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Volume XXXIX, Issue I

Vivendi S.A.

OTC: VIVEF, Euronext Paris: VIV.PA

Dow Jones Indus:	13,954.42
S&P 500:	1,507.84
Russell 2000:	907.31
Index Component:	CAC 40

Trigger: Yes
Type of Situation: Business Value, Restructuring

Price:	€	16.02
Shares Outstanding (MM):		1,298.9
Fully Diluted (MM) (% Increase):		1,301.5 (0.2%)
Average Daily Volume (MM):		3.6
Market Cap (MM):	€	20,850
Enterprise Value (MM):	€	35,861
Percentage Closely Held:		Bolloré Group 5%
52-Week High/Low:	€	17.43/12.01
Trailing Twelve Months Price/Earnings:		8.1x
Price/Stated Book Value:		1.1x
Long-Term Debt (MM):	€	13,753
Implied Upside to Estimate of Intrinsic Value:		38%
Dividend:		
Payout	€	1.00
Yield		6.2%
Net Revenue Per Share:		
TTM	€	21.92
2011	€	23.24
2010	€	23.43
Earnings Per Share:		
TTM	€	2.02
2011	€	2.38
2010	€	2.19

Fiscal Year Ends:	December 31
Company Address:	42 Avenue de Friedland 75380 Paris cedex 08 France
Telephone:	(212) 572-1334
CEO:	Jean-François Dubos

Clients of Boyar Asset Management, Inc. do not own shares of Vivendi S.A. common stock.
Analysts employed by Boyar's Intrinsic Value Research LLC do not own shares of Vivendi S.A. common stock.

Introduction

Vivendi S.A. ("Vivendi," "VIV," or "the Company") is a French holding company with a collection of global telecom and entertainment properties. Vivendi's assets include the #1 or #2 telecom operators in France, Morocco, and Brazil; France's dominant pay TV company, Canal Plus; Universal Music Group, which holds close to or greater than 40% market share in many of the world's largest recorded music markets; and a majority stake in Activision Blizzard, the world's leading video game distributor. Vivendi has undertaken a long series of acquisitions, divestitures, and equity swaps over the past 10 years to reach the current structure. In our estimation, the complexity and diversity of Vivendi's assets has translated into a significant holding company discount for the shares. Shares also reflect extremely negative investor sentiment toward Vivendi's French businesses, SFR and Canal Plus, which have recently been impacted by negative regulatory and tax headwinds as well as the entry of upstart competitors. Vivendi's music and video game businesses also suffer from the perception that they operate in dying industries. Taken together, this confluence of negative factors has produced a 40% decline in Vivendi's share price over the past 5 years. At €16 per share, Vivendi shares currently trade at only 1.1x book value, 6x trailing EV/EBITDA and 8x trailing P/E.

Vivendi's protracted share price decline and recent operational struggles prompted a management overhaul and strategic review in mid-2012. In addition to the dismissal of 10-year tenured CEO Jean-Bernard Lévy in June 2012, the shakeup also included the addition of industry mogul and French activist investor Vincent Bolloré to the board following Bolloré Group's accumulation of a 5% equity stake in Vivendi. A rarity for French corporations and Vivendi's first significant review since 2002, the ongoing review could result in significant corporate action. Any number of divestitures and/or spinoffs is possible, and management has suggested all options are on the table. Although there is no guarantee the Company will take meaningful action in 2013 or even 2014, management has admitted the urgency of taking action in the coming quarters, and ongoing sales processes for numerous businesses have been widely reported. Utilizing a sum-of-the-parts methodology and applying what we believe are conservative assumptions, we estimate Vivendi's intrinsic value is approximately €22 per share in a breakup scenario. Barring significant corporate action, Vivendi's strong free cash flow and return of capital to shareholders (including a 45%-55% dividend payout target, which translated into a 6.2% yield based on 2012 distributions) still offer plenty of upside. Additionally, with nearly all of Vivendi's business units out of favor with investors and/or facing recent headwinds (despite our view that they hold strong competitive positions), any improvement in sentiment or operating performance could have an outsized impact on Vivendi's beaten-down shares.

History

Vivendi dates back to the establishment of French water utility Compagnie Générale des Eaux in 1853. Asset Analysis Focus initially became acquainted with Vivendi following the French media and telecom conglomerate's acquisition of longtime AAF favorite Seagram (which then held media assets including Universal Studios and a large stake in USA Networks in addition to the legacy beverages businesses) in December 2000. This was part of a much larger acquisition spree orchestrated during the reign of former chairman and CEO Jean-Marie Messier between 1996 and 2002. AAF expressed skepticism toward the merger in January 2001 due to Mr. Messier's aggressive growth strategy, which soon produced a massive €23 billion annual loss and near-bankruptcy as well as his ouster in 2002. Much more than the Company's share price (down ~60% since late 2001) has changed at Vivendi over the subsequent years. During the initial years following Mr. Messier's departure, the Company shed numerous assets in an effort to reduce its burdensome debt load. Divestitures included the Company's remaining stake in its legacy water business (Veolia Environment), its publishing assets VUP and Houghton Mifflin, minority stakes including DISH/Echostar and InterActive Corp, and the partial sale and merger of its USA/Universal assets into GE's NBC unit in 2004.

Vivendi has undergone a further reshuffling of assets in subsequent years, completing several large scale acquisitions and consolidations as well as additional divestitures. In addition to debt reduction, Vivendi management's overarching strategic goal has been to refocus the Company in telecom and entertainment/content ownership businesses. Vivendi steadily increased its stake in number two French telecom provider SFR beginning in 2003, culminating with the assumption of 100% ownership through the €7.95 billion (equity value) purchase of Vodafone's 44% stake in August 2011. Under Vivendi's control, SFR also ultimately gained 100% interest in fixed line and broadband operator Neuf Cegetel (now combined as one reporting/operating subsidiary of SFR) after purchasing the 59.5% stake not already owned for €4.5 billion in 2008. Vivendi also gained a majority stake in Moroccan telecom provider Maroc Telecom in 2005, and Maroc subsequently acquired telecom assets in several sub-Saharan African regions. Vivendi acquired upstart Brazilian telecom/broadband operator GVT for €3.0 billion through a series of transactions in 2009 and 2010.

On the entertainment/content side, Vivendi's Canal+ Group consolidated the French premium pay TV market through the merger with TPS in 2007. In 2008, Vivendi gained a controlling interest in the world's largest video game publisher Activision Blizzard by orchestrating the merger of the Company's interactive entertainment subsidiary Vivendi Games (including developer Blizzard Entertainment) with U.S.-based Activision. Most recently, Vivendi and its Universal Music Group subsidiary completed the acquisition of EMI Group's recorded music business for €1.4 billion in September 2012. Vivendi helped fund the Company's recent acquisitions through the sale of its 20% stake in NBC Universal to GE. Announced in December 2009 and completed through two transactions in 2010 and 2011, Vivendi received $5.8 billion for its NBCU stake.

Business Overview

In the Company's current composition, Vivendi's operates through six businesses: SFR, Maroc Telecom Group, GVT, Canal+ Group, Activision Blizzard, and Universal Music Group.

SFR

SFR (originally Société Française de Radiotéléphonie) is the second largest telecom operator in France with a Company-estimated 29% mobile market share as well as a 24% broadband Internet market share. SFR's customer base includes 21 million mobile customers (16.5 million postpaid), plus 5 million residential broadband Internet customers including 1.7 million quadruple play subscribers. SFR is Vivendi's largest operating business, contributing €12.2 billion in revenues (42% of Company-wide revenue) and €3.8 billion EBITDA (45%) in 2011.

SFR Customer Base (000s)

	9 Mos. Sept. 2012
Mobile	
Postpaid	16,454
Prepaid	4,422
Total SFR Group	20,876
Mobile Market Share	29.0%
Broadband	
Broadband Internet customer base (000s)	5,040
Broadband market share (2011E)	23.5%

Maroc Telecom Group

Vivendi holds a 53% equity stake in Maroc Telecom Group, while the Kingdom of Morocco holds 30%. Maroc Telecom is the largest telecom operator in Morocco, with 18 million mobile customers, 1.2 million fixed line customers, and 600K broadband customers in Morocco. Although the Moroccan business is mature, Maroc has expanded into sub-Saharan Africa in recent years and now holds 51% or greater stakes in operations in Mali, Burkina Faso, Mauritania, and Gabon. Maroc has nearly 13 million mobile customers in sub-Saharan Africa and generates nearly 23% of revenue from the region, with 18% revenue growth YTD 3Q 2012. Maroc Telecom Group generated €2.7 billion in revenues and €1.5 billion EBITDA during 2011 on a consolidated basis.

Maroc Telecom Group Customers, Sept. 30, 2012 (000s)

Morocco	
Mobile customers	
postpaid	1,165
prepaid	16,857
Total mobile customers - Morocco	18,022
Fixed lines	1,247
Broadband Internet accesses	648

Mauritania	
Mobile customers	2,061
Fixed lines	41
Broadband Internet accesses	7
Burkina Faso	
Mobile customers	3,786
Fixed lines	142
Broadband Internet accesses	30
Gabon	
Mobile customers	804
Fixed lines	18
Broadband Internet accesses	7
Mali	
Mobile customers	6,012
Fixed lines	97
Broadband Internet accesses	43

GVT SA

Launched in 2000, GVT (Global Village Telecom) is a Brazilian telecom provider reaching 8.2 million homes. GVT provides fixed line, broadband, and VoIP services. GVT also launched a pay TV distribution service (utilizing a combination of satellite, DTT, and IPTV delivery) in late 2011, and had acquired 312,000 subs by September 30, 2012. GVT generated €1.4 billion in sales and €601 million EBITDA in 2011.

GVT Customer Base (000s)

	Sept. 30, 2012
Total Homes Passed	**8,920**
Lines in Service	
Voice	3,251
Broadband Internet	2,062
Retail and SME	5,313
Corporate	2,865
Pay TV	312
Total Lines in Service	**8,491**

Canal Plus Group

Canal Plus Group includes Vivendi's television and film properties across the content production, programming networks, and distribution businesses. Canal+ Group revenue totaled €4.9 billion and EBITDA totaled €913 million in 2011 on a consolidated basis.

Canal+ Group's primary subsidiary is Canal+ France, in which Vivendi holds an 80% interest (Lagardère SCA owns 20%). Canal+ France is the leading pay-TV programmer in France and French overseas territories and French speaking Africa (30 countries), with 11 million subscribers. Due to legacy French TV law forbidding majority ownership of channels with a certain audience scale, Canal+ France owns only 48.5% of subsidiary Société d'Edition de Canal Plus ('SECP', formerly 'Canal+ SA'). SECP receives annual subscription royalties that grow at a fixed 2.5% annual rate. Canal+ also operates in Poland and Vietnam, with 1.7 million combined subscribers. Canal+ France's lineup of 5 premium channels offering exclusive original programming ("Les Chaînes Canal+" or "Canal+ Channels") includes top-rate sports content, serialized drama, and feature films. Canal+ Group also provides a more extensive offering of 21 channels. Canal+ channels are distributed across a range of platforms in France including satellite (55% of subscribers), ADSL (23%), digital broadcast (17%) and digital cable (5%). Canal+ Group markets directly and through retail partners and ISPs, but retains direct relationship to the customer from activation to termination. A large percentage of subscribers access Canal+ Channels through Canal+ Group subsidiary CanalSat, which markets and distributes a broader bundle of multichannel pay-TV subscription services through satellite, cable, and IPTV in France. CanalSat offers a subscription package with 200+ premium channels including 17 Canal+ channels and 20 other channels exclusive to CanalSat.

Canal+ Subscriptions (000s)

	Dec. 30, 2011
Pay TV France	9,760
Canal+ Overseas	1,456
Total Canal+ France	11,216
International (Poland, Vietnam)	1,730
Total Canal+ Group	12,946

Canal+ Group also controls 75% of Cyfra+ (25% owned by Liberty Global), the second largest satellite pay TV platform in Poland. In December 2012, Cyfra+ and competitor TVN agreed to merge. The new venture, to be named nc+, will have an initial combined base of approximately 2.5 million subscribers in Poland. Vivendi will own 51% of the new venture and Canal+ Group CFO and EVP Strategy Julien Verley will assume the CEO position.

Also included in Canal+ Group is Vivendi's wholly-owned digital free-to-air ('FTA') news channel, i>Télé, France's second-rated news channel. Canal+ recently expanded its DTT (digital terrestrial television) portfolio with the acquisition of Bolloré Group's French free-to-air channels, D8 (formerly Direct 8) and Direct Star (renamed D17). Completed in September 2012, Vivendi purchased 100% interest in the television channels through the issuance of 22.356 million shares representing an initial value of €336 million. Canal+ Group also includes Vivendi's content production and distribution company, StudioCanal. StudioCanal distributes ~50 films per year in France, Germany, and the U.K. and has an extensive back library of film content including over 5,000 titles with global ownership rights plus territorial rights to a catalogue of thousands of additional films.

Activision Blizzard

Vivendi holds a 61% equity stake in Activision Blizzard (ATVI), the world's largest independent video game publisher. Vivendi acquired its stake in ATVI through the merger of its Vivendi Games unit with U.S. video game publisher Activision in July 2008. The 2008 deal structure initially handed Vivendi a 54% stake in Activision Blizzard, with Vivendi receiving 591 million ATVI shares valued at $8.1 billion ($13.75 per share) in compensation for Vivendi Games and contributing $1.7 billion to acquire an additional 126 million newly-issued ATVI shares. Vivendi Games' trophy asset consisted of the Blizzard Entertainment studio and its *World of Warcraft* franchise which has achieved longstanding and unparalleled popularity in the MMO (massively multiplayer online game) segment with 10 million active subscribers. The Activision Publishing division's assets include the bestselling *Call of Duty* franchise, licenses to develop games from popular franchises such as Spider-Man, X-Men, and James Bond, and the bestselling children's gaming and toy franchise *Skylanders*, which recently crossed $500 million in all-item U.S. retail sales less than 2 years after the initial launch in 2011.

ATVI is still led by longtime Activision CEO Robert Koteck (age 49), who built up Activision from almost nothing in 1990 to a $12 billion company through the acquisition of several studios and the development of numerous hit franchises. Activision is publicly traded on the NASDAQ (ticker ATVI; $11.43) with a $12.7 billion market capitalization. ATVI expects $4.6 billion revenue and $1.2 billion non-GAAP earnings ($1.10 per share) in 2012.

Universal Music Group

Vivendi holds 100% ownership of Universal Music Group (UMG). UMG holds a formidable position within the global music industry, including #1 share positions in the 3 largest music markets (United States, Japan, and Germany). UMG is the sector's leading provider of recorded music, and holds a diverse portfolio of record labels across a full spectrum of musical genres. UMG has a long history, originating back to the early 20th Century, and was part of Universal Studios for several decades. It later became part of Vivendi via transactions in 2004 and 2006. Its portfolio of artists consists of a wide range of musical artists that have achieved significant commercial success, including The Rolling Stones, Rod Stewart, Lady Gaga, Rihanna and Justin Bieber. During the most recent fiscal year, this segment generated €4.2 billion in revenue (representing 15% of consolidated sales at Vivendi) and $623 million EBITDA. UMG revenue is primarily derived from recorded music (80% of segment sales), and the remainder is realized from music publishing and merchandise/other. Within recorded music, sales are derived from physical albums (46%), digital (41%), and licensing/other (13%). Vivendi completed the acquisition of EMI Recorded Music for €1.4 billion in September 2012 and Vivendi expects to sell up to €500 million of UMG/EMI assets to meet regulatory approval.

Historical Performance and Valuation: Conglomerate Discount?

The following tables provide historical operating results on a consolidated basis and across Vivendi's six business units. As evidenced by the financial results, both macro and business-specific challenges have meaningfully impacted Vivendi's businesses in recent years. Notably, Vivendi's telecom businesses SFR and Maroc Telecom, which are historically the Company's largest operating units, have also suffered the most severe deterioration in recent years. At SFR, EBITDA declined by 4.4% in 2011 and is expected to report another 12% decline for the full year in 2012. Similarly, Maroc Telecom suffered a 10.6% EBITDA decline in 2011 although results stabilized in 2012. Both businesses have been impacted by the entry of new competitors and related pricing pressures in core markets. UMG and, to a lesser extent, Activision, have also suffered more modest profit declines recently and operate in businesses that are arguably threatened with long-term secular decline. Canal+ Group has consistently achieved modest annual revenue and profit growth, but also faces looming threats from an upstart competitor and potential entry of 'over the top' (OTT) or Internet-delivered alternatives in France. The Brazilian unit GVT has been the notable exception, but the company's tremendous growth has not yet translated to direct benefits for Vivendi shareholders as GVT has required modest capital investments from Vivendi in excess of operating cash flows to date in order to fund this growth.

Vivendi Historical Performance by Business Unit

	Fiscal year ended December 31,						Nine months ended September 30, 2012			
	2009		2010		2011				% Change, constant currency	
	Revenue	Adj. EBIT	Revenue	Adj. EBIT	Revenue	Adj. EBIT	Revenue	Adj. EBIT	Revenue	Adj. EBIT
Activision Blizzard	€3,038	€484	€3,330	€692	€3,432	€1,011	€2,404	€754	(8.0%)	(26.6%)
Universal Music Group	4,363	580	4,449	507	4,197	507	2,903	238	(3.4%)	(5.0%)
SFR	12,425	2,530	12,577	2,472	12,183	2,278	8,508	1,650	(6.9%)	(12.5%)
Maroc Telecom Group	2,694	1,244	2,835	1,284	2,739	1,089	2,028	729	(2.8%)	(13.7%)
GVT	104	20	1,029	277	1,446	396	1,282	341	+28.1%	+23.0%
Canal+ Group	4,553	652	4,712	690	4,857	701	3,647	722	+2.6%	-1.1%
Holding & Corporate		(91)		(127)		(100)		(95)	na	(59.4%)
Noncore, intersegment	(45)	(29)	(54)	(33)	(41)	(22)	(21)	(8)	na	na
Consolidated Vivendi	€27,132	€5,390	€28,878	€5,726	€28,313	€5,860	€20,751	€4,331	(2.7%)	(11.9%)

Note: Consolidated results in €millions, unadjusted for results attributable minority owners. GVT has been consolidated since November 12, 2009. Adjusted EBIT (EBITA) measures earnings before interest and taxes (EBIT), amortization of intangible assets acquired through business combinations, impairment of goodwill and other acquired intangibles, impacts related to financial investing transactions, and other financial charges and income.

Vivendi 5 Year Consolidated Historical Financials

	Nine months ended September 30, (unaudited)		Year ended December 31,			
	2012	2011	2011	2010	2009	2008
Consolidated data						
Revenues	20,751	21,030	28,813	28,878	27,132	25,392
EBITA (a)	4,331	4,866	5,860	5,726	5,390	4,953
Earnings attributable to Vivendi SA shareowners	1,651	2,799	2,681	2,198	830	2,603
Adjusted net income (a)	2,194	2,519	2,952	2,698	2,585	2,735
Financial Net Debt (a) (b)	15,011	13,342	12,027	8,073	9,566	8,349
Total equity (c)	22,715	21,352	22,070	28,173	25,988	26,626
of which Vivendi SA shareowners' equity (c)	20,065	18,901	19,447	24,058	22,017	22,515
Cash flow from operations, before capital expenditures, net (CFFO before capex, net)	4,961	5,372	8,034	8,569	7,799	7,056
Capital expenditures, net (capex, net) (d)	(3,665)	(2,386)	(3,340)	(3,357)	(2,562)	(2,001)
Cash flow from operations (CFFO) (a)	1,296	2,986	4,694	5,212	5,237	5,055
Financial investments	(1,596)	(514)	(636)	(1,397)	(3,050)	(3,947)
Financial divestments	48	4,617	4,701	1,982	97	352
Dividends paid with respect to previous fiscal year	1,245	1,731	1,731	1,721	1,639 (e)	1,515
Per share amounts						
Weighted average number of shares outstanding (f)	1,290.9	1,279.8	1,281.4	1,273.8	1,244.7	1,208.6
Adjusted net income per share (f)	**1.70**	**1.97**	**2.30**	**2.12**	**2.08**	**2.26**
Number of shares outstanding at the end of the period (excluding treasury shares) (f)	1,323.1	1,285.5	1,287.4	1,278.7	1,270.3	1,211.6
Equity per share, attributable to Vivendi SA shareowners (f)	15.17	14.70	15.11	18.81	17.33	18.58
Dividends per share paid with respect to previous fiscal year	**1.00**	**1.40**	**1.40**	**1.40**	**1.40**	**1.30**

Vivendi's recent results have been further confounded by a weak economic environment and an increasingly aggressive tax regime in France, where the Company generates 58% of revenues (FY 2011). GDP growth in France has failed to reach 1.0% in any quarter since the economic recovery began in 2009. Facing budgetary pressures, the French government also implemented several tax code reforms in 2011-2012 that have negatively impacted Vivendi. Tax generating measures to date included VAT increases on telecom and pay TV services (which Vivendi has been unable to fully pass through to customers); an increase in the corporate tax rate from 34.4% to 36.1%; termination of the Consolidated Global Profit Tax System which allowed consolidation of majority-owned foreign subsidiaries; and the implementation of an annual NOL utilization cap at 60% of income. Overall, these measures negatively impacted Vivendi by approximately €350 million in 2011 and management forecasts an incremental impact of ~€70 million in 2012.

While Vivendi faces formidable challenges, the Company maintains number one or two market positions in all its businesses, which we believe still offer long-term profitability and even substantial earnings upside at several units (as discussed in greater detail in later sections). Even after accounting for the Company's numerous operating challenges, we believe Vivendi shares suffer from a highly discounted public market valuation. The following table provides our estimates of Vivendi's current valuation multiples, adjusted for estimated earnings and assets not attributable to Vivendi shareholders as well as the impact of Vivendi's recent acquisitions.

Vivendi SA (EPA: VIV)	
Current price	€16.02
Price/Stated Book Value	1.1x
P/E (TTM)	8.1x
EV/adj. EBITDA (TTM)	6.0x
EV/adj. EBIT (TTM)	8.7x
EV/unlevered pretax FCF (FY 2011)	9.5x

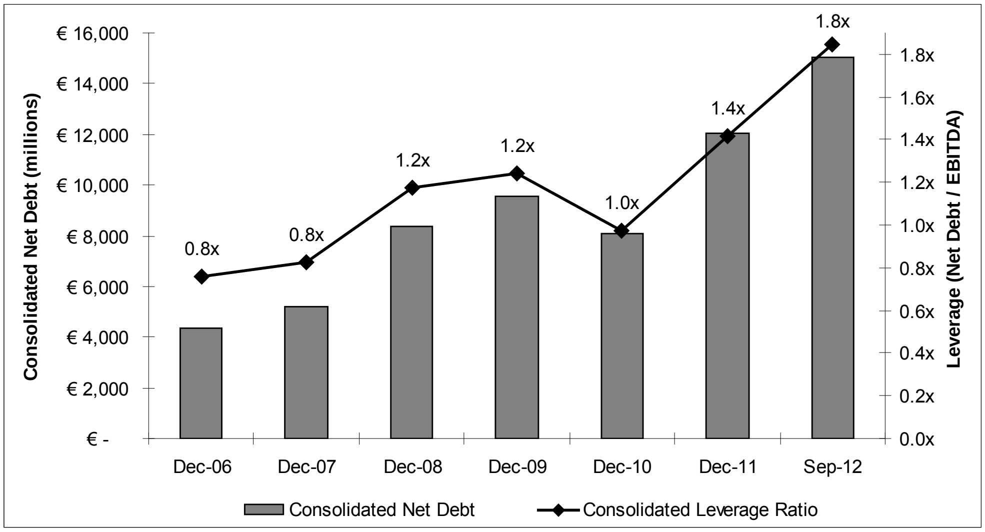
Note: Based on adjusted financial results as of September 30, 2012. Results exclude financial impact of EMI acquisition completed September 28, 2012.

At the current market price, Vivendi trades at depressed multiples of only 6x EV/EBITDA, 8.7x EV/EBIT and 8x earnings (TTM 3Q 2012). Beyond pessimism toward Vivendi's businesses, we suspect the depressed valuation reflects a meaningful complexity/conglomerate discount implied by investors/analysts to Vivendi shares. Vivendi's international conglomerate structure makes for particularly complex and difficult to forecast financial reporting: the Company reports across six distinct businesses, translated from four different base currencies, and consolidated before accounting for various underlying minority interests. Vivendi has often traded at a discount and the conglomerate discount is liable to persist indefinitely, but, as detailed beginning on page 21, the recent management shakeup and ongoing exploration of strategic alternatives, and/or improved capital allocation at Vivendi could serve as catalysts for this discount to diminish going forward.

Balance Sheet & Free Cash Flow Remain Intact

Following several years of rapid debt reduction after ex-CEO Messier's departure in 2002, Vivendi has progressively added debt to the balance sheet over the past 5 years. Net debt expanded from €5.2 billion at year-end 2007 to €15.0 billion as of September 30, 2012. The debt expansion has been driven by acquisitions (notably Vodafone's stake in SFR, GVT, Activision, and EMI) as well as increased capital spending at SFR (spectrum acquisition) and GVT and return of capital to shareholders. Yet despite the increase in debt, Vivendi's balance sheet still appears healthy. Leverage (net debt to EBITDA) stood at a reasonable 1.8x on a consolidated basis as of September 30, 2012, and management expects net debt will have declined below €14.0 billion by year-end 2012. Adjusting Vivendi's balance sheet and EBITDA to exclude consolidated minority interests, and excluding the just-completed EMI acquisition, we estimate net debt attributable to Vivendi shareholders stood at €14.5 billion or a still-reasonable 2.1x trailing EBITDA as of 3Q 2012. It should also be noted that while Vivendi's consolidated leverage ratio has roughly doubled over the past 4 years, this accounting measure does not accurately reflect the impact of Vivendi's acquisitions of minority interests in SFR and Canal+ over that period (which increased debt and shareholders' earnings without impacting consolidated EBITDA).

Vivendi Historical Consolidated Net Debt and Leverage



Vivendi also maintains adequate liquidity with €2.3 billion in available liquidity through its credit facility, which has a 3.0x leverage covenant. Vivendi's long-term debt has a weighted average of 4.4 years to maturity and a modest average interest rate of 3.55% following refinancings in 2012. Following S&P Ratings' decision to place their BBB- long-term debt rating for Vivendi on credit watch negative in July 2012 (citing the CEO departure and strategic review), Vivendi management has strongly affirmed its commitment to maintaining an investment grade credit rating. S&P subsequently removed Vivendi from its negative credit watch and affirmed its BBB- rating in October 2012, and Vivendi maintains investment-grade ratings at Moody's (BAA2, stable) and Fitch (BBB, stable). Looking forward, Vivendi's strategic review is likely to result in divestiture(s) within the next year, and a concurrent reduction in Vivendi's leverage.

Although free cash flow has been impacted by higher taxes and the telecom businesses' declines since 2011, Vivendi still continues to generate strong levels of free cash flow, as illustrated in the following table. On a consolidated basis, Vivendi generated €4.7 billion in unlevered pretax free cash flow and €2.9 billion (€2.31 per share) in free cash flow after interest and taxes in 2011. Backing out consolidated results attributable to minority interests, we estimate Vivendi generated €3.8 billion (€3.03 per share) in unlevered, pretax free cash flow in 2011. The incremental decline in cash flow in 2012 primarily reflects SFR's €1.1 billion purchase of 4G spectrum in January 2012, as well as incremental capex at GVT and higher cash content investment at Canal+ Group. Despite the higher tax rate environment in France, Vivendi still maintained an estimated €2.6 billion worth of tax credits (undiscounted value based on current tax rates) heading into 2012 that should continue to aid free cash flow for the next several years.

Vivendi Historical Consolidated Cash Flow (€millions)

	CFFO	Capex	CFFO, after capex	CFAIT	Dividend per Share
FY 2006	€6,111	€(1,645)	€4,466	€2,912	€1.00
FY 2007	€6,507	€(1,626)	€4,881	€3,594	€1.20
FY 2008	€7,056	€(2,001)	€5,055	€3,720	€1.30
FY 2009	€7,799	€(2,562)	€5,237	€4,675	€1.40
FY 2010	€8,569	€(3,357)	€5,212	€3,108	€1.40
FY 2011	€8,034	€(3,340)	€4,694	€2,884	€1.40
TTM 3Q 2012	€7,623	€(4,619)	€3,004	€1,473	€1.00

Note: CFFO represents cash flow from continuing operations prior to interest expense and income taxes.
CFAIT represents operating cash flow after interest and income taxes paid.

While much will depend on the outcome of the Company's strategic review, Vivendi will likely continue to return substantial amounts of free cash flow to shareholders going forward. In response to deteriorating financial performance, in March 2012 the Company slashed its annual dividend from €1.40 per share to €1.00 per share. Going forward, management is targeting a cash dividend payout of 45% to 55% of annual net income. Assuming net income stabilizes beyond 2012, this implies the dividend rate should remain close to €1 per share—translating to a healthy 6% yield at the current share price.

Additional free cash flow will likely be directed toward debt paydown over the next few years. However, if free cash flow improves and/or Vivendi completes asset sales, the Company may consider commencing a large-scale share repurchase program. Historically, Vivendi has not considered share repurchases as an option for capital deployment. However, CFO Capron recently commented at an industry conference in November 2012:

> *"Buybacks which have not been envisaged as a management tool by the board in the past are now very much—could very much be the order of the day provided of course we respect our debt rating constraints. So it's not immediate."*

Capital allocation is always a risk and Vivendi's history is not exactly impressive, but management has committed to an investment grade balance sheet and the Company currently appears to be firmly headed in the direction of deconsolidation at this stage, which minimizes our M&A concerns.

Management Upheaval & Strategic Review

As poor stock performance in 2011 began to turn even worse for Vivendi and the sharp decline at SFR so soon after the Company's €8 billion purchase of Vodafone's stake led shareholders to question management, in early 2012 Vivendi initiated its first substantial corporate shakeup since the ouster of Mr. Messier in 2002. The upheaval began with the March 26, 2012 resignation of SFR chairman and CEO Frank Esser, who had held the role for 10 years, in response to the telecom company's rapid market share losses. Supervisory board chairman Jean-René Fourtou and CEO and management board chairman Jean-Bernard Lévy responded the next day with a letter to shareholders announcing a strategic review of the entire Company. In response to their observation that an "excessive" holding company discount was being applied to Vivendi shares, the letter rhetorically asked, *"Should the scope of the Group be kept as is? Should businesses be sold or should the Group be split into two, or even into three? These questions are not taboo."*

Apparently the pair did not see eye to eye: following the Company's annual strategic seminar, on June 28, 2012, Vivendi announced the resignation of Mr. Lévy (who had held the CEO position since 2002 and was management board chairman since 2005). Mr. Lévy was replaced by general counsel Jean-François Dubos as CEO and chairman of the management board. Vivendi head of personnel Stephane Roussel was also named CEO of SFR after Mr. Levy's original nomination for SFR chairman and CEO, Vodafone Europe CEO Michel Combes, declined the job when he failed to secure the Vivendi CEO job in Mr. Lévy's wake.

French corporate culture is well known for its general aversion to restructuring, and the typically exceedingly slow pace of change. As such, it is difficult to assume Vivendi will undertake a large-scale reorganization in 2013. However, there have been numerous indications that the Company is serious about considering change. In announcing Mr. Lévy's resignation, Vivendi cited a "divergence of views on the strategic development" of the Company. According to several sources, Mr. Lévy was unwilling to participate in any dismantling of the Vivendi conglomerate, and in our view, his departure significantly increases the likelihood of major structural changes at Vivendi. Vivendi launched a strategic review covering all business units in April 2012, to be led by Chairman Fourtou.

If Vivendi does undertake corporate restructuring, there are indications that the Company will refocus on content and media businesses and reduce its exposure to capital intensive telecom businesses that are good candidates for consolidation. As detailed below, it has been widely reported that Vivendi has formally solicited offers for GVT and Maroc Telecom, while there have been less formal discussions surrounding SFR and Vivendi's Activision stake. A sale of telecom assets, and/or a separation into two companies—one focused on telecom and the other on content—is plausible. CEO Jean François Dubos commented in December 2012, *"One thing is certain, we have all the assets to assert ourselves as a European, even global leader in content and media. In this field there is a real growth market and we have the know-how and some real global champions."* [1]

Activist Investor on Board

Vivendi has yet to announce any firm decisions, but action in 2013 looks plausible. CFO Phillipe Capron stated in November, "We haven't abandoned the goal of reconfiguring the group in a way that will be better appreciated by our shareholders," and also suggested, "We will likely need to act in the coming quarters." [2,3] In January 2013, Mr. Dubos also noted that Vivendi management accepts shareholder pressure to take action in the coming quarters. The involvement of French industrialist and turnaround investor Vincent Bolloré could also help catalyze change at Vivendi. As noted, Bolloré Group elected to receive Vivendi shares in exchange for the sale of Bolloré Group's French FTA TV channels in a deal announced in September 2011. Bolloré subsequently purchased additional Vivendi shares on the open market and declared a 5% stake in October 2012. In December 2012, Mr. Bolloré was appointed to Vivendi's supervisory board. During his 30-plus year (and ongoing) role as Chairman and CEO of the family-controlled conglomerate Bolloré Group, Mr. Bolloré, has built a reputation as a successful activist investor and garnered the nickname "the prince of cash flow." Over the past 10-plus years, Bolloré's investments have increasingly gravitated toward the media industry, including taking large minority stakes in advertising companies Havas and Aegis beginning in 2004-2005. (Bolloré and Aegis shareholders recently agreed to sell Aegis to Japanese firm Dentsu for £3.2 billion.) Mr. Bolloré's history of making long-term, active investments in the industry and his recent assumption of a board seat increase the odds that Vivendi will reorganize into a more media and content-focused company going forward.

Examining Potential Corporate Actions

As discussed, the timeline for—or even the certainty of—any asset sales or separations remains uncertain. However, there has already been plenty of public commentary on Vivendi management's considerations. Below we summarize recent activity as well as possible strategic acquirers or other plausible transactions for Vivendi's various businesses:

<u>Maroc Telecom</u>

Vivendi's 53% stake in Maroc Telecom may be the Company's most plausible candidate for divestiture in the near term. The Company cannot assume full ownership of Maroc Telecom (given the Moroccan royal government's 30% stake), and the current structure is less favorable from a tax perspective following recent changes to the French tax code. Nor do synergies with Vivendi's other assets appear meaningful. As a capital intensive telecom business garnering a low market multiple, management is unlikely to view Maroc as a core holding. However, Maroc's footprint in growing sub-Saharan African territories could be of strategic interest to numerous industry peers.

According to public reports, Vivendi is actively shopping Maroc telecom and at least 4 plausible strategic buyers have emerged. They include regional operators Emirates Telecommunications Group (ETISALAT; the second largest telecom operator in the Middle East) and Qatar Telecom (Qtel) as well as France Telecom and South Korean operator KT Corp. KT Corp. reportedly submitted a preliminary offer in December 2012, and ETISALAT submitted an expression of interest on January 17, 2013. ETISALAT CEO Ahmad Julfar commented on January 23, 2013, "We are very much underleveraged and we have the cash; that leaves us with all options open." [4] France Telecom CEO Stephan Richards has also expressed "strategic interest" in Maroc.

<u>GVT</u>

GVT is another plausible divestiture in 2013. Meaningful synergies with the Company's other business units have failed to emerge, and although GVT continues to achieve impressive growth targets, the business has consumed cash since Vivendi acquired GVT in 2009. Vivendi should have no difficulty finding interested buyers for GVT, whether from Brazilian competitors looking to gain scale or international telecom companies

[1] http://news.yahoo.com/vivendi-ceo-says-future-lies-201744390.html
[2] http://online.wsj.com/article/SB10001424127887324556304578117170092101816.html
[3] http://www.reuters.com/article/2012/11/15/tech-conference-vivendi-idUSWLA639220121115
[4] http://www.bloomberg.com/news/2013-01-23/etisalat-ceo-weighs-financing-for-6-billion-vivendi-maroc-stake.html

looking to buy their way into a highly attractive growth market in Brazil. According to published reports, Vivendi received initial bids for GVT above €6 billion from at least 4 companies during a first round conducted in December 2012. Rumored bidders include Brazilian cable/telecom operators DirecTV and Oi S.A. as well as America Movil and Liberty Global.

SFR

As Vivendi's largest unit and having only assumed full ownership in mid 2011, Vivendi is unlikely to sell SFR anytime soon. However, SFR has reportedly received some expressions of interest. SFR CEO Roussel commented in November:

> *"Although there is a broader reflection on telecoms going on in Vivendi, there is no active initiative…to find a buyer for SFR. SFR is not for sale. That said, it doesn't mean that nothing will happen. There are potential buyers who are coming to test the waters."* [5]

Industry participants motivated to gain greater scale in Europe are plausible acquirers of SFR. SFR is also a logical candidate for consolidation within the French market. A merger with upstart mobile competitor Free (Iliad S.A.) would help resolve the current irrational pricing environment. A sale or spinoff-merger with private equity-controlled cable company Numericable has also been discussed as a highly synergistic combination. However, French regulatory concerns present a formidable barrier. According to public reports, French regulators have ruled out a merger amongst the company's 4 mobile competitors. A merger with Numericable is more feasible, but could still face resistance: French telecoms minister Fleur Pellerin was quoted in October 2012, *"SFR is a sensitive and strategic company for France. We will do everything in our power to make sure this company does not end up in the hand of unscrupulous shareholders."* [6]

Activision Blizzard

Although we believe it is a valuable asset, Vivendi's 61% stake in Activision Blizzard has no connection with the Company's other businesses and is a likely candidate for disposal. According to media reports, Vivendi backed off from selling its ATVI stake in 2012 after failing to receive sufficiently attractive offers. Nonetheless, Vivendi could revisit a sale in 2013 pending the ongoing strategic review. Alternatively, Vivendi could look to monetize its stake over time through open market sales. Vivendi last sold ATVI shares in the open market in November 2011, selling 35 million shares at $12.05 per share. Vivendi may also consider spinning off its ATVI stake to reestablish ATVI as an independent company. With $3.5 billion in cash and zero debt on AVTI's balance sheet, Vivendi could recapitalize ATVI's balance sheet in conjunction with the spinoff and receive a substantial dividend.

Other Alternatives: Spinoff?

Vivendi continues to target growth for Canal+ Group and UMG, both organically and through acquisition, and both units are likely core holdings for the Company. However, this does not preclude the businesses from being involved in a reorganization. As quoted earlier, Chairman Fourtou has suggested a separation into two or more businesses is possible. A spinoff of Vivendi's telecom assets from Canal+ and UMG could allow the market to re-rate the latter at the higher multiple typically ascribed to content companies, rather than the depressed, mid-single-digit EV/EBITDA multiple currently ascribed to the holding company. Activision, as a higher-multiple entertainment content company itself, could be included in the content group or separated as an independent company. Alternatively, France-domiciled businesses SFR, UMG, and Canal+ Group could be separated from the foreign entities. Regardless of the final structure, a spinoff would almost certainly be a value creating event for Vivendi shareholders.

Assessing Vivendi's Sum-of-the-Parts Intrinsic Value

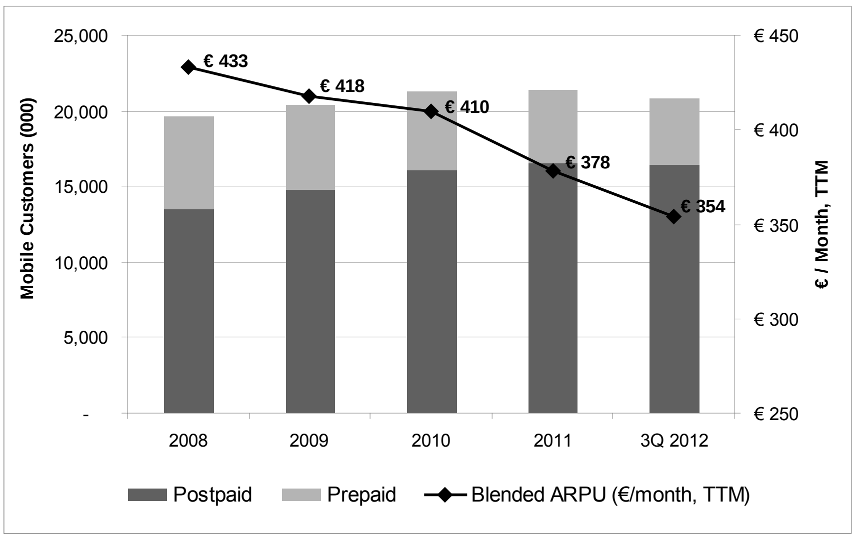
In the following sections, we analyze the competitive positions and long-term prospects for Vivendi's six business units before deriving an intrinsic value estimate for the holding company on a sum-of-the-parts basis.

[5] http://www.reuters.com/article/2012/11/28/us-vivendi-sfr-idUSBRE8AR09H20121128
[6] http://www.reuters.com/article/2012/10/16/us-vivendi-sfr-idUSBRE89F1FN20121016

SFR

SFR's core mobile division has historically benefited from a consolidated competitive environment dominated by SFR (31% mobile customer market share in 2011, excluding wholesale customers), France Telecom (Orange France; 39% market share), and Bouygues Telecom (16% market share), the only nationwide mobile network operators with 3G licenses. However, after the French communications authorities' (ARCEP) failed auction of a fourth nationwide 3G mobile network license in 2007, in 2009 the authorities awarded a license on favorable terms to French ADSL operator Iliad S.A. Iliad launched Free Mobile in January 2012, and has utilized quadruple play bundles and highly discounted mobile offerings (prepaid plans as low as €2 per month) to win 3.6 million mobile subscribers (5.4% of the French market) within 6 months. SFR and other competitors have responded with price cuts and increased promotional spending. SFR's profitability has also been impacted by the imposition of multiple tax increases and rate regulations in recent years. These pressures are reflected in SFR's significant mobile ARPU declines (down 14% from 2010 levels, TTM 3Q12) and, more recently, customer losses (2.6% mobile market share loss TTM).

SFR Group Historical Mobile Subscribers and ARPU



These unprecedented pricing pressures led SFR's EBITDA to decline from €4.0 billion in 2010 to €3.8 billion in 2011 and management expects a further 12% decline in 2012. Competitive pressures are likely to continue in 2013, and Vivendi management has suggested market estimates for €2.9 billion in EBITDA in 2013 are not unrealistic. However, looking beyond 2013, we are cautiously optimistic that SFR's profitability should stabilize in 2013-2014 before resuming a modest growth path. Our optimism that SFR is not impaired longer term is based on several considerations:

- <u>More Rational Mobile Competition</u>: Upstart competitor Free Mobile's aggressive pricing should moderate over time as the company gains a sufficient base of customers. Notably, Free Mobile is still highly reliant on an (arguably significantly under-priced) network sharing agreement with France Telecom; Free Mobile's network buildout still only had 27% population coverage at launch according to the company, while France Telecom has reported handling up to 95% of Free's traffic. Frequent, widespread coverage losses have also been reported. Free's license commits it to reach 90% coverage by 2015. The longer-term buildout requirements and related capital demands may spur Free to adopt a more rational pricing strategy in the coming years.
- <u>Mobile Data Usage and 4G Expansion:</u> SFR was a big winner in ARCEP's auction of 800 MHz spectrum in December 2011. SFR won two contiguous 2x5 blocks at a price of €1.1 billion, while France Telecom and Bouygues each won one block. SFR will use this spectrum toward a full 4G-LTE rollout over time. SFR was the first to launch 4G on a limited scale in France in late 2012, including in Lyon in November. SFR will expand its 4G network coverage in several cities in 1H 2013, while Paris is targeted for fall

2013. Smartphone penetration is also still only 47% for SFR customers but growing rapidly, up from 28% at year-end 2010. Increased mobile data usage should favorably impact SFR's ARPU over time and could counteract recent price pressures. Mobile service data revenue grew 18.4% in 2011 to €2.8 billion and should continue to increase at a double-digit rate.

- Broadband and Quadruple Play Growth: As illustrated in the table below, SFR's broadband and fixed line revenues and margins have increased nicely since the integration of Neuf Cegetel in 2008, partially offsetting the mobile segment declines. Increased consumption of Internet-delivered content should continue to favorably impact SFR's results over the long-term. Integrated quadruple play offerings are also still only ~2 years old in the French market and could drive subscriber gains and ARPU growth for SFR over the long-run. SFR's broadband services reached 5.04 million residential customers, but only 1.7 million customers subscribed to quadruple play packages as of 3Q 2012.

SFR Group Historical Financial Performance

	2008	2009	2010	2011	YTD 3Q 2011	YTD 3Q 2012
Revenues						
Total Mobile	€8,990	€8,983	€8,930	€8,452	€6,353	€5,697
Broadband Internet & Fixed	2,882	3,775	3,944	4,000	2,994	2,959
Intercompany	(319)	(333)	(297)	(269)	(210)	(148)
Total Revenues	€11,553	€12,425	€12,577	€12,183	€9,137	€8,508
EBITDA						
Mobile	€3,501	€3,306	€3,197	€2,989		
Broadband Internet & Fixed	457	661	776	812		
Total EBITDA	€3,958	€3,967	€3,973	€3,800	€2,971	€2,735

- Cost-Cutting Measures: In response to increased competition and reduced profitability, SFR announced an ambitious cost cutting plan in November 2012. SFR aims to generate €1 billion in annual cost savings through numerous measures including eliminating a net 856 jobs. This is an ambitious plan, particularly in France with a highly regulated and unionized labor force, but the realization of even a substantial minority of the targeted savings would have an outsized impact on SFR's bottom line.

We would note that Vivendi's €7.95 billion acquisition of Vodafone's 44% stake in June 2011 valued SFR at approximately $25 billion on an enterprise basis or 6.2x reported 2010 EBITDA (6.7x fully expensing subscriber acquisition costs). Clearly this was a very poorly timed acquisition, and SFR's 2012E EBITDA is ~18% below 2010 levels. Given the recent trends in the industry, SFR is unlikely to command a €25 billion valuation or 6-7x EV/EBITDA multiple again anytime soon. Nonetheless, SFR is still a high margin, highly profitable operator in a business with favorable long-term drivers. Despite the unprecedented pricing pressures, SFR EBITDA margins declined less than 30 bps YTD 3Q12. In estimating SFR's intrinsic value, we conservatively assume EBITDA declines another 10% in 2013 before stabilizing. Appling a 5x EV/EBITDA multiple, near the low end of the range of market multiples applied to mature Western European telecom companies, we estimate SFR's intrinsic enterprise value is approximately €15 billion. Notably, this implies a depressed, single-digit multiple on management's forecasted pretax unlevered free cash flow of €1.7 billion at SFR in 2012. Our estimate is also well below CEO Dubos' commentary in December 2012 suggesting SFR was worth close to €20 billion.

SFR Estimate of Intrinsic Value

EBITDA – 2014E	€ 2,930
assumed multiple	5x
Enterprise Value	€14,650

Canal+ Group:

The underappreciated value of cable networks and content owners has been a recurring theme for *Asset Analysis Focus* in recent years. While the French pay TV market is unique, in our view Canal+ Group is well positioned to benefit from similar trends. In particular, Canal+ Group offers a unique combination of vertically integrated assets, with assets including premium pay TV channels solidified by irreplaceable content (sports rights, films), a content production/distribution arm through StudioCanal, and partial ownership of distribution channels through CanalSat and SFR's IPTV services. Canal+ Group's dominant position in the French pay TV market was further strengthened by the merger with smaller competitor TPS in 2007. Canal+ Group's historically strong competitive position is evidenced in the business' consistent operating performance including modest subscriber gains and ARPU increases through a historically challenging economic environment, as well as substantial operating margin and free cash flow growth in recent years.

Canal+ Group Historical Financial Performance

	2007	2008	2009	2010	2011	YTD 3Q11	YTD 3Q12
Total Revenue	€4,363	€4,554	€4,553	€4,712	€4,857	€3,563	€3,647
EBITDA	€628	€774	€870	€920	€913	€880	€908
EBITDA margin	*14.4%*	*17.0%*	*19.1%*	*19.5%*	*18.8%*	*24.7%*	*24.9%*
Adj. EBIT, ex. transaction costs	€400	€636	€652	€690	€701	€732	€722
CFFO, before capex		€592	€559	€639	€735		
CFFO (unlevered, pretax)	€317	€383	€328	€410	€484		
Subscribers:							
Pay TV France				9,720	9,760		
Canal+ France overseas (territories, Africa)				1,338	1,456		
Total Canal+ France	10,554	10,591	10,829	11,058	11,216	10,999	11,236
International (Poland, Vietnam)		1,383	1,642	1,651	1,730	1,647	1,779
Total Canal+ Group		11,974	12,471	12,709	12,946	12,646	13,015
ARPU (per digital sub., France)		€43.8	€44.7	€46.3	€47.5		
Churn (€/sub., France		13.0%	12.3%	11.0%	12.1%		

Despite Canal+ Group's strong performance, Vivendi's current share price suggests investors are significantly discounting the division. This may reflect increased longer-term uncertainty for the French business due to increased competition. Qatari broadcaster Al Jazeera launched a new collection of 3 pay TV sports networks, beIN Sport, in France in June 2012. Backed by the Qatari royal family's deep pockets and attempting to quickly build a network, beIN Sport has aggressively bid for premium sports content. In the French Professional Soccer League's June 2011 auction for League 1 TV rights, beIN Sport won rights to Friday and Sunday evening games for €90 million per year for four seasons beginning in 2012-2013. BeIN Sport has also purchased a portion of the rights to Italian and German league games, as well as second-tier UEFA matches. The network reported 1 million subscribers in France as of November 2012 and hopes to add several hundred thousand more in the next several months.

French regulators have also pushed for increased pay TV competition. In 2011, regulators awarded TV Numeric digital terrestrial television licenses to launch a pay TV service, but the service floundered in 2012 with only 35,000 subscribers. A video on demand follow-up is in preparation to be launched this year.[7] TF1 Distribution and hypermarket chain Leclerc also announced the launch of a new 4 channel pay TV service in January 2013. It should also be noted that in 2011, the French Competition Authority ruled Canal+ violated the conditions for approval of the 2007 merger with TPS. The authority fined Canal+ €30 million and, in July 2012, imposed several restrictions aimed at freeing up movie rights and Canal+ channels and exclusive CanalSat channels to competitors. While these conditions are still under appeal, during testimony last October, Canal+ CEO Méheut suggested they could impact Canal+ subscribers by 100,000 and profits by €130 million.

[7] http://www.digitaltveurope.net/31170/selectv-forms-jv-with-altech-for-french-vod-service/

We suspect these figures were exaggerated for effect, but it's worth keeping an eye on the ultimate regulatory outcome.

There has also been much speculation that U.S.-based 'over the top,' Internet-delivered subscription video on demand (SVOD) competitors are set to enter France. According to Canal+, Amazon and its U.K. SVOD subsidiary LoveFilm are planning to launch in France as early as March 2013. Netflix has also long been rumored to enter France, although Netflix management recently commented that the company will undertake no new launches through at least 1H 2013.

Despite these new entrants, in our estimation Canal+ Group still maintains a dominant position due to its existing subscriber base, scale, integration, breadth of content and unmatched programming budget, etc. Although it is still early, results to date do not reflect a weakened financial position or losses in audience or subscribers. The Canal+ channels maintained their 4.2% audience share YTD 3Q12, with the flagship Canal+ channel losing 100 bps of market share Y/Y to 2.9%. Excluding approximately €40 million in costs related to the relaunch of Bolloré Media's television stations in October 2012, Vivendi management expects Canal+ to report a slight increase in adjusted EBIT in 2012 versus €701 million in 2011. This includes the €30 million YTD 3Q12 negative impact from a VAT hike. Looking forward, we would highlight several enduring competitive advantages and growth opportunities for Canal+ Group:

- <u>Canal+ maintains premium sports content</u>: Despite beIN Sport's entry, Canal+ maintained broadcast rights to 4 premium lots of French League 1 games, and Canal+ Group's annual cost will decline to €420 million per season from €465 million per season previously. Canal+ still maintains unsurpassed sports rights including first choice rights to Champions League matches, French rugby, and numerous international soccer rights. Longer-term, we would also expect Al Jazeera's arguably irrational growth strategy (which also includes paying Comcast for distribution in the U.S.) to moderate. Analysts estimate Al Jazeera could lose far upwards of €1 billion by 2016, which is clearly unsustainable. We would also note that Canal+ stands to generate incremental revenue from carriage of beIN Sport at its CanalSat subsidiary.

- <u>Canal+ to benefit from SVOD</u>: In our view, the eventual widespread adoption of Internet-delivered SVOD services in France will be a net positive for Canal+, allowing the Company to better monetize StudioCanal's library of 5,000-plus titles. Canal+ France already launched a SVOD service, CanalPlay Infinity, in November 2011. For €10 per month, subscribers can access over 2,000 movies and 700 episodes on demand. According to Canal+ CEO Bertrand Méheut, StudioCanal will also sign a partnership agreement with Amazon for the LoveFilm launch in France, demonstrating the library's essential value. StudioCanal also already has content licensing agreements with Amazon/LoveFilm in the UK and Germany, and international monetization could be a growing source of revenue going forward.

- <u>Content and free-to-air TV investments</u>: Canal+ is also moving to expand its produced/owned original content, including film and serialized dramas. In January 2011, Canal+ paid €11 million to acquire a 51% stake in Tandem Communications, a boutique German television production and distribution company that recently produced the Emmy-nominated miniseries *The Pillars of the Earth*. In September 2011, StudioCanal announced an agreement with Anton Capital Entertainment for the London-based investment firm to finance 30% of up to 100 films with a €500 million euro budget over three years. The acquisition of Bolloré Group's two free TV networks in September 2012 also provides Canal+ with diversity as well as additional outlets for monetization of content after the first pay TV licensing window. Canal+ is aiming to triple D8 channel's budget to €120-€150 million per year by 2015 and double audience share to 4%.

- <u>International growth</u>: Going forward, Canal+ France has a great opportunity to generate additional growth through expansion in developing markets, including Africa. Canal+ France added 237,000 overseas subscriptions in the past 12 months, primarily in French speaking Africa. We would also note that overall, including its overseas territories and Africa, Canal+ France accounted for 84% of Canal+ Group's €3.6 billion in revenue YTD 3Q12, and €679 million of €722 million segment adjusted EBIT. Longer term, there is a tremendous opportunity for profit growth at Canal+ Group's other overseas markets (Poland and Vietnam) as they mature. The 49%-owned Vietnam pay TV business, K+, was only launched in 2010 and Vivendi anticipates profitability in 2014. The recently-approved Poland JV will add scale and cut costs, and management hopes to double EBITDA by 2015.

In valuing Canal+ Group, we would remind investors that cable networks, including premium pay TV programmers, typically command double digit EV/EBITDA multiples. While Canal+ Group also includes a film studio (including a valuable library) and a distribution business, and the French video environment is very different than in the U.S. (margins unlikely to ever approach U.S. firms' levels), on the other hand Canal+ Group's competitive position in France is also uniquely strong. In order to arrive at a value for the Group, we separate Canal+ France (still 20% owned by Lagardère) from the international operations and the free TV channels. Placing a discounted 9x EBIT multiple on Canal+ France's 2015E EBIT of €676 (conservatively implying minimal growth from adjusted 2011 EBIT of €647), we estimate Vivendi's Canal+ France stake is worth €4.6 billion.

For at least the third year in a row, Lagardère is renewing exploration of an IPO for its Canal+ France stake. Vivendi is a logical buyer and the IPO talk may be a tool to get Vivendi to make an acceptable offer. Reports on a possible sale price have ranged from €850 million to €1.9 billion over the past 3 years, with Lagardère reportedly asking for €1.4 billion and Vivendi offering €1.0 billion in 2010. Lagardère also wrote down its investment to €1.2 billion in 2012. While the ultimate outcome could continue to be delayed indefinitely, Lagardère's interest in gaining liquidity could provide Vivendi an opportunity to complete a bargain purchase. We would also note that minority stakes totaling 15% of Canal+ France were put to Vivendi in late 2009 and 2010 at implied valuations of €7.5 billion or 13.5x trailing EBIT.

Canal+ Group paid €336 million for Bolloré Group's modestly unprofitable free TV channels in 2012. Vivendi management is targeting roughly breakeven results for the group in 2013. Collectively with news channel i>Tele, we assume Canal+ Group's FTA channels (excluding Canal+ channel's FTA broadcasts) only reach modest profitability by 2015 and garner an 8x EBITDA multiple. This conservatively implies a value well below Canal's cost for the Bolloré channels. Canal+ Group's recently created Polish satellite pay TV JV, nc+, will have 2.5 million subscribers and management is targeting upwards of €130 million EBITDA in Poland by 2015. Canal+ Group owns 51% of the JV and also holds call options to acquire another 31%. We value nc+ at 8x 2015E EBITDA. Factoring in a modest valuation for the Vietnam business, we estimate Vivendi's proportion of Canal+ Group's intrinsic value is approximately €5.5 billion.

Canal Plus Group Sum-of-the-Parts Valuation

Canal+ France - 2015E EBIT	€	676
less 51.5% of SECA 2015E EBIT		(34)
Canal+ France 2015E EBIT, proportional	€	642
assumed multiple		9x
Canal+ France estimate of Intrinsic Enterprise Value	€	5,777
Vivendi proportion @ 80% economic interest	€	4,621
Free TV channels 2015 E EBITDA	€	31
assumed multiple		8x
Free TV channels estimate of Intrinsic Enterprise Value	€	245
Poland nc+ 2015E EBITDA	€	130
assumed multiple		8x
Poland nc+ estimate of Intrinsic Enterprise Value	€	1,040
Vivendi proportion @ 51% economic interest	€	530
Vietnam 2015E EBITDA	€	20
assumed multiple		10x
Vietnam estimate of Intrinsic Enterprise Value	€	200
Vivendi proportion @ 49% economic interest	€	98
Canal Plus Group s.o.p. Intrinsic Enterprise Value to Vivendi	**€**	**5,494**

Maroc Telecom Group

Maroc Telecom Group's African operations present attractive long-term assets. Maroc held an impressive 47% market in the core Moroccan market as of December 31, 2011, and the competitive landscape is consolidated with Médi Télécom holding 33% market share and Wana claiming the remaining 20% of the market. The Moroccan market is mature from a subscribership basis and offers Maroc extremely attractive 40%-50%-plus EBIT margins. However, the territory is not immune to price wars, with a 25% cut in average prices causing Maroc's Morocco segment EBITDA to decline 11% in 2011. While still exhibiting rate cuts, the pricing environment in Morocco hardened somewhat in 2012. Additionally, the Moroccan market still offers Maroc several attractive long-term revenue growth opportunities. Pre-paid customers still represented 96% of Morocco's 36.5 million mobile subscribers as of December 31, 2011. As 3G mobile Internet usage and smartphone adoption grows, post-paid accounts should rapidly gain share, translating into higher ARPU and lower churn. Maroc's post-paid subscriber base increased 25% in 2011 followed by another 22% Y/Y increase as of September 31, 2012. The company's Moroccan broadband Internet business is also in the early stages of a boom. Internet customers increased 19% to 591,000 in 2011 and another 18% YTD 3Q12, and Maroc holds a virtual monopoly on the ADSL market in the country. Maroc Telecom's sub-Saharan operations also offer impressive market shares and growth prospects (revenue up 17% YTD 2012), with mobile, fixed line, and Internet penetration rates still extremely low.

In placing an intrinsic value on Maroc Telecom, the company's stub equity listed on the Euronext Paris exchange serves as a useful reference point. At the current €9.45 per share price, Maroc's market value is approximately €8.3 billion. Including ~€1.0 billion in net debt (0.8x EBITDA), Maroc Telecom shares trade at ~6.8x EV/EBITDA (adjusted to account for noncontrolling interests)—a modest multiple in light of the business' cash flows and growth prospects. Maroc Telecom expects approximately €1.0 billion in unlevered, pretax free cash flow in 2012, roughly in line with 2011 results. This implies an extremely attractive 11% unlevered free cash flow yield (unadjusted for minority interests in the sub-Saharan divisions, which should be minimal on a cash flow basis). According to recent media reports, Vivendi hopes to receive at least €5.5 billion in a sale of its stake, implying approximately 30% upside from Maroc's current share price. While €5.5 billion may be at the upper end of a possible sale price, in any case a premium to the current share price appears easily justifiable for a potential acquirer given the business' free cash flow, lack of leverage, and growth profile. Assuming an 8x EV/EBITDA multiple, we estimate Vivendi's stake in Maroc Telecom is worth approximately €5.1 billion.

Maroc Telecom Group –Market Valuation & Estimate of Intrinsic Value	
Current share price	€ 9.45
shares outstanding	879
Implied market cap	€ 8,307
Value to Vivendi shareholders (51%)	€ 4,237
Enterprise Value	€ 9,301
Implied EV/EBITDA	6.8x
Implied Unlevered Pretax FCF Yield	11%
Intrinsic value @ 8x EV/EBITDA	€ 10,914
Implied equity value, Vivendi shareholders	€ 5,059

GVT S.A.

In our view GVT is a prized asset in the telecom industry, featuring a leading network with the fastest growth rate and highest EBITDA margin among its peers in the Brazilian market, which has an extremely high urbanization rate and attractive long-term economic growth prospects. GVT has built its own network featuring an extensive backbone connected to metropolitan fiber rings with short last miles, enabling GVT to offer unmatched broadband Internet speeds in many markets. As a new alternative telecom provider (launched in 2000), GVT has also benefited from a nationwide, all-service license without the burdens of universal service requirements or price caps faced by the incumbents. Between 2006 and 2011, GVT compounded revenue and EBITDA at 33% and 40% annualized growth rates, respectively. Despite the increasing scale, GVT's growth continued in 2012. Through 3Q12, revenue increased 28% (38% excluding the impact of a VAT imposition) and EBITDA increased 26% in constant currency. GVT's leading high speed Internet network covered 136 cities as of September 2012, up from 105 a year earlier. Plenty of additional room for expansion remains, with GVT targeting expansion in close to 50 new cities in the coming years. This includes Sao Paolo, where GVT only recently received regulatory approval. GVT also began a soft launch of pay TV services in late 2011, which accelerated in 2012. GVT had already won 312,000 pay TV subscribers by September 2012, representing 15% share of market-wide net adds in 3Q12 or an impressive 33% share within the cities it operates.

GVT Historical Financial Performance

	2009	**2010**	**2011**	**YTD 3Q11**	**YTD 3Q12**
Revenues					
Telecoms	€601	€1,029	€1,444	€1,077	€1,233
Pay TV	-	-	2	-	49
Total Revenues	€601	€1,029	€1,446	€1,077	€1,282
EBITDA					
Telecoms	€240	€431	€616	€460	€ 541
Pay TV	-	-	(15)	(8)	(13)
Total EBITDA	€240	€431	€601	€452	€528
EBITDA margin	*39.9%*	*41.9%*	*41.6%*	*42.0%*	*41.2%*
EBITA	€114	€277	€396	€299	€341
Capex	NA	€482	€705	€519	€705
CFFO after capex, pretax unlevered	NA	€ (69)	€(147)		

GVT's rapid growth has yet to translate to direct benefits for Vivendi shareholders in terms of free cash flow. Nonetheless, GVT has been able to primarily self-fund its expansion from operating cash flows since Vivendi's acquisition. EBITDA less capex totaled outflows of (€89) million in 2010 and (€51) million in 2011, and GVT held only €374 million in bank debt as of September 30, 2012. Encouragingly, Vivendi expects GVT's telecom operations (which exclude the early-stage pay TV platform) to reach breakeven on an EBITDA minus capex basis in 2012; through 3Q 2012, telecom EBITDA totaled €541 versus €556 million in total capex excluding pay TV related capital expenditures of €164 million. In our estimation (and management's description), GVT's lack of free cash flow to date reflects management's prudent decision to reinvest in the business given the tremendous investment opportunities available, rather than lack of free cash flow potential. As the business matures, GVT's strong EBITDA margins (expected to be 40%-plus in 2012) should translate into robust free cash flow beginning in the near future.

Vivendi paid ~9x EBITDA and ~7x forward EBITDA to complete the acquisition of 100% of GVT in multiple steps between 2009 and 2010. While GVT has also invested several hundred million euro to grow the business, the acquisition price looks like a clear bargain today. Vivendi's asking price is reportedly €7-€8 billion in a potential sale of GVT, while multiple first round bids have been rumored to exceed €6 billion. A valuation of €7 billion would value GVT at approximately 10x 2012E EV/EBITDA and 8x 2013E EBITDA. While it is difficult to project GVT's growth rate going forward (significantly dependent on the company's investment decisions), in April 2012 management forecasted 30%-plus annualized revenue growth through 2014 (roughly in line with 2012 results, excluding currency impacts) and 18% annualized revenue growth between 2014-2016. Assuming GVT reinvests all operating cash flows into capex and continues to grow at 30% through 2014 and EBITDA margins decline by ~1 point per year, a €7 billion equity valuation implies a multiple of only ~6x 2014E EV/EBITDA at the current exchange rate. Even if GVT's growth rate slows somewhat below 30% by 2014, this would still imply a reasonable multiple of less than 7x 2014E EBITDA. Given the strategic value of GVT to numerous competitors in the region, as well as to international telecom operators looking to diversify into more attractive emerging markets, and even private equity interests, we are confident that Vivendi could garner at least €7 billion in a sale barring any unforeseen market changes. If Vivendi elects to hold on to GVT, the business may prove even more valuable in the long run and shareholders should benefit from its transition into a cash flow generating business in the coming years.

GVT Estimate of Intrinsic Value	
GVT 2013E EBITDA	€ 925
assumed multiple	8x
Implied Enterprise Value	€ 7,399
Net debt, Sep. 30, 2012	€ (374)
Estimated Intrinsic equity value	€ 7,025

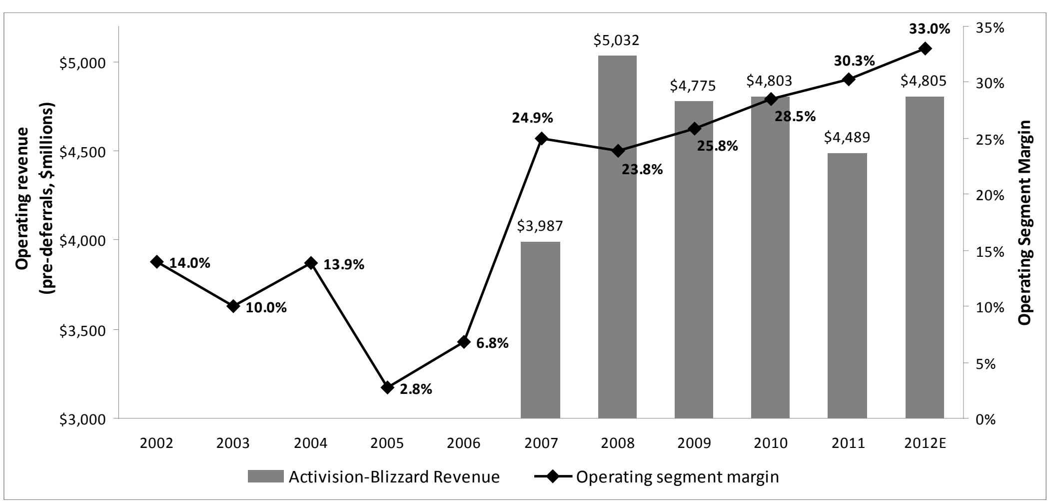
Activision Blizzard:

The video gaming industry has emerged over the last several decades as a major provider of entertainment. Clearly this sector has benefitted greatly from the marked advances in broader technology, and this has helped to create a huge marketplace for video game content both in the U.S. and abroad. According to Forrester Research, roughly 20% of consumers in North America and Europe play video games on a regular basis, and consumer participation among some younger demographic segments exceeds 70%. However, the growth pattern for this business has been far from robust during recent years, and technological advances related to online gaming and mobile devices have created new challenges for industry sales and profitability. This weakness has also stemmed from a lack of new launches of console systems during recent quarters, as software sales often follow a cyclical pattern that accelerate following the release of a major console system (Xbox, Nintendo Wii, etc.). According to market research firm NPD Group, sales of games, consoles, and accessories dropped by 22% in 2012, following already weak comparisons in 2010 and 2011. Yet it warrants mention that best-selling games typically exhibit more resilient sales and profitability, and these games have become an increasingly important driver of industry sales. During the first 9 months of 2012, the industry's top 5 performing titles reported sales growth of 15%. According to NPD Group, the top-10 titles accounted for 26% of total U.S video games sales during 2011.

Although industry fundamentals have been mixed during recent years, ATVI has successfully established and maintained a strong competitive and financial profile. A key driver of ATVI's competitive differentiation is its well established capacity to generate highly popular and commercially successful video game franchises. *Call of Duty* and several of ATVI's other successful gaming franchises have created a product line that is concentrated among high-performing titles, allowing ATVI to outperform industry peers, and produce results that are relatively insulated from sector challenges. The Company's top 3 franchises (*Call of Duty, World of Warcraft*, and *Skylanders*) accounted for over 70% of revenue and a significantly higher portion of operating income during the most recent fiscal year. ATVI develops these titles via its own teams of creative, technical, and production personnel, while sometimes relying on independent third party providers to augment its capacity and capabilities. During recent years, ATVI has typically allocated approximately $200 million toward its annual software development efforts. Highly successful ATVI titles such as *Call of Duty* have established industry leading followings (*Call of Duty* ranked #7 on the Forbes Brand Loyalty Leaders list in 2012), that can continue to be monetized over many years via new editions and sequels. Overall, the entire *Call of Duty* franchise has generated over $6 billion in sales for ATVI since launched in 2003. Just the release of *Call of Duty: Modern Warfare 3* in November 2011 yielded $775 million in sales within 5 days of its release, setting new industry records. Blizzard's flagship *Warcraft* franchise has also demonstrated an impressive shelf life, now entering its 20th year in 2013. *World of Warcraft's* online subscription-based model provides a stable, high margin revenue stream that has consistently exceeded $1 billion per year.

The firm's portfolio of highly successful franchises has allowed it to establish an equally impressive financial position. As of the most recent quarter, ATVI had no debt and approximately $3.4 billion in cash (representing roughly 25% of ATVI's total market capitalization). This cash balance has been built through strong cash flow generation throughout the firm's recent history. ATVI has produced average annual free cash flow of about $1.1 billion during the past 3 years, implying a free cash flow yield of approximately 9% relative the Company's current market value. ATVI has a strong record of returning cash to shareholders. Through dividends and share repurchase, the firm has returned approximately $3.9 billion to investors since 2008. The Company pays an annual dividend of $0.18 per share (1.6% dividend yield), and ATVI's board of directors authorized a $1 billion share repurchase authorization in February 2012, this followed a $1.5 billion authorization announced in February 2011. Through the first three fiscal quarters of 2012, ATVI has repurchased $315 million of its stock. Despite some of the previously outlined industry headwinds, ATVI has established a margin profile that is robust, superior to its peers, and improving (operating margin has more than doubled over the past decade, see following chart).

ATVI Historical Revenue and Operating Margin



Note: Operating margins prior to 2007 do not include Blizzard results.

Looking ahead, we believe there are several catalysts that could provide additional growth and margin expansion opportunities. In part, some pick-up in game console launches should provide a nice tailwind for game demand for ATVI and the entire industry (both Xbox and Sony Playstation are expected to release new consoles during the next 1-2 years). However, the market potential of new game launches and ATVI's strategic adjustments to changing industry dynamics should remain the most crucial drivers of its long-term growth and competitive position. Several recent product launches possess significant potential for commercial success, and recent comments by management have reinforced this view. Just during fiscal 2012, launches such as *Diablo III*, *Mists of Pandaria*, and *Skylanders,* have show strong initial results. *Diablo III* set a new PC game record by selling 3.5 million copies within 24 hours of its May 2012 launch. During 4Q 2012, ATVI also launched *Call of Duty-Black Ops 2*, another title from ATVI's highly successful *Call of Duty* series. Initial sales data suggest a strong launch for this new title, with $500 million in sales realized within the first 24 hours. ATVI also entered into an exclusive 10-year alliance with Bungee in 2010, a firm that has developed commercially successful game franchises such as *Halo*, *Myth*, and *Marathon*. Bungee owns all intellectual property created from the partnership, but ATVI has exclusive rights to publish and distribute these games across multiple platforms over the life of the contract. In our view, this alliance could provide a means of both growth and diversification for ATVI's future sales mix.

In addition to new products, increased presence in several overseas markets should also offer meaningful growth potential. ATVI already has a very well established position in several overseas markets, and 50% of ATVI's total revenue was derived from international markets during the most recent fiscal year (primarily derived from Canada, Western Europe, Australia). ATVI's business in the Asia Pacific region still represents less than 10% of sales but continues to grow at a double-digit annual rate (up 25% YTD 3Q 2012). In 2012, ATVI announced an agreement with Chinese Internet service provider Tencent to begin distributing a newly developed and customized online version of *Call of Duty* in Mainland China (game consoles are much less prevalent in that market). Tencent is a well established player for online gaming in China (over 40% market share in gaming). Growth for Chinese online gaming has been in excess of 30% during recent quarters and is expected to exceed $2 billion in sales within the next 1-2 years. Importantly ATVI has experience operating in the Chinese market, successfully entering the country 7 years ago via launch of an online version of *World of Warcraft*. *World of Warcraft's* current licensing agreement with leading Chinese Internet firm NetEase was also renewed for an additional 3 years in 2012. The Company will also likely seek a greater foothold in other emerging areas such as Latin America and Southeast Asia via distribution agreements with local partners.

ATVI has achieved an impressive record of revenue growth and margin expansion despite a less than stellar industry environment. Given its current growth initiatives, pipeline of products, and portfolio of best selling franchises we believe additional upside should be attainable during the coming years, and financial results should remain impressive. However, the long-term risks associated with this business also warrant consideration. As discussed previously, much of ATVI's financial resilience and success have been driven by a relatively concentrated portfolio of products. Clearly there is a risk that these franchises eventually lose market relevance as consumer tastes change, or industry peers create more compelling alternative products. Moreover, technological change will remain a general source of uncertainty as gaming distribution continues to evolve over time. In particular, increased mobile and Internet based gaming pose a long-term challenge for industry incumbents. ATVI currently generates minimal revenue from mobile and social platforms, but the Company is increasing investment in these platforms. ATVI has built and expanded its offerings within the digital online distribution channel (most recently illustrated by its *Call of Duty* launch in China), and much of this distribution is structured through a subscription-based model. The Company's combined subscriber base for just *World of Warcraft* and *Call of Duty* already exceeds 12 million (a solid source of recurring revenue with attractive margins), and revenue from digital online channels totaled $1.6 billion during the most recent fiscal year, representing 34% of overall firm revenue.

At Activision Blizzard's current share price of $11.42, Vivendi's 684 million share stake (61% of equity) is valued at $7.8 billion, or approximately €5.8 billion. At the current share price, ATVI trades at 10.4x 2012E non-GAAP EPS of $1.10 per share, or only 7.6x P/E after backing out the company's cash hoard. Activision Blizzard's TTM free cash flow yield is 9.0%, or a whopping 12.2% after backing out the cash position. As of November 2012, ATVI management forecasts $4.8 billion in revenue and a record 33% operating margins (non-GAAP) for the full year 2012. This implies an EV/EBITDA multiple of only 5.0x based on 2012 estimates, after accounting for the expected large seasonal cash inflow in 4Q12. With annual capital expenditures below $100 million, the estimated 2012 EV/(EBITDA minus capex) multiple is a paltry 5.2x. Of course, 2013 results are likely to decline following the successful release of *Diablo* and *Call of Duty* updates in 2012, and Activision remains heavily reliant on its core franchises. However, in our view these and the broader industry concerns are more than priced into ATVI shares at the current price. The Company has shown an unparalleled consistency in its historical results and its ability to generate new hit titles from old franchises (including *Warcraft* and *Diablo*, which date to 1994 and 1996, respectively). At 8x ATVI's average annual EBITDA less capex between 2009 and 2012E, we estimate ATVI's intrinsic value is approximately $14.64 per share. This price still implies an attractive 9% free cash flow yield (average 2009-2012E free cash flow) excluding ATVI's 2012E cash balance.

Activision Blizzard Estimate of Intrinsic Value	
2009-2012E avg. EBITDA minus capex	$ 1,516
assumed multiple	8x
Implied Enterprise Value	$12,127
2012E Net Cash	$ 4,154
Equity Value	$16,281
DSO	1,112
Estimated Intrinsic Value per Share	$14.64
Vivendi shareholder value: 684mm shares @ 1.345 $/€	€7,445

At the current exchange rate, our estimated intrinsic value for Activision Blizzard translates to almost €7.5 billion in value for Vivendi shareholders. While ATVI shares have been range-bound for several years, increased return of capital to shareholders should continue to create value for long-term holders. Additionally, Vivendi's strategic review could provide a catalyst for corporate action including a leveraged recapitalization, a spinoff of Vivendi's stake back into a newly independent ATVI, or a sale of either Vivendi's stake or the whole company.

Universal Music Group

UMG has been faced with a changing industry landscape, and management has taken several steps to adjust to this new marketplace. Technological change has posed a challenge for the music sector, negatively impacting industry sales for the entire industry for over a decade (digital downloading of music replacing physical CDs, etc.). Although fundamentals for the music industry have been under pressure, UMG still holds a very formidable position within the sector. UMG holds the leading position in the industry in recorded music, music publishing, and merchandising. UMG's also holds the largest catalogue of music rights in the world, and Universal Music Group Distribution has held the #1 position within the U.S. market for the past 11 years. In our view these market-leading positions reflect UMG's strong competitive position, and represent significant barriers to entry. In addition, it warrants mention that declines in physical CD sales have shown signs of deceleration during recent years, and growth in digital sales has served to mitigate these decreases. Sales for global recorded music decreased by 3% in 2011 (its lowest drop since 2004), and a report from Nielsen and Billboard indicates that digital sales now exceed physical album sales for the first time. According to RIAA data, combined digital and physical sales in the U.S. actually increased by 0.2% (dollar value) in 2011, the first increase since 2004. Overall sales trends for the sector will likely continue to improve during the coming years as the growing digital channel becomes an increasingly important driver of overall sales volumes.

Universal Music Recorded Music Revenue by Platform (€MM)

	2007	2008	2009	2010	2011
Physical Sales	€3,149	€2,589	€2,234	€2,128	€1,789
Digital Music Sales	645	842	908	1,033	1,132
Licenses & Other	459	448	396	415	446
Total Recorded Music Revenue	€4,253	€3,879	€3,538	€3,576	€3,367

Despite the disruption to the industry economic structure over the past decade, UMG continues to generate significant profits for shareholders. Sales have experienced a slow and steady decline, but have held up better than broader industry results; UMG's €2.4 billion in sales in 2011 represented a 14% drop from a 5-year perspective. EBITDA margins have also shown relative resilience during recent years, generally remaining in the mid-teens range. Importantly, UMG's EBITDA margin actually increased 200 basis points year over year in 2011 to 14.8% (2011 EBITDA totaled €623 million). In part this reflected a €100 million cost reduction initiative implemented by the firm beginning in 2011, but we would also suggest that stabilizing overall sales trends within the industry are having a beneficial impact. Importantly, UMG's business has relatively modest capital requirements, illustrated by average annual capital expenditures of only €36 million over the past 5 years. Although some stability has been achieved, industry fundamentals still represent an ongoing challenge, and management focus on efficiency and cost reduction will likely be a constant theme during the coming years.

Not surprisingly, consolidation has become one method of gaining scale and efficiencies as firms formulate a competitive response to this changing industry. In September 2012, UMG completed the purchase of EMI Recorded Music for €1.4 billion from Citigroup. The transaction valued EMI at approximately 7.0x EBITDA, but the multiple is closer to 4.5x after taking into account the projected synergies from the acquisition. The transaction bolsters UMG's share of the worldwide music market to roughly 40%, but regulatory approval required that the new entity complete several divestitures in the coming months. UMG is in the process of completing these divestitures; management expects these divestitures to total roughly 30% of EMI revenues and generate ~€500 million at disposal. This combination is expected to materially benefit EBITDA margins (EMI's stand-alone EBITDA margin in 2011 was 200 basis points above UMG's stand-alone figure), and yield at least €120 million in annual synergies. Additionally, this transaction and other music sector consolidation have helped to create a more concentrated industry, which should ultimately translate to more disciplined pricing behavior over the long term. The top 3 firms in the recorded music business now hold over 87% share of total album sales (based on 2011 data), up from 77% just 5 years earlier.

UMG Historical Financial Performance

	2008	2009	2010	2011	YTD 3Q11	YTD 3Q12
Revenues	€4,650	€4,363	€4,449	€4,197	€2,842	€2,903
EBITDA	€778	€680	€571	€623	€329	€321
EBITDA margin	*16.7%*	*15.6%*	*12.8%*	*14.8%*	*11.6%*	*11.1%*
EBITA	€686	€580	€471	€507	€244	€238
CFFO pre-capex	€555	€329	€508	€495		
CFFO, pretax/interest	€521	€309	€470	€443		

In estimating an intrinsic value for Universal Music Group, we conservatively assume the divestiture of EMI assets eliminates €40 million of EMI's EBITDA versus Vivendi's guidance of €25-€35 million (management noted divestitures will be concentrated in minority investments which are not consolidated in EMI's EBITDA figures). Using EMI's estimated EBITDA of €200 million in the fiscal year ended March 2011, we project EMI EBITDA declines to ~€160 million in 2013. We also project Vivendi realizes only half of management's targeted €120 million in merger synergies. Even assuming revenues continue to decline at a low single digit rate, cost savings should allow for consolidated EBITDA to roughly stabilize in 2013. Valuing UMG/EMI at a depressed multiple of 5.5x 2013E EV/EBITDA, we estimate the division's intrinsic value is approximately €4 billion. This implies an 11% unlevered free cash flow yield based on UMG's 2011 pretax free cash flow, and closer to a 14% free cash flow yield after including EMI. If the recorded music industry proves not to be dying, and UMG's results can stabilize over the next 2-3 years, there could be plenty of upside to our estimates.

UMG Estimate of Intrinsic Value	(€MM)
UMG 2013E EBITDA	€550
plus EMI 2013E EBITDA	163
less divested units	(40)
plus merger synergies	60
UMG/EMI 2013E EBITDA	€732
assumed multiple	5.5x
UMG estimate of intrinsic value	€ 4,028

Vivendi's Sum-of-the-Parts Intrinsic Value

The following table details our estimated intrinsic value for Vivendi on a sum-of-the-parts basis utilizing the individual business valuations already detailed.

Vivendi Sum-of-the-Parts Valuation	
	€MM
SFR enterprise value @ 5x 2014E EBITDA	€14,650
Canal+ Group enterprise value @ est. s.o.p. valuation	5,494
Maroc Telecom equity value @ 8x TTM EV/EBITDA	5,059
GVT equity value @ 8x 2013E EV/EBITDA	7,025
Activision equity value @ 8x EV/(EBITDA-capex)	7,446
EMI/UMG enterprise value @5.5x 2013E EBITDA	4,028
Corporate @ 6x EBIT	(816)
Implied Business Value	€42,887
Vivendi shareholders' proportional debt (excluding above-factored)	€(16,304)
2012E Vivendi shareholders proportional cash (excluding above-factored)	2,370
Est. EMI sale proceeds	400
Deferred tax assets @ stated value	1,381
Underfunded pension & retirement benefits at stated liability	(554)
Securities class action reserve	(100)
LMC litigation @ full judgment	(765)
Equity Value	€29,315
Diluted Shares Outstanding	1,323
Vivendi Estimated Intrinsic Value per Share	**€ 22.16**

Our analysis implies an intrinsic value of approximately €22 per share for Vivendi, translating close to 40% upside from current levels. Importantly, this valuation represents our estimate of Vivendi's current breakup value; we do not include any cash buildup or capital deployment beyond 2012. We would also note that our sum-of-the-parts method conservatively includes deferred/uncertain liabilities including pension liabilities and ongoing litigation dating back the Vivendi's near-collapse in 2002. The valuation excludes potential gain on sale tax liabilities in a breakup scenario, although we estimate nearly all Vivendi's businesses have cost bases above current market value and/or could be separated tax efficiently.

Of course, the timing and full extent of any corporate action at Vivendi remains uncertain. Management has continually suggested action will be taken in the coming quarters, which provides us with some optimism. But should meaningful deconsolidation fail to materialize in the near term, Vivendi shareholders still have multiple opportunities to realize incremental value. Vivendi currently trades at a double-digit unlevered free cash flow yield and a 6.2% dividend yield based on the 2012 distribution rate. In addition to an outsized dividend in the current low yield environment, Vivendi may resume an outsized share repurchase program within 1-2 years following debt paydown. Share repurchases offer the potential to compound returns even assuming Vivendi's holding company discount persists. Additionally, Vivendi shares could benefit from improved investor/analyst outlook for its beaten-down and out of favor businesses, particularly SFR and Canal Plus. At only 11x trailing EPS and 10.5x trailing unlevered free cash flow, our estimate of intrinsic value for Vivendi offers plenty of incremental upside via valuation multiple expansion.

Vivendi Estimated Intrinsic Value Per Share	**€ 22.16**
Vivendi current share price	**€ 16.02**
Implied upside	38.3%
Implied Price/TTM EPS @ Intrinsic Value	11.2x

implied EV/TTM adj. Pretax Unlevered FCF @ Intrinsic Value	10.5x

Risks

Risks that Vivendi may not achieve our estimate of the Company's intrinsic value include, but are not limited to, foreign exchange translation risks; general economic weakness impacting the Company's businesses; negative regulatory and/or tax reforms in France; lack of moderation in competitive pricing pressures at Vivendi's telecom businesses; faster than anticipated deterioration in the music or video game industry; failure to pursue divestitures of businesses or completing divestitures at depressed valuations; a credit rating downgrade to sub-investment grade rating and related deterioration in liquidity; negative litigation outcomes; and that shares continue to receive a discount to net asset value.

Analyst Certification

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

VIVENDI S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions of Euros)

ASSETS	September 30, 2012 (unaudited)	December 31, 2011
Goodwill	€26,540	€25,029
Non-current content assets	2,447	2,485
Other intangible assets	5,198	4,329
Property, plant and equipment	9,455	9,001
Investments in equity affiliates	227	135
Non-current financial assets	529	394
Deferred tax assets	1,381	1,421
Non-current assets	45,777	42,794
Inventories	703	805
Current tax receivables	283	542
Current content assets	1,291	1,066
Trade accounts receivable and other	6,117	6,730
Current financial assets	530	478
Cash and cash equivalents	2,969	3,304
Current assets	11,893	12,925
TOTAL ASSETS	**€57,670**	**€55,719**

EQUITY AND LIABILITIES		
Share capital	€ 7,279	€ 6,860
Additional paid-in capital	8,268	8,225
Treasury shares	(8)	(28)
Retained earnings and other	4,526	4,390
Vivendi SA shareowners' equity	20,065	19,447
Non-controlling interests	2,650	2,623
TOTAL EQUITY	22,715	22,070
Non-current provisions	1,541	1,569
Long-term borrowings and other financial liabilities	13,779	12,409
Deferred tax liabilities	669	728
Other non-current liabilities	887	864
Non-current liabilities	16,876	15,570
Current provisions	511	586
Short-term borrowings and other financial liabilities	4,685	3,301
Trade accounts payable and other	12,367	13,987
Current tax payables	516	205
Current liabilities	18,079	18,079
TOTAL LIABILITIES	34,955	33,649
TOTAL EQUITY AND LIABILITIES	**€57,670**	**€55,719**

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