

Broken dreams

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Jean-Marie Messier has finally decided to leave Vivendi Universal, a firm which he built from a French water utility into a glittering international media giant. Not only has that dream been shattered, but a financial crisis looms. A break-up seems inevitable



Reuters What a fine Messier

JEAN-MARIE MESSIER told a French newspaper that he had no choice but to concede defeat and quit as the head of the world's second-biggest media group in order for it to continue—and, hope many of his countrymen, for it to remain French. That might seem like an heroic act by the egocentric chairman of Vivendi Universal, a firm which he steered from being a French water utility into a telecoms and entertainment giant. But what will be left of Vivendi, remains to be seen. On July 2nd, after the credit-rating of its debts was slashed and allegations over its accounting emerged, trading in the firm's shares was halted repeatedly on the Paris exchange. At one point they collapsed in value by around a third. The question now for Vivendi is who will pick up the pieces of a shattered Hollywood dream?

The stockmarkets were spooked both by the downgrade of Vivendi's bonds to non-investment grade, or "junk" status, by Moody's, a credit-rating agency, and by the accounting allegations, which were published in the French newspaper, *Le Monde*. It alleged that Vivendi had attempted to flatter its accounts by some *euro*1.5 billion (\$1.5 billion). Apart from the battle over leadership, a new financial crisis is looming.

According to Standard & Poor's, another credit-rating agency, the company faces a short-term liquidity crisis and needs “several billion” euros of new loans in the next few weeks. This is the last thing the group needs as it is already struggling with more than *euro*33 billion of debt and plenty of questions over its strategy. Only last week the company denied that it was facing an immediate financial crunch.

A break-up of Vivendi now seems inevitable, regardless of which grandee of French business takes over the helm. The favourite is Jean-René Fourtou, vice-chairman of Aventis, a drug company. Vivendi needs to raise cash—and do so quickly. After a steep fall in the value of its shares this year—even before the latest rout—few investors would be pleased if they were asked to stump up more cash. Mr Messier’s own departure was prompted in part by the group’s two main banks, Société Générale and BNP Paribas, denying him any further loans while the firm’s management remained uncertain. The company’s new leader will have quickly to outline a new and viable strategy to persuade the banks to provide more money.



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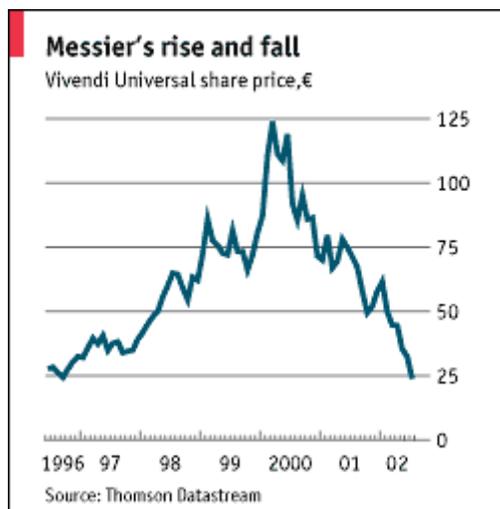
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Selling parts of the empire would be the quickest way to raise money. Among the company’s best-known assets are Universal Music, the world’s biggest music label, and Universal Studios in Hollywood. The company also owns Canal Plus, which operates pay-TV services in Europe, and it has a large stake in Cegetel, which controls France’s second-biggest mobile-telephone operator. Then there is a stake which the Vivendi group still holds in the water business, now known as Vivendi Environnement.

Many analysts think that Vivendi’s 44% stake in Cegetel could be among the first things to go, perhaps preceded by a buy-out of minority shareholders so that the whole company can be sold on to Britain’s Vodafone. A 35% stake in Maroc Telecom of Morocco would also go. Canal Plus looks promising, but some potential American investors may not be too keen on the heavily unionised and long loss-making operator. To complicate things, a sell-off could run into objections from the French political establishment, who fear foreign control of their key assets. Indeed, Mr Messier’s departure was delayed until the eight French board members, who had initially outvoted the five North American directors who wanted to oust Mr Messier, had lined up a possible French successor.

If the political pressure proves persuasive, Vivendi is likely to try to sell off its media assets, especially those in North America. Universal Studios and Universal Music were acquired through Vivendi's merger with drinks group Seagram two years ago, while various cable television interests were acquired from Barry Diller, a media mogul, as recently as last December. There is talk in Hollywood that Mr Diller, who currently oversees all Vivendi's North American non-music media businesses, would like to run them as a separate business. This would require board approval. Another alternative is that Mr Diller, who is due to receive a \$275m cash payment over the next year, may buy Universal Studios. The Canadian Bronfman family, who received \$34 billion-worth of Vivendi stock two years ago for Seagrams are also potential buyers for the music group. Even though Vivendi will want to avoid selling its expensively-acquired media assets at "fire sale" prices, it may have little choice.

Vivendi's financial mess is its most pressing problem. However, Mr Fourtou, if he does succeed Mr Messier, will also have to deal with corporate governance issues. Many investors have been troubled that Mr Messier combined both chairman and chief executive roles. Even more worrisome is talk that the directors were not fully informed of some important decisions. Bernard Arnault, the chief executive of LVMH, a French luxury-goods company, resigned from the board of Vivendi Universal last week, apparently because of concern about how little information Mr Messier was sharing with the board. The group had already appointed a committee to oversee Mr Messier's decisions.



Mr Fourtou would be a marked contrast to the flamboyant Mr Messier. Mr Fourtou is understated, preferring the south-west of France to Parisian cocktail parties, let alone Mr Messier's addiction to personal publicity. He is credited with having transformed Rhône-Poulenc, a small and unexciting drug company, into Aventis, a big and profitable player in the world pharmaceuticals market, after merging it with Germany's Hoechst. He is politically well-connected, having been first appointed to Rhône-Poulenc by Jacques Chirac, who has just been re-elected as the French president. But however skilful and well-connected he is, Mr Fourtou will need all his wits to salvage what is left of his predecessor's expensively acquired empire.

