

# **BOLLORE SA**

ValueX Vail 2017  
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# INTRODUCTION TO BOLLORE

## BIREME

- **French HoldCo founded in 1822**
  - Logistics
  - Port Ownership
  - Advertising (via Havas 60% stake)
  - 15% ownership of media firm Vivendi
- **Run by owner-operator Vincent Bolloré**
- **Trades at significant discount to logistics-peer multiples**

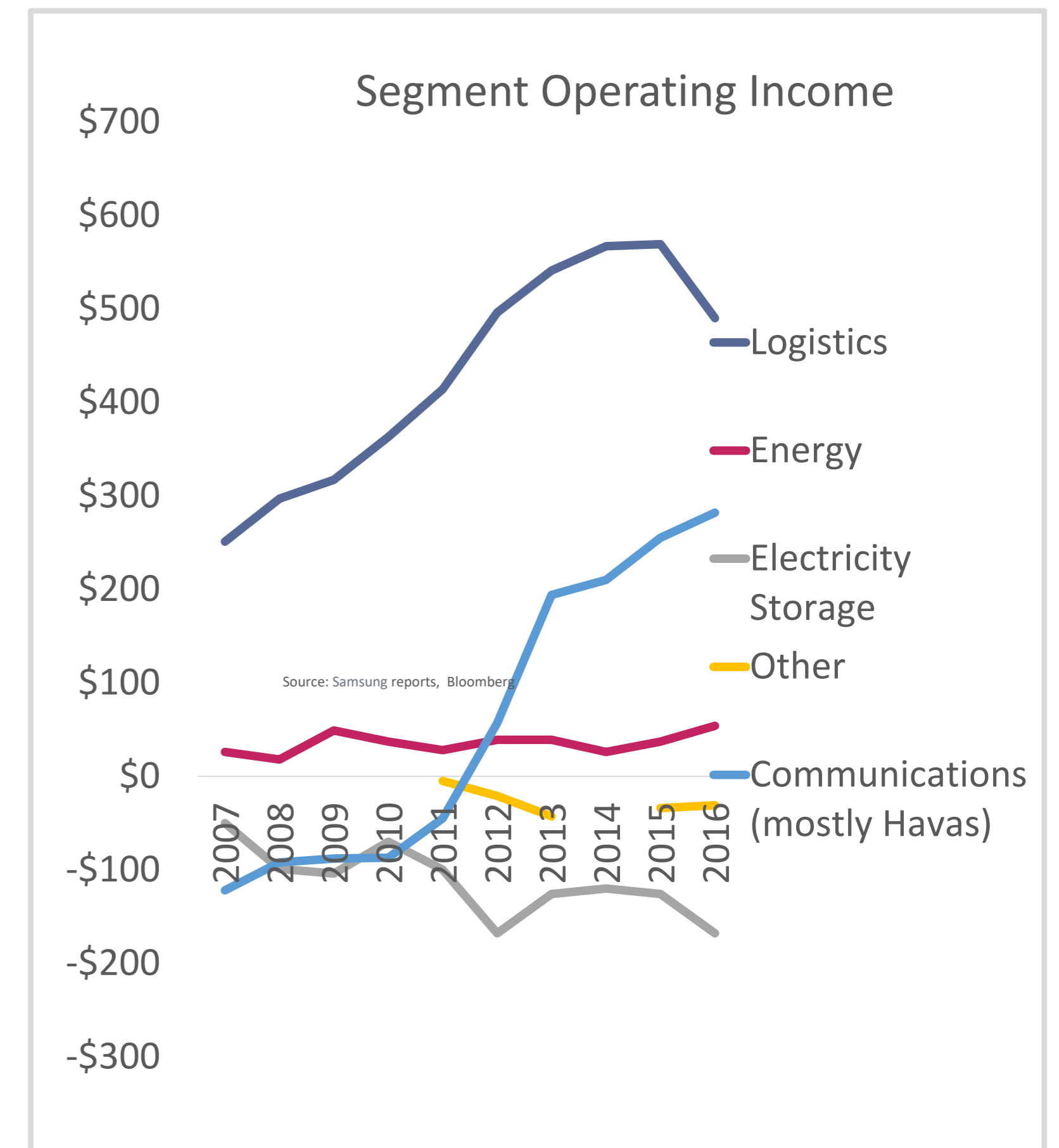


	Share price 6/19	4.12	
	Listed shares	2,891	
	Adjusted shares	1,331	
	Adjusted Market Cap	€ 5,484	
	Debt net of cash	€ 4,479	
	Adjusted EV	€ 9,963	
	Securities portfolio	€ 4,460	
	2014	2015	2016
Total Revenue	€ 10,604	€ 10,824	€ 10,076
operating income	€ 650	€ 701	€ 627
Financial income	-€ 85	€ 187	€ 164
EPS on adjusted shares	€ 0.30	€ 0.55	€ 0.44

# THE OPERATING BUSINESSES

## BIREME

- **Valuation focus should be on Logistics**
  - Largest, most profitable segment by far, ~500m EUR in 2016
  - Havas profits in graph at right don't show 40% Minority interest
- **Havas stake to be sold for 19x earnings to Vivendi**
  - Selling for €9.20 and will initiate a tender for other shares
  - Was a roughly 10% premium
  - Bollore direct ownership falls to zero, will collect 2.7B in cash
- **Battery business loses €100-150m per year**
  - Grew 17% last year
  - Theoretically could be shut down any time
- **Energy distribution business does steady 30-50m profit**



# MUDDY WATERS REPORT: OUR INTRO TO THE COMPANY

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## BIREME

- **Feb 17, 2015 : short seller Muddy Waters (MW) issues report**
- **Their first ever long recommendation**
- **MW argued:**
  - **Bollore logistics is a good business**
  - **50% of sharecount is effectively treasury shares**
  - **NAV per share was 9 EUR**
- **Feb 2015 to Aug 2016 the stock declined 40%**



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## BIREME

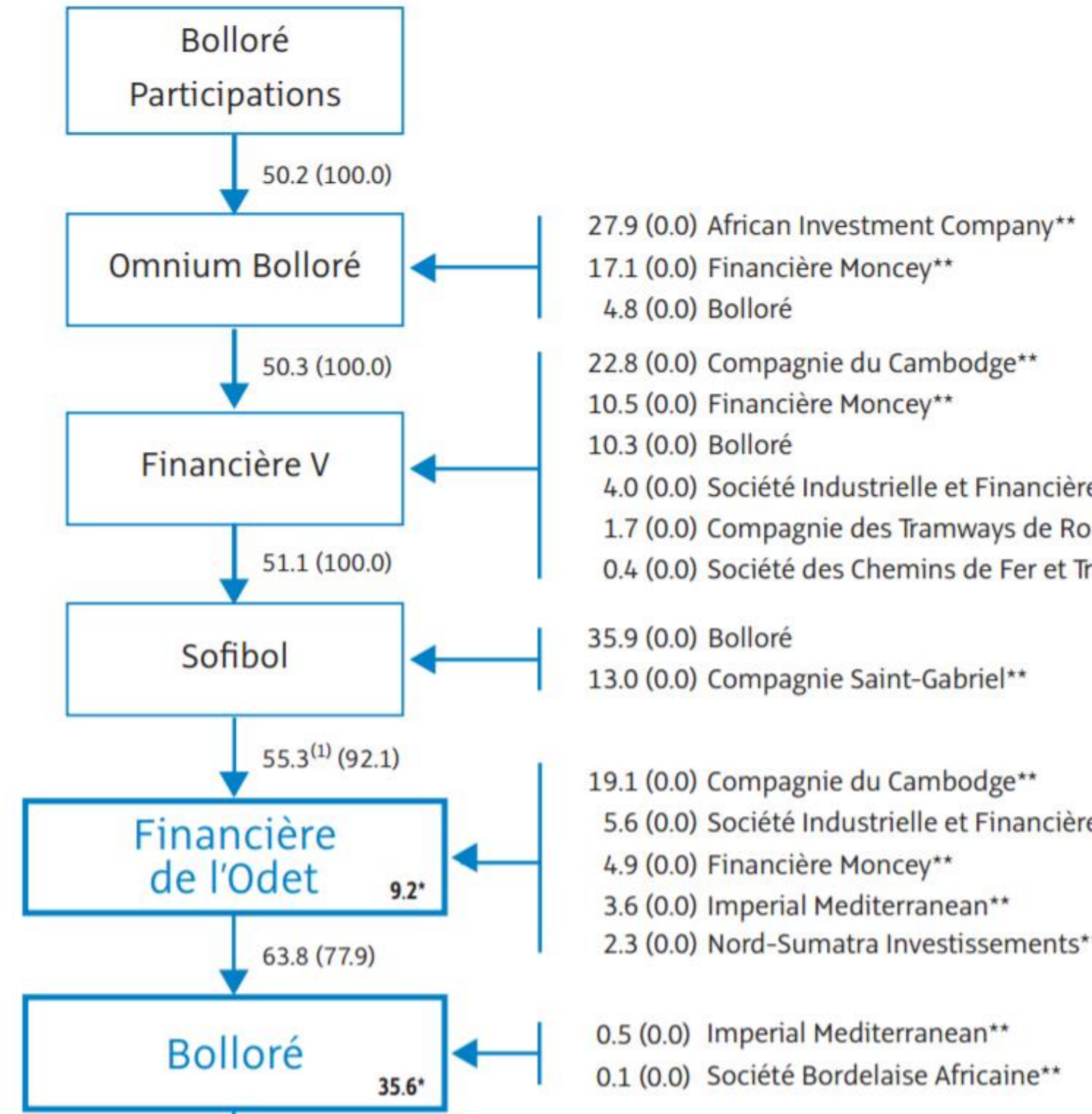
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# THE SHARE COUNT ISSUE

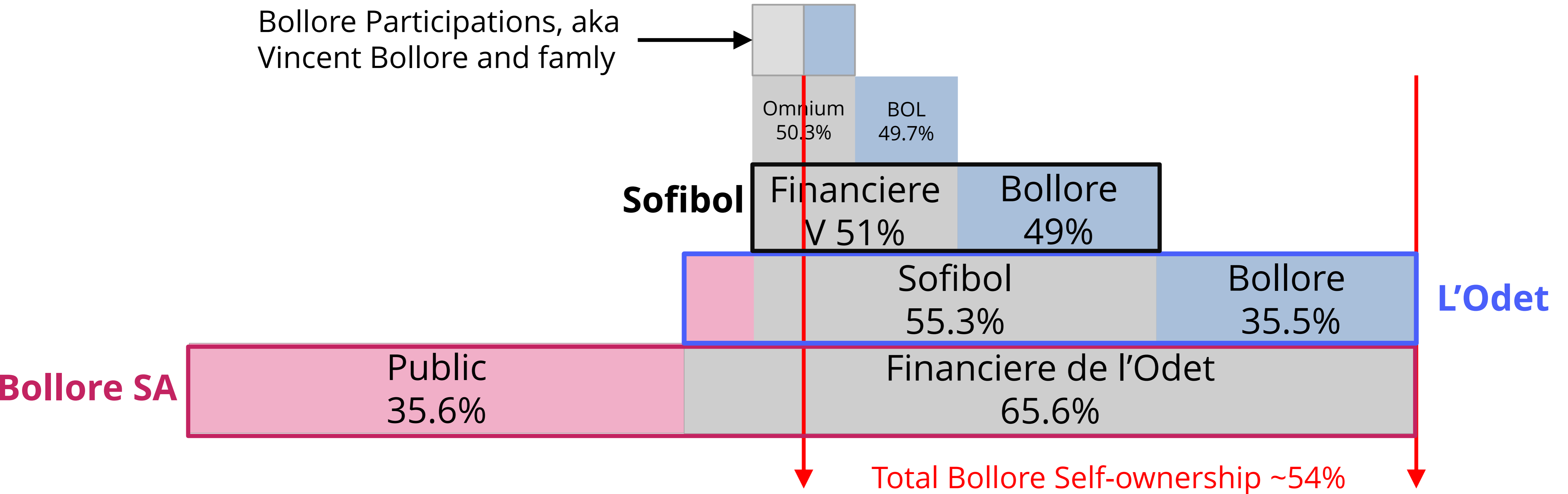
## BIREME

- **Bollore structure: holdcos upon holdcos**
- **Each step along the way, Bollore SA owns pieces**
- **Significant self ownership, but zero official “treasury” shares**
- **Bollore does no earnings calls or investor days to explain the issue**
- **Complicated issue: MW hired a consultant to solve it via software**
- **My solution: replicate 90% of MW work with 5% of the effort**



# THE SHARE COUNT ISSUE— GRAPHICAL REPRESENTATION

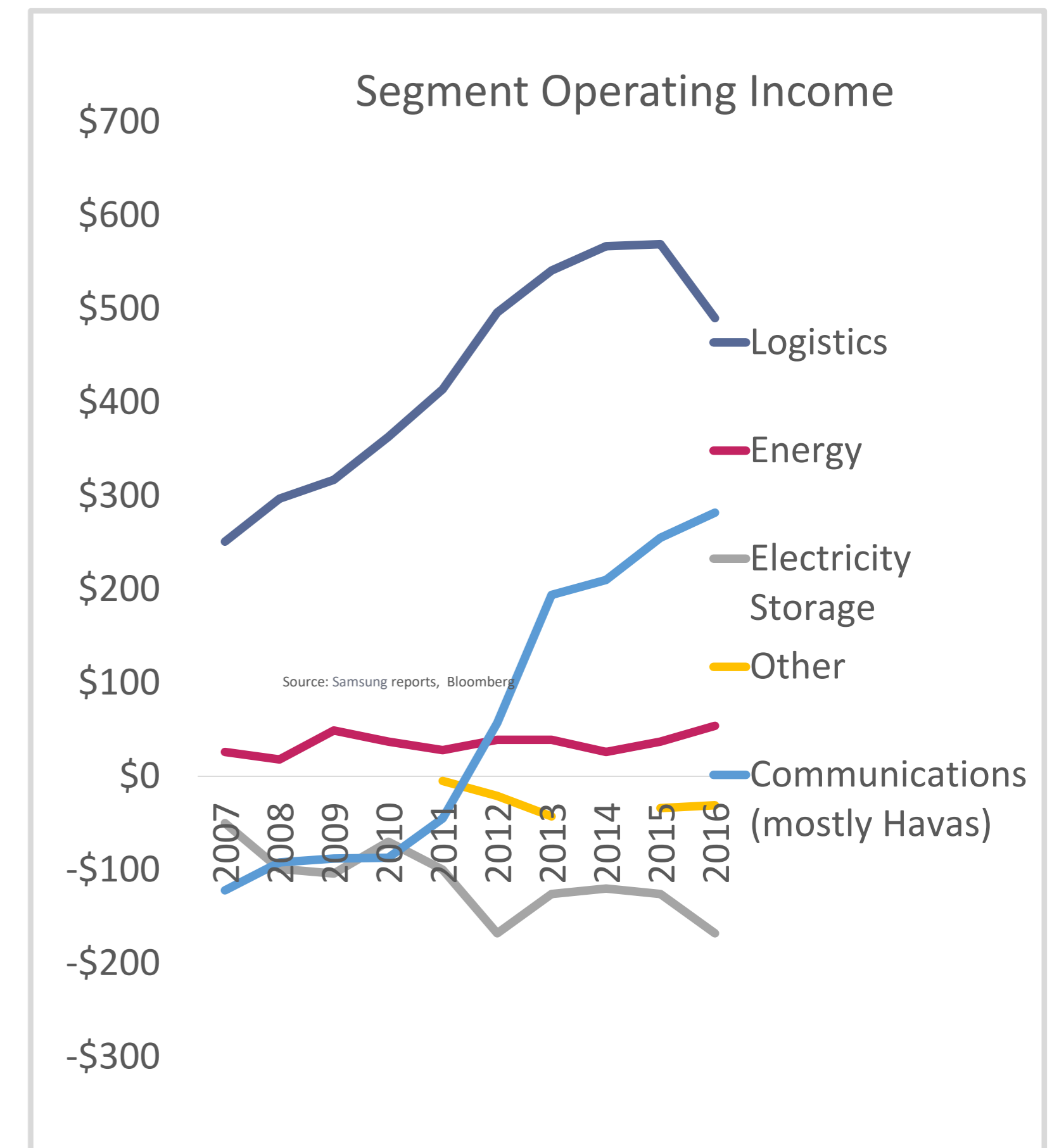
BIREME



# THE OPERATING BUSINESSES— QUICK REFRESH

## BIREME

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# VALUATION: EVIDENCE FROM COMPS

## BIREME

- Valuation of logistics peer multiples imply undervaluation at 12x PE
- Gap between Chinese (8-13x) and non-Chinese (20-25x) PE multiples
- Most comps, like Bollore, have seen consistent increases in sales and earnings
- I consider the European firms and DP World to be the closest competitors

Freight Forwarders	Fwd PE	EV/EBIT	EV/EBITDA
Panalpina	29.00x	18.30x	14.10x
Kuehne Nagel	24.00x	17.90x	15.10x
Expeditors International	22.90x	12.30x	12.30x
Kintetsu	20.60x	14.80x	8.60x
DSV	22.40x	18.20x	15.30x
<b>Port Owners</b>			
DP World	14.20x	13.60x	10.10x
Adani Ports and SEZ's	20.00x	17.60x	14.40x
<b>Chinese Competitors</b>			
Sinotrans	9.20x	9.90x	6.70x
Kerry Logistics	13.50x	11.30x	8.40x
Qingdao Port International	7.90x	10.80x	8.20x
Average-- ex-Chinese firms	21.78x	15.75x	12.43x
Average-- All	18.37x	14.47x	11.32x
<b>Bollore</b>	<b>10.0-12.0x</b>	<b>9.0x</b>	

# FREIGHT FORWARDING AND LOGISTICS

## BIREME

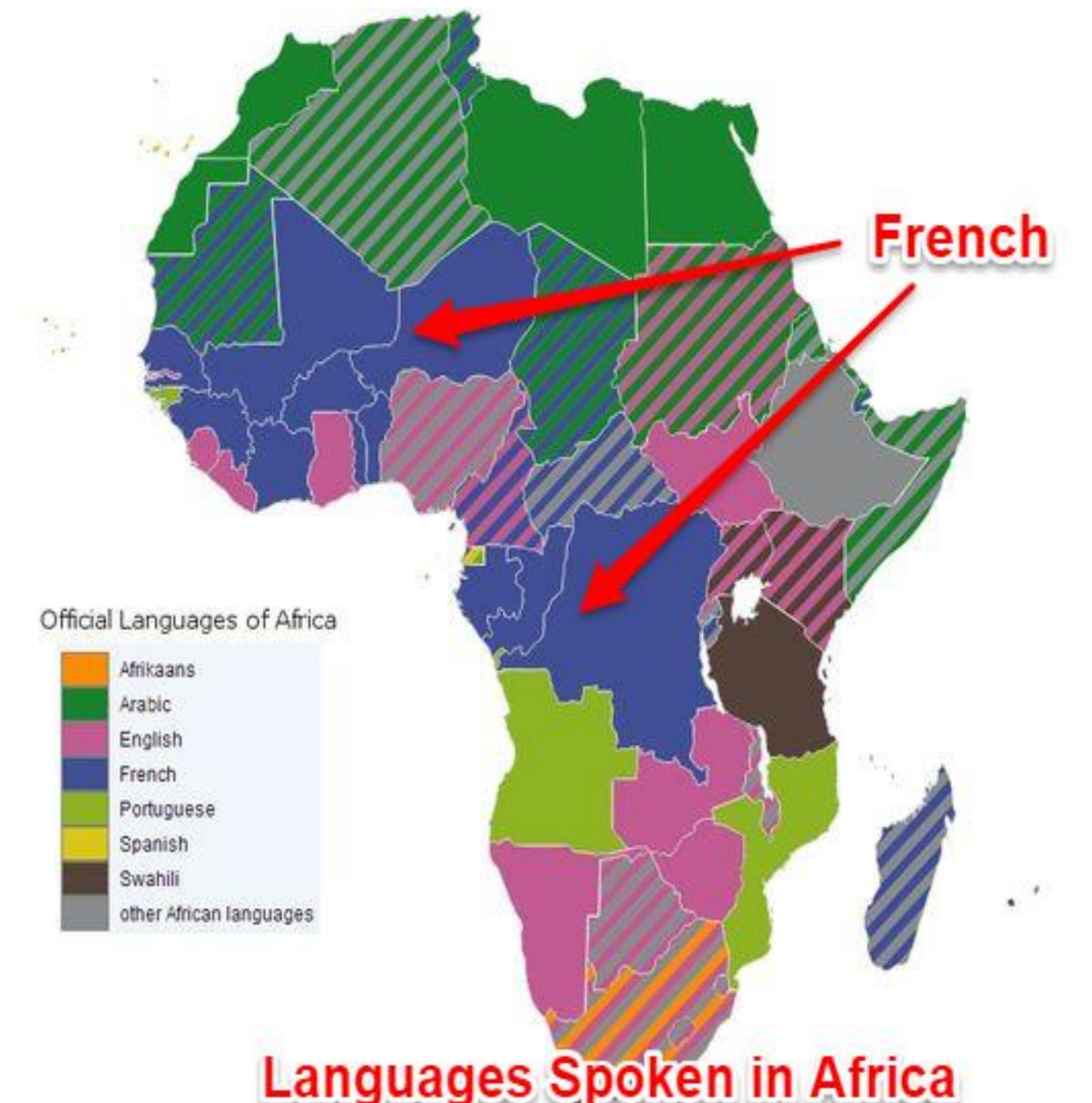
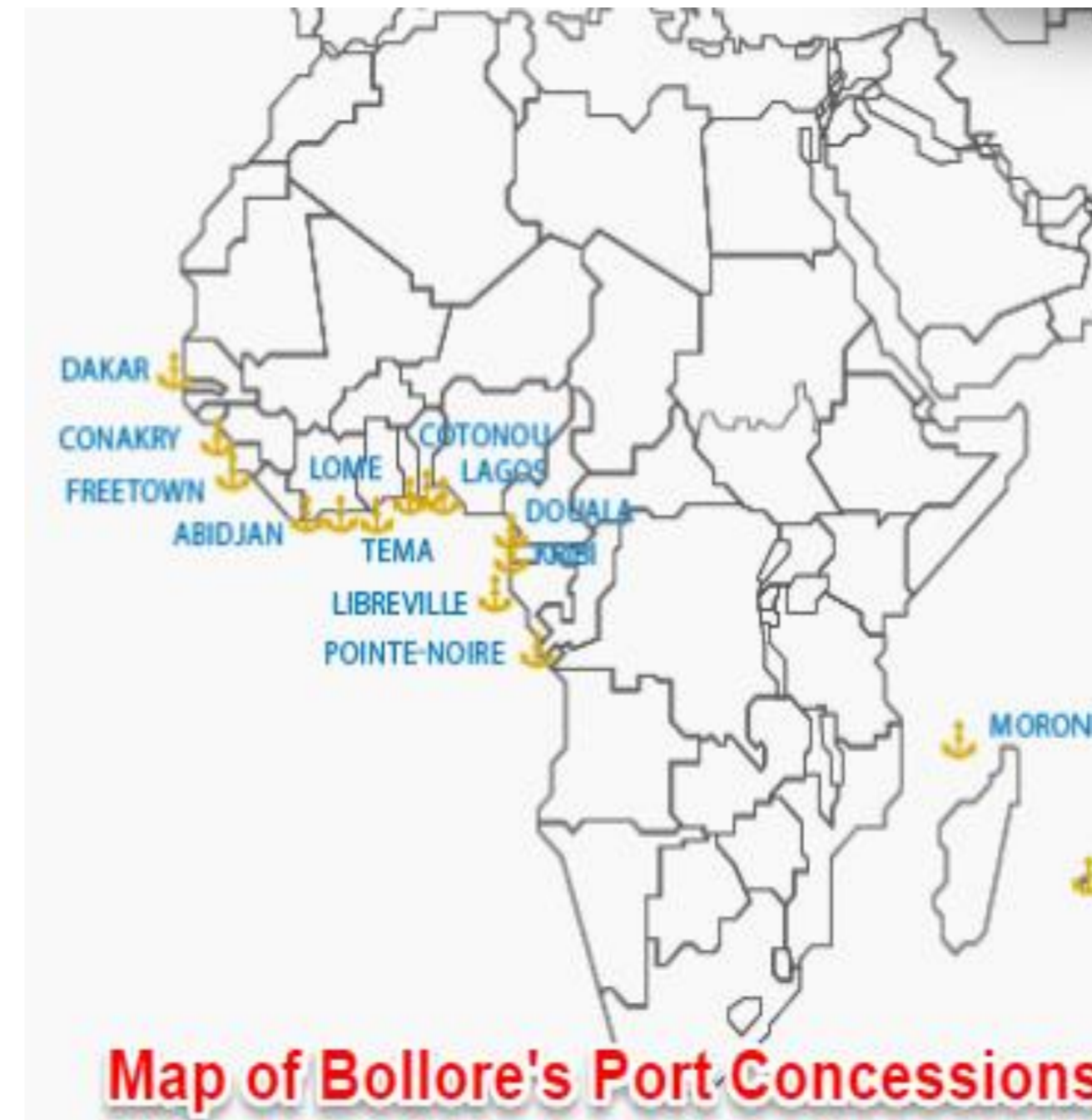
- **Roots to 1885 founding of freight forwarder SCAC**
- **Key functions of this business:**
  - coordinating multi-modal transportation
  - customs compliance
  - inventory management
  - global supply chain planning
- **Particular expertise in certain industries, stemming from their French/African roots:**
  - Luxury goods
  - Perfumes and cosmetics
  - Temperature controlled food products
  - Oil and Gas
  - Defense



# BOLLORE AFRICA: PORT OWNERSHIP AND LOGISTICS

## BIREME

- Focused on ports in Francophone countries
- Business is capital intensive, but with high margins
- Port businesses are local monopolies with high barriers to entry
- Africa is particularly reliant on ports due to poor internal rail and road infrastructure



# BOLLORE AFRICA LOGISTICS AND PORT OWNERSHIP

## BIREME

- **Revenue of 3B EUR, 8% CAGR since 2007**
  - Also operates three rail concessions that total 2,500 km of track
- **Barriers to entry:**
  - Large upfront capital requirements
  - Reputation and reliability is key
  - Relationship with local governments
  - Results in high margins: DP World margins are about 40% (Bollore does not disclose Africa segment margin)
- **Revenues from “terminal handling charges”, typically €100-200 per 20 ft container**
  - Local government usually shares in the revenues of the port owner
  - “Capacity” in chart at right in TEU or **T**wenty-foot (container) **U**nit

Port	Country	Capacity	Awarded
Lome	Togo	1,100,000	2003
Abidjan	Ivory Coast	1,300,000	2004
Tema (MPS)	Ghana	1,200,000	2004
Douala	Cameroon	530,000	2005
Tin Can/Lagos	Nigeria	650,000	2006
Libreville	Gabon	250,000	2008
Pointe Noire	Congo	1,200,000	2009
Conakry	Guinea	600,000	2011
Freetown	Serria Leone	380,000	2011
Moroni	Comores	20,000	2011
Cotonou	Benin	950,000	2012
Tuticorin	India	450,000	2012
Dakar	Senegal	72,937	2014
Monrovia	Liberia	125,000	2015
Varreux	Haiti	100,000	2015
Kribi	Cameroon	1,400,000	2015



# BOLLORE LOGISTICS IN SUMMARY

## BIREME

- Long history of operation and significant barriers to entry
- Track record of revenue growth, earnings growth, and double digit ROICs
- Runway in Africa for a long period of investment
- Competitors trading at 20+ PE ratios

Bollore Logistics Segment	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	€ 3,083	€ 3,365	€ 3,648	€ 4,145	€ 4,532	€ 4,036	€ 4,643	€ 4,872	€ 5,416	€ 5,469	€ 5,639	€ 6,051	€ 5,458
Operating Income	€ 126	€ 171	€ 199	€ 251	€ 297	€ 317	€ 363	€ 414	€ 496	€ 541	€ 567	€ 569	€ 490

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# BOLLORE MANAGEMENT— VINCENT BOLLORE

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## BIREME

- **Known as a shrewd activist investor in Carl Icahn mold**
- **History of shaking up staid businesses and trying to coax them into M&A**
- **Some examples:**
  - **Lazard:** shook up the French banking world by buying stake in the 1999 Sold it to Credit Agricole a few years later and doubled his money.
  - **Bouygues:** Invested in 1997 in this construction/TV/mobile phone conglomerate. Pressured the family ownership structure, questioned the accounting, and eventually sold his shares for a 100% gain in 12 months.
  - **Aegis:** UK advertising firm in which Bollore invested in 2005 and 2006. Assumptions were made that he would merge it with the 22% Bollore-owned Havas, but instead he more than doubled his money by selling it to Japanese firm Kintetsu.



# BOLLORE MANAGEMENT— LONG TERM RESULTS

## BIREME

- **Numbers speak for themselves**
- **BV CAGR is >10% for all periods**
- **5 year CAGRs are even better than the 10-20 year CAGRs**
- **In Bollore, we combine strong asset allocation with a good core business (Bollore Logistics)**

		1990	1995	2000	2005	2010	2015
	BV/share	\$0.38	\$0.33	\$0.53	\$1.34	\$1.89	\$3.95
	Rev/share		\$1.48	\$2.25	\$2.43	\$3.28	\$3.72
	OpInc/share		\$0.02	\$0.04	\$0.05	\$0.11	\$0.24
<b>5 Year CAGRs</b>	BV/share		-3.0%	10.1%	20.4%	7.0%	16.0%
	Rev/share			8.8%	1.5%	6.2%	2.5%
	OpInc/share			12.4%	5.0%	15.4%	17.0%
<b>10 year CAGRs</b>	BV/share			3.4%	15.1%	13.5%	11.4%
	Rev/share				5.1%	3.8%	4.3%
	OpInc/share				8.6%	10.1%	16.2%
<b>15 year CAGRs</b>	BV/share				8.8%	12.4%	14.3%
	Rev/share					5.4%	3.4%
	OpInc/share					10.8%	12.3%
<b>20 year CAGRs</b>	BV/share						13.3%
	Rev/share						4.7%
	OpInc/share						12.3%

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# RISKS

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## BIREME

- **Conflicts of interest between Vincent Bollore and minority investors**
  - Vincent Bollore's kids (Cyrille, Yannick and Marie) run important pieces of the company
  - On the plus side, family net worth is tied to Bollore stock price
  - Holders of Aegis, Havas, Vivendi stock did quite well under Bollore control
  - Even Blue Solutions shareholders were not abandoned- Bollore SA is buying out the minority Blue Solutions shareholders at a 70% premium, 17 EUR per share
- **Bollore Logistics exposure to commodities**
  - Many African countries depend on commodity exports
  - 2015-2016 seems to be the perfect storm for this exposure, and profits were only down 10%
  - 2017 Q1 Logistics results were +4%
- **Blue Solutions losses continue interminably**
  - Revenue of 320m and losses of 168m certainly seem like a bad business
  - However, the opportunity in batteries is immense
  - I have confidence that self interest will allow Mr. Bollore to shut the business viable in the end if it's not viable

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# CONCLUSION-- VALUATION

## BIREME

Segment OpInc	2016 Effective PE Ratio	
	Keep Battery Unit	Close Battery Unit
Logistics	500 €	500 €
Energy	54 €	54 €
Havas	169 €	169 €
Electricity Storage	-168 €	0 €
OpInc	555 €	723 €
Other exp	31 €	31 €
Interest Expense	101 €	101 €
PBT	423 €	591 €
Tax rate	30%	30%
Operating Net Income	€296	€414
VIV EPS GAAP	0.60 €	0.60 €
VIV shares owned	197.1	197.1
Share of VIV income	€118	€118
Total net income	€414	€532
Adjusted sharecount	1,331	1,331
EPS on adj shares	€0.31	€0.40
<b>PE ratio-- adj shares</b>	<b>13.2x</b>	<b>10.3x</b>



# CONCLUSION

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## BIREME

- **Growing, stable logistics business trading at 10-13x earnings**
  - Comps at 20-25x
- **Partner with a capital allocator that has generated 10-15% returns over many decades**
  - Large amount of skin in the game
- **Multiple levers to continue to increase earnings in the future**
  - Decades long organic growth in Africa ports and logistics business
  - Ability to reinvest the 2.7B EUR proceeds from Havas sale
  - Option on Blue Solutions battery unit, can save 170m EUR in OpInc if shuttered
  - Vivendi highly likely to grow over next 5 years (see Appendix)

# FAQ

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## BIREME

- **What will be the impact of the Havas deal?**
  - Will lose roughly 200m in Operating Income, but opportunity to either reinvest in Vivendi or pay down debt
  - 2.7B proceeds
- **What is the situation with Canal plus at Vivendi?**
  - Opportunity to cut losses at Canal Plus domestic business
  - Canal plus domestic lost 180, 250m, 400m last 3 years
  - Bollore said at the shareholders meeting he will shut down the business if he can't make money at it
- **How does business quality/market multiples/comp multiples of Vivendi compare?**
  - Business quality seems excellent, with UMG turning the corner and really growing
  - Company said EBITA will grow 25% in 2017, and Q1 revenue at UMG was up 13%
  - Valued at 27x 2017 earnings and 18x EBITDA
- **What evidence is there that they can shut down a unit (Blue Solutions?)**
  - Currently discussing shutting down Canal plus channels
  - Shutting battery unit would obviously be much cleaner than Canal plus channels
  - Bollore SA buying out 10% minority shareholders for 17 EUR per share (roughly a 500m valuation)

# APPENDIX – VIVENDI: 15% OWNED BY BOLLORE

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## BIREME

- **Focused on Music, TV, and Video Gaming**
  - Formerly included cable/wireless business and a stake in Activision/Blizzard
- **Went on a multi-year selling spree and generated 23 B EUR in cash, used mostly to pay down debt**
  - Net debt declined from 16B EUR to negative
  - Paid significant dividends as well
- **Started making purchases in the last year, including Gameloft and Bollore SA's stake in Havas Media for 2.7B EUR**
- **Vincent Bollore became chairman in 2016**
  - has 29% of the voting rights due to France double-vote law for long term holders
- **Projecting 25% EBITA growth in 2017**



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# APPENDIX – VIVENDI: CANAL PLUS

## BIREME

- Revenues of 5B EUR, 50% of the total
- Canal+ channels are 1.6B in France
- International and free-to-air businesses are growing
- EBITA of 240m in includes losses of 400m

<i>In euro millions - IFRS</i>	2015	2016	Change	Constant perimeter and currency *
<b>Revenues</b>	<b>5,513</b>	<b>5,253</b>	<b>- 4.7%</b>	<b>- 4.2%</b>
Pay-TV Mainland France	3,383	3,178	- 6.1%	- 6.1%
<i>o/w Canal+ channels</i>	1,743	1,614	- 7.4%	- 7.4%
Pay-TV International	1,364	1,442	+ 5.7%	+ 6.8%
<i>Africa</i>	378	450	+ 19.2%	+ 19.9%
Free-to-Air TV Mainland France	203	217	+ 6.9%	+ 6.9%
Studiocanal	563	416	- 26.1%	- 24.0%
<b>Income from operations</b>	<b>542</b>	<b>303</b>	<b>- 44.1%</b>	<b>- 44.2%</b>
<i>Income from operations margin</i>	9.8%	5.8%	-4.0pts	
Charges related to equity-settled share-based compensation plans	(3)	(3)		
Other special items excluded from income from operations (including restructuring costs)	(85)	(60)		
<b>EBITA</b>	<b>454</b>	<b>240</b>	<b>- 47.1%</b>	<b>- 47.1%</b>
<i>o/w Canal+ channels in France</i>	(264)	(399)		

# APPENDIX – VIVENDI: UNIVERSAL MUSIC GROUP

## BIREME

- **Majority of Vivendi profit**
  - 34% Market share and the largest label
- **Digital revenues now 2x the size of physical**
  - Grew >10% in 2016
  - Streaming sales were up 56% last year, and swamped decline in digital DL sales
- **EBIT is at record levels of 644m**
  - up 8.6% in 2016
- **Q1 2017 revenue was up 12.7% YoY**

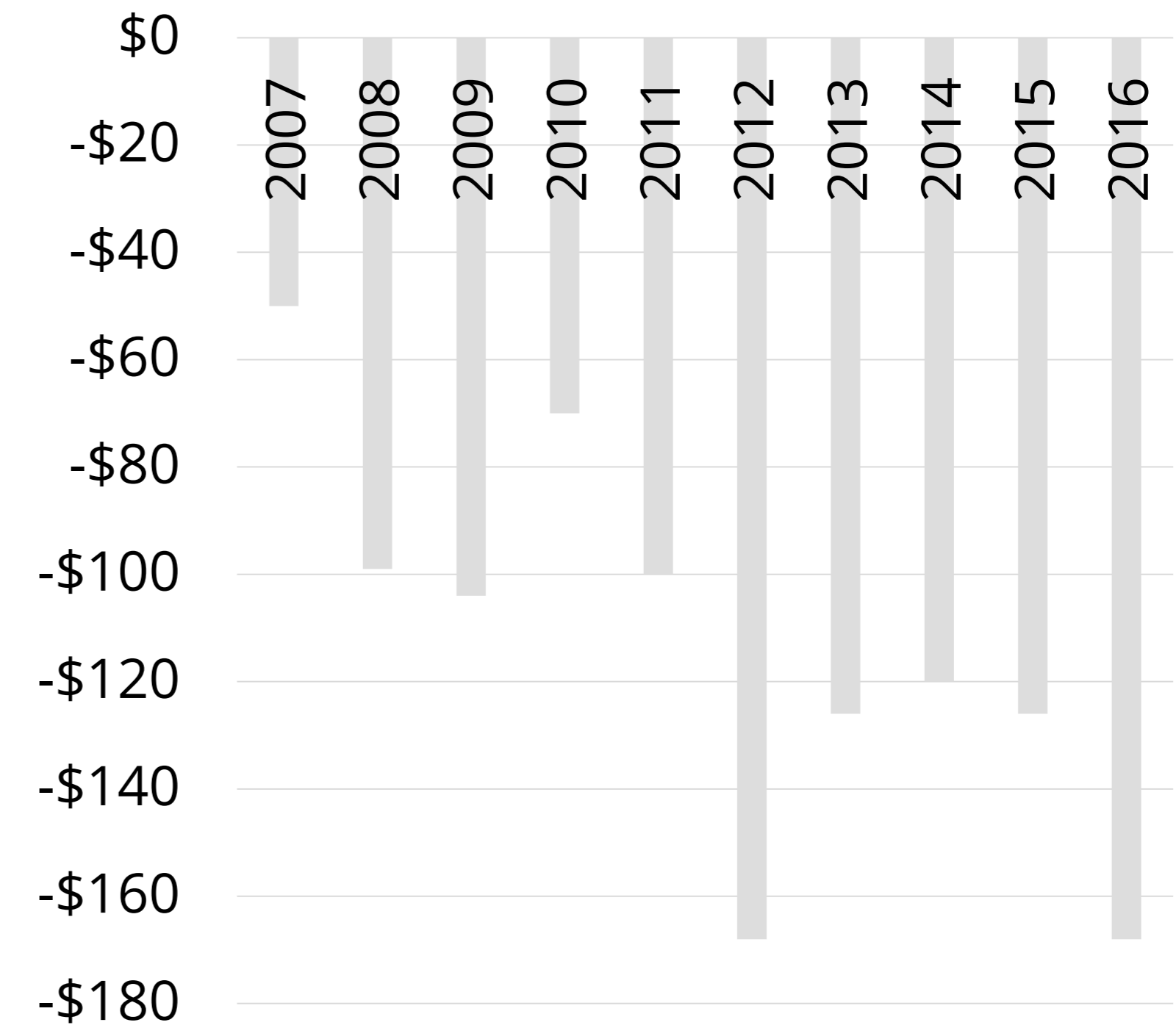
	UNIVERSAL MUSIC GROUP RESULTS				
	2013	2014	2015	2016	
Physical Sales	1,263 €	1,417 €	1,439 €	1,225 €	A
Digital Streaming			939 €	1,483 €	
Digital sales			1,012 €	755 €	
Total digital	1,643 €	1,636 €	1,951 €	2,238 €	B
License and other			684 €	725 €	C
Total recorded	3,992 €	3,688 €	4,113 €	4,188 €	D=A+B+C
Music Publishing	655 €	673 €	756 €	792 €	E
Merchandise	273 €	232 €	276 €	313 €	F
<b>Total UMG</b>	<b>4,920 €</b>	<b>4,593 €</b>	<b>5,145 €</b>	<b>5,293 €</b>	=D+E+F
<i>yoy</i>		-6.6%	12.0%	2.9%	
<b>EBIT</b>	<b>511 €</b>	<b>565 €</b>	<b>593 €</b>	<b>644 €</b>	
<i>yoy</i>		10.6%	5.0%	8.6%	

# APPENDIX – BLUE SOLUTIONS

## BIREME

- **Uses lithium metal polymer technology**
  - Can't overheat, but are much more expensive than standard Lithium ion batteries used by Tesla
- **Operates a car-sharing service which is part of the reason why they are losing money**
  - Car sharing service entirely owned by Bolloré SA
- **Besides generating operating losses, eats up 200m+ of capital expenditures per year**

Electricity Storage losses



# APPENDIX – LOGISTICS DECLINE IN 2016 (QUOTES FROM 10-K)

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## BIREME

- *“Turnover in 2016 was 5,458 million euros, a 7% reduction at constant scope and exchange rates,
  - mainly due to the fall in freight rates
  - the fall in raw material prices which affected some African countries (Gabon, Congo, Angola, Cameroon, etc.)
  - the fall in the railway business which at end-2015 included a number of one-off items linked to the Benirail project.”*
- *Factors affecting EBITDA, which declined by 10% to 689 million euros, mainly included:
  - ongoing healthy results in freight forwarding outside Africa against a background of volatile freight rates,
  - port concessions in Africa except for the terminals in Nigeria and Congo;
  - the fall in earnings from the Railways business, which was held back by a catastrophic rail crash in Cameroon, the fall in oil and gas traffic to Chad (Camrail) and the halting of the Benirail project;
  - the fall in raw material prices which continues to affect logistics and handling businesses in countries heavily dependent on the oil and mining industries (Congo, Gabon, Angola, Mozambique, etc.) and some port terminals (Nigeria, Congo, Cameroon).”*
- *Operating income, which came in at 490 million euros, still includes significant depreciations related to sustained investments in Africa”.*





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