



Sandy Le Roux



**BAOBAB**  
INVESTMENT MANAGEMENT  
AFRICAN ROOTS | GLOBAL PERSPECTIVE

## The Friday Filter

14 February 2020

### A free ticket to the Grammys ?

The Grammy Awards are the music industry’s equivalent of the Oscars. Those of you who don’t have teenage children may not know Billie Eilish (pictured on the right), but she dominated this year’s awards having been nominated in six different categories and winning five of them, including best album, record, song and best new artist.

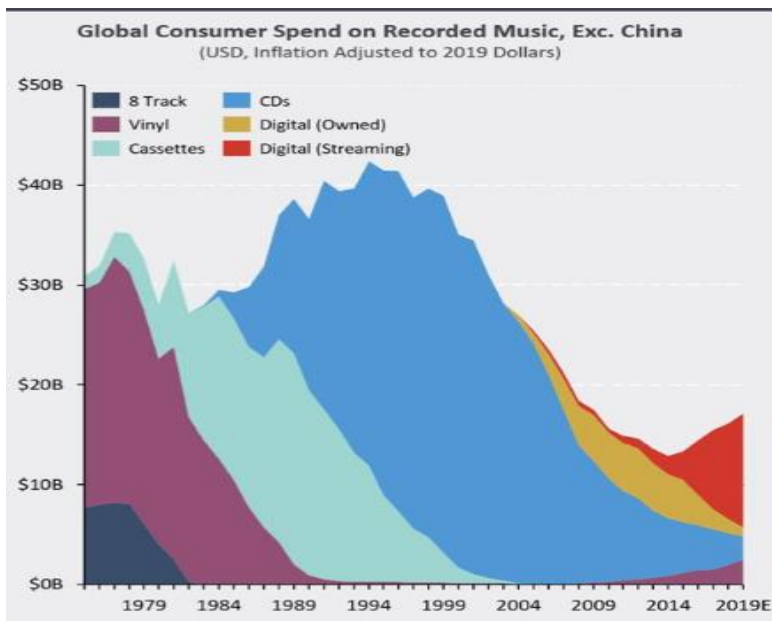
On the board behind Eilish in the picture is the name of her record label, Universal Music Group or UMG. UMG is the world’s largest record label and owns more than 30% of the music created in the developed world. Other artists signed to UMG include Taylor Swift, The Beatles, Justin Bieber, Coldplay, U2, Adele, Queen, Rihanna, Katy Perry ..... the list goes on.



Billie Eilish -Source: Billboard.com - Amy Sussman/Getty Images for Music Group

Despite this unbelievable list of talent, the music business has been a tough industry in which to operate as the onset of the internet and online piracy proved to be a major headwind for the industry. The industry decline has been halted, and is now growing very quickly, almost entirely thanks to streaming.

Streaming platforms such as Spotify and Apple pay music labels for their catalogues and then charge their users a low monthly fee for access to almost unlimited choice in music. This changing dynamic is well reflected in the chart below.



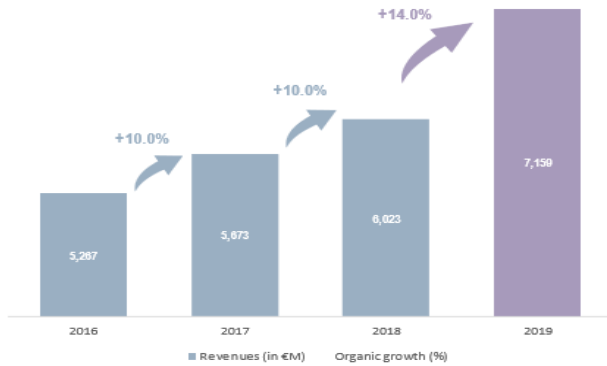
We have made very healthy returns in the past buying valuable content at a discounted price when we purchased 21st Century Fox only to be taken out by Disney at a significant premium. While there are similarities between TV and movie libraries and those of the music industry, we would argue that the music libraries have superior economics. Not only are they cheaper to produce, but the back catalogue is far more valuable. I know I don’t watch that many movies over and over again but I would not be able to count the number of times I have listened to my favourite music artists.

Source: MEDIAREDEF, RIAA, Nielsen, Morgan Stanley, BLS, IDG, Yoichi Wada

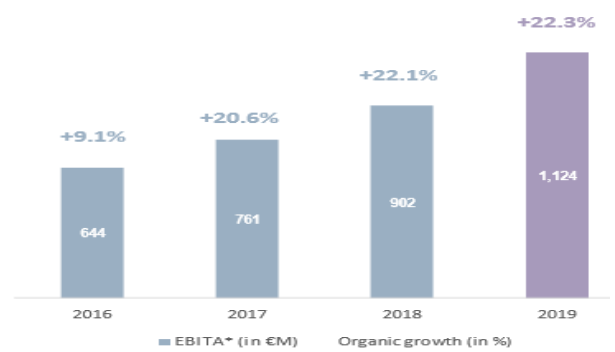
This has resulted in significant growth in both revenue and profitability for UMG in recent years, something that is likely to continue for the foreseeable future. The charts below show clearly that while revenue is growing at a healthy rate, it is being outpaced by growth in profitability on the back of margin expansion. These are high quality earnings.

### UMG Revenue and Profit Growth.

#### Continuous organic growth of the revenues



#### EBITA growth



Source: Vivendi Investor Presentation February 2020

Things change quickly today, but we think the music industry will continue to grow as will the value of music libraries owned by companies like UMG.

### Investing in UMG

UMG is not a listed company but is 100% owned by a French listed company called Vivendi. Vivendi recently reached an agreement with a consortium led by Tencent who are buying 10% of UMG based on a valuation of Eur 30 billion for the whole Company. They have an option to buy another 10% in the next 12 months. This is part of Vivendi's strategy to develop outside of its core markets and they are considering further minority sales that may see them sell up to 50% of UMG to outside partners such as Tencent. We are entering an exciting period as the owners of UMG look to grow and monetise this valuable asset which they plan to list separately by 2023.

Through Vivendi you are able to gain ownership of UMG at a discount given that the market capitalisation is less than the Eur 30 billion deemed valuation of UMG, and there are other assets of significant value. As attractive as this may be, by investing through an investment holding company called Bollre we are able to invest in UMG at an even larger discount. Bollre is a two-hundred-year-old French conglomerate that is run by Vincent Bollre, an exceptional capital allocator who has created tremendous value for Bollre shareholders over the past few decades. Its main operating divisions are a very profitable African ports and logistics business, and an electricity storage and electric bus business that is not yet profitable. If we adjust for some of the cross-holdings between Bollre and its subsidiaries we think that the African ports and logistics business is worth close to the current share price. That means that we are getting their most valuable asset, a 26% ownership stake in Vivendi (and therefore UMG), for free.

We are happy to have recently become part-owners of Bollre, an investment that provides us access to an asset of very high quality, at a heavily discounted price and in the hands of a proven capital allocator.

Let the music play.