

CHAPTER 17 – Multinational Cost of Capital

Vivendi plans new bond to refinance VUE loan

By Tim Burt in London and Peter Thal Larsen in New York (The Financial Times)

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Vivendi Universal is planning a near EUR 1bn bond issue in the latest debt refinancing at the troubled French media and telecommunications group. The bond issue will be used to help refinance a EUR 1.6bn bridge loan on the group's Vivendi Universal Entertainment (VUE) partnership, which includes its Universal studios, theme parks and cable TV operations.

People familiar with the situation said the refinancing would also involve fresh borrowing securitised against the film library at Universal. The move comes amid renewed concern that Vivendi may fail to raise sufficient disposal proceeds by the middle of the year, when the VUE bridge falls due, to ease its liquidity problems.

The company is committed to raising EUR 7bn from disposals this year as part of a EUR 16bn sale of non-core assets. Reaching that target has been hampered by the decision to shelve the proposed IPO of Canal Plus, its French pay-TV subsidiary. Vivendi had hoped to raise EUR 2bn-EUR 2.5bn from the IPO. But the plan has been abandoned pending a radical cost-cutting at Canal Plus, where Xavier Couture is being replaced as chief executive by Bertrand Méheut, his deputy. Mr. Méheut is expected to cut 300-400 jobs at Canal Plus, while seeking buyers for its international operations. It has already agreed to sell its Telepiù subsidiary in Italy to News Corp, the US group controlled by Rupert Murdoch, for EUR 893m.

Industry analysts, however, said postponing the Canal Plus IPO would increase the pressure on Vivendi to sell some of its US entertainment assets. The group is mulling an offer for the entertainment division from Marvin Davis, the oil billionaire. Mr. Davis, who first approached Vivendi last year, is thought to have raised the cash element of his offer from USD 15bn to USD 17bn while also assuming USD 5bn of debt.

Separately, advisers to Mr. Davis have come up with a structure which, they say, could allow the French group to sell its stake in VUE without triggering a payment to Barry Diller, the media entrepreneur who folded his USA Network cable business into the entertainment joint venture last year. People familiar with the matter say Mr. Davis could avoid tax liability payments to Mr. Diller - estimated by analysts at up to EUR 1bn - by acquiring one of the holding companies through which Vivendi controls VUE. Such a transaction would involve no immediate change in the ownership of entertainment joint venture. But Vivendi insiders believe it might persuade Mr. Diller to lower his compensation demands for unwinding the partnership. Under the terms of Mr. Diller's sale of his USA Networks television business to Vivendi, the French group agreed to compensate Mr. Diller and USA Interactive (USAi), his home shopping and internet business, for any tax liabilities arising from changes to the VUE structure. Mr. Diller is understood to have offered to unwind the partnership in return for USD 700m. Vivendi declined to comment.

Questions

1. Assess the capital structure of Vivendi.
2. Was the purchase of USA Network a good move?
3. Should the sale of non-core assets increase or decrease Vivendi's cost of capital?
4. Why does a MNC of the size of Vivendi need to provide collateral to borrow? Describe how you would estimate Vivendi's cost of debt on the EUR 1bn bond issue. Provide a quick estimate of the cost of debt.
5. Should Vivendi dispose of its U.S. assets? How would this sale affect Vivendi's beta? Explain.