# Bouygues Telecom-SFR merger: an industrial project that would create a major French digital communications group

6 March 2014

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# Planned Bouygues Telecom-SFR merger

## Industrial project

- The Bouygues group (which owns 91% of Bouygues Telecom) has approached the Vivendi group (which owns 100% of SFR) with a proposal to merge Bouygues Telecom and SFR
- An ambitious industrial project in a reconfigured market, promoting investment and jobs
- This merger should lead to the creation of a French group ranked amongst the European telecoms sector leaders
- Value of synergies estimated at €10bn

## The offer in brief for Vivendi

- €10.5bn in cash and 46% of the capital of the new entity
- Opportunity to monetise its stake after the IPO of the new entity

## An attractive operation for Vivendi and Bouygues shareholders

- For Vivendi shareholders an operation that values SFR at €14.5bn pre-synergies and €19bn post-synergies
- The generation of synergies is estimated to represent additional value of at least €15 per Bouygues share

# The best proposal for the French telecoms market

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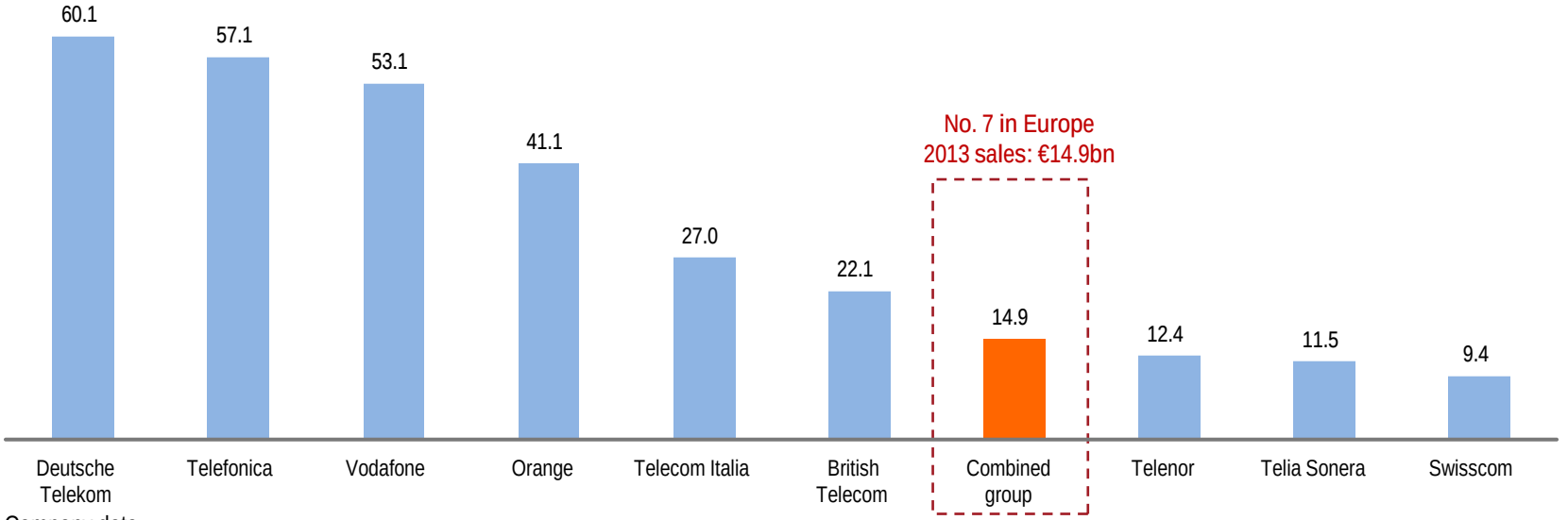
| | |
|---|---|
| 1 An ambitious industrial project | ■ A major player to meet the needs of the most demanding French consumers<br>■ A leader in the French digital roll-out<br>■ A new benchmark player for B2B services |
| 2 A response to the challenges of the French mobile market | ■ Capacity to invest, innovate and improve service quality, to the benefit of consumers<br>■ Opportunity to re-establish infrastructure-based competition, guaranteeing a high level of investment within France |
| 3 A development stimulating investment and jobs | ■ Quickening the pace of investment while maintaining a quality customer service will protect jobs in the sector<br>■ The culture of the Bouygues group is built on respecting its people |
| 4 Clear undertakings as regards competition | ■ The merger is subject to approval from the French Competition Authority<br>■ Clear undertakings will be offered to allow free infrastructure-based competition in the French telecoms market, to the benefit of consumers |

# Creating a major player in both France and Europe

## Sales of the top 10 operators in Europe (2013[1] published or estimated) (€bn)




Source: Company data

(1) Data adjusted to the calendar year ended 31 December 2013

**Creating a major European player capable of making the investment needed to expand digital services in France**

# An ambitious industrial project

- A new stage in the long-standing relations between Bouygues Telecom and SFR
  - ✓ A merger capitalising on the mobile network sharing project in less densely-populated areas, on the joint investment agreement for fibre (2010) and on the cooperation in broadband (2008)
  - ✓ The operation would enable to **share the burden of investment** and provide a sustainable response to the challenges of the French telecoms market

| | | |
|---|---|---|
| 1 | A major player to meet the needs of the most demanding French consumers | ✓ A premium value proposal with the aim of offering<br>▪ The best fixed and mobile very-high-speed network in France<br>▪ The best customer experience<br>✓ A privileged partnership with suppliers of digital services |
| 2 | A leader in the French digital roll-out | ✓ A commitment to roll out a very-high-speed optical fibre network quickly and over a wide area, thus facilitating fixed infrastructure-based competition in the future<br>✓ Ability to cover small urban zones with fibre<br>✓ Introduction of a new mobile network performance standard, on a par with the most advanced countries<br>✓ Use of the fibre infrastructure to connect the base stations of the mobile network |
| 3 | A new benchmark player for B2B services | ✓ Accelerated commercial development on the B2B market<br>✓ Strategy based on fixed offers and convergence solutions |

**An ambitious industrial project to benefit consumers and businesses, promoting investment and jobs in the sector**

# The deal with the best value creation potential

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**5 Value of synergies estimated at €10bn**

- €1.4bn of annual synergies at the run rate
  - ✓ Split: around 80% opex/around 20% capex
  - ✓ 80% of synergies to be achieved in 3 years
- Cumulative implementation costs of €0.8bn over 5 years

**6 An attractive deal for Vivendi and its shareholders**

- The deal values SFR at €14.5bn pre-synergies and €19bn post-synergies
  - ✓ €10.5bn in cash
  - ✓ 46% of the combined entity, worth a potential €8.5bn post-synergies
- Liquidity available for Vivendi through a post-closing IPO

**7 A deal that will create value for Bouygues and its shareholders**

- Bouygues to be the core shareholder of the new group, with a 49% stake
- Value creation of more than €15 per share through the generation of synergies
- A strategic investment for Bouygues, already an established player in the telecoms sector, making it a market leader in all of its business areas

**8 A sustainable financial structure**

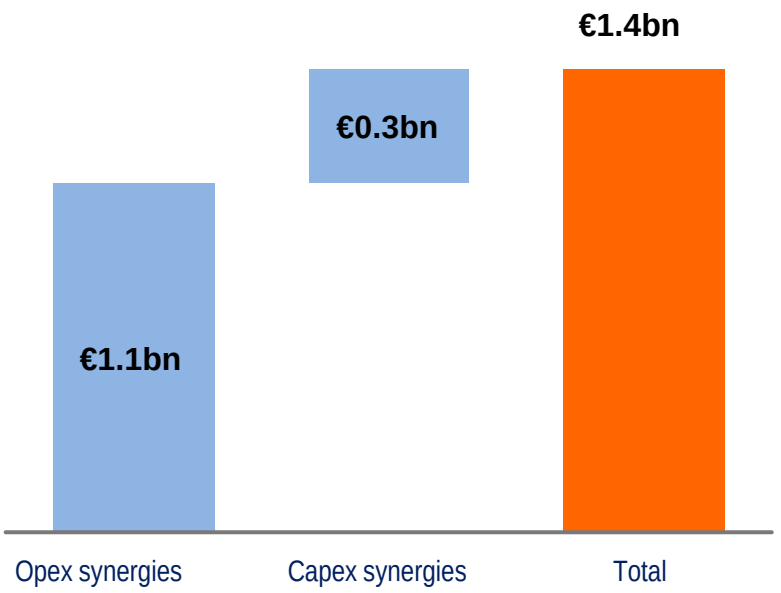
- Financing of the acquisition and of the operating needs fully underwritten by HSBC
- Planned IPO as soon as the merger is completed
- Objective of Investment Grade status guaranteeing the new entity the means for its development

# Overview of synergies estimated by the operational teams

1. Estimated value of synergies: €10bn[1]
2. €1.4bn of annual synergies at the run rate
3. More than 80% of synergies achieved in 3 years
4. Integration costs estimated at €0.8bn in total
5. Similarity between business cultures guarantees the success of the merger and generation of synergies

(1) Discount rate of 8% and perpetual annual growth rate of 0.5%

Breakdown of annual normative synergies




These cost synergies represent only 9% of the combined cost base and 12% of the combined capex of the new entity

# Significant value creation for Vivendi and its shareholders

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## Bouygues' offer in brief

€10.5bn in cash

46% of the capital of the new SFR-Bouygues Telecom entity

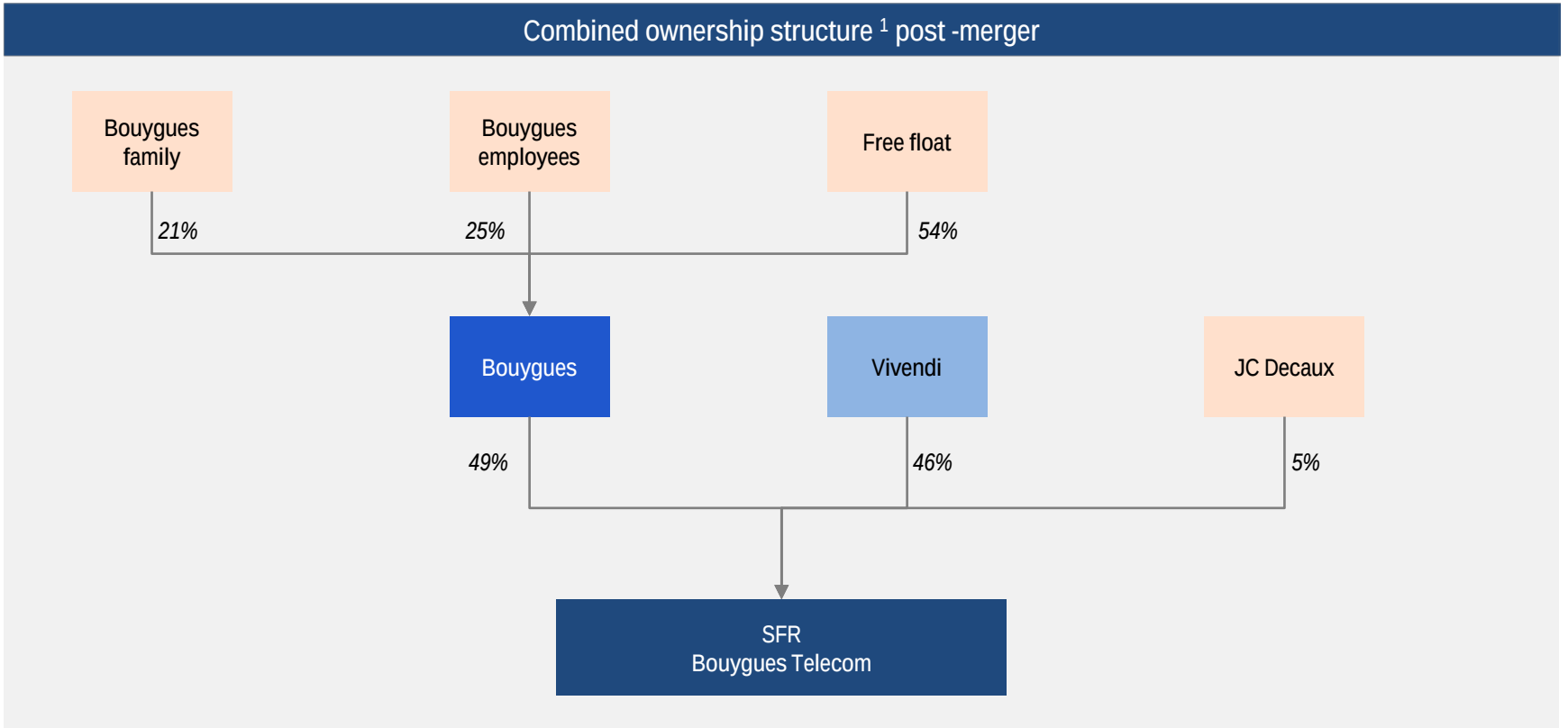
Valued at €14.5bn pre-synergies

Total valuation of SFR at €19bn[1]

IPO of the new entity as soon as the merger is completed
Opportunity for Vivendi to monetise a further 15% of the capital at that time

(1) Including 100% of the synergies

# Ownership structure post-merger




(1) Based on Bouygues group's ownership structure at 31 December 2013

# Significant value creation for Bouygues and its shareholders

1. Long-established commitment to the telecoms sector, with a consistently proactive strategy
2. The deal would make Bouygues a market leader in all of its business areas
3. Value creation of more than €15[1] per share

(1) Based on Bouygues' share of the synergies of the new entity

# A sustainable financial structure

## Pro-forma target structure post merger, IPO and divestments

**Capital increase/divestments assumed to represent €3.0bn**

| Bouygues group | |
|---|---|
| Pro forma net debt[1] | €11.2bn |
| Consolidated 2013 EBITDA | €5.6bn |
| Implied leverage | 2.0x |

| SFR-Bouygues Telecom | |
|---|---|
| Pro forma net debt | €8.3bn |
| 2013 EBITDA | €3.6bn |
| Implied leverage | 2.3x |

(1) Based on net debt at 31/12/2013 adjusted for the proceeds from the divestment of Cofiroute

- ✓ Major synergies that will fuel EBITDA and cash flows
- ✓ Capital increase via an IPO after the merger is already planned
- ✓ Potential divestments enabling significant debt reduction without affecting the activity of the new entity
- ✓ Investment Grade status of target structure guarantees easier and less costly access to debt
- ✓ Very robust shareholder with a limited level of debt, able to support the new entity's growth over the long term

**A sustainable financial structure in line with the Group's cautious financial strategy**

# Conclusion

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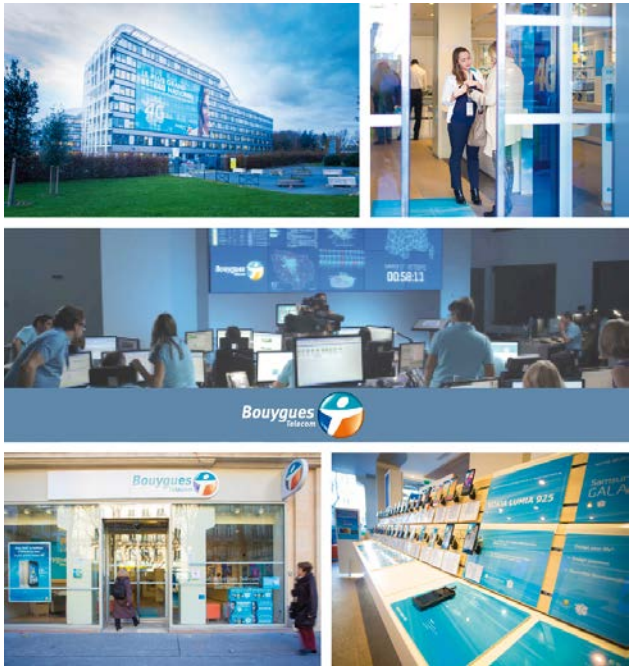
## The best proposal for the French telecoms market

1. An ambitious industrial project
2. A response to the challenges of the French mobile market
3. A development stimulating investment and jobs
4. Clear undertakings as regards competition

## The deal with the best value creation potential

5. Major synergies
6. An attractive deal for Vivendi and its shareholders
7. A deal that will create value for Bouygues and its shareholders
8. A sustainable financial structure

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