable of these, and some would argue the most surprising, is the share price which stands at €15.5 per share, little changed from 12 months ago (albeit with the caveat that we have seen some quite extreme volatility in the interim).

Much has changed: CEO, dividend, asset mix....

Another important constant is that Vivendi remains fiendishly complex to analyse, largely because there are so many variables for analysts and investors to contemplate.

It is possible that, for example, SFR is too cheap within the SOTP, but this is obviously heavily reliant on valuing the other assets appropriately.

... and much hasn't: share price, investment debate

In the manner of the proverbial butterfly's wing beat in the Amazon, small changes in one part of Vivendi's SOTP can beget hurricanes elsewhere.

A Framework for Analysis: Testing Scenarios

So what should investors do? Well, ultimately, it all comes back to scenario analysis, which has become especially relevant since the launch of the strategic review in June of this year. What Vivendi chooses to sell and how it decides to balance equity and debt in the capital structure end up being of enormous importance.

We contemplate a pick and mix of asset sales scenarios...

Our own approach is to compile a pick-and-mix of scenarios, including individual asset sales as well as thematic 'bundle sales'. In this context we imagine Vivendi variously morphing into a pure-play media company, a pure-play telecom company, a franco-phone platform business, a solo French champion and, even, just plain old SFR.

..and benchmark each on what it does to growth, returns, dividend coverage and valuation

The trick in each case is to back-test the inputs in terms of valuations, but also consider what Vivendi will look like in terms of growth, returns and valuation in each scenario.

What does this tell us?

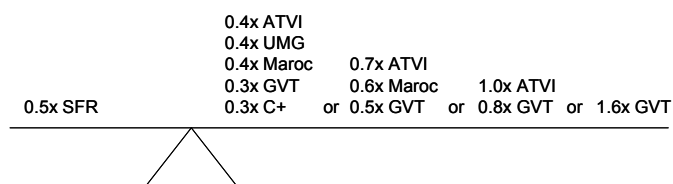
Conclusion #1: The Overwhelming Importance of SFR

Rules for looking at Vivendi:

1. It's the French mobile business, stupid

Investors should focus on what is important, and this is SFR. One turn of 2013E EBITDA for GVT is equivalent to just 0.6x of a turn of 2013E EBITDA for SFR. In other words, we estimate that the benefit of GVT being worth 8x, rather than 6x, would be wiped out if SFR is worth 3.9x rather than 4.5x. This is not to say the Vivendi share price will be immune to a better rating, but context is necessary.

Figure 1. The Vivendi See-Saw – Required Change in Valuation of Non-SFR Assets to Balance Change in SFR Valuation (2013E EV/EBITDA)



Source: Citi Research

Figure 2. The Vivendi See-Saw in Numbers – Required Change in Valuation of Non-SFR Assets (€m/turns of 2013E EBITDA)

Division	€m	x EV/EBITDA
0.5x SFR EBITDA is worth	1,464	0.5
<i>Split between the other divisions, is equivalent to:</i>		
ATVI	293	0.4
UMG	293	0.4
Maroc	293	0.4
GVT	293	0.3
C+	293	0.3
<i>Split between ATVI + Maroc + GVT:</i>		
ATVI	488	0.7
Maroc	488	0.6
GVT	488	0.5
<i>Split between ATVI + GVT:</i>		
ATVI	732	1.0
GVT	732	0.8
<i>Or just GVT:</i>		
GVT	1,464	1.6

Source: Citi Research

- Looking at our scenario analysis, our base case suggests that SFR is valued at 3.0x 2013E EBITDA. This is below our own base case valuation, but this should be seen in the context of a declining EBITDA profile. On our absolute blue-sky valuations for the non-SFR businesses, SFR could be valued at as low as 1.5x.

Conclusion #2: Management Can't Fiddle Around the Edges; Change Must Be Substantial

2. A single asset sale or, worse, a partial asset sale could make things worse

In order to convincingly demonstrate there is value in the SOTP (or more importantly that that value will be realised) we think Vivendi will need to sell more than one asset.

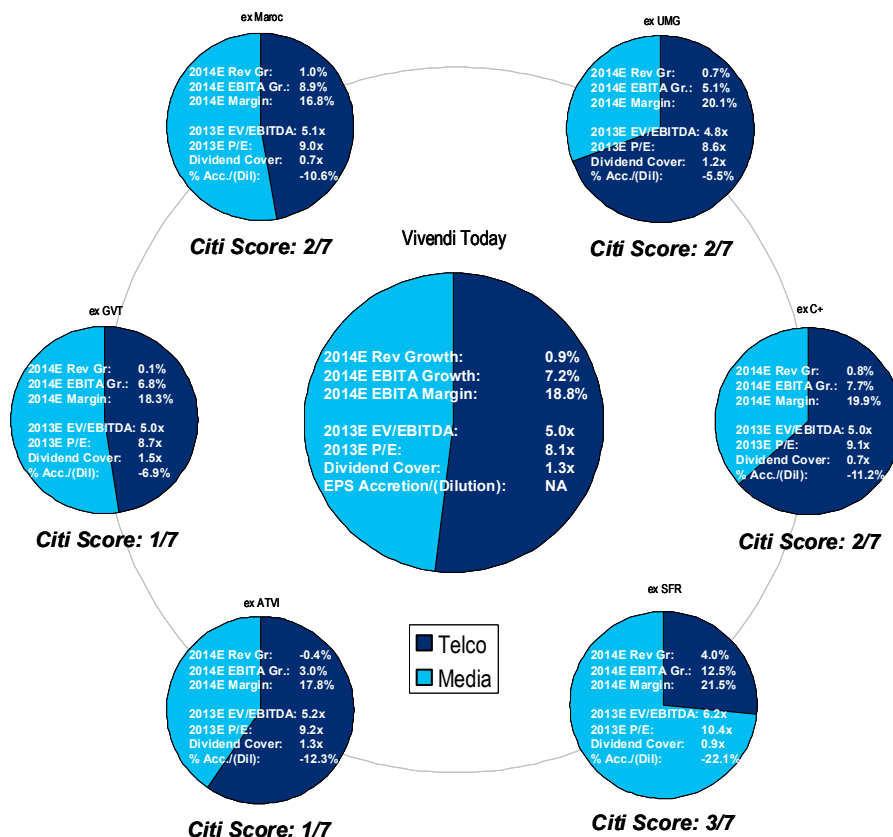
A bumper valuation for any single asset, with the possible exception of SFR, would not make a meaningful difference to either the capital structure or valuation.

An IPO of one of the divisions, or secondary offering of the listed stakes, might also be of only cosmetic benefit, while a sale of one of the fully owned and operated assets might actually make Vivendi's problems worse, diluting earnings and reducing dividend coverage to the point that further cuts may be required.

Our 'Roundabout' table shows not only what Vivendi might look like post individual asset sales, but shows the growth/margin/dividend coverage profile in each scenario...

...the interesting, and slightly worrying, thing is that in most scenarios Vivendi ends up looking less exciting post sale than it does today (based on the Citi Score which counts the numbers of metrics that are improved vs. base case)

Figure 3. The Vivendi Roundabout – Looking at Portfolio Shape, Growth, Margins, Returns & Valuation Under Single Asset Sales Scenarios (Citi Score = No. of Metrics Improved vs. Today)



Source: Citi Research

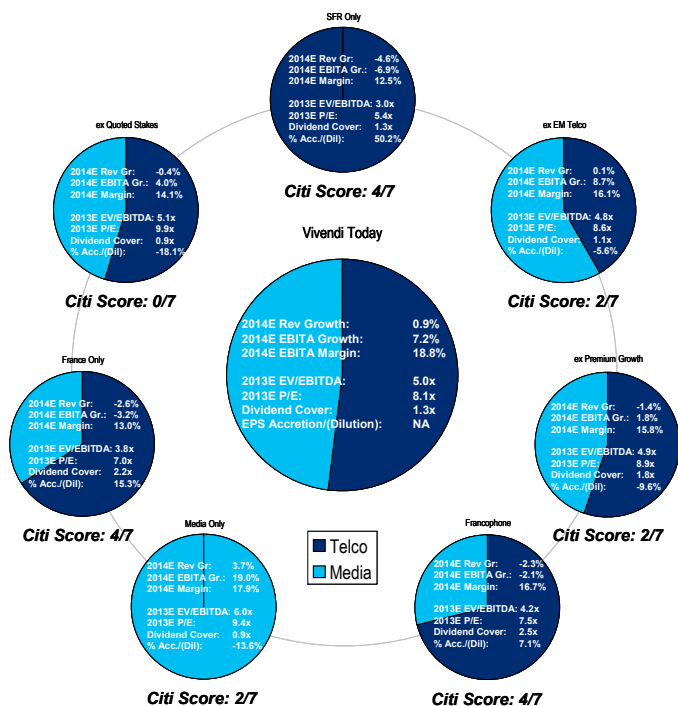
Conclusion #3: Extreme Scenarios Demonstrate Value But We Are Not Convinced These Are Realistic

When we look at extreme scenarios, we can make the case for relatively significant upside in Vivendi. On a blue-sky SOTP and assuming perfect execution, this could even be as much as €10-25 per share of upside relative to just €2-4 per share of downside on our worst case. In practice, though, we are not sure this is realistic.

- First it assumes that the management and supervisory boards will be willing to go 'all the way'. Although maximising value is a key priority, the emphasis on adjusted EPS growth and the commitment to keeping the credit rating suggests that the boards expect something to be left over.
- Second, the most recent newsflow suggests that the perfect execution we allude to above may be difficult to deliver. For example, early investigations into an outright sale of ATVI appear to have come to naught (cf. Bloomberg).
- Finally, and perhaps most importantly, it assumes no change to the underlying, which itself may be optimistic.

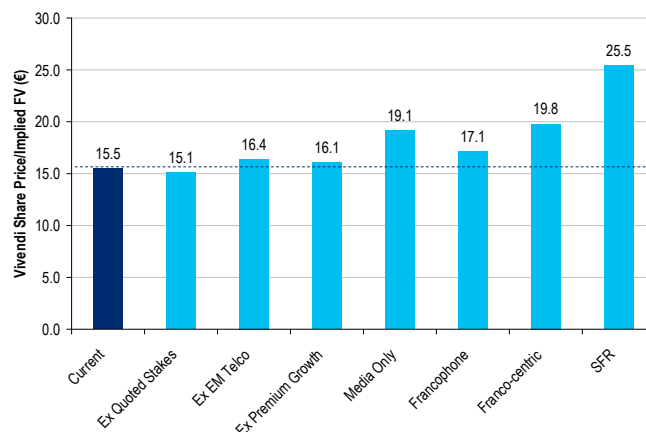
When we consider more muted multi-asset sale scenarios, we find they are more consistent with valuations around the current level.

Figure 4. The Vivendi Roundabout Mk 2 - Multi-Asset Sale Scenarios



Source: Citi Research

Figure 5. Implied FV of Rump on Multi-Asset Sales Scenarios (€)



Source: Citi Research Estimates

In the final analysis, we think risk/reward looks pretty balanced...

...travelling may be better than arriving

Putting this together, we are underwhelmed with the valuation risk/reward at Vivendi. We want to like it and would still counsel against selling the name – event/ newsflow risk is extreme and could yet boost sentiment – but it is not immediately clear that the upside on offer is significant enough given the likely execution risks around realising value and the timeframe the company is likely to have to work to. As tends to be the case, travelling may well be more fruitful for investors than arriving.

Catalysts for a Change in Perceptions

- **The most important sensitivity in our model and analysis is the valuation of SFR.** In this context, we think the best thing that could happen is a broad re-rating of the telecoms sector in Europe. Our telecoms team remains hopeful of this – but it is far from base case.
- **Tangible evidence of competition for assets.** Critical to the story is a clean exit of preferably two assets. One of the drags on sentiment is that, as it stands today, this looks less likely.

Other Avenues for Investors

If we are right and the risk/reward for Vivendi as a whole is not compelling, what should investors look at instead? As it happens, we think there are a number of opportunities relatively close to home.

- **One of the keys to unlocking value is the potential for a rerating of Activision Blizzard.** The important point here is that any benefit enjoyed by Vivendi will be less direct than that gained by owning ATVI direct. There is not only a compelling re-rating opportunity - at sub-6x 2013E EV/EBITDA, arguably ATVI is the most anomalously valued entity with Vivendi – but we think the earnings quality is improving as the group diversifies beyond CoD and WoW. We rate ATVI Buy in its own right with a \$15 per share price target and advocate owning it directly.

But if you like this story, why not consider owning ATVI direct?

Robust transaction multiples for Vivendi's assets could drive a rerating of selected pay and FTA TV names

- **We are pretty positive on trends in European payTV** and argue that there is upside potential to the multiple at Canal+, but the same applies to other payTV names within our coverage, in particular BSkyB and Sky D. Any positive read on transaction multiples for payTV/channel businesses should also have a positive read for the FTA broadcasters under our coverage, in particular ITV and TF1. We rate all of these names as Buy.
- More broadly we think investors get more dependable defensive earning profile within the **professional publisher space** and, in the case of some of the B2B names, at a comparable headline valuation (at least on P/E).

We resume at Neutral; €16.0 PT

Resume Coverage at Neutral; €16.0 PT

We reinitiate on Vivendi after a lengthy period of restriction with a Neutral rating and a €16.0 per share PT.

Figure 6. Vivendi – Base Case SOTP Analysis (Year-end December 2013E, €m except where stated)

Division	2013E			2013E Multiple			Owner-ship	Value (€m)		
	Revenue	EBITDA	EBITA	EV/Sales	EV/EBITDA	EV/EBITA		100%	VIV	Per share (€)
Activision Blizzard	3,398	1,166	1,027	2.0x	5.7x	6.5x	62.0%	6,686	4,145	3.2
Universal Music Group	5,123	709	525	1.2x	9.0x	12.2x	100.0%	6,385	6,385	4.9
SFR	10,711	2,928	1,491	1.1x	4.0x	7.9x	100.0%	11,711	11,711	9.0
Maroc Telecom Group	2,714	1,443	1,035	3.2x	6.0x	8.4x	53.0%	8,650	4,585	3.5
GVT	2,224	901	531	2.8x	7.0x	11.9x	100.0%	6,304	6,304	4.8
Canal+ Groupe	5,242	941	714	1.3x	7.0x	9.2x	80.0%	6,589	5,271	4.0
Holding & Corporate		-105	-105		4.0x	4.0x	100.0%	-420	-420	-0.3
Non-core/eliminations	-35	-14	-19		4.0x	2.9x	100.0%	-56	-56	0.0
Group	29,376	7,969	5,198	1.6x	5.8x	8.8x		45,848	37,924	29.1
Associates/Assets for Sale								400	400	0.3
Tax Asset								1,000	1000	0.8
Enterprise Value	29,376	7,969	5,198	1.6x	5.9x	9.1x		47,248	39,324	30.2
2012E Net Debt								-13,821	-14,607	-11.2
Value of Minorities								-8,710		
Equity Value pre-Holding Co Discount								24,718	24,718	19.0
Holding Company Discount							15%	-3,708	-3,708	-2.8
Equity Value								21,010	21,010	16.1

Source: Citi Research

Constructing a Scenario Analysis

Creating a framework for analysis

In this chapter we look at potential outcomes of the strategic review and create a framework for analysis. We start by looking at the background to the strategic review and try to ascertain what the management and supervisory boards will be trying to achieve with the strategic review. On the back of this we review the different options and then make a best guess at what we think will be the outcome, including best- and worst-case scenarios around our base case.

The conclusions from this are quite startling. We make a number of points:

- **First, although it is interesting to play around with the valuations of all the assets, it is important to remember that the swing factor is SFR.** The valuation and performance of this asset, more than anything else, will determine the value of Vivendi longer term.
- **Second, perhaps reflecting this point, we conclude that *single* asset sales will not make a huge amount of difference.** In fact in some cases – in particular the fully owned/consolidated assets – asset sales could actually make Vivendi's problems worse, diluting earnings and reducing dividend coverage to the point that further cuts may be required.
- **Third, in order to drive significant upside, we think the supervisory/mgmt boards may have to consider more dramatic change and sell multiple assets.** The upside potential here could be significant, but so is execution risk.
- Putting this all together, **while we do not see significant downside** for Vivendi from current levels, **nor do we think that upside is necessarily that significant or particularly easy to deliver.** This supports our Neutral view on the shares.

With that overview, let's dig into the detail.

Background to the Strategic Review

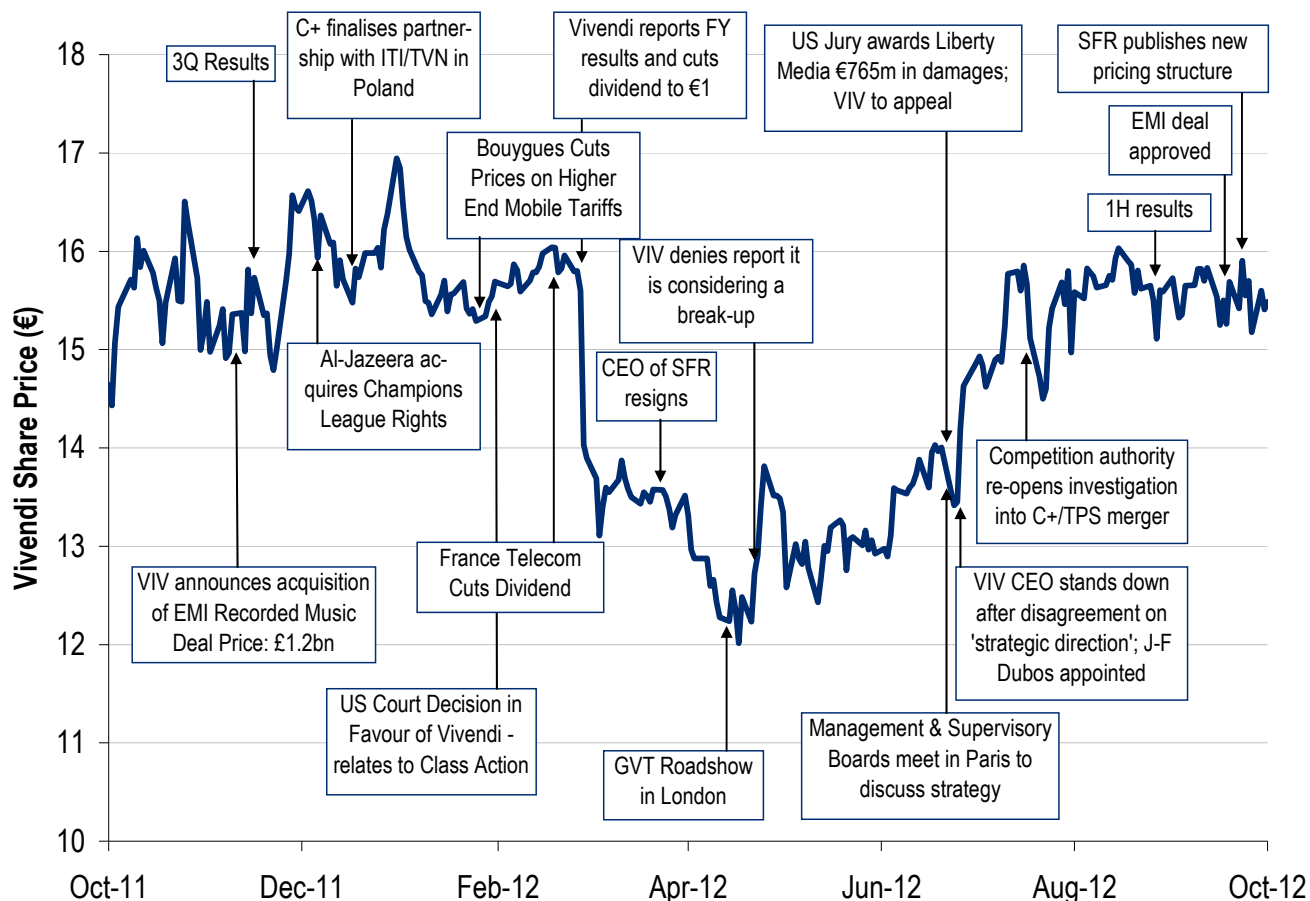
We create a timeline for the last 12 months. Key events include:

- *the launch of Free in France*
- *dividend cut and management change*
- *launch of a strategic review*

We show a timeline of events over the past 12 months in the chart below. The most significant events of the last 12 months, though, are:

- **Evidence of real stress in the domestic mobile/triple play market following the launch of Free.** This culminated in both price cuts and eventually dividend cuts both by competitors (Bouygues/FT) and by Vivendi. The dividend cut at the FY results (end of February) was a key negative catalyst for the shares.
- **The resignation of both the CEO of SFR (late March) and the CEO of Vivendi group (late June).** The former followed what we see as SFR's failure to prepare adequately for the launch of Free; the latter was '*following a divergence of views on the strategic development of the group*'. In both cases 'caretaker' managers have been appointed. At SFR Stephane Roussel was former head of Human Resources both at the group level and before that at SFR itself; at the group level Jean-Francois Dubos was the former secretary to the management and supervisory boards and General Counsel for the group.
- **Launch of a strategic review of the group's assets.** The process is being driven by the management board's and the supervisory board's strategic committee. Twin focus on shareholder value creation and adjusted EPS growth. Maintenance of a BBB/Baa2 rating also flagged as a key commitment.

Figure 7. Vivendi – Timeline, October 2011-October 2012



Source: Datastream, company reports, Citi Research

What Is Vivendi Aiming to Achieve?

The boards are seeking to do three things

We think it is important that Vivendi has given three benchmarks against which strategic decisions will be measured. These are:

- Shareholder value creation
- Adjusted EPS growth
- The maintenance of a BBB / Baa2 rating

Off the back of this, we make a number of observations:

Shareholder Value Creation

Emphasis on shareholder value creation suggests some asset sales are more likely than others

The commentary about shareholder value creation implicitly suggests that management will be focused on the areas where value is underappreciated. This is important because this somewhat narrows the focus in terms of which assets are likely to be in focus.

For example, take Maroc. If anything, the existing valuation of Maroc Telecom looks relatively full, given the stock's c.50% premium to peers based on 2013E EV/EBITDA. Given the group has full access to its cash – via the 100% dividend payout commitment – the group's prospects are unexciting, but nor would it be the first port of call to create shareholder value, in our view.

Most likely near-term asset sale is likely to be GVT, in our view

Likewise, in the absence of an outright sale of Activision Blizzard, which could generate a premium for control, it is not clear exactly how a sale might improve shareholder value. Indeed, with a likely placing discount, it could be argued that too hasty a sale could destroy value.

Reflecting this, we think the best potential routes to shareholder value creation potentially lie in GVT – where there is uncertainty over the appropriate valuation of the group as well as a number of potential buyers – in UMG – where the group's status as the number 1 music business worldwide may not be appropriately captured in valuation – or in SFR itself – where uncertainty over the future prospects for the division in light of the Free entry are understandably clouding perceptions of valuation.

Adjusted EPS Growth

EPS growth criterion potentially hints at buybacks

The fact that this is still a criterion suggests to us that a wholesale break-up is less likely. If it were, why worry about the EPS growth profile of what's left? At the same time it gives a slight clue as to how the proceeds of any sales – above and beyond what is required for de-leverage – may be used. In particular, we think buybacks could come onto the agenda.

The Maintenance of a BBB / Baa2 Rating

Focus on the credit rating highlights the importance Vivendi attributes to controlling cash flows

This is relevant because, although asset sales will generate cash, in most cases they will also entail a loss of cash flow. As we explain in more detail below, though, not all the assets have the same profile.

The inclusion of a requirement to maintain a given rating suggests to us that a potential sale of Activision Blizzard (ATVI) becomes more likely because the actual cash flow that Vivendi ends up controlling is just a fraction of the 'cosmetic' cash flow that appears in their accounts.

This suggests GVT and ATVI more in the frame; GVT because it is FCF-negative; ATVI because VIV can't access cash

We think it also increases the likelihood that GVT is a potential disposal target. As above, not only is this an asset that potentially could command a rich valuation, but it is also an asset that generates no cash flow. A disposal, therefore, would not only reduce leverage, but potentially leave the group better placed to cover its existing dividend commitments.

Looking at Base Case Valuation

Base case valuation: €19 pre holding discount; €16 post holding discount

The starting point for a full-blown scenario analysis has to be a basic sum-of-the-parts (SOTP) analysis. We show our base case forecasts below. We make a number of observations on the back of this analysis:

- **Note that our analysis is based on 2013E forecasts.** This is relevant because this captures the inconvenient reality that expectations are that for some divisions revenue, EBITDA and FCF will actually fall. This is extremely important for SFR. Part of the deviation in expectation between us and consensus on valuation arises from the fact that not only do some analysts use a higher multiple – ours is based on the simple European Telecoms average – but also they then apply this to 2012E forecasts.
- **For the quoted stakes (ATVI and Maroc) we simply take the most recent share price.** We apply no placing discount. This is something we look at in more detail in our sensitivity analyses below.
- **For Universal Music we apply a recent transaction multiple, i.e. 1.2x EV/Sales.** This is consistent with 9.0x 2013E EV/EBITDA for the division as a whole. Although inherently iterative, we have based this on the recent acquisition price of EMI. Again, we look at sensitivities to this below as bulls may argue that this is harsh, especially given that EMI was a recorded music transaction. But as a starting point we think it is fair.

- **For GVT** we have based our analysis on an EV/EBITDA multiple of 7.0x.
- **For SFR** we base the valuation on the average multiple of a European Telecom operator. We note that this is also comparable with the valuation of France Telecom.
- **For Canal+**, although we are inherent believers in the value of payTV platforms, we argue it is not appropriate to use recent transaction multiples because of media ownership regulations in France. We base our valuation on 1.3x EV/Sales which we argue is consistent with the group's low teens margins. As a sanity check, our valuation works out at around €500 per subscriber.

Figure 8. Vivendi – Base Case SOTP Analysis (Year-end December 2013E, €m except where stated)

Division	2013E			2013E Multiple			Owner-ship	Value (€m)		
	Revenue	EBITDA	EBITA	EV/Sales	EV/EBITDA	EV/EBITA		100%	VIV	Per share (€)
Activision Blizzard	3,398	1,166	1,027	2.0x	5.7x	6.5x	62.0%	6,686	4,145	3.2
Universal Music Group	5,123	709	525	1.2x	9.0x	12.2x	100.0%	6,385	6,385	4.9
SFR	10,711	2,928	1,491	1.1x	4.0x	7.9x	100.0%	11,711	11,711	9.0
Maroc Telecom Group	2,714	1,443	1,035	3.2x	6.0x	8.4x	53.0%	8,650	4,585	3.5
GVT	2,224	901	531	2.8x	7.0x	11.9x	100.0%	6,304	6,304	4.8
Canal+ Groupe	5,242	941	714	1.3x	7.0x	9.2x	80.0%	6,589	5,271	4.0
Holding & Corporate		-105	-105		4.0x	4.0x	100.0%	-420	-420	-0.3
Non-core/eliminations	-35	-14	-19		4.0x	2.9x	100.0%	-56	-56	0.0
Group	29,376	7,969	5,198	1.6x	5.8x	8.8x		45,848	37,924	29.1
Associates/Assets for Sale								400	400	0.3
Tax Asset								1,000	1000	0.8
Enterprise Value	29,376	7,969	5,198	1.6x	5.9x	9.1x		47,248	39,324	30.2
2012E Net Debt								-13,821	-14,607	-11.2
Value of Minorities								-8,710		
Equity Value pre-Holding Co Discount								24,718	24,718	19.0
Holding Company Discount							15%	-3,708	-3,708	-2.8
Equity Value								21,010	21,010	16.1

Source: Citi Research

Mapping Out the Scenarios

We look at individual asset sales...

Individual Asset Sales Less Likely, in Our View

In the table below we map out the impact of a sale of any of the individual assets. Our core assumptions for this analysis are that:

- **Any capital gains liability on sale will be minimal.** In France, for substantial shareholdings (>5%) that have been held for at least two years, any capital gain is 90%-exempt from tax. The remaining 10% is taxed as normal corporate income (the current statutory rate is 36.1%); therefore the effective tax rate on capital gains is 3.61%. Even this may be harsh for Vivendi, given its tax assets, but we use it as the basis for our analysis.
- **We assume 1.5x net debt/EBITDA is the target leverage for the group,** independent of what structure the group eventually has. We also assume that, given the condition above on adjusted EPS growth, any surplus proceeds will be invested in a buyback to offset EPS dilution. For the purpose of the buyback, we assume it takes place at the current price.

... and conclude that this won't be enough

- **We also look at the likely EPS of the group post asset disposal.** For the purpose of this analysis we assume a 4% cost of debt and a 28% tax rate. We also consider the FCF of the group post disposal and on the back of this dividend coverage.

We show the results of this analysis in the charts below but we make three critical observations on the back of this:

- **First, it is worth noting that every scenario is dilutive to EPS.** On the basis that the boards are benchmarking themselves on adjusted EPS growth, one might conclude that a sale of GVT or UMG may be most preferable, given they result in the least potential dilution.
- **Second, it is worth noting that three out of the six scenarios result in a fall in FCF such that the group's dividend would be no longer covered.** This makes these asset sales – namely of SFR, Maroc and Canal+ - at least individually, less likely, in our view. Perhaps this is no surprise given it is these assets where the Vivendi has 100% ownership of cash (or in the case of Maroc a 100% payout ratio). It is worth noting that sale of GVT and ATVI would increase Vivendi's dividend coverage in the case of the former (because it is yet to reach FCF breakeven) and result in little change in the case of the latter (because Vivendi doesn't have full access to the cash the division generates).
- **Third, looking at the implied valuation for the rump – i.e. what is left – in each instance does not suggest Vivendi is anomalously valued.** For example, were Vivendi to successfully sell SFR at 4.0x 2013E EBITDA, not only would this imply a dividend cut but it would leave the company valued at c. 6.2x EV/EBITDA and 10.4x P/E for 2013E, in other words cheap, but we think not outrageously so for what would still be a hybrid telecom/media business. At the other end of the spectrum, a sale of GVT would reduce leverage and secure the dividend, but at 5.0x 2013E EV/EBITDA and 8.7x 2013E P/E, it wouldn't be immediately obvious that there would be a rerating opportunity as the growth profile would be lower.

On the back of this, we think that an individual asset sale will not be enough to transform the perceptions of Vivendi as a group. It would, in some cases, secure the dividend, but it would not leave it unusually cheap. We are therefore forced to conclude that either the company will have to be more aggressive and sell off multiple assets, or, if it doesn't, there is scope for the process to disappoint.

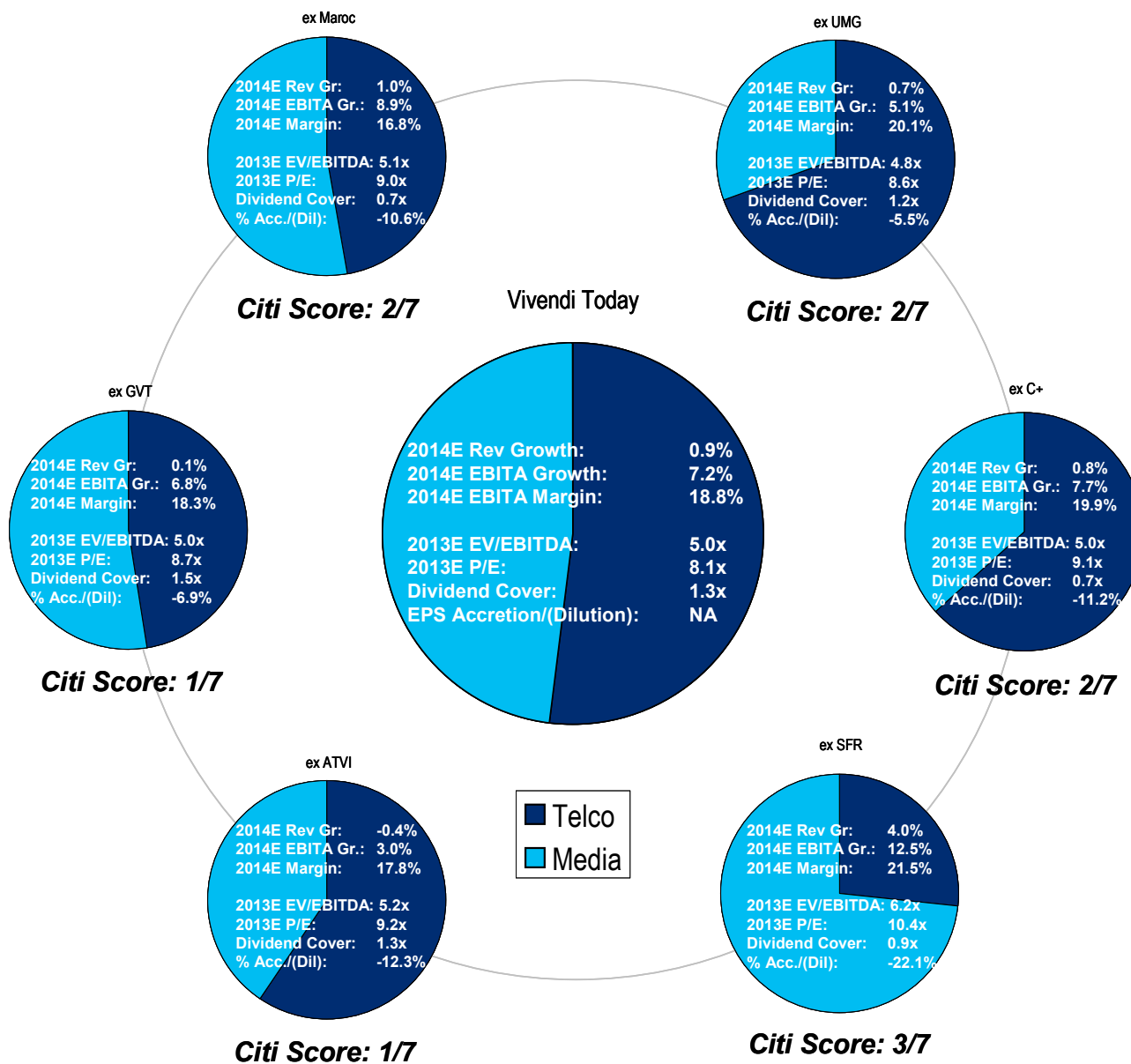
We show this graphically in the Vivendi Roundabout chart on the following page, where the Citi Score shows the number of metrics that improve vs. our base case under various single asset sales scenarios. On no scenario do we see a score better than 3 out of 7, and even this is predicated on a sale of SFR, arguably the most difficult asset sale to execute.

Figure 9. Mapping Out The Scenarios – Looking at Individual Asset Sales (Year-end December 2013E, €m except where stated)

Assets to be Sold	ATVI	UMG	SFR	Maroc	GVT	C+
Vivendi Share	62.0%	100.0%	100.0%	53.0%	100.0%	80.0%
Segmental Assets	4,117	7,679	20,110	6,134	7,429	7,429
Segmental Liabilities	-1,998	-2,764	-4,077	-1,690	-618	-2,829
Implied Book Value @ 100%	2,119	4,915	16,033	4,444	6,811	4,600
VIV Share of Book Value	1,314	4,915	16,033	2,355	6,811	3,680
2013E Consolidated EBITDA	1,166	709	2,928	1,443	901	941
2013E Proportionate EBITDA	723	709	2,928	765	901	753
Base Case SOTP Value (EV @ 100%)	6,686	6,385	11,711	8,650	6,304	6,589
Implied 2013E EV/EBITDA	5.7	9.0	4.0	6.0	7.0	7.0
VIV Share of Equity	5,965	6,385	11,711	4,213	6,304	5,271
Capital Gain taxed at 3.61%	-168	-53	0	-67	0	-57
Net Cash Proceeds	5,797	6,332	11,711	4,146	6,304	5,214
Reduction/(Increase) in Proportionate Net Debt	-1,820	0	0	372	0	0
Total Impact on EV	3,977	6,332	11,711	4,517	6,304	5,214
Base Case VIV Proportionate 2013E EBITDA	6,659	6,659	6,659	6,659	6,659	6,659
VIV 2013E Proportionate EBITDA Post Sale	5,936	5,950	3,732	5,895	5,759	5,906
Base Case VIV 2012E Proportionate Net Debt	-14,607	-14,607	-14,607	-14,607	-14,607	-14,607
VIV 2012E Proportionate Net Debt Post Sale	-10,629	-8,275	-2,896	-10,089	-8,303	-9,393
Base Case VIV ND/EBITDA	2.2	2.2	2.2	2.2	2.2	2.2
Implied Net Debt/EBITDA Post Sale	1.8	1.4	0.8	1.7	1.4	1.6
Implied Net Proceeds Assuming 1.5x ND/EBITDA	0	650	2,701	0	335	0
Current Share Price (€)	15.5	15.5	15.5	15.5	15.5	15.5
Implied Buyback (m)	0	42	174	0	22	0
Base Case 2013E Adjusted Net Income	2,502	2,502	2,502	2,502	2,502	2,502
Change in EBIT	-1,027	-525	-1,491	-1,035	-531	-714
Change in interest at 4%	159	227	360	181	239	209
Change in tax at 28%	243	83	317	239	82	141
Change in minority	318	0	0	350	0	83
Implied 2013E Adjusted Net Income	2,195	2,287	1,688	2,237	2,292	2,222
Base Case FD NOSH	1,306	1,306	1,306	1,306	1,306	1,306
Implied FD NOSH	1,306	1,264	1,131	1,306	1,284	1,306
Base Case VIV 2013E EPS	1.92	1.92	1.92	1.92	1.92	1.92
VIV 2013E EPS Post Sale, Post Buyback	1.68	1.81	1.49	1.71	1.79	1.70
% accretion/(dilution)	-12.3%	-5.5%	-22.1%	-10.6%	-6.9%	-11.2%
Base Case 2013E Owned Equity FCF	1,681	1,681	1,681	1,681	1,681	1,681
Change in FCF	55	-116	-698	-713	258	-815
Implied 2013E Equity FCF	1,737	1,565	984	968	1,939	867
Base Case 2013E Dividend Payment (@ €1 per share)	-1,306	-1,306	-1,306	-1,306	-1,306	-1,306
Implied 2013E Dividend Payment (@ €1 per share)	-1,306	-1,264	-1,131	-1,306	-1,284	-1,306
Base Case Dividend Coverage	1.3	1.3	1.3	1.3	1.3	1.3
Implied Dividend Coverage	1.3	1.2	0.9	0.7	1.5	0.7
Implied Valuation of Rump						
2013E EV/EBITDA	5.2	4.8	6.2	5.1	5.0	5.0
2013E P/E	9.2	8.6	10.4	9.0	8.7	9.1

Source: Citi Research

Figure 10. The Vivendi Roundabout – Looking at Portfolio Shape, Growth, Margins, Returns & Valuation Under Single Asset Sales Scenarios (Citi Score = No. of Metrics Improved vs. Today)



Source: Citi Research

We then look at multi-asset sales

The permutations are endless

We see a combined sale of the quoted stakes or a drill down to media-only assets as unlikely

There is a consistent trade-off between securing the balance sheet/dividend and growth

We think a gradual focus on Francophone or Franco-centric assets is the most likely outcome

Looking at Multi-Asset Combinations: Choose Your Theme

If an individual asset sale is unlikely to work, we should consider what combinations of asset sales are possible, which would make sense and how these would impact numbers. We repeat the analysis above based on the following scenarios:

- Vivendi sells the Quoted Stakes, i.e. ATVI and Maroc
- Vivendi sells EM Telco, i.e. GVT and Maroc
- Vivendi sells Premium Growth Assets, i.e. GVT and ATVI
- Vivendi sells non-Francophone assets, i.e. ATVI, UMG and GVT
- Vivendi sells all telco assets, i.e. SFR, Maroc and GVT
- Vivendi sells all non-French assets, i.e. ATVI, UMG, Maroc and GVT
- Vivendi becomes SFR, i.e. sells ATVI, UMG, Maroc, GVT and C+

So, what does this analysis tell us? Well once again we make a number of observations:

- **There are two that not only entail significant EPS dilution but also would necessarily imply a dividend cut.** This is a combined sale of the quoted stakes or a move to pure-play media (i.e. sale of the full suite of telco assets). We think this makes these outcomes less likely.
- **Arguably the most straightforward, which is the sale of the premium-growth assets, is only mildly dilutive and helpful for dividend coverage.** The issue is that this would necessarily entail a relatively sharp reduction in growth and, as such, it is not clear to us that the group looks wildly cheap on this outcome – 4.9x 2013E EV/EBITDA and 8.9x 2013E P/E does not look outrageous.
- **Selling EM Telco would perhaps have the benefit of simplifying the structure, without being significantly deleterious to either EPS or dividend coverage,** but once again the issue is the valuation of the rump. It is not clear to us that 4.8x 2013E EV/EBITDA and 8.6x 2013E P/E is cheap enough to make the shares look compelling at this level.
- **It is worth noting that the most extreme outcome, which is selling everything except SFR, suggests the latter is effectively valued at 3.0x 2013E EV/EBITDA.**

Putting this together, we conclude that a Francophone, or Franco-centric, outcome is most attractive. Our analysis suggests that whittling Vivendi down to either a French-speaking (including Maroc) or France-focused (excluding Maroc) group would bring the best balance of financial leverage, potential EPS accretion, dividend cover and valuation upside, albeit at the expense of overall revenue/EPS growth.

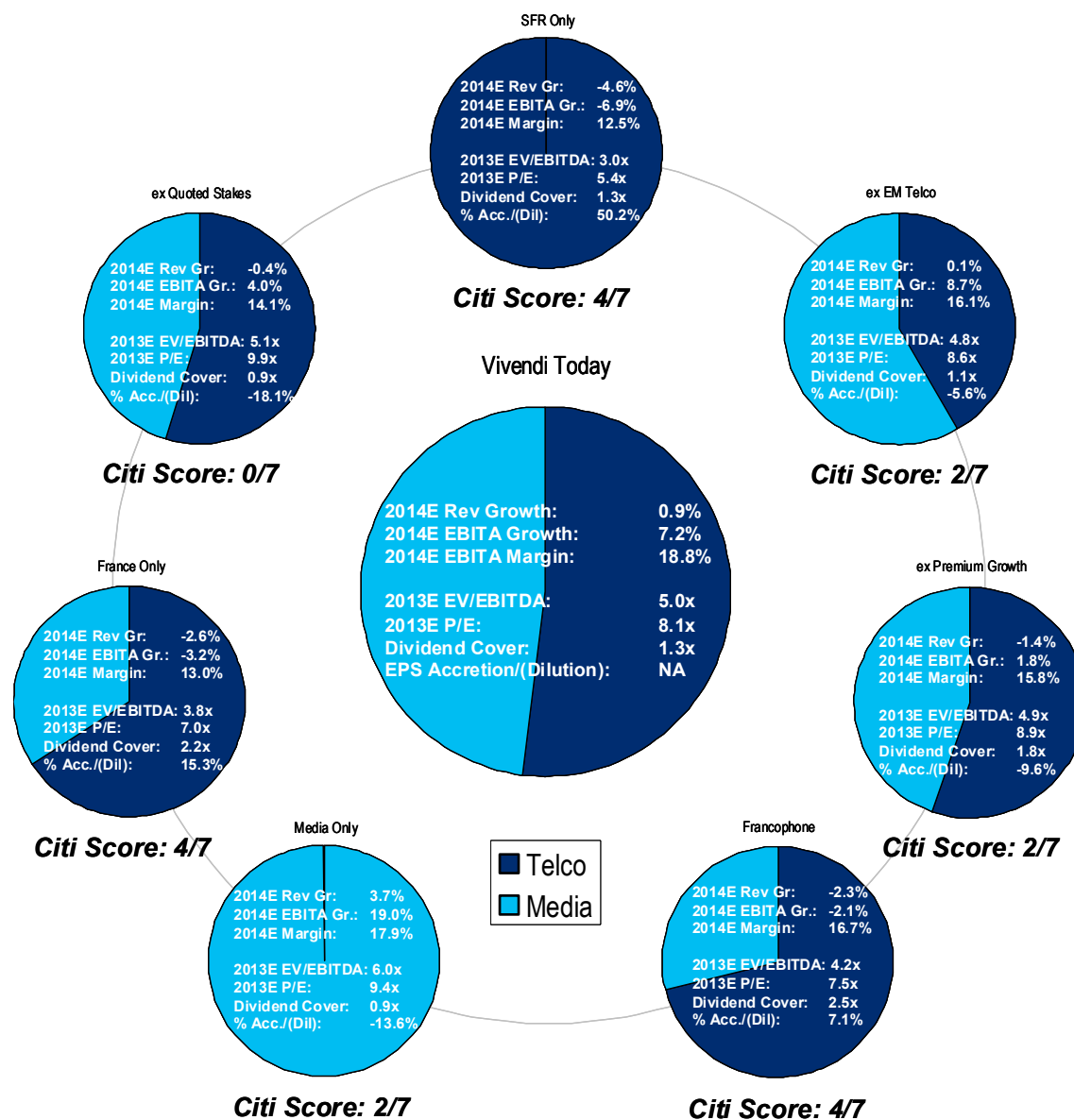
Once again using our Citi Score analysis – looking at the number of metrics that improve post disposals – we can see this in the revised Vivendi Roundabout chart we show below: the Francophone/Franco-centric scenarios score, right down to a standalone SFR all score 4 out of 7. In each of the other cases there is more of a trade-off between valuation and the resulting growth/returns profile, as indicated by a lower overall score.

Figure 11. Mapping Out The Scenarios – Looking at Combination Asset Sales (Year-end December 2013E, €m except where stated)

Assets to be Sold	ATVI + Maroc	Maroc + GVT	ATVI + GVT	ATVI + UMG + GVT	SFR + Maroc + GVT	ATVI + UMG + Maroc + GVT	ATVI + UMG + Maroc + GVT + C+
2013E Consolidated EBITDA	2,609	2,343	2,067	2,776	5,271	4,219	5,160
2013E Proportionate EBITDA	1,488	1,665	1,624	2,333	4,593	3,098	3,851
Base Case SOTP Value (EV @ 100%)	15,336	14,954	12,990	19,374	26,664	28,025	34,613
Implied 2013E EV/EBITDA	5.9	6.4	6.3	7.0	5.1	6.6	6.7
VIV Share of Equity	10,178	10,517	12,269	18,654	22,227	22,866	28,138
Capital Gain taxed at 3.61%	-235	-67	-168	-221	-67	-288	-345
Net Cash Proceeds	9,943	10,450	12,101	18,433	22,160	22,578	27,792
Reduction/(Increase) in Proportionate Net Debt	-1,448	372	-1,820	-1,820	372	-1,448	-1,448
Total Impact on EV	8,495	10,821	10,281	16,613	22,532	21,130	26,344
Base Case VIV Proportionate 2013E EBITDA	6,659	6,659	6,659	6,659	6,659	6,659	6,659
VIV 2013E Proportionate EBITDA Post Sale	5,172	4,994	5,036	4,326	2,066	3,562	2,809
Base Case VIV 2012E Proportionate Net Debt	-14,607	-14,607	-14,607	-14,607	-14,607	-14,607	-14,607
VIV 2012E Proportionate Net Debt Post Sale	-6,112	-3,785	-4,326	2,006	7,925	6,524	11,737
Base Case VIV ND/EBITDA	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Implied Net Debt/EBITDA Post Sale	1.2	0.8	0.9	-0.5	-3.8	-1.8	-4.2
Implied Net Proceeds Assuming 1.5x ND/EBITDA	1,646	3,706	3,228	8,496	11,025	11,866	15,950
Current Share Price (€)	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Implied Buyback (m)	106	239	208	548	712	766	1,030
Base Case 2013E Adjusted Net Income	2,502	2,502	2,502	2,502	2,502	2,502	2,502
Change in EBIT	-2,061	-1,565	-1,557	-2,083	-3,056	-3,117	-3,831
Change in interest at 4%	274	285	282	325	460	371	416
Change in tax at 28%	500	359	357	492	727	769	956
Change in minority	668	350	318	318	350	668	751
Implied 2013E Adjusted Net Income	1,883	1,930	1,902	1,554	983	1,192	794
Base Case FD NOSH	1,306	1,306	1,306	1,306	1,306	1,306	1,306
Implied FD NOSH	1,199	1,066	1,097	757	594	539	276
Base Case VIV 2013E EPS	1.92	1.92	1.92	1.92	1.92	1.92	1.92
VIV 2013E EPS Post Sale, Post Buyback	1.57	1.81	1.73	2.05	1.66	2.21	2.88
% accretion/(dilution)	-18.1%	-5.6%	-9.6%	7.1%	-13.6%	15.3%	50.2%
Base Case 2013E Owned Equity FCF	1,681	1,681	1,681	1,681	1,681	1,681	1,681
Change in FCF	-658	-456	313	197	-1,154	-516	-1,331
Implied 2013E Equity FCF	1,023	1,226	1,995	1,879	528	1,165	350
Base Case 2013E Dividend Payment (@ €1 per share)	-1,306	-1,306	-1,306	-1,306	-1,306	-1,306	-1,306
Implied 2013E Dividend Payment (@ €1 per share)	-1,199	-1,066	-1,097	-757	-594	-539	-276
Base Case Dividend Coverage	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Implied Dividend Coverage	0.9	1.1	1.8	2.5	0.9	2.2	1.3
Implied Valuation of Rump							
2013E EV/EBITDA	5.1	4.8	4.9	4.2	6.0	3.8	3.0
2013E P/E	9.9	8.6	8.9	7.5	9.4	7.0	5.4

Source: Citi Research

Figure 12. The Vivendi Roundabout Mk 2 – Looking at Portfolio Shape, Growth, Margins, Returns & Valuation Under Combo Asset Sales (Citi Score = No. of Metrics Improved vs. Today)



Source: Citi Research

Putting Fair Value Estimates Against Scenario Outcomes

We now look at what asset sales could mean in terms of the absolute share price

This is inherently quite difficult. It is one thing to estimate what the implied valuation is for one or other (or a collection) of the core assets. And when we work back to single assets, as we do with SFR, it is possible to benchmark valuation quite accurately – for example, the implied valuation of SFR, assuming we are right on the valuations of the other groups and that the company can perfectly execute asset sales, is just 3.0x 2013E EV/EBITDA – comfortably below the European peer group and our own SOTP-based valuation.

Frustratingly, this analysis is fraught with assumption risk

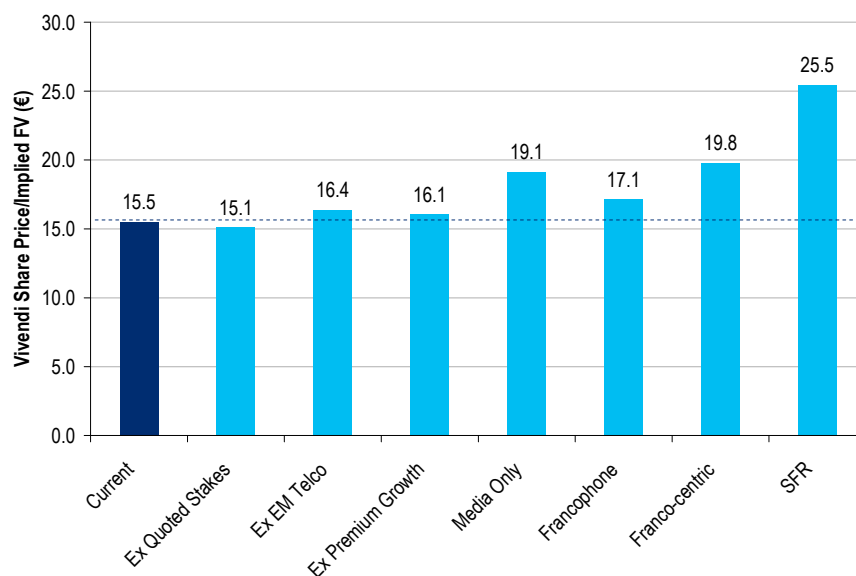
It is unfortunately more of a challenge to estimate what multiple a *group* of assets should trade at. We are, however, analysts and as such beholden to at least try. In so doing, we make the following assumptions based on the multi-asset sales scenario we outline above:

- **Ex Quoted Stakes:** We see little reason for the multiple to be significantly different from where it stands today. The group would still be tilted to telco and if anything the growth and dividend coverage profile would have deteriorated. We base our FV-analysis on 5.0x EV/EBITDA vs. 5.0x today.
- **Ex EM Telco:** Under this scenario the business mix would be skewed back to media and arguably the weighted EPS growth profile should have marginally improved. At the same time dividend cover would have deteriorated. Once again, we base our FV-analysis on 5.0x EV/EBITDA.
- **Ex-Premium Growth:** Under this scenario the business would swing back to being more telco-oriented and both lower-growth and lower-margin. The only good news is that the dividend coverage would be improved. Once again, we find it hard to justify a multiple substantially different from that of today, i.e. around 5.0x.
- **Francophone/Franco-centric/SFR:** Under each of these scenarios, the mix of the business skews back toward telecoms. Although both leverage and dividend coverage would be substantially improved in both of the first two scenarios, the growth profile would also be substantially less favourable. Reflecting this, we would argue for a reduction in the group's rating to 4.5x. In the case of SFR – the ultimate Franco-solution – we assume a multiple of 4.0x, in line with our SOTP valuation and the European Telecom peer group average.
- **Media Only:** This is perhaps the most difficult to gauge. ATVI currently trades at around 5.7x 2013E EV/EBITDA, but we argue that this undercooks the true value of the group (based on our analyst Neil Doshi's \$15 PT, the implied multiple would be nearer 8.6x). With our SOTP-based valuations for UMG and C+ also equating to 7x-9x 2013E EV/EBITDA, this is a level we think is appropriate for a slimmed-down, media-focused Vivendi.

Even so, upside to the current share price is not significant unless one assumes Vivendi goes 'all the way'

Putting this together, as we show below, such valuations do in most cases imply upside potential from the current valuation, but this is not definitive, nor is it particularly symmetrical. Indeed all three of the 'double-asset sale' scenarios suggest only minimal scope for upside. It is the more extreme scenarios that suggest more upside, and in the case of the 'media only' outcome and the Franco-centric and SFR-only scenarios, this is only because we knowingly attribute a higher multiple to the rump asset than is currently implied by current market prices.

Figure 13. Vivendi – Implied FV of Rump on Multi-Asset Sales Scenarios (€ per share)



Source: Citi Research Estimates

Looking to Sensitivities to Base Case

Looking at blue-sky/black-sky sensitivities on valuation

The final part of our analysis is to re-run the scenarios under both blue- and black-sky valuation assumptions. Before we do, there are a couple of points to consider.

- **The first is that by far the most significant factor in determining our SOTP valuation is the value of the SFR stake.** It is important to note, as we show graphically below, that just half a turn of SFR's 2013E EBITDA is equivalent to 1.6x of GVT's 2013E EBITDA. The point here is that it is all very well getting excited about the valuation of GVT, but it is important to keep it in perspective in the context.

Figure 14. The Vivendi See-Saw – Required Change in Valuation of Non-SFR Assets to Balance Change in SFR Valuation (2013E EV/EBITDA)

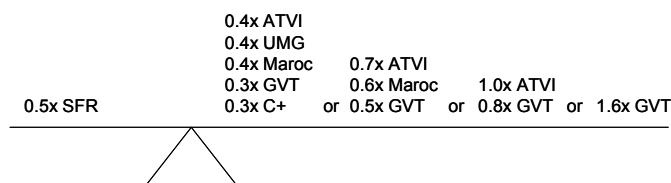


Figure 15. The Vivendi See-Saw in Numbers – Required Change in Valuation of Non-SFR Assets (€m/turns of 2013E EBITDA)

Division	€m	x EV/EBITDA
0.5x SFR EBITDA is worth	1,464	0.5
Split between the other divisions, is equivalent to:		
ATVI	293	0.4
UMG	293	0.4
Maroc	293	0.4
GVT	293	0.3
C+	293	0.3
Split between ATVI + Maroc + GVT:		
ATVI	488	0.7
Maroc	488	0.6
GVT	488	0.5
Split between ATVI + GVT:		
ATVI	732	1.0
GVT	732	0.8
Or just GVT:		
GVT	1,464	1.6

Source: Citi Research

Source: Citi Research

- **The second is that to make this analysis half-way manageable we keep the rump valuations the same**, even though we flex our SOTP valuations in the blue- and black-sky scenarios. That is to say, we continue to value 'media only' rump at 7x in each scenario.

With those caveats, we look at each sensitivity in turn.

Blue-Sky Scenario: Increases Best Case Outcome to €25-40

Best case on blue-sky goes up to €25-40 per share...

In our blue-sky scenario we make a number of more optimistic assumptions in our SOTP:

- We assume ATVI can be sold at our analyst Neil Doshi's \$15 price target with no placing discount; this implies nearer 8.6x 2013E EV/EBITDA vs. the current 5.7x.
- We assume UMG can be sold for 10x EBITDA and SFR at 4.5x. We also apply higher valuations to GVT and Canal+ (8.0x EBITDA in both cases, nearer comparable businesses).
- The only assumption we don't change is Maroc, where we already deem the current valuation (based on the quoted share price) to be somewhat full.

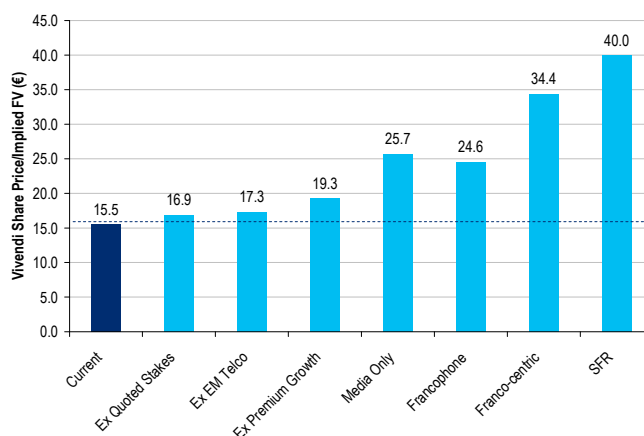
On the back of this, our blue-sky SOTP moves up to €23.4 pre-holding discount. As we look at break-up scenarios, as we show below, our best case outcome range for the multi-asset sale scenarios moves up to €25-40 per share, even if the dual-asset sale scenarios still don't imply substantial amounts of upside.

Figure 16. Vivendi – Blue-Sky SOTP (Year-end Dec 2013E, €m/€)

	2013E		Value (€m)	
Division	EV/EBITDA		100%	VIV Per share (€)
Activision Blizzard	8.6x		9,984	6,190 4.8
Universal Music Group	10.0x		7,094	7,094 5.4
SFR	4.5x		13,174	13,174 10.1
Maroc Telecom Group	6.0x		8,650	4,585 3.5
GVT	8.0x		7,204	7,204 5.5
Canal+ Groupe	8.0x		7,530	6,024 4.6
Holding & Corporate	4.5x		-473	-473 -0.4
Non-core/eliminations	4.5x		-63	-63 0.0
Group	6.7x		53,102	43,736 33.6
Associates/Assets for Sale			400	400 0.3
Tax Asset			1,000	1000 0.8
Enterprise Value	6.8x		54,502	45,136 34.6
2012E Net Debt			-13,821	-14,607 -11.2
Value of Minorities			-10,151	
Equity Value pre-Holding Co Discount			30,530	30,530 23.4
Holding Company Discount			-4,579	-4,579 -3.5
Equity Value			25,950	25,950 19.9

Source: Citi Research

Figure 17. Implied FV of Rump Scenarios under Blue-Sky (€ per share)



Source: Citi Research Estimates

Black-Sky Valuation: Implies Worst Case Valuation of €11-13 per share

...while black-sky suggests potential downside to just €11-13 per share

In our black-sky valuation scenario we make the following assumptions:

- We introduce 25% placing discounts for the quoted stocks, in the case of ATVI this brings the valuation to sub 4x, which borders on unreasonable, in our view.

- We base our valuation of UMG on the EV/EBITDA multiple Vivendi itself paid for EMI, which equates to a lower EV/Sales than we assume in our base case SOTP. Given this could be deemed a forced sale, this seems like a reasonable backstop.
- We assume just a 3.5x multiple for SFR, i.e. a discount to the European peer group, reflecting potential concerns regarding the extent of the competitive threat and the risk to ARPU levels going forward.
- We also reduce our multiple on GVT and Canal+ to just 6x, which would leave both significantly below traded comparables.

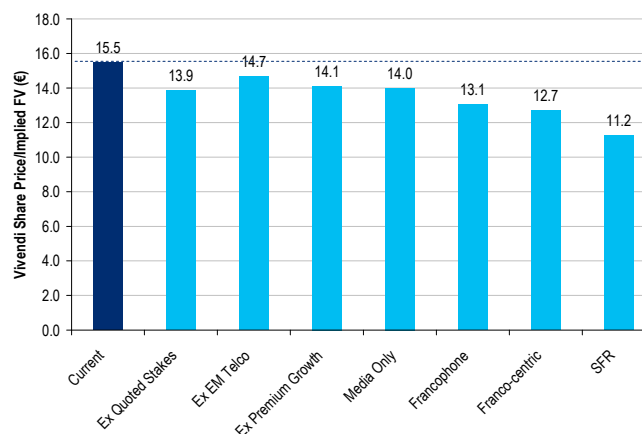
Reflecting these changes, our black-sky SOTP valuation comes out at €13.6 pre-holding discount. As we run through the asset sale scenarios, the implied valuation actually goes down, leaving a worst case outcome in the €11-13 per share range. In this instance, it would arguably be preferable for Vivendi to stay as is (or only consider a partial asset sale), given the dividend is covered.

Figure 18. Vivendi – Black-Sky SOTP (Year-end Dec 2013E, €m/€)

Division	2013E	Value (€m)		VIV Per share (€)
	EV/EBITDA	100%		
Activision Blizzard	3.7x	4,281	2,654	2.0
Universal Music Group	7.1x	5,008	5,008	3.8
SFR	3.5x	10,247	10,247	7.9
Maroc Telecom Group	4.6x	6,663	3,531	2.7
GVT	6.0x	5,403	5,403	4.1
Canal+ Groupe	6.0x	5,648	4,518	3.5
Holding & Corporate	3.5x	-368	-368	-0.3
Non-core/eliminations	3.5x	-49	-49	0.0
Group	4.6x	36,832	30,945	23.7
Associates/Assets for Sale		400	400	0.3
Tax Asset		1,000	1000	0.8
Enterprise Value	4.8x	38,232	32,345	24.8
2012E Net Debt		-13,821	-14,607	-11.2
Value of Minorities		-6,673		
Equity Value pre-Holding Co Discount		17,738	17,738	13.6
Holding Company Discount		-2,661	-2,661	-2.0
Equity Value		15,077	15,077	11.6

Source: Citi Research

Figure 19. Implied FV of Rump Scenarios under Black-Sky (€ per share)



Source: Citi Research Estimates

Conclusion: Swings and Roundabouts But Not Child's Play; Risk/Reward Looks Balanced

Even though risk/reward tilts positively in the extreme scenarios, we are not minded to be positive

Ad extremis it is quite easy to say that Vivendi could yet look undervalued. As we argued above, with a blue-sky valuation, a full break-up could mean Vivendi is at upwards of €25 per share.

Making no assumptions on probability, we think it is still fair to say that risk/reward tilts positively: a worst case of €2-4 per share of downside vs. €10-25 of upside on an extreme best case.

In practice, though, we think this may be too optimistic.

We think there is a risk management doesn't go 'all the way'

- **First it assumes that the boards will be willing to consider a wholesale (as opposed to partial) break-up.** Although maximising value is a key priority, the emphasis on adjusted EPS growth and the commitment to keeping the credit rating suggests that the boards expect something to be left over. Even with 'blue-sky' valuations, the less dramatic sales programmes (two assets or fewer) yield less exciting upside profiles.

Execution risks are material

■ **Second, and more importantly, this all assumes perfect execution.** In the event, there have already been suggestions that a sale process may not be straightforward. According to Bloomberg in July, there appears to be “little enthusiasm among potential suitors” for ATVI. At the same time, although there has been unconfirmed speculation about a potential bid from Direct TV (cf. Bloomberg 19 September) for GVT, with a number of the potential acquirors in Europe struggling with balance sheet issues, the apparent lack of competition for assets could be a factor depressing pricing.

We also worry about underlying earnings

■ **Finally, it assumes no change to the underlying, which itself may be optimistic.** Although we think we capture the pressures faced by SFR in France in the form of an almost 25% fall in ARPU over the next two years, we do give the company the benefit of the doubt on cost savings, which may prove difficult to deliver. Likewise at Maroc and ATVI, we assume no significant change in trend, despite challenges for both business, the former from increased competition, in particular within the domestic Moroccan market, and the latter from the end of the console cycle.

We are inclined toward a Neutral view

Putting this together, we think risk/reward looks balanced. We trust the boards to deliver some portfolio change that will help reduce leverage and increase the security of the dividend, but we think it is a stretch to assume that this will drive a material re-rating of the shares as well. Reflecting this, we are inclined towards a Neutral view.

Divisional Commentary

In this chapter we briefly outline our forecasts for the divisions and highlight trends that we think are interesting. Going through the divisions in turn.

Activision Blizzard

- **Key Focus:** One of the most important recent developments at ATVI, we think, is the broadening out of focus in terms of product offering. Whereas 12 months ago 80% of operating profit was derived from just two franchises – World of Warcraft and Call of Duty – ATVI now has a number of significant franchises, including Skylanders, Diablo and Starcraft. There are still challenges medium term – in particular from the maturation of the console cycle – but we still view this diversification very positively.
- **Key Debate:** The main question for investors is whether there is an outright buyer for the business. As we mentioned above, recent commentary from Bloomberg suggests that there are no likely outright buyers, at least in the near term. This raises the question of whether Vivendi may consider a partial asset sale via a placing. As we argue above, we are not convinced this alone would be enough to drive value for the larger group.
- **Comment on Forecasts:** We detail our forecasts below. The key thing to note is that we base our forecasts on our ATVI analyst's own forecasts. The only significant difference is the conversion to IFRS and the translation into €. Our forecasts are a little above consensus, which stands at c. €830m at the EBITA level in 2012E.

Figure 20. Vivendi – ATVI Divisional Forecasts (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
US non-GAAP (US\$m)										
Activision Publishing		3,279.0	3,156.0	2,769.0	2,828.0	2,571.9	2,880.5	3,110.9	3,266.5	3,429.8
Blizzard Entertainment		1,343.0	1,196.0	1,656.0	1,243.0	1,867.7	1,606.2	1,863.2	1,956.3	2,054.1
Distribution		410.0	423.0	378.0	418.0	219.0	229.9	241.4	253.5	266.2
Core ATVI net revenues		5,032.0	4,775.0	4,803.0	4,489.0	4,658.5	4,716.6	5,215.6	5,476.3	5,750.1
Organic			-1.1%	1.5%	7.0%	5.0%	1.2%	10.6%	5.0%	5.0%
Acquisition			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FX/Other		0.4%	-4.0%	-0.9%	-13.5%	-1.2%	0.0%	0.0%	0.0%	0.0%
Reported Growth			-5.1%	0.6%	-6.5%	3.8%	1.2%	10.6%	5.0%	5.0%
IFRS (€m)										
Net revenue										
Activision Publishing		1,146.0	1,819.0	2,002.0	2,047.0	1,714.7	1,949.0	2,098.0	2,202.9	2,313.1
Blizzard Entertainment		770.0	922.0	1,046.0	1,082.0	1,472.7	1,271.8	1,473.4	1,547.1	1,624.5
Distribution		164.0	297.0	282.0	303.0	168.6	177.1	185.9	195.2	205.0
Non-core operations		11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ATVI Net revenues as published by Vivendi	1,018.0	2,091.0	3,038.0	3,330.0	3,432.0	3,356.1	3,397.9	3,757.4	3,945.2	4,142.5
% change	26.6%	105.4%	45.3%	9.6%	3.1%	-2.2%	1.2%	10.6%	5.0%	5.0%
Total ATVI EBITDA										
	234.0	190.0	676.0	901.0	1,174.0	981.7	1,166.1	1,428.9	1,500.4	1,575.4
% Margin	23.0%	9.1%	22.3%	27.1%	34.2%	29.3%	34.3%	38.0%	38.0%	38.0%
% change	51.0%	-18.8%	255.8%	33.3%	30.3%	-16.4%	18.8%	22.5%	5.0%	5.0%
Restructuring Charges/Other non-recurring	1.0	-60.0	-9.0	-3.0	-22.0	0.0	0.0	0.0	0.0	0.0
Depreciation	-54.0	-96.0	-183.0	-206.0	-141.0	-137.9	-139.6	-154.4	-162.1	-170.2
EBITA										
Activision Publishing		-76.0	56.0	187.0	520.0	161.1	403.5	524.2	550.4	578.0
Blizzard Entertainment		323.0	420.0	498.0	483.0	679.3	619.5	746.6	784.0	823.2
Distribution		15.0	9.0	7.0	8.0	3.4	3.5	3.7	3.9	4.1
Non-core operations		-228.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ATVI EBITA as published by Vivendi	181.0	34.0	484.0	692.0	1,011.0	843.8	1,026.5	1,274.6	1,338.3	1,405.2
% Margin	17.8%	1.6%	15.9%	20.8%	29.5%	25.1%	30.2%	33.9%	33.9%	33.9%
% change	57.4%	-81.2%	1323.5%	43.0%	46.1%	-16.5%	21.7%	24.2%	5.0%	5.0%
Cashflow, Net debt & Minority Calculations										
ATVI EBITA	181.0	34.0	484.0	692.0	1,011.0	843.8	1,026.5	1,274.6	1,338.3	1,405.2
Add back: depreciation	54.0	96.0	183.0	206.0	141.0	137.9	139.6	154.4	162.1	170.2
Add back: restructuring	-1.0	60.0	9.0	3.0	22.0	0.0	0.0	0.0	0.0	0.0
ATVI EBITDA	234.0	190.0	676.0	901.0	1,174.0	981.7	1,166.1	1,428.9	1,500.4	1,575.4
Other cash adjustments inc. working capital	144.0	190.0	514.0	430.0	-196.0	-100.0	25.0	50.0	26.1	27.4
Content investments, net	-39.0	-35.0	-147.0	-83.0	-49.0	-47.9	-48.5	-53.6	-56.3	-59.1
ATVI Cash flow from operations pre capex (CFFO pre capex)	339.0	345.0	1,043.0	1,248.0	929.0	833.8	1,142.6	1,425.3	1,470.2	1,543.7
Capex	-56.0	-32.0	-48.0	-75.0	-52.0	-50.8	-51.5	-56.9	-59.8	-62.8
ATVI Cash flow from operations (CFFO)	283.0	313.0	995.0	1,173.0	877.0	782.9	1,091.1	1,368.4	1,410.4	1,480.9
% conversion vs. EBITDA	120.9%	164.7%	147.2%	130.2%	74.7%	79.8%	93.6%	95.8%	94.0%	94.0%
Net (debt)/cash	2,117.0	1,925.0	2,124.0	2,448.0	2,935.0	3,685.5	4,470.5	5,260.3	6,091.1	
P&L Minority Expense (based on 25% tax rate)		20.8	142.2	233.9	331.4	244.7	317.7	394.3	414.8	436.4
Dividend paid to Minority (based on 20% payout)			28.4	46.8	66.3	48.9	63.5	78.9	83.0	87.3

Source: Company Reports and Citi Research Estimates

Universal Music Group

- **Key Focus:** In the last few days, Vivendi completed the acquisition of EMI recorded music. While this relatively substantially lifts the proportion of the business from recorded music (to 83% post disposals from around 80%), the prospects appear to be improving as digital growth (now 40% of revenues) starts to offset declines in physical.
- **Key Debate:** The key question is whether music as a whole will start to grow again. Even if revenue growth trends remain muted, we think there is a decent case for operating profit growth within UMG over the next few years. Firstly, the group is still in the process of delivering €100m of 'organic' cost savings. On top of that, though, the group still anticipates to deliver £100m of synergies associated with EMI transaction. These are expected to come through despite only retaining 2/3rds of EMI's revenue
- **Comment on Forecasts:** We detail our forecasts below. The key thing to note is that we include EMI in our forecasts from 4Q12E. Consensus, as it stands, has not made this adjustment, hence our 2012E forecasts are a little above consensus of around €4.2bn of revenue and €525m of operating profit.

Figure 21. Vivendi – UMG Divisional Forecasts (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Operational Forecasts										
<i>Approximate Business Split by Geog</i>										
US	43.0%	41.0%	40.0%	40.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Europe (Assume Split 50:50 € vs. £)	42.4%	42.0%	42.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%
RoW (Assume Split 50:50 ¥ vs. \$)	14.6%	17.0%	18.0%	19.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Currency Impact on Growth		-5.4%	1.6%	4.4%	-1.1%	6.1%	0.0%	0.0%	0.0%	0.0%
<i>Approximate Business Split by Segment</i>										
Physical		55.7%	51.2%	47.8%	42.6%	40.8%	39.0%	37.6%	36.2%	34.9%
Digital		18.1%	20.8%	23.2%	27.0%	31.4%	32.7%	33.8%	34.9%	36.0%
License & Other		9.6%	9.1%	9.3%	10.6%	10.9%	10.9%	10.9%	10.8%	10.7%
<i>Recorded Music</i>	87.3%	83.4%	81.1%	80.4%	80.2%	83.6%	83.1%	82.6%	82.0%	81.5%
Artist Services & Merchandising	1.4%	3.8%	5.0%	5.7%	5.4%	4.3%	4.6%	4.9%	5.2%	5.6%
Music Publishing	12.1%	13.9%	15.1%	14.9%	15.2%	13.4%	13.6%	13.6%	13.7%	13.7%
Inter-company elimination	-0.8%	-1.1%	-1.2%	-0.9%	-0.8%	-1.3%	-1.3%	-1.1%	-1.0%	-0.8%
<i>Approximate Growth Rates by Segment</i>										
Physical			-13.6%	-10.3%	-15.6%	-10.0%	-4.0%	-2.0%	-2.0%	-2.0%
Digital			5.8%	7.5%	11.3%	8.0%	5.0%	5.0%	5.0%	5.0%
License & Other			-10.7%	-0.3%	9.8%	0.0%	1.0%	1.0%	1.0%	1.0%
<i>Recorded Music</i>	-2.6%		-9.1%	-4.6%	-4.9%	-2.1%	0.0%	1.0%	1.0%	1.1%
Artist Services & Merchandising	870.0%		27.4%	10.1%	-7.1%	-13.0%	8.0%	8.0%	8.0%	8.0%
Music Publishing	51.0%		1.9%	-4.7%	-2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Inter-company elimination			3.6%	2.0%	0.0%	0.0%	2.0%	2.0%	2.0%	2.0%
Estimated Blended Organic Growth	3.0%		-6.3%	-3.6%	-4.6%	-2.5%	0.6%	1.6%	1.7%	1.8%
<i>EBITA Margin by Segment (EBITDA margin pre 2009)</i>										
Recorded Music		14.7%	10.6%	7.4%	9.0%	9.5%	7.3%	10.2%	11.7%	11.7%
Music Publishing		31.6%	32.6%	30.1%	28.7%	30.0%	30.0%	30.0%	30.0%	30.0%
Artist Services & Merchandising		1.7%	-0.9%	2.4%	8.8%	2.3%	2.3%	2.3%	2.3%	2.3%
Divisional Margin	16.7%	13.3%	12.8%	14.8%	13.2%	13.8%	15.0%	15.0%	15.0%	14.9%
Total UMG revenues										
	4,870.0	4,650.0	4,363.0	4,449.0	4,197.0	4,572.8	5,123.3	5,204.5	5,292.6	5,388.1
Organic			-6.3%	-3.6%	-4.6%	-2.5%	0.6%	1.6%	1.7%	1.8%
Acquisition			0.0%	0.0%	0.0%	5.3%	11.4%	0.0%	0.0%	0.0%
FX/Other		-5.4%	1.6%	5.6%	-1.1%	6.1%	0.0%	0.0%	0.0%	0.0%
Reported Growth	-1.7%	-4.5%	-6.2%	2.0%	-5.7%	9.0%	12.0%	1.6%	1.7%	1.8%
Total UMG EBITDA										
	735.0	778.0	680.0	571.0	623.0	604.8	709.4	781.0	791.4	803.1
% Margin	15.1%	16.7%	15.6%	12.8%	14.8%	13.2%	13.8%	15.0%	15.0%	14.9%
% change	-9.4%		-12.6%	-16.0%	9.1%	-2.9%	17.3%	10.1%	1.3%	1.5%
Restructuring Charges/Other non-recurring	-65.0	-51.0	-50.0	-60.0	-67.0	0.0	-124.2	-62.1	0.0	0.0
Depreciation	-46.0	-41.0	-50.0	-40.0	-49.0	-53.4	-59.8	-60.8	-61.8	-62.9
Total UMG EBITA										
	624.0	686.0	580.0	471.0	507.0	551.4	525.4	658.1	729.6	740.1
% Margin	12.8%	14.8%	13.3%	10.6%	12.1%	12.1%	10.3%	12.6%	13.8%	13.7%
% change	-16.1%	9.9%	-15.5%	-18.8%	7.6%	8.8%	-4.7%	25.3%	10.9%	1.4%
Cashflow, Net debt & Minority Calculations										
UMG EBITA	624.0	686.0	580.0	471.0	507.0	551.4	525.4	658.1	729.6	740.1
Add back: depreciation	46.0	41.0	50.0	40.0	49.0	53.4	59.8	60.8	61.8	62.9
Add back: restructuring	65.0	51.0	50.0	60.0	67.0	0.0	124.2	62.1	0.0	0.0
UMG EBITDA	735.0	778.0	680.0	571.0	623.0	604.8	709.4	781.0	791.4	803.1
Other cash adjustments	-105.0	-199.0	-311.0	-109.0	-120.0	-76.3	-209.4	-150.8	-91.3	-93.0
Content investments, net	-33.0	-24.0	-40.0	46.0	-8.0	-8.7	-9.8	-9.9	-10.1	-10.3
UMG Cash flow from operations pre capex (CFFO pre capex)	597.0	555.0	329.0	508.0	495.0	519.8	490.2	620.3	690.0	699.8
Capex	-38.0	-34.0	-20.0	-38.0	-52.0	-56.7	-63.5	-64.5	-65.6	-66.8
UMG Cash flow from operations (CFFO)	559.0	521.0	309.0	470.0	443.0	463.1	426.7	555.8	624.4	633.1
% conversion vs. EBITDA	76.1%	67.0%	45.4%	82.3%	71.1%	76.6%	60.2%	71.2%	78.9%	78.8%

Source: Company Reports and Citi Research Estimates

SFR

- **Key Focus:** The key impact of the launch of Free has been not on subscriber attrition but on average pricing. ARPU for SFR fell by -8% in the 1H and we anticipate a 25% decline across the 2012E-2014E period. Current guidance is for -12% to -15% EBITDA decline in 2012E and while we anticipate SFR to be at the upper end of that, this still marks a significant deterioration in trend. From a cash perspective, this comes at something of a bad time, given the group's heavy investment in 4Q spectrum – a factor driving up capex by nearly €1.1bn in 2012E. A key focus going forward will be on the group's ability to deliver cost savings to offset the pressure on ARPU. The group are currently guiding to €500m of cost savings against a fixed cost base of around €2bn.
- **Key Debate:** The main debate on SFR hinges on two questions: first, will ARPU stabilize as the company expects in 2014E? Second, is the company too optimistic on its ability to take out fixed costs? Both these point to a low degree of comfort in medium-term forecasts. As we argue above, this is critical to the investment case for Vivendi as a whole, given the centrality of the SFR forecasts and valuation to the group SOTP.
- **Comment on Forecasts:** Again, we detail our forecasts below. The key things to note are the phasing of restructuring costs and the capex, which should come down from 2013E. Consensus currently stands at €11.3bn of revenue and €3,220m of EBITDA for 2012E. On both measures we are broadly in line with consensus. We remain in line from 2013E (€10.6bn/€2.9bn, respectively).

Figure 22. Vivendi – SFR Divisional Forecasts (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Operational Forecasts										
Mobile – Revenue										
Total SFR Customers ('000s)	18,766	19,652	20,395	21,303	21,463	20,416	20,379	20,354	20,340	20,337
% growth	4.9%	4.7%	3.8%	4.5%	0.8%	-4.9%	-0.2%	-0.1%	-0.1%	0.0%
Blended ARPU (€)	440	433	418	410	378	338	304	288	293	297
% growth	-3.3%	-1.6%	-3.5%	-1.9%	-7.8%	-10.5%	-10.2%	-5.2%	1.7%	1.7%
Total Mobile revenue	8,785.0	8,990.0	8,983.0	8,930.0	8,452.0	7,652.1	6,997.9	6,472.5	6,354.5	6,451.8
% growth			-0.1%	-0.6%	-5.4%	-9.5%	-8.5%	-7.5%	-1.8%	1.5%
Approximate Business Split by Segment										
Mobile	97.4%	77.8%	72.3%	71.0%	69.4%	67.2%	65.3%	63.3%	62.7%	62.8%
Broadband Internet and fixed	2.6%	24.9%	30.4%	31.4%	32.8%	35.2%	37.2%	39.3%	40.0%	39.9%
Inter-company elimination	0.0%	-2.8%	-2.7%	-2.4%	-2.2%	-2.4%	-2.5%	-2.6%	-2.7%	-2.7%
Approximate Growth Rates by Segment										
Mobile			-0.2%	-0.6%	-5.4%	-9.5%	-8.5%	-7.5%	-1.8%	1.5%
Broadband Internet and fixed			-1.3%	4.5%	1.4%	0.3%	-0.8%	1.0%	1.0%	1.0%
Inter-company elimination			-22.7%	-10.8%	-9.4%	0.3%	-0.8%	1.0%	1.0%	1.0%
Estimated Blended Organic Growth			0.2%	1.2%	-3.1%	-6.5%	-6.0%	-4.6%	-0.8%	1.3%
Cost Base Analysis										
Revenue					12,183	11,394	10,711	10,223	10,142	10,277
Change in revenue						-789	-683	-488	-81	135
Fixed Cost Base (Operating Costs + Interconnection)					-5,100	-5,102	-4,902	-4,702	-4,702	-4,749
% change						0.0%	-3.9%	-4.1%	0.0%	1.0%
Variable Cost Base					-3,283	-3,065	-2,881	-2,750	-2,728	-2,765
% revenue						26.9%	26.9%	26.9%	26.9%	26.9%
Total Costs ex D&A					-8,383	-8,167	-7,783	-7,452	-7,430	-7,514
% change						-2.6%	-4.7%	-4.3%	-0.3%	1.1%
Absolute Change						216	384	331	22	-83
EBITDA					3,800	3,227	2,928	2,771	2,712	2,764
Divisional Margin	38.0%	34.3%	31.9%	31.6%	31.2%	28.3%	27.3%	27.1%	26.7%	26.9%
Total SFR revenues										
Reported Growth	3.9%	28.1%	7.5%	1.2%	-3.1%	-6.5%	-6.0%	-4.6%	-0.8%	1.3%
Total SFR EBITDA										
% Margin	38.0%	34.3%	31.9%	31.6%	31.2%	28.3%	27.3%	27.1%	26.7%	26.9%
% change	-0.5%	15.4%	0.2%	0.2%	-4.4%	-15.1%	-9.3%	-5.4%	-2.1%	1.9%
Restructuring Charges/Other non-recurring	-126.0	-106.0	10.0	-40.0	-9.0	-250.0	0.0	0.0	0.0	0.0
Depreciation	-788.0	-1,310.0	-1,447.0	-1,461.0	-1,513.0	-1,528.1	-1,436.5	-1,371.0	-1,360.2	-1,378.4
Total SFR EBITA										
% Margin	27.9%	22.0%	20.4%	19.7%	18.7%	12.7%	13.9%	13.7%	13.3%	13.5%
% change	-2.6%	1.0%	-0.5%	-2.3%	-7.8%	-36.4%	2.9%	-6.1%	-3.4%	2.5%
Cashflow, Net debt & Minority Calculations										
SFR EBITA	2,517.0	2,542.0	2,530.0	2,472.0	2,278.0	1,448.8	1,491.1	1,399.7	1,351.6	1,385.3
Add back: depreciation	788.0	1,310.0	1,447.0	1,461.0	1,513.0	1,528.1	1,436.5	1,371.0	1,360.2	1,378.4
Add back: restructuring	126.0	106.0	-10.0	40.0	9.0	250.0	0.0	0.0	0.0	0.0
SFR EBITDA	3,431.0	3,958.0	3,967.0	3,973.0	3,800.0	3,227.0	2,927.6	2,770.7	2,711.9	2,763.6
Other cash adjustments	140.0	99.0	-1.0	-21.0	41.0	382.5	-48.7	143.9	23.7	-39.8
SFR Cash flow from ops pre capex (CFFO pre capex)	3,571.0	4,057.0	3,966.0	3,952.0	3,841.0	3,609.5	2,878.9	2,914.6	2,735.6	2,723.8
Capex	-1,020.0	-1,305.0	-1,703.0	-1,974.0	-1,809.0	-2,675.0	-1,504.1	-1,435.5	-1,424.2	-1,443.2
SFR Cash flow from operations (CFFO)	2,551.0	2,752.0	2,263.0	1,978.0	2,032.0	934.5	1,374.8	1,479.1	1,311.4	1,280.6
% conversion vs. EBITDA	74.4%	69.5%	57.0%	49.8%	53.5%	29.0%	47.0%	53.4%	48.4%	46.3%

Source: Company Reports and Citi Research Estimates

Maroc Telecom

- **Key Focus:** The domestic Moroccan market has undergone quite significant change with a dramatic increase in competition, aided and abetted by the regulators. The good news is that substantial falls in pricing have been largely offset by significant growth in the level of usage. In recent months, the elasticity of demand has appeared to steepen, that is to say price falls have not been matched by usage increases but Maroc has now got to the point where its pricing is only c. 20% higher than inwi, one of the challenger brands in the market.
- **Key Debate:** Against the backdrop of more competition in the domestic marketplace, the investment debate appears to hinge on two things. First, the scope for Maroc to hold margins within the core business. Second, the extent to which international growth – that is to say growth in Africa outside of Morocco – can support the group. On both fronts, recent signs have been encouraging, in our view.
- **Comment on Forecasts:** Consensus is looking for c. €2,720m of revenue in 2012E with a broadly flat growth profile into 2013E. Likewise, it looks for a stable profile in EBITA from the current 2012E forecast of €994m. Our forecasts are a little behind this, at least in 2012E, but we attribute this to the restructuring charges.

Figure 23. Vivendi – Maroc Telecom Divisional Forecasts (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Operational Forecasts										
Approximate Growth Rates by Segment										
Maroc Telecom SA Mobile				13.6%	-4.6%	-9.8%	-2.3%	-3.2%	2.0%	2.0%
Maroc Telecom SA Fixed-Broadband				-21.0%	-7.0%	3.3%	2.2%	1.6%	2.3%	2.7%
Maroc Telecom SA				2.5%	-5.2%	-6.6%	-1.1%	-1.9%	2.1%	2.2%
Subsidiaries				21.1%	6.7%	22.0%	4.9%	4.9%	4.9%	4.9%
Intercompany				36.4%	53.3%	22.0%	4.9%	4.9%	4.9%	4.9%
Reported Revenue Growth				5.2%	-3.4%	-1.2%	0.3%	-0.2%	2.8%	2.9%
Estimated Blended Organic Growth				4.3%	-2.5%	-3.2%	0.3%	-0.2%	2.8%	2.9%
EBITA Margin by Segment										
Maroc Telecom SA			50.8%	50.4%	45.0%	39.5%	43.0%	43.5%	43.5%	43.5%
Subsidiaries			19.7%	20.0%	16.5%	22.0%	22.0%	22.0%	22.0%	22.0%
Divisional Margin			46.2%	45.3%	39.8%	35.7%	38.1%	38.3%	38.1%	38.0%
Maroc Telecom SA			2,288.0	2,345.0	2,223.0	2,075.7	2,053.4	2,014.8	2,056.9	2,102.2
African Subsidiaries			417.0	505.0	539.0	657.6	689.6	723.3	758.7	795.8
Inter-company elimination			-11.0	-15.0	-23.0	-28.1	-29.4	-30.9	-32.4	-34.0
Total Maroc Telecom revenues	2,456.0	2,601.0	2,694.0	2,835.0	2,739.0	2,705.2	2,713.6	2,707.2	2,783.2	2,864.0
Organic	21.8%		2.8%	4.3%	-2.5%	-3.2%	0.3%	-0.2%	2.8%	2.9%
Acquisition	0.0%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FX/Other	-2.2%		0.8%	0.9%	-0.9%	2.0%	0.0%	0.0%	0.0%	0.0%
Reported Growth	19.6%	5.9%	3.6%	5.2%	-3.4%	-1.2%	0.3%	-0.2%	2.8%	2.9%
Total Maroc Telecom EBITDA	1,397.0	1,554.0	1,612.0	1,667.0	1,500.0	1,446.1	1,442.9	1,442.8	1,480.3	1,520.3
% Margin	56.9%	59.7%	59.8%	58.8%	54.8%	53.5%	53.2%	53.3%	53.2%	53.1%
% change	17.0%	11.2%	3.7%	3.4%	-10.0%	-3.6%	-0.2%	0.0%	2.6%	2.7%
Restructuring Charges/Other non-recurring	17.0	2.0	-2.0	7.0	1.0	-74.0	0.0	0.0	0.0	0.0
Depreciation	-323.0	-332.0	-366.0	-390.0	-412.0	-406.9	-408.2	-407.2	-418.6	-430.8
Maroc Telecom SA			1,162.0	1,183.0	1,000.0	820.5	883.0	876.4	894.7	914.5
African Subsidiaries			82.0	101.0	89.0	144.7	151.7	159.1	166.9	175.1
Total Maroc Telecom EBITA	1,091.0	1,224.0	1,244.0	1,284.0	1,089.0	965.2	1,034.7	1,035.6	1,061.7	1,089.5
% Margin	44.4%	47.1%	46.2%	45.3%	39.8%	35.7%	38.1%	38.3%	38.1%	38.0%
% change	19.6%	12.2%	1.6%	3.2%	-15.2%	-11.4%	7.2%	0.1%	2.5%	2.6%
Cashflow, Net debt & Minority Calculations										
Maroc Telecom EBITA	1,091.0	1,224.0	1,244.0	1,284.0	1,089.0	965.2	1,034.7	1,035.6	1,061.7	1,089.5
Add back: depreciation	323.0	332.0	366.0	390.0	412.0	406.9	408.2	407.2	418.6	430.8
Add back: restructuring	-17.0	-2.0	2.0	-7.0	-1.0	74.0	0.0	0.0	0.0	0.0
Maroc Telecom EBITDA	1,397.0	1,554.0	1,612.0	1,667.0	1,500.0	1,446.1	1,442.9	1,442.8	1,480.3	1,520.3
Other cash adjustments	-33.0	-99.0	47.0	39.0	1.0	-24.0	6.0	-4.5	53.9	57.4
Maroc Telecom Cash flow from ops pre capex (CFFO pre capex)	1,364.0	1,455.0	1,659.0	1,706.0	1,501.0	1,422.1	1,448.8	1,438.3	1,534.2	1,577.7
Capex	-363.0	-418.0	-486.0	-556.0	-466.0	-442.7	-444.1	-443.0	-455.5	-468.7
Maroc Telecom Cash flow from operations (CFFO)	1,001.0	1,037.0	1,173.0	1,150.0	1,035.0	979.4	1,004.7	995.2	1,078.8	1,109.0
% conversion vs. EBITDA	71.7%	66.7%	72.8%	69.0%	69.0%	67.7%	69.6%	69.0%	72.9%	72.9%
Net (debt)/cash		-315.0	-32.0	-387.1	-604.9	-701.4	-699.3	-749.5	-746.7	-741.9
Approximate Interest (expense)/income		-18.9	-1.9	-23.2	-36.3	-42.1	-42.0	-45.0	-44.8	-44.5
Vivendi Economic Interest	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%
P&L Minority Expense (based on 25% tax rate)		424.8	437.8	444.4	371.1	325.4	349.9	349.2	358.4	368.4
Dividend paid to Minority (based on 100% payout ratio)			437.8	444.4	371.1	325.4	349.9	349.2	358.4	368.4

Source: Company Reports and Citi Research Estimates

GVT

- **Key Focus:** Guidance for GVT has recently been reduced from mid-30s% revenue growth to growth 'above 30%'. Key to understanding this, however, is a change in the tax regime with regard to state sales tax (known as ICMS). Excluding this effect, it looks like GVT continues to exceed expectations with growth on an apples-with-apples basis up over 40% YoY. The bigger challenge is the extent to which there is incremental price competition. This is increasingly a feature not only of the traditional broadband/fixed line telephony space (cf. some recent aggressive pricing promotions from TIM Brasil) but also in the payTV space, which is a key target for GVT.
- **Key Debate:** The big investor debate at GVT focuses on cashflow generation. Just as revenue and EBITDA continues to rise, so does capex. In fairness, 2012E was always going to see a distortion from the payTV launch, but this shouldn't hide the fact that GVT is yet to reach FCF breakeven. GVT's progression to positive FCF is a key focus for investors, we think.
- **Comment on Forecasts:** Consensus is looking for c. €1.84bn of revenue in 2012E rising to €2.25bn in 2013E, with a 40% margin in both years. We do not demur from the 40% margin level (in line with guidance) but our 2012E revenue forecast is below consensus. This is at least partially a function of a weakening Real and this will be a factor that follows through into 2013E.

Figure 24. Vivendi – GVT Divisional Forecasts (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Operational Forecasts										
Retail & SMEs			79.0	798.0	894.4	1,025.6	1,237.0	1,311.4	1,353.9	1,396.4
Corporate			21.0	201.0	100.8	128.7	157.8	162.1	164.9	167.7
Internet & VoIP			4.0	30.0	443.5	508.6	613.5	650.3	671.4	692.5
PayTV						71.8	215.3	340.8	430.5	502.3
Total GVT revenues			104.0	1,029.0	1,446.0	1,734.7	2,223.6	2,464.6	2,620.7	2,758.8
Organic			28.7%	43.0%	39.0%	31.0%	28.2%	10.8%	6.3%	5.3%
Acquisition				829.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FX/Other				17.3%	1.5%	-11.0%	0.0%	0.0%	0.0%	0.0%
Reported Growth				889.4%	40.5%	20.0%	28.2%	10.8%	6.3%	5.3%
Total GVT EBITDA			40.0	431.0	601.0	702.5	900.6	998.2	1,061.4	1,117.3
% Margin			38.5%	41.9%	41.6%	40.5%	40.5%	40.5%	40.5%	40.5%
% change				977.5%	39.4%	16.9%	28.2%	10.8%	6.3%	5.3%
Restructuring Charges/Other non-recurring			0.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0
Depreciation			-20.0	-154.0	-203.0	-274.1	-370.0	-410.1	-436.0	-459.0
Total GVT EBITA			20.0	277.0	396.0	428.5	530.6	588.1	625.3	658.3
% Margin			19.2%	26.9%	27.4%	24.7%	23.9%	23.9%	23.9%	23.9%
% change				1285.0%	43.0%	8.2%	23.8%	10.8%	6.3%	5.3%
Cashflow, Net debt & Minority Calculations										
GVT EBITA			20.0	277.0	396.0	428.5	530.6	588.1	625.3	658.3
Add back: depreciation			20.0	154.0	203.0	274.1	370.0	410.1	436.0	459.0
Add back: restructuring			0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
GVT EBITDA			40.0	431.0	601.0	702.5	900.6	998.2	1,061.4	1,117.3
Other cash adjustments			25.0	-18.0	-43.0	-29.8	-50.4	-24.9	-16.1	-14.2
GVT Cash flow from operations pre capex (CFFO pre capex)			65.0	413.0	558.0	672.8	850.1	973.3	1,045.3	1,103.1
Capex			-71.0	-482.0	-705.0	-900.0	-787.5	-872.9	-928.1	-977.1
GVT Cash flow from operations (CFFO)			-6.0	-69.0	-147.0	-227.2	62.6	100.5	117.1	126.0
% conversion vs. EBITDA			-15.0%	-16.0%	-24.5%	-32.3%	7.0%	10.1%	11.0%	11.3%

Source: Company Reports and Citi Research Estimates

Canal+

- **Key Focus:** There are two deals that are anticipated to impact financials for the first time in the 4Q2012/1Q2013. The first is the acquisition of the Bollore channels, which we estimate will contribute around €80m to revenues and a €20m loss at the EBITA line on a PF basis. The second is the TVN transaction in Poland which, although only 51% owned, will be fully consolidated.
- **Key Debate:** The main debate is on how aggressively Vivendi will push the FTA strategy within France. The fact that Vivendi had to make relatively significant concessions to gain regulatory approval in practice probably takes some of the potential sting out of this. Nevertheless, we anticipate the market will be closely monitored for signs of disruption.
- **Comment on Forecasts:** Consensus is looking for c. €4,950m of revenue in 2012E and €5,100m in 2013E. On the back of this, consensus expects EBITA of €715m and €740m. Our EBITA forecasts are mildly below consensus, reflecting the fact that we fully consolidate the losses from the FTA business.

Figure 25. Vivendi – Canal+ Divisional Forecasts (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Operational Forecasts										
Canal+ France			3,837.0	3,956.0	4,049.0	4,087.9	4,118.6	4,159.8	4,201.4	4,243.4
Other Activities			716.0	756.0	808.0	847.6	1,043.7	1,069.8	1,123.3	1,179.4
French FTA TV						20.0	80.0	88.0	96.8	106.5
Total C+ revenues	4,363.0	4,554.0	4,553.0	4,712.0	4,857.0	4,955.5	5,242.3	5,317.6	5,421.5	5,529.3
Organic			0.0%	2.9%	3.3%	0.5%	1.6%	1.4%	2.0%	2.0%
Acquisition			0.0%	0.0%	0.0%	0.4%	4.2%	0.0%	0.0%	0.0%
FX/Other			0.0%	0.6%	-0.2%	1.2%	0.0%	0.0%	0.0%	0.0%
Reported Growth	20.2%	4.4%	0.0%	3.5%	3.1%	2.0%	5.8%	1.4%	2.0%	2.0%
Total C+ EBITDA	628.0	744.0	870.0	920.0	913.0	927.3	941.3	973.0	1,001.3	1,027.1
% Margin	14.4%	16.3%	19.1%	19.5%	18.8%	18.7%	18.0%	18.3%	18.5%	18.6%
% change	162.8%	18.5%	16.9%	5.7%	-0.8%	1.6%	1.5%	3.4%	2.9%	2.6%
Restructuring Charges/Other non-recurring	-36.0	-2.0	-2.0	-1.0	-1.0	-30.0	0.0	0.0	0.0	0.0
Depreciation	-192.0	-174.0	-216.0	-229.0	-211.0	-215.3	-227.7	-231.0	-235.5	-240.2
Canal+ France			555.0	616.0	617.0	629.5	638.4	644.8	651.2	657.7
Other Activities			97.0	74.0	84.0	86.5	91.2	101.6	114.6	123.8
French FTA TV						-34.0	-16.0	-4.4	0.0	5.3
Total C+ EBITA	400.0	568.0	652.0	690.0	701.0	682.0	713.5	742.0	765.8	786.9
% Margin	9.2%	12.5%	14.3%	14.6%	14.4%	13.8%	13.6%	14.0%	14.1%	14.2%
% change		42.0%	14.8%	5.8%	1.6%	-2.7%	4.6%	4.0%	3.2%	2.8%
Cashflow, Net debt & Minority Calculations										
C+ EBITA	400.0	568.0	652.0	690.0	701.0	682.0	713.5	742.0	765.8	786.9
Add back: depreciation	192.0	174.0	216.0	229.0	211.0	215.3	227.7	231.0	235.5	240.2
Add back: restructuring	36.0	2.0	2.0	1.0	1.0	30.0	0.0	0.0	0.0	0.0
C+ EBITDA	628.0	744.0	870.0	920.0	913.0	927.3	941.3	973.0	1,001.3	1,027.1
Other cash adjustments	-153.0	-105.0	-177.0	-282.0	-193.0	-131.1	-150.0	-39.4	-54.3	-56.4
Film content investments, net	-58.0	-44.0	-22.0	-29.0	-18.0	-18.4	-19.4	-19.7	-20.1	-20.5
Sports content investments, net	43.0	-3.0	-112.0	30.0	33.0	33.7	0.0	0.0	0.0	0.0
C+ Cash flow from operations pre capex (CFFO pre capex)	460.0	592.0	559.0	639.0	735.0	811.5	771.8	913.9	926.9	950.2
Capex	-143.0	-209.0	-231.0	-229.0	-251.0	-256.1	-270.9	-274.8	-280.2	-285.7
C+ Cash flow from operations (CFFO)	317.0	383.0	328.0	410.0	484.0	555.4	500.9	639.1	646.7	664.5
% conversion vs. EBITDA	50.5%	51.5%	37.7%	44.6%	53.0%	59.9%	53.2%	65.7%	64.6%	64.7%
Net (debt)/cash		0.0	0.0	600.0	924.3	1,296.4	1,632.0	2,060.3	2,493.6	2,938.7
Approximate Interest (expense)/income		0.0	0.0	12.0	18.5	6.5	8.2	10.3	12.5	14.7
Vivendi Economic Interest of Canal+ France	65.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
P&L Minority Expense (based on 36% tax rate)	114.5	93.9	81.0	83.1	79.4	83.2	86.8	89.8	92.5	

Source: Company Reports and Citi Research Estimates

Financial Forecasts

Figure 26. Vivendi – Key Assumptions & Financial Metrics (Year-end December, €m)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Organic Growth										
Activision Blizzard			-5.1%	0.6%	7.0%	5.0%	1.2%	10.6%	5.0%	5.0%
Universal Music Group			-6.3%	-3.6%	-4.6%	-2.5%	0.6%	1.6%	1.7%	1.8%
SFR			0.2%	1.2%	-3.1%	-6.5%	-6.0%	-4.6%	-0.8%	1.3%
Maroc Telecom			2.8%	4.3%	-2.5%	-3.2%	0.3%	-0.2%	2.8%	2.9%
GVT			28.7%	43.0%	38.1%	35.5%	28.2%	10.8%	6.3%	5.3%
Canal+ Groupe			0.0%	2.9%	3.3%	0.5%	1.6%	1.4%	2.0%	2.0%
Group			-1.1%	1.1%	0.4%	-0.9%	-0.1%	0.9%	1.8%	2.5%
Underlying Operating Margin										
Activision Blizzard	17.8%	1.6%	15.9%	20.8%	29.5%	25.1%	30.2%	33.9%	33.9%	33.9%
Universal Music Group	12.8%	14.8%	13.3%	10.6%	12.1%	12.1%	10.3%	12.6%	13.8%	13.7%
SFR	27.9%	22.0%	20.4%	19.7%	18.7%	12.7%	13.9%	13.7%	13.3%	13.5%
Maroc Telecom	44.4%	47.1%	46.2%	45.3%	39.8%	35.7%	38.1%	38.3%	38.1%	38.0%
GVT	NA	NA	19.2%	26.9%	27.4%	24.7%	23.9%	23.9%	23.9%	23.9%
Canal+ Groupe	9.2%	12.5%	14.3%	14.6%	14.4%	13.8%	13.6%	14.0%	14.1%	14.2%
Group	21.8%	19.5%	19.9%	19.8%	20.3%	16.6%	17.7%	18.8%	19.0%	19.2%
Growth										
Total Revenue growth	8.0%	17.2%	6.9%	6.4%	-0.2%	-0.4%	2.4%	0.9%	1.8%	2.5%
Adjusted EBITDA growth	9.5%	13.1%	8.1%	8.1%	2.2%	-8.5%	2.5%	3.8%	1.8%	3.0%
Adjusted Operating Profit growth	8.0%	0.0%	8.8%	6.2%	2.3%	-18.6%	9.0%	7.2%	3.1%	3.3%
Adjusted PBT growth	8.2%	-1.4%	5.1%	6.4%	0.0%	-23.8%	10.6%	8.4%	3.4%	3.4%
Adjusted FD EPS growth	7.8%	-3.7%	-8.1%	1.9%	8.7%	-23.4%	5.3%	7.1%	3.0%	3.0%
Cash Flow										
Debtor days	87.8	95.0	87.0	84.8	85.3	83.2	83.2	82.2	81.1	79.9
Creditor days	256.0	260.5	254.6	256.4	251.2	247.4	239.1	239.9	235.2	229.0
Working Capital Investment as % sales	0.1%	0.9%	1.2%	1.3%	-1.1%	0.5%	-0.2%	0.1%	-0.2%	-0.4%
Capex as % sales	7.5%	7.9%	9.4%	11.6%	11.6%	15.3%	10.6%	10.6%	10.7%	10.7%
FCF as % sales	11.8%	12.1%	14.3%	7.5%	6.0%	4.7%	7.1%	8.9%	8.7%	8.5%
FCF as % EBITDA	40.5%	43.4%	50.6%	25.9%	20.4%	17.4%	26.3%	31.9%	31.0%	30.3%
Returns										
ROIC	8.7%	7.4%	8.0%	7.5%	7.3%	5.5%	5.8%	6.2%	6.3%	6.4%
ROE	11.8%	9.8%	3.2%	7.8%	12.1%	8.8%	9.0%	9.2%	9.0%	8.8%
Financial Leverage										
Interest cover (EBITDA/Net interest expense; x)	37.8	20.1	16.8	16.9	17.7	12.9	13.0	13.8	14.0	14.1
Interest cover (Adj. Op. Profit /Net interest expense; x)	28.4	14.0	11.8	11.6	12.2	7.9	8.5	9.3	9.6	9.6
Consolidated Net debt/EBITDA (x)	0.8	1.2	1.2	1.0	1.4	1.8	1.6	1.4	1.2	1.0
Proportionate Net debt/EBITDA (x)		1.4	1.7	1.2	1.8	2.2	2.0	1.8	1.7	1.5

Source: Company Reports and Citi Research Estimates

Figure 27. Vivendi – Consolidated Divisional Revenue & Profit Summary (Year-end December, €m)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Revenues										
Activision Blizzard	1,018	2,091	3,038	3,330	3,432	3,356	3,398	3,757	3,945	4,142
Universal Music Group	4,870	4,650	4,363	4,449	4,197	4,573	5,123	5,204	5,293	5,388
SFR	9,018	11,553	12,425	12,577	12,183	11,394	10,711	10,223	10,142	10,277
Maroc Telecom Group	2,456	2,601	2,694	2,835	2,739	2,705	2,714	2,707	2,783	2,864
GVT	0	0	104	1,029	1,446	1,735	2,224	2,465	2,621	2,759
Canal+ Groupe	4,363	4,554	4,553	4,712	4,857	4,955	5,242	5,318	5,421	5,529
Non-core/eliminations	-68	-57	-45	-54	-41	-33	-35	-37	-40	-42
Total Vivendi	21,657	25,392	27,132	28,878	28,813	28,685	29,376	29,636	30,165	30,918
Organic Growth										
Activision Blizzard			-1.1%	1.5%	7.0%	5.0%	1.2%	10.6%	5.0%	5.0%
Universal Music Group			-6.3%	-3.6%	-4.6%	-2.5%	0.6%	1.6%	1.7%	1.8%
SFR			0.2%	1.2%	-3.1%	-6.5%	-6.0%	-4.6%	-0.8%	1.3%
Maroc Telecom Group			2.8%	4.3%	-2.5%	-3.2%	0.3%	-0.2%	2.8%	2.9%
GVT			28.7%	43.0%	39.0%	31.0%	28.2%	10.8%	6.3%	5.3%
Canal+ Groupe			0.0%	2.9%	3.3%	0.5%	1.6%	1.4%	2.0%	2.0%
Total Vivendi			-1.1%	1.1%	0.4%	-0.9%	-0.1%	0.9%	1.8%	2.5%
EBITDA										
Activision Blizzard	234.0	190.0	676.0	901.0	1,174.0	981.7	1,166.1	1,428.9	1,500.4	1,575.4
Universal Music Group	735.0	778.0	680.0	571.0	623.0	604.8	709.4	781.0	791.4	803.1
SFR	3,431.0	3,958.0	3,967.0	3,973.0	3,800.0	3,227.0	2,927.6	2,770.7	2,711.9	2,763.6
Maroc Telecom Group	1,397.0	1,554.0	1,612.0	1,667.0	1,500.0	1,446.1	1,442.9	1,442.8	1,480.3	1,520.3
GVT	0.0	0.0	40.0	431.0	601.0	702.5	900.6	998.2	1,061.4	1,117.3
Canal+ Groupe	628.0	744.0	870.0	920.0	913.0	927.3	941.3	973.0	1,001.3	1,027.1
Holding & Corporate	-124.0	-78.0	-136.0	-123.0	-101.0	-103.0	-105.1	-107.2	-109.3	-111.5
Non-core/eliminations	-19.0	-38.0	-26.0	-31.0	-17.0	-12.7	-13.9	-15.1	-16.4	-17.7
Total Vivendi	6,282.0	7,108.0	7,683.0	8,309.0	8,493.0	7,773.6	7,968.9	8,272.3	8,420.9	8,677.7
EBITDA Margin										
Activision Blizzard	23.0%	9.1%	22.3%	27.1%	34.2%	29.3%	34.3%	38.0%	38.0%	38.0%
Universal Music Group	15.1%	16.7%	15.6%	12.8%	14.8%	13.2%	13.8%	15.0%	15.0%	14.9%
SFR	38.0%	34.3%	31.9%	31.6%	31.2%	28.3%	27.3%	27.1%	26.7%	26.9%
Maroc Telecom Group	56.9%	59.7%	59.8%	58.8%	54.8%	53.5%	53.2%	53.3%	53.2%	53.1%
GVT	NA	NA	38.5%	41.9%	41.6%	40.5%	40.5%	40.5%	40.5%	40.5%
Canal+ Groupe	14.4%	16.3%	19.1%	19.5%	18.8%	18.7%	18.0%	18.3%	18.5%	18.6%
Total Vivendi	29.0%	28.0%	28.3%	28.8%	29.5%	27.1%	27.1%	27.9%	27.9%	28.1%
EBITA										
Activision Blizzard	181.0	34.0	484.0	692.0	1,011.0	843.8	1,026.5	1,274.6	1,338.3	1,405.2
Universal Music Group	624.0	686.0	580.0	471.0	507.0	551.4	525.4	658.1	729.6	740.1
SFR	2,517.0	2,542.0	2,530.0	2,472.0	2,278.0	1,448.8	1,491.1	1,399.7	1,351.6	1,385.3
Maroc Telecom Group	1,091.0	1,224.0	1,244.0	1,284.0	1,089.0	965.2	1,034.7	1,035.6	1,061.7	1,089.5
GVT	0.0	0.0	20.0	277.0	396.0	428.5	530.6	588.1	625.3	658.3
Canal+ Groupe	400.0	568.0	652.0	690.0	701.0	682.0	713.5	742.0	765.8	786.9
Holding & Corporate	-81.0	-60.0	-91.0	-127.0	-100.0	-133.0	-105.1	-107.2	-109.3	-111.5
Non-core/eliminations	-11.0	-41.0	-29.0	-33.0	-22.0	-17.7	-18.9	-20.1	-21.4	-22.7
Total Vivendi	4,721.0	4,953.0	5,390.0	5,726.0	5,860.0	4,769.0	5,197.9	5,570.8	5,741.6	5,931.2
EBITA Margin										
Activision Blizzard	17.8%	1.6%	15.9%	20.8%	29.5%	25.1%	30.2%	33.9%	33.9%	33.9%
Universal Music Group	12.8%	14.8%	13.3%	10.6%	12.1%	12.1%	10.3%	12.6%	13.8%	13.7%
SFR	27.9%	22.0%	20.4%	19.7%	18.7%	12.7%	13.9%	13.7%	13.3%	13.5%
Maroc Telecom Group	44.4%	47.1%	46.2%	45.3%	39.8%	35.7%	38.1%	38.3%	38.1%	38.0%
GVT	NA	NA	19.2%	26.9%	27.4%	24.7%	23.9%	23.9%	23.9%	23.9%
Canal+ Groupe	9.2%	12.5%	14.3%	14.6%	14.4%	13.8%	13.6%	14.0%	14.1%	14.2%
Total Vivendi	21.8%	19.5%	19.9%	19.8%	20.3%	16.6%	17.7%	18.8%	19.0%	19.2%

Source: Company Reports and Citi Research Estimates

Figure 28. Vivendi – Adjusted Profit and Loss Summary (Year-end December, €m except where stated)

	0.0	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Revenues		21,657.0	25,392.0	27,132.0	28,878.0	28,813.0	28,685.1	29,376.3	29,636.4	30,165.4	30,917.7
% change		8.0%	17.2%	6.9%	6.4%	-0.2%	-0.4%	2.4%	0.9%	1.8%	2.5%
Cost of revenues		-9,876.0	-12,492.0	-13,627.0	-14,561.0	-14,391.0	-14,055.7	-14,394.4	-14,521.8	-14,781.1	-15,149.7
% of sales		45.6%	49.2%	50.2%	50.4%	49.9%	49.0%	49.0%	49.0%	49.0%	49.0%
Margin from operations		11,781.0	12,900.0	13,505.0	14,317.0	14,422.0	14,629.4	14,981.9	15,114.6	15,384.4	15,768.0
% Margin		54.4%	50.8%	49.8%	49.6%	50.1%	51.0%	51.0%	51.0%	51.0%	51.0%
Selling, general and admin expenses (ex. D & A)		-5,499.0	-5,792.0	-5,822.0	-6,008.0	-5,929.0	-6,855.8	-7,013.0	-6,842.2	-6,963.5	-7,090.4
% change			5.3%	0.5%	3.2%	-1.3%	15.6%	2.3%	-2.4%	1.8%	1.8%
EBITDA		6,282.0	7,108.0	7,683.0	8,309.0	8,493.0	7,773.6	7,968.9	8,272.3	8,420.9	8,677.7
% Margin		29.0%	28.0%	28.3%	28.8%	29.5%	27.1%	27.1%	27.9%	27.9%	28.1%
% change		9.5%	13.1%	8.1%	8.1%	2.2%	-8.5%	2.5%	3.8%	1.8%	3.0%
Restructuring Charges/Other non-recurring		-159.0	-194.0	-46.0	-100.0	-102.0	-384.0	-124.2	-62.1	0.0	0.0
Depreciation		-1,402.0	-1,961.0	-2,247.0	-2,483.0	-2,531.0	-2,620.6	-2,646.8	-2,639.5	-2,679.3	-2,746.5
EBITA		4,721.0	4,953.0	5,390.0	5,726.0	5,860.0	4,769.0	5,197.9	5,570.8	5,741.6	5,931.2
% Margin		21.8%	19.5%	19.9%	19.8%	20.3%	16.6%	17.7%	18.8%	19.0%	19.2%
% change		8.0%		8.8%	6.2%	2.3%	-18.6%	9.0%	7.2%	3.1%	3.3%
Income from equity affiliates		373.0	260.0	171.0	195.0	-18.0	-25.0	-5.0	-5.0	-5.0	-5.0
Income from investments		6.0	5.0	7.0	7.0	75.0	0.0	0.0	0.0	0.0	0.0
Interest		-166.0	-354.0	-458.0	-492.0	-481.0	-602.2	-611.4	-598.2	-601.2	-615.8
Adjusted earnings before taxes (Adjusted PBT)		4,934.0	4,864.0	5,110.0	5,436.0	5,436.0	4,141.8	4,581.6	4,967.5	5,135.4	5,310.4
% change		8.2%	-1.4%	5.1%	6.4%	0.0%	-23.8%	10.6%	8.4%	3.4%	3.4%
Tax on Operations		-1,520.2	-1,534.5	-1,646.2	-1,746.8	-1,817.8	-1,388.8	-1,528.7	-1,657.4	-1,713.3	-1,771.6
% tax rate (based on PBT pre equity affiliates)		33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Value of Global Profit Tax System/Other tax assets		639.2	614.5	899.2	489.8	409.8	250.0	200.0	200.0	200.0	200.0
Provision for income taxes		-881.0	-920.0	-747.0	-1,257.0	-1,408.0	-1,138.8	-1,328.7	-1,457.4	-1,513.3	-1,571.6
% tax rate		17.9%	18.9%	14.6%	23.1%	25.9%	27.5%	29.0%	29.3%	29.5%	29.6%
% tax rate ex associates		19.3%	20.0%	15.1%	24.0%	25.8%	27.3%	29.0%	29.3%	29.4%	29.6%
Adjusted net income (consolidated)		4,053.0	3,944.0	4,363.0	4,179.0	4,028.0	3,003.0	3,252.9	3,510.2	3,622.1	3,738.7
% change		7.2%	-2.7%	10.6%	-4.2%	-3.6%	-25.4%	8.3%	7.9%	3.2%	3.2%
Minorities		-1,221.0	-1,209.0	-1,778.0	-1,481.0	-1,076.0	-649.5	-750.8	-830.2	-863.1	-897.3
Adjusted net income		2,832.0	2,735.0	2,585.0	2,698.0	2,952.0	2,353.5	2,502.0	2,679.9	2,759.0	2,841.4
% change		8.3%	-3.4%	-5.5%	4.4%	9.4%	-20.3%	6.3%	7.1%	3.0%	3.0%
Per share data											
Basic NOSH weighted average (m)		1,160.2	1,167.1	1,203.2	1,232.3	1,239.9	1,291.0	1,303.1	1,303.1	1,303.1	1,303.1
Dilution		7.6	4.1	1.8	2.2	2.4	2.4	2.4	2.4	2.4	2.4
Diluted NOSH weighted average (m)		1,167.8	1,171.2	1,205.0	1,234.5	1,242.3	1,293.4	1,305.5	1,305.5	1,305.5	1,305.5
Adjusted EPS - basic (€)		2.44	2.34	2.15	2.19	2.38	1.82	1.92	2.06	2.12	2.18
% change		7.7%	-4.0%	-8.3%	1.9%	8.7%	-23.4%	5.3%	7.1%	3.0%	3.0%
Adjusted EPS - diluted (€)		2.43	2.34	2.15	2.19	2.38	1.82	1.92	2.05	2.11	2.18
% change		7.8%	-3.7%	-8.1%	1.9%	8.7%	-23.4%	5.3%	7.1%	3.0%	3.0%
DPS (€)		1.30	1.40	1.40	1.40	1.00	1.00	1.00	1.00	1.00	1.00
% change		53.6%	60.0%	65.3%	64.1%	42.1%	55.0%	52.2%	48.7%	47.3%	45.9%

Source: Company Reports and Citi Research Estimates

Figure 29. Vivendi – Cash Flow Statement (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Cash Flow From Operations										
EBITDA	6,282.0	7,108.0	7,683.0	8,309.0	8,493.0	7,773.6	7,968.9	8,272.3	8,420.9	8,677.7
Restructuring charges paid	-99.0	-117.0	-190.0	-93.0	-114.0	-384.0	-124.2	-62.1	0.0	0.0
Content investments	-97.0	-159.0	-310.0	-137.0	-13.0	-41.3	-77.7	-83.3	-86.5	-89.9
Change in Provisions	19.0	-248.0	-36.0	-125.0	-100.0	250.0	-250.0	0.0	0.0	0.0
Other cash operating items	41.0	-68.0	27.0	-10.0	-7.0	-8.0	0.0	0.0	0.0	0.0
Other changes in net working capital	20.0	241.0	315.0	387.0	-307.0	133.4	-53.4	36.5	-58.0	-118.6
Net cash pre income tax paid	6,166.0	6,757.0	7,489.0	8,331.0	7,952.0	7,723.7	7,463.6	8,163.4	8,276.4	8,469.1
Dividends received	341.0	299.0	310.0	236.0	82.0	0.0	0.0	0.0	0.0	0.0
			7,799.0							
Cash Flow From Operations (CFFO) pre Capex	6,507.0	7,056.0	7,799.0	8,569.0	8,034.0	7,723.7	7,463.6	8,163.4	8,276.4	8,469.1
Capex, net	-1,626.0	-2,001.0	-2,562.0	-3,357.0	-3,340.0	-4,386.3	-3,126.5	-3,152.6	-3,218.3	-3,309.2
Cash Flow From Operations (CFFO)	4,881.0	5,055.0	5,237.0	5,212.0	4,694.0	3,337.4	4,337.1	5,010.8	5,058.1	5,159.9
Financial activities cash payments	-215.0	-320.0	-425.0	-739.0	-720.0	-567.2	-576.4	-563.2	-566.2	-580.8
Income tax (paid)/received	-1,072.0	-1,015.0	-137.0	-1,365.0	-1,090.0	-962.3	-1,252.2	-1,380.9	-1,436.8	-1,495.1
Cash Flow From Operations After Interest & Tax (CFAIT)	3,594.0	3,720.0	4,675.0	3,108.0	2,884.0	1,807.9	2,508.5	3,066.7	3,055.1	3,084.0
Non-Capex Investing Activities										
Purchases of consolidated companies, after cash	-398.0	-3,735.0	-2,682.0	-742.0	-210.0	-1,610.3	0.0	0.0	0.0	0.0
Investments in equity affiliates	-254.0	-114.0	-9.0	-15.0	-49.0	-3.0	0.0	0.0	0.0	0.0
Increase in financial assets	-194.0	-98.0	-359.0	-640.0	-377.0	-87.0	0.0	0.0	0.0	0.0
Non-capex Investments	-846.0	-3,947.0	-3,050.0	-1,397.0	-636.0	-1,700.3	0.0	0.0	0.0	0.0
Proceeds from sales of consolidated companies, after cash	304.0	-6.0	15.0	-43.0	30.0	5.0	496.8	0.0	0.0	0.0
Disposal of equity affiliates	23.0	18.0	0.0	1,458.0	2,920.0	5.0	0.0	0.0	0.0	0.0
Decrease in financial assets	129.0	340.0	82.0	567.0	1,751.0	23.0	0.0	0.0	0.0	0.0
Non-capex Divestitures	456.0	352.0	97.0	1,982.0	4,701.0	33.0	496.8	0.0	0.0	0.0
Net Cash from Non-Capex Investing Activities	-390.0	-3,595.0	-2,953.0	585.0	4,065.0	-1,667.3	496.8	0.0	0.0	0.0
Financing Activities										
Net proceeds from issuance of common shares	149.0	101.0	-650.0	112.0	151.0	0.0	0.0	0.0	0.0	0.0
Sales/(purchases) of treasury shares	-212.0	-85.0	-792.0	-1,082.0	-7,946.0	-227.0	0.0	0.0	0.0	0.0
Dividends paid in cash by Vivendi SA shareholders	-1,387.0	-1,515.0	-735.0	-1,721.0	-1,731.0	-1,291.0	-1,303.1	-1,303.1	-1,303.1	-1,303.1
Dividends paid by companies to non-controlling interests	-1,048.0	-636.0	-786.0	-953.0	-1,154.0	-453.7	-413.5	-428.0	-441.4	-455.7
Transactions with shareowners	-2,498.0	-2,135.0	-2,963.0	-3,644.0	-10,680.0	-1,971.7	-1,716.6	-1,731.1	-1,744.5	-1,758.8
Transactions on borrowings ex Interest	-1,046.0	2,918.0	1,426.0	-378.0	3,739.0	449.0	0.0	0.0	0.0	0.0
Net Cash from Non-Interest Financing Activities	-3,544.0	783.0	-1,537.0	-4,022.0	-6,941.0	-1,522.7	-1,716.6	-1,731.1	-1,744.5	-1,758.8
Foreign currency translation adjustments	-11.0	195.0	9.0	293.0	-14.0	37.0	0.0	0.0	0.0	0.0
Total Change in Cash	-351.0	1,103.0	194.0	-36.0	-6.0	-1,345.1	1,288.7	1,335.6	1,310.6	1,325.3
Cash at beginning of period	2,400.0	2,049.0	3,152.0	3,346.0	3,310.0	3,304.0	1,958.9	3,247.7	4,583.3	5,893.9
Change in cash	-351.0	1,103.0	194.0	-36.0	-6.0	-1,345.1	1,288.7	1,335.6	1,310.6	1,325.3
Cash at end of period	2,049.0	3,152.0	3,346.0	3,310.0	3,304.0	1,958.9	3,247.7	4,583.3	5,893.9	7,219.1

Source: Company Reports and Citi Research Estimates

Figure 30. Vivendi – Net Debt Analysis (Year-end December, €m except where stated)

	0.0	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Consolidated Net Debt											
Long-term borrowings		5,610.0	9,975.0	8,355.0	8,573.0	12,409.0	11,659.0	11,659.0	11,659.0	11,659.0	11,659.0
Short-term borrowings		1,766.0	1,655.0	4,907.0	3,430.0	3,301.0	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0
Total borrowings and other financial liabilities		7,376.0	11,630.0	13,262.0	12,003.0	15,710.0	16,159.0	16,159.0	16,159.0	16,159.0	16,159.0
Derivative Financial Instruments		-69.0	-99.0	-30.0	-91.0	-101.0	-101.0	-101.0	-101.0	-101.0	-101.0
Cash deposits backing borrowings		-72.0	-30.0	-49.0	-21.0	-12.0	-12.0	-12.0	-12.0	-12.0	-12.0
Cash management financial assets		0.0	0.0	-271.0	-508.0	-266.0	-266.0	-266.0	-266.0	-266.0	-266.0
Total Debt		7,235.0	11,501.0	12,912.0	11,383.0	15,331.0	15,780.0	15,780.0	15,780.0	15,780.0	15,780.0
Cash and cash equivalents		2,049.0	3,152.0	3,346.0	3,310.0	3,304.0	1,958.9	3,247.7	4,583.3	5,893.9	7,219.1
Financial Net Debt		-5,186.0	-8,349.0	-9,566.0	-8,073.0	-12,027.0	-13,821.1	-12,532.3	-11,196.7	-9,886.1	-8,560.9

Source: Company Reports and Citi Research Estimates

Figure 31. Vivendi – Interest Expense Calculation (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Interest Expense Calculation										
Interest Rate of Cash/Cash Equivalents		3.0%	0.9%	0.9%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Interest Rate on Short-Term Debt		1.3%	3.0%	3.4%	2%	3.8%	3.8%	3.8%	3.9%	4.0%
Interest Rate on Long-Term Debt		3.0%	3.6%	4.1%	4.0%	3.7%	3.7%	3.7%	3.8%	4.0%
Interest earned on cash and cash equivalents		96.0	28.0	29.0	48.0	26.3	26.0	39.2	52.4	65.6
Interest payable on ST loans		-20.8	-99.2	-141.4	-61.4	-148.2	-171.0	-171.0	-175.5	-180.0
Interest payable on LT loans		-299.3	-325.8	-350.6	-419.6	-445.3	-431.4	-431.4	-443.0	-466.4
Exceptional Cash Interest Payable		0.0	0.0	-247.0	-239.0	0.0	0.0	0.0	0.0	0.0
Cash interest charges (net)		-320.0	-425.0	-739.0	-720.0	-567.2	-576.4	-563.2	-566.2	-580.8
Non-cash interest charges (net)		-34.0	-33.0	247.0	239.0	-35.0	-35.0	-35.0	-35.0	-35.0
Net interest expense		-354.0	-458.0	-492.0	-481.0	-602.2	-611.4	-598.2	-601.2	-615.8
% blended rate		4.2%	5.1%	5.6%	4.8%	4.7%	4.6%	5.0%	5.7%	6.7%

Source: Company Reports and Citi Research Estimates

Figure 32. Vivendi – Balance Sheet (Year-end December, €m except where stated)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Assets										
Goodwill	15,427.0	22,612.0	24,516.0	25,345.0	25,029.0	26,634.3	26,137.5	26,137.5	26,137.5	26,137.5
Non-current content assets	3,127.0	4,012.0	3,196.0	2,784.0	2,485.0	2,526.3	2,604.0	2,687.3	2,773.8	2,863.7
Other intangible assets	2,772.0	3,872.0	4,342.0	4,408.0	4,329.0	4,696.3	4,811.6	4,932.1	5,065.8	5,217.6
Property, plant & equipment	4,675.0	6,317.0	7,264.0	8,217.0	9,001.0	9,889.4	9,743.8	9,626.4	9,521.8	9,422.7
Fixed assets	26,001.0	36,813.0	39,318.0	40,754.0	40,844.0	43,746.3	43,296.9	43,383.4	43,498.9	43,641.5
Investments in equity affiliates	6,825.0	4,441.0	4,146.0	2,906.0	135.0	133.0	133.0	133.0	133.0	133.0
Non-current financial assets	1,215.0	709.0	476.0	496.0	394.0	458.0	458.0	458.0	458.0	458.0
Deferred tax assets	1,422.0	2,195.0	1,843.0	1,836.0	1,421.0	1,421.0	1,421.0	1,421.0	1,421.0	1,421.0
Other non-current assets	9,462.0	7,345.0	6,465.0	5,238.0	1,950.0	2,012.0	2,012.0	2,012.0	2,012.0	2,012.0
Non-current assets	35,463.0	44,158.0	45,783.0	45,992.0	42,794.0	45,758.3	45,308.9	45,395.4	45,510.9	45,653.5
Inventories	429.0	763.0	777.0	750.0	805.0	805.0	805.0	805.0	805.0	805.0
Current tax receivables	646.0	588.0	284.0	576.0	542.0	542.0	542.0	542.0	542.0	542.0
Current content assets	964.0	927.0	1,004.0	1,032.0	1,066.0	1,066.0	1,066.0	1,066.0	1,066.0	1,066.0
Trade accounts receivable and other	5,208.0	6,608.0	6,467.0	6,711.0	6,730.0	6,542.3	6,694.0	6,675.8	6,704.7	6,764.1
Short-term financial assets	187.0	287.0	464.0	622.0	478.0	478.0	478.0	478.0	478.0	478.0
Cash and equivalents	2,049.0	3,152.0	3,346.0	3,310.0	3,304.0	1,958.9	3,247.7	4,583.3	5,893.9	7,219.1
Current assets	9,483.0	12,325.0	12,342.0	13,001.0	12,925.0	11,392.2	12,832.7	14,150.0	15,489.6	16,874.2
Assets held for sale	133.0	14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	45,079.0	56,497.0	58,125.0	58,993.0	55,719.0	57,150.5	58,141.6	59,545.4	61,000.5	62,527.7
Equity and Liabilities										
Share capital	6,406.0	6,436.0	6,759.0	6,805.0	6,860.0	6,860.0	6,860.0	6,860.0	6,860.0	6,860.0
Additional paid-in capital	7,332.0	7,406.0	8,059.0	8,128.0	8,225.0	8,225.0	8,225.0	8,225.0	8,225.0	8,225.0
Treasury shares	-2.0	-2.0	-2.0	-2.0	-28.0	199.0	199.0	199.0	199.0	199.0
Retained earnings and other	6,606.0	8,675.0	7,201.0	9,127.0	4,390.0	4,858.5	5,758.1	6,835.0	7,991.3	9,230.1
Vivendi shareowners' equity	20,342.0	22,515.0	22,017.0	24,058.0	19,447.0	20,142.5	21,042.1	22,119.0	23,275.3	24,514.1
Non-controlling interests (minorities)	1,900.0	4,111.0	3,971.0	4,115.0	2,623.0	2,722.3	2,965.5	3,274.2	3,601.9	3,949.7
Total equity	22,242.0	26,626.0	25,988.0	28,173.0	22,070.0	22,864.8	24,007.6	25,393.2	26,877.3	28,463.8
Non-current provisions	1,594.0	1,585.0	2,090.0	1,477.0	1,569.0	1,569.0	1,569.0	1,569.0	1,569.0	1,569.0
Long-term borrowings and other financial liabilities	5,610.0	9,975.0	8,355.0	8,573.0	12,409.0	11,659.0	11,659.0	11,659.0	11,659.0	11,659.0
Deferred tax liabilities	1,096.0	1,305.0	1,104.0	956.0	728.0	728.0	728.0	728.0	728.0	728.0
Other non-current liabilities	1,078.0	1,480.0	1,311.0	1,074.0	864.0	864.0	864.0	864.0	864.0	864.0
Non-current liabilities	9,378.0	14,345.0	12,860.0	12,080.0	15,570.0	14,820.0	14,820.0	14,820.0	14,820.0	14,820.0
Current provisions	705.0	719.0	563.0	552.0	586.0	586.0	586.0	586.0	586.0	586.0
Short-term borrowings and other financial liabilities	1,766.0	1,655.0	4,907.0	3,430.0	3,301.0	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0
Trade accounts payable and other	10,784.0	13,049.0	13,567.0	14,451.0	13,987.0	14,174.7	14,023.0	14,041.2	14,012.3	13,952.9
Current tax payables	204.0	97.0	239.0	307.0	205.0	205.0	205.0	205.0	205.0	205.0
Current liabilities	13,459.0	15,520.0	19,276.0	18,740.0	18,079.0	19,465.7	19,314.0	19,332.2	19,303.3	19,243.9
Liabilities associated with assets held for sale	0.0	6.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	22,837.0	29,871.0	32,137.0	30,820.0	33,649.0	34,285.7	34,134.0	34,152.2	34,123.3	34,063.9
Total Equity and Liabilities	45,079.0	56,497.0	58,125.0	58,993.0	55,719.0	57,150.5	58,141.6	59,545.4	61,000.5	62,527.7

Source: Company Reports and Citi Research Estimates

Companies Mentioned in this Report

Activision Blizzard (ATVI.O; US\$11.42; 1)

Microsoft (MSFT.O; US\$30.03; 1)

Direct TV (DTV.O; US\$53.24; 1)

BSkyB (BSY.L; £7.61; 1)

ITV (ITV.L; £0.92; 1)

TF1 (TFFP.PA; €6.36; 1)

Sky Deutschland (SKYDn.DE; €3.38; 1)

France Telecom (FTE.PA; €9.42; 3)

Vivendi

Company description

Vivendi is a media/telecoms conglomerate. Within media its main activities are music (UMG, 100% owned), games (Activision Blizzard, 62% owned) and payTV (Canal+ France, 80% owned; Canal+ Group 100% owned). Within telecoms, the group's operations include French mobile, fixed and broadband services (SFR, now 100% owned), Moroccan and African Mobile (Maroc Telecom, 53% owned) and Brazilian Fixed and Broadband (GVT, 100% owned).

Investment strategy

When we look at extreme scenarios, we can make the case for relatively significant upside in Vivendi. On a blue-sky SOTP and assuming perfect execution, this could even be as much as €10-15 per share of upside relative to just €2-4 per share of downside on our worst case.

In practice though, we are not sure this is realistic. First it assumes that the management and supervisory boards will be willing to go 'all the way' with respect to the recently announced strategic review. Although maximising value is a key priority, the emphasis on adjusted EPS growth and the commitment to keeping the credit rating suggests that the boards expect something to be left over.

Second, the most recent newsflow suggests that the perfect execution we allude to above may be difficult to deliver. For example, early investigations into an outright sale of ATVI appear to have come to naught (cf. Bloomberg).

Finally, and perhaps most importantly, it assumes no change to the underlying forecasts, which itself may be optimistic given ongoing pressure in particular within the French triple play landscape.

When we consider more muted multi-asset sale scenarios, these are more consistent with valuations around the current level. Hence we rate Vivendi Neutral.

Valuation

Our target price of €16 per share reflects our sum-of-the-parts valuation. We value the quoted stakes at market and the remaining assets on 2013E EV/Sales or EV/EBITDA multiples, based on peer valuations (e.g. SFR) and recent transaction multiples (e.g. UMG) where appropriate. We capitalise group holding and corporate costs at 4x 2012E. After deducting net debt, we apply a 15% holding company discount, which drives our target price of €16.

Risks

The major divisional risks we see are at SFR, where the impact of a fourth mobile operator may continue to be more pronounced than we model, and the business is exposed to a worsening regulatory environment and tougher times both for enterprise and broadband. For UMG, the music industry remains troubled. There is also a risk that the group uses its cash poorly. There is also cyclical risk to some degree across its businesses. A greater or lesser impact from these risks than we expect could cause the shares to undershoot or exceed our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

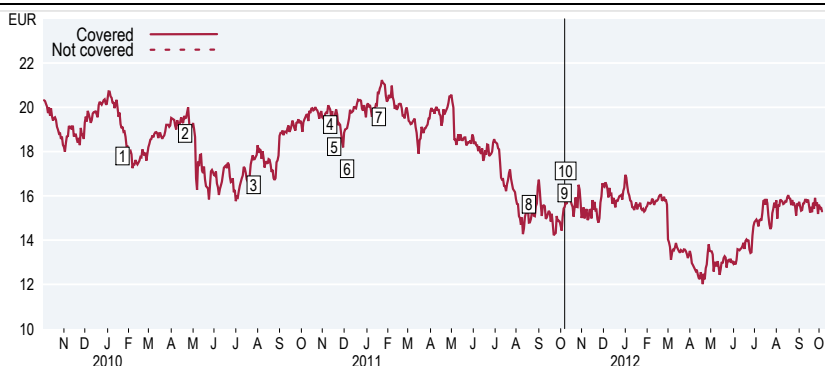
Vivendi (VIV.PA)

Ratings and Target Price History

Fundamental Research

Analyst: Thomas A Singlehurst, CFA

Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	22-Jan-10	*2M	*19.84	19.12
2	21-Apr-10	*1M	*22.26	19.51
3	27-Jul-10	1M	*20.32	17.65
4	11-Nov-10	1M	*22.26	19.90

* Indicates change

	Date	Rating	Target Price	Closing Price
5	17-Nov-10	1M	*22.74	19.37
6	6-Dec-10	1M	*23.23	19.06
7	19-Jan-11	1M	*23.71	20.66
8	18-Aug-11	1M	*19.35	14.79

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	19.35	15.50

Rating/target price changes above reflect Eastern Standard Time

Vivendi (VIV.PA)

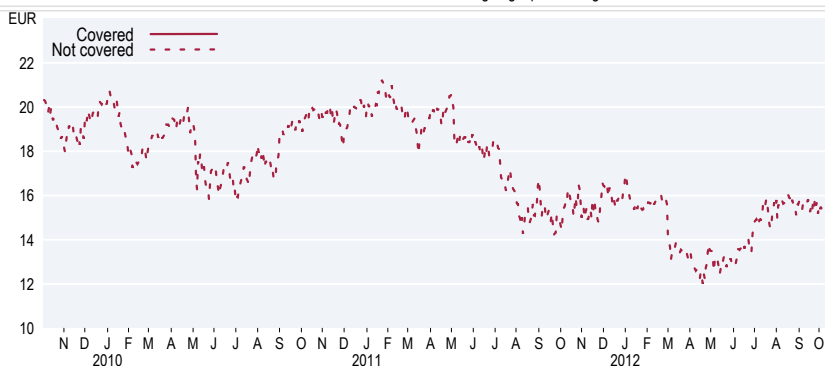
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA

Covered since April 30 2010



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Activision Blizzard Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Directv

An employee of Citigroup Global Markets or its affiliates is a Chairman of the Audit Committee and a Board member of France Telecom SA.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Microsoft Corp

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Data current as of 4 Oct 2012	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	51%	38%	11%	7%	85%	7%
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