GLOBAL MULTICHANNEL

# M7 buy preps Canal+ for global OTT clash

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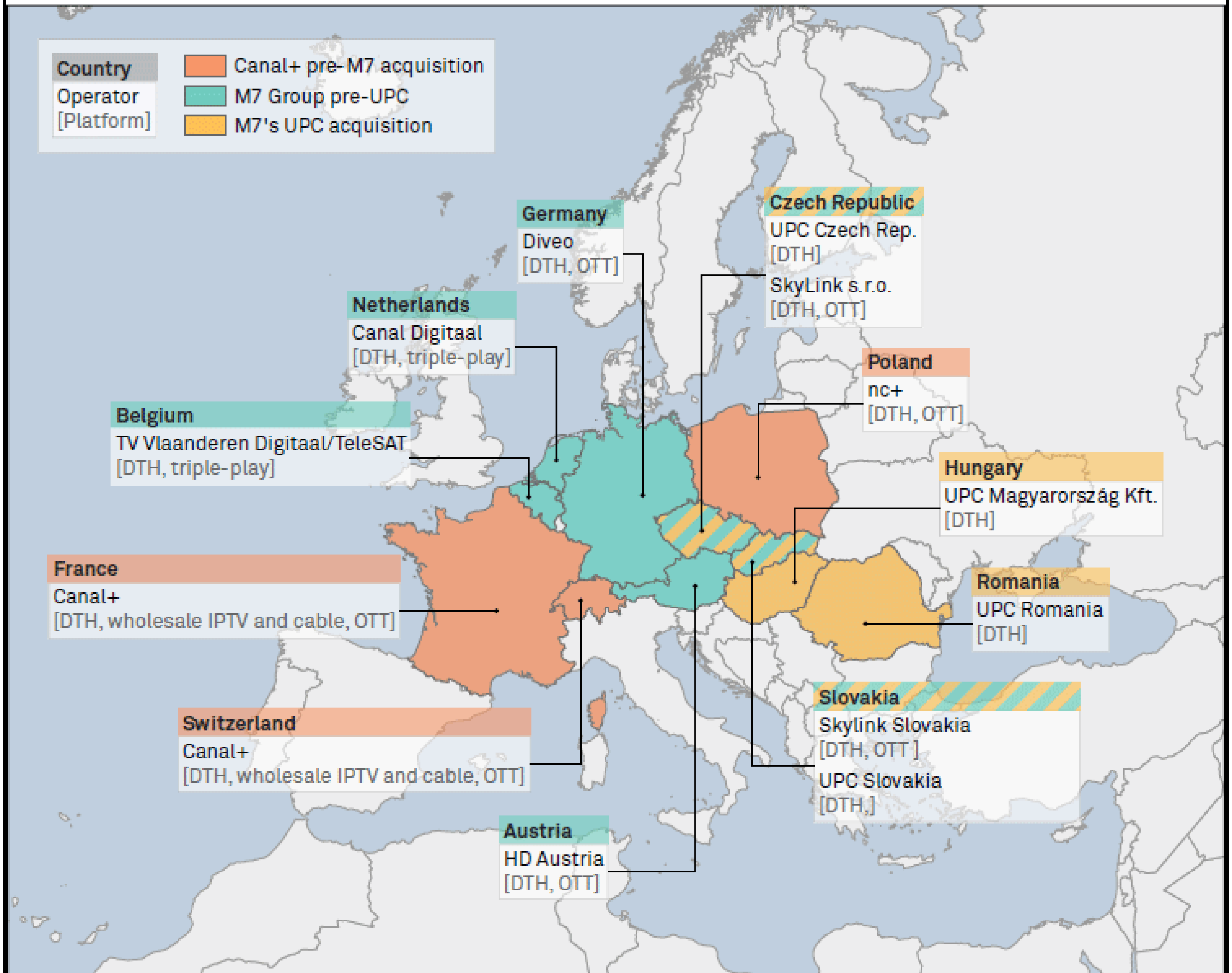
With a fast-growing international arm and after more than three years of a major transformation that saw €450 million taken off the books, the CANAL+ Group is striking back against consolidating peers and over-the-top challengers, buying the only direct-to-home operator with scale in the region behind Comcast Corp.'s Sky Europe.

Canal+ is paying private equity firm Astorg €1 billion to acquire satellite pay TV and free-to-air operator M7 Group SA. The value per retail customer paid by Canal+ based on the implied value was €333.33, compared to the last Western Europe pay DTH acquisition, which saw Comcast pay Sky £841.75 per customer in 2018.

Canal+, present in 25 primarily French-speaking markets Africa, in France's overseas territories, Vietnam and Myanmar, extends its European presence beyond France, Poland and Switzerland to include Austria, Germany, Belgium, the Netherlands, the Czech Republic, Slovakia, Hungary and Romania.

**Canal Group's European presence post M7 acquisition**




As of June 10, 2019.
Map credit: Jose Miguel Fidel C. Javier
Source: S&P Global Market Intelligence

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### Canal+ Group Europe multichannel households post M7 acquisition

| Operator name | Market | Video platform | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Country MC HHs 2018 | MC market share 2018 (%) | 5-year '13-'18 CAGR (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Canal+ | France | DTH, DTT | 4,080,970 | 3,940,300 | 3,591,250 | 3,218,075 | 2,920,500 | 2,603,150 | 18,734,567 | 13.9 | -8.6 |
| Canal+ wholesale | France | IPTV | 2,010,030 | 2,121,700 | 2,154,750 | 2,928,000 | 3,117,000 | 3,093,000 | - | - | 9.0 |
| HD Austria | Austria | DTH | - | - | - | - | - | 145,000 | 2,013,010 | 7.2 | - |
| Diveo | Germany | DTH | - | - | - | - | - | 10,000 | 25,538,000 | 0.0 | - |
| TV Vlaanderen Digitaal/TeleSAT | Belgium | DTH | 130,572 | 122,957 | 119,376 | 116,392 | 118,719 | 121,094 | 4,766,550 | 2.5 | -1.5 |
| Canal Digitaal | Netherlands | DTH | 313,122 | 324,081 | 337,309 | 342,149 | 348,992 | 344,547 | 7,768,351 | 4.4 | 1.9 |
| nc+ | Poland | DTH | 2,150,000 | 2,150,000 | 2,097,287 | 2,119,000 | 2,117,941 | 2,194,000 | 12,036,524 | 18.2 | 0.4 |
| UPC Romania | Romania | DTH, Cable | 1,183,000 | 1,200,000 | 1,234,400 | 1,267,300 | 1,299,800 | 920,600 | 7,526,505 | 12.2 | -4.9 |
| UPC Magyarország Kft. | Hungary | DTH, Cable | 898,800 | 922,000 | 938,100 | 955,400 | 949,000 | 691,900 | 3,453,884 | 20.0 | -5.1 |
| UPC Czech Rep. | Czech Republic | DTH, Cable | 567,600 | 455,731 | 588,800 | 609,700 | 628,200 | 539,500 | 1,969,709 | 47.5 | -1.0 |
| SkyLink s.r.o. | Czech Republic | DTH | 360,358 | 356,250 | 349,575 | 382,000 | 392,761 | 397,000 | | | 2.0 |
| Skylink Slovakia | Slovakia | DTH | 151,287 | 164,450 | 174,660 | 214,200 | 191,100 | 190,000 | 1,468,243 | 24.5 | 4.7 |
| UPC Slovakia | Slovakia | DTH, Cable, Fixed wireless | 252,970 | 259,433 | 250,400 | 245,100 | 242,400 | 170,000 | | | -7.6 |

As of June 20, 2019.
M7 Group total exceeds reported total due to inclusion of 400,000 free-to-air customers.
Includes estimates.
Sources: Industry data; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.


Traditional pay TV is only part of the growth road map for Canal+ as it prepares to take its France-based MyCanal OTT platform global, initially via its Asian and African territories by 2020.

M7 shores up Canal+'s distribution network and establishes a larger launch pad for its global OTT plans while establishing a wider market to sell its content. Canal+ owns several European production companies, the 6,000-title Canal Studio library and Création Originale. Furthermore, Canal+ will reinforce its technology infrastructure ownership via the M7 Platform Services unit, with comprehensive distribution capabilities for DTH, cable, IPTV and OTT.

Maxime Saada, the CEO of Canal+ Group, noted that scaling up through M7 affords the company the ability to pay off its €3 billion in content investments. With an existing reported base of 16.2 million individual subscriptions, Canal+ will approach 20 million subscribers with the deal, providing what Saada described as "a critical mass that allows us to play sustainably against these actors [Netflix Inc., et al.]."

The move is positive given the disputes in recent attempted European ventures with Mediaset SpA and Telecom Italia SpA to create a content and OTT powerhouse in southern Europe and amid heightened competition from OTT players such as Netflix and consolidating groups such as Altice Europe.

**Canal+ recovery: appetite for global scale**

M7's 3 million subscriber base consists of 2.1 million pay TV customers, with 800,000 paying a basic service fee at a much lower average revenue per user to access mostly national channels in HD or because they cannot receive them via terrestrial broadcasts. M7 turned over more than €400 million in annual revenue with a 20% profit margin. That compares to Canal+ Group's €5.17 billion in revenue for 2018 with a much lower EBITDA margin of 7.7%. At the end of 2017, Reuters reported €570 million in debt for M7 following a loan refinancing agreement with Deutsche Bank and a dividend payment to departing shareholders.

Over the five years to end-2018, Canal+'s international base grew by 78.0% to 7.8 million and 12.7% in the latest full year. Conversely, in France, pay TV subscriptions have declined by 22.3% since 2013, ending 2018 with 4.7 million. It also counts 3.1 million customers from wholesale partnerships — with Iliad's Free, Orange and Bouygues Telecom — and 591,000 collective customers.

Canal+ Group's revenues slipped by 0.3% in 2018, compared to a 0.3% gain in 2017. The revenue decline is slowing in France, with Vivendi SA noting that despite the drop, the premium Canal+ channel's individual subscriber base grew by 251,000 in the year. Flexible offers have created a "sustainable business model" and improved consumer satisfaction, with churn rates down as new subscribers opt for discounted two-year contracts. Canal's updated offers saw more than 95% of subscribers opt for 24-month contracts, playing a critical role in its recovery.

## Canal+ Group earnings and subscribers, as reported 2018

| | | 2018 | 2017 | YOY change (%/BP) | Change at constant currency (%) |
|---|---|---|---|---|---|
| **Segment revenues** | | | | | |
| TV in Mainland France (a) | (€M) | 3,137 | 3,249 | -3.4% | -3.4 |
| International TV | (€M) | 1,567 | 1,482 | 5.7% | 6.8 |
| Studiocanal | (€M) | 462 | 467 | -1.2% | -0.6 |
| **Total revenues** | **(€M)** | 5,166 | 5,198 | -0.6% | -0.3 |
| Income from operations | (€M) | 429 | 349 | 23.1% | 22.4 |
| EBITA before restructuring charges | (€M) | 428 | 349 | 22.6% | 21.8 |
| Restructuring charges | (€M) | -28 | -49 | - | - |
| EBITA | (€M) | 400 | 300 | 33.6% | 32.8 |
| EBITA margin | (%) | 7.7 | 5.8 | +1.9 pts | - |
| **Pay-TV subscribers** | | | | | |
| Self-distributed individual subscribers in Mainland France | (000) | 4,733 | 4,950 | -217 | - |
| Canal customers via wholesale partnerships (b) | (000) | 3,093 | 3,117 | -24 | - |
| **International individual subscribers** | (000) | 7,831 | 6,948 | 883 | - |
| Africa | (000) | 4,110 | 3,458 | 652 | - |
| Poland | (000) | 2,194 | 2,171 | 23 | - |
| Overseas | (000) | 583 | 530 | 53 | - |
| Vietnam | (000) | 884 | 789 | 95 | - |
| Myanmar (Burma) | (000) | 60 | - | 60 | - |
| **Total Canal+ Group individual subscribers** | (000) | 15,657 | 15,015 | 642 | - |
| Collective subscribers | (000) | 591 | 579 | 12 | - |
| **Total Canal+ Group subscribers** | (000) | 16,248 | 15,594 | 654 | - |
| **Mainland France pay-TV** | | | | | - |
| Churn rate (c) | (%) | 13.6 | 15.8 | -2.2 pts | - |
| Net ARPU premium (d) | (€) | 44.8 | 45.5 | -0.70 | - |
| Net ARPU (e) | (€) | 45.4 | 45.7 | -0.30 | - |

Data compiled June 2019.
(a) Relates to pay-TV and free-to-air channels (C8, CStar and CNews) in mainland France.
(b) Includes the strategic partnership agreements with Free, Orange and Bouygues Telecom. Certain subscribers also subscribed to a Canal+ offer nad results in double-counting.
(c) Churn rate for individual subscribers over a 12-month period, wholesale customers and trial customers.
(d) Net ARPU per individual Premium subscriber with and without commitment, excluding wholesale.
(e) Net ARPU per individual subscriber with commitment, excluding wholesale.
Sources: Vivendi filings; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.


Canal+ paid a relatively low multiple on the M7 deal, especially given the consolidating environment. The price is likely taking into account M7's 3.7% slide in revenues in 2017, compared to 8.0% growth in 2016, and that many of the markets Canal+ will operate in are experiencing declines in satellite distribution.

## M7 Group S.A. income statement

| | 2012 (€M) | YoY growth (%) | 2013 (€M) | YoY growth (%) | 2014 (€M) | YoY growth (%) | 2015 (€M) | YoY growth (%) | 2016 (€M) | YoY growth (%) | 2017 (€M) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 211.3 | 8.4 | 229.0 | 36.4 | 312.4 | -3.7 | 300.8 | 8.0 | 325.0 | -3.7 | 312.8 |
| Cost of goods sold | 13.4 | - | 1.8 | - | 10.7 | - | 5.8 | - | 4.8 | - | -2.2 |
| Gross profit | 197.9 | 14.8 | 227.3 | 32.8 | 301.7 | -2.2 | 295.0 | 8.5 | 320.2 | -1.6 | 315.0 |
| Selling general & admin exp. | 3.1 | - | 2.9 | - | 4.5 | - | 5.7 | - | 5.6 | - | -5.4 |
| Other operating expense/(income) | 2.7 | - | 2.7 | - | 4.1 | - | 3.4 | - | 4.9 | - | -5.0 |
| Other operating Exp., total | 5.8 | - | 5.6 | - | 8.6 | - | 9.1 | - | 10.5 | - | -10.4 |
| Operating income | 192.1 | 15.4 | 221.7 | 32.2 | 293.1 | -2.4 | 286.0 | 8.3 | 309.6 | 5.1 | 325.4 |
| Income tax expense | -0.4 | - | -0.2 | - | -3.3 | - | -12.5 | - | -0.5 | - | 0.0 |
| Earnings from cont. ops. | 192.4 | - | 221.8 | - | 296.4 | - | 298.5 | - | 310.1 | - | 325.5 |
| Extraord. item & account change | -190.5 | - | -221.2 | - | -283.5 | - | -265.2 | - | -296.2 | - | -346.4 |
| Net income | 1.9 | - | 0.6 | - | 12.8 | - | 33.3 | - | 14.0 | - | -20.9 |
| EBIT | 192.1 | - | 221.7 | - | 293.1 | - | 286.0 | - | 309.6 | - | 325.4 |

Data compiled June 2019.
Sources: CapIQ industry data; company filings; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.


The foothold in several new markets including Germany — Western Europe's largest satellite market and with a recently launched pay DTH offer — provides an upside despite the investment in a declining platform, as households increasingly switch to OTT and fixed networks for TV.

## Other satellite digital households in Canal+ and M7 territories, 2013-2023

| | 2013 | 2018 | 2023 | 5-year '13-'18 CAGR (%) | 5-year '18-'23 CAGR (%) | Share of TV HHs 2018 (%) |
|---|---|---|---|---|---|---|
| Austria | 1,430,039 | 1,662,125 | 1,710,581 | 3.1 | 0.6 | 43.3 |
| Belgium | 176,838 | 173,405 | 174,019 | -0.4 | 0.1 | 3.6 |
| Czech Republic | 299,579 | 237,613 | 187,565 | -4.5 | -4.6 | 5.5 |
| France | 3,596,189 | 3,749,267 | 3,888,578 | 0.8 | 0.7 | 13.8 |
| Germany | 13,626,725 | 13,039,824 | 13,253,427 | -0.9 | 0.3 | 32.9 |
| Hungary | 309,548 | 296,268 | 282,241 | -0.9 | -1.0 | 7.3 |
| Netherlands | 313,639 | 271,857 | 232,512 | -2.8 | -3.1 | 3.5 |
| Poland | 450,304 | 376,595 | 300,982 | -3.5 | -4.4 | 2.7 |
| Romania | 202,010 | 156,595 | 119,647 | -5.0 | -5.2 | 2.1 |
| Slovakia | 193,577 | 177,517 | 159,763 | -1.7 | -2.1 | 9.5 |

Data compiled June 2019.
Sources: Industry data; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.

**DTH share of multichannel subscribers for Canal+ and M7 territories, 2013-2023**

| | 2013 | 2018 | 2023 | 5-year '13-'18 CAGR (%) | 5-year '18-'23 CAGR (%) | Share of MC TV HHs 2018 (%) |
|---|---|---|---|---|---|---|
| Austria | 365,178 | 408,860 | 429,342 | 2.3 | 1.0 | 21.4 |
| Belgium | 159,517 | 121,094 | 131,089 | -5.4 | 1.6 | 2.6 |
| Czech Republic | 632,158 | 679,972 | 619,469 | 1.5 | -1.8 | 34.5 |
| France | 4,419,843 | 3,029,934 | 2,184,887 | -7.3 | -6.3 | 16.2 |
| Germany | 3,628,960 | 4,797,000 | 5,700,504 | 5.7 | 3.5 | 18.8 |
| Hungary | 921,285 | 779,770 | 813,147 | -3.3 | 0.8 | 22.6 |
| Netherlands | 313,122 | 344,547 | 350,268 | 1.9 | 0.3 | 4.5 |
| Poland | 6,318,045 | 6,562,352 | 6,538,327 | 0.8 | -0.1 | 54.5 |
| Romania | 2,250,000 | 2,240,026 | 2,206,627 | -0.1 | -0.3 | 29.8 |
| Slovakia | 549,183 | 636,458 | 697,820 | 3.0 | 1.9 | 43.3 |

Data compiled June 2019.
Sources: Industry data; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.


The acquisition includes UPC operations that M7 was in the process of acquiring from Liberty Global PLC for €180 million in December 2018 in the Czech Republic, Slovakia, Hungary and Romania. Vodafone Group PLC acquired Liberty Global's cable assets in central and Eastern Europe. M7, pre-UPC, operated in Austria, Belgium, the Netherlands, the Czech Republic and Slovakia — and more recently, in Germany. M7 also generates income from packaging TV for cable and IPTV services including TV licensing across all distribution platforms and a suite of wholesale TV products.

In Eastern Europe, M7 Group's Skylink is a successful satellite operator acting on a partially free-to-air basis in the Czech Republic and Slovakia. Counting only paying subscribers, Skylink in 2018 led the DTH operator field in the Czech Republic and was second in Slovakia. Since 2006, Skylink has built a strong proposition in both markets by delivering high-quality, free-to-air services to set-top boxes and then upselling to pay TV much in the same way M7's other operations have. In Belgium and the Netherlands, M7 also offers internet and telephony packages bundled with the TV offer.

With 11 adjoining markets from France across to Poland and down to Romania, Vivendi can benefit from additional synergies. In total, Canal+ will now serve nearly 3.6 million subscribers and have access to 4.5 million households in five Eastern European markets.

Canal+'s owner, Vivendi, remains determined to make forays into Southern Europe and primarily in Africa, where it has expansion aims in one of the region's largest markets, Ethiopia.

**Building a scalable OTT platform**

With the demise of Canalplay, a new OTT strategy has emerged on the back of the myCanal portal launch in 2013. Canal+ has since plowed €100 million in developing MyCanal, which offers live access to all six Canal+ premium channels, 140 thematic channels, as well as live programming and a 15,000-title Canal VOD catalog, a TV guide and the Eureka recommendation engine. MyCanal is a single subscription and point of entry for all devices and to all Canal+ content and services, live or on-demand.

Complementing MyCanal and boosting its OTT distribution and challenge to Netflix, it launched OTT SVOD service Canal+ Séries in March 2019. The service carries original series and internationally acquired content from Showtime and FX for €6.99 a month. Canal+ Séries, which launched with 150 series, is also accessible via MyCanal and will be made available on other pay TV platforms.

The MyCanal app has proved popular with users, according to Vivendi. It noted in its 2018 annual report that it was ranked as France's top online TV and video service, garnering 1.6 million unique visitors a day on average with more than 50 million hours of video viewed each month.

MyCanal is set for international expansion as the group prepares to introduce the service initially across its Asian and African territories by 2020. Ultimately Canal+ is employing Netflix's OTT service strategy of building a subscriber base in new territories without the need for local operations. Sky has done the same with OTT offers launched in Spain and Switzerland, both countries where it does not operate a traditional distribution network.

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