Vantiva

Q3 results

First clear look at standalone enterprise

Technology hardware

Vantiva's deleveraging exercise and partial spin-off of Technicolor Creative Studios (TCS) have put it on a more stable financial footing from both an income and balance sheet perspective. Its two divisions, Connected Home and Supply Chain Services (SCS), have leadership positions in their respective markets, with blue-chip client rosters. Adjacent diversification opportunities are being developed and should underpin medium-term prospects. Vantiva's Q322 revenue growth was 27% at constant currency, as robust demand for Connected Home's broadband equipment coincided with improving componentry supply. Management has confirmed FY22 guidance and reasserted its confidence in meeting FY23 expectations, and we now publish forecasts for Vantiva on a standalone basis.

Year end	Revenue (€bn)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBITDA (x)	P/E (x)
12/21	2.25	(186)	(83)	0	3.0	N/A
12/22e	2.70	(123)	(42)	0	2.9	N/A
12/23e	2.84	(50)	(17)	0	2.9	N/A
12/24e	2.99	(10)	(5)	0	2.5	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Connected Home driving FY22 progress

Connected Home (9M22: 76% of group revenues) delivered Q322 revenue growth of 54% (constant currency), further boosted by currency to +77%. Adjusted EBITDA margin at 5.7% was also well ahead of prior year (Q321: 4.9%), reflecting higher volumes leading to improved cost recovery and a more advantageous product mix, as well as its close customer relationships allowing for flexibility on pricing given higher input costs. SCS's Q322 revenue was down 18% on Q321 at constant currency, against particularly tough comparatives for DVDs. Vinyl demand remains robust, and additional capacity is being commissioned to come on stream in FY23.

Opportunities to extend addressable markets

Both divisions have opportunities in adjacent markets that will diversify the revenue base. For Connected Home, the goal is to establish a strong position in solutions for the Internet of Things and adding new services for existing clients. SCS's ambition is broader, building on its expertise in precision manufacturing and complex logistical fulfilment. The debt reconstruction prior to the TCS spin-out was timely, and the seasonal benefit to Q4 is set to lift FY22 free cash flow to a guided range of €62–72m, from (€26m) for 9M22. Although further deleveraging is delayed by TCS's trading issues, this does not affect Vantiva's ability to service its own debt.

Valuation: DCF points to upside potential

An earnings-based valuation is premature, given the recent spin-out and current uncertain economic backdrop, and a revenue-based metric is inappropriate for the business. We have therefore run a DCF based on modest sales and margin progress post the forecast period. Using a WACC of 10% and terminal growth of 1%, we derive a value of €0.56 per share, with the TCS shareholding worth an additional €0.14 per Vantiva share at current prices.

8 December 2022

Price	**€0.24**
Market cap	**€85m**
	$1.15/€
Net debt (€m) at 30 September 2022	369
Shares in issue	355.4m
Free float	86%
Code	VANTI
Primary exchange	Euronext Paris
Secondary exchange	OTCQX

Share price performance

%	1m	3m	12m
Abs	(66.2)	(79.1)	(77.5)
Rel (local)	(67.4)	(80.7)	(75.9)
52-week high/low		€1.2	€0.2

Business description

Vantiva consists of two businesses: Connected Home, a leading global supplier of strategic customer-premises equipment solutions, and Vantiva Supply Chain Services, a global leader in the production of discs and associated logistical fulfilment.

Next events

FY22 results	February 2023

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Investment summary

Company description: Long-term, innovation-driven partner

Both Connected Home and SCS are characterised by their importance to their customers and long-term partnership-type relationships. Connected Home has leading market positions, which it retains at least in part through its culture of innovation, well-illustrated by its being at the forefront of developments for equipment for Wi-Fi 7 and the Internet of Things (IoT). It is also an EcoVadis Platinum partner, putting it in the top 1% of companies for leading sustainability through the supply chain. In SCS, Vantiva is a trusted partner to the major film studios and is now extending that ethos further into the music segment with investment in the production of vinyl. Other initiatives are underway to offset the structural decline in the market for DVDs. The separation from TCS should in time allow the market to better recognise and value these attributes.

Valuation: DCF suggests upside

The DCF is based on our modelling through to FY24 and then with modest revenue and adjusted EBITDA margin growth. Using a WACC of 10% and terminal growth of 1%, we derive a value per share of €0.56, which is well ahead of the current share price of €0.22. The shareholding in TCS is not consolidated and we make no assumptions of any possible dividend payments. On a pure mechanistic basis, this holding is currently worth €49m, equivalent to another €0.14/ Vantiva share, giving a combined value of €0.70/share, equivalent to an equity market capitalisation of €248m and a group enterprise value of €618m.

Financials: Reduced volatility

Current key factors include:

- The Q322 figures showed very strong revenue growth as strong demand at Connected Home coincided with a period of better availability of componentry, which had previously been restraining progress. Favourable exchange rates boosted the top line 45% on Q321, with growth at constant currency of 27%.
- Adjusted EBITDA of €50m was up by 40%, with a slight dilution to margin reflecting the higher proportion of the lower-margin Connected Home in the mix.
- The spin-off of 65% of TCS has greatly reduced the volatility of earnings. The fall in the latter's share price has delayed plans to liquidate the balance of the shareholding to redeem Vantiva's outstanding debt.
- Net debt stood at €369m nominal at end-September and is primarily held by Barclays and Angelo Gordon, with the latter also the largest equity shareholder. The fall in value of the TCS shareholding does not compromise debt covenants and there should be no issue in servicing the debt.
- Management confirmed that it was on track to meet FY22 guidance and is confident of meeting expectations for FY23, with EBITDA in excess of €140m for both years and EBITDA higher in FY22 than FY23. Our modelling through to FY24 shows progression in margins from FY23.

Sensitivities: Varying by business

Vantiva's sensitivity to component availability and supply bottlenecks has been laid bare over recent years, with the close relationships with both suppliers and customers having been vital to managing difficult circumstances. The financial performance of Connected Home could be transformed by successful penetration into the adjacent market for equipment to facilitate the IoT. SCS's main product, DVDs, continues to be in structural decline and successful execution of management's diversification programme could again be transformative. Currency movements are more visible at the top line, given the concentration of business in the United States and the reporting currency the euro, with less impact at the operating level with the dollar also the dominant currency for the cost base. Post the corporate actions, the group should now be on a much more stable financial footing, despite the delay to the debt-repayment objective.

Company description: Evolution in progress

Vantiva is the new trading name for Technicolor, post the partial spin-out of the Technicolor Creative Studios (TCS) business in September 2022. The group has a long heritage, originating in France in 1893 as Compagnie Française Thomson-Houston as a sister company to General Electric Company in the United States. By the late 1990s, it had focused on consumer electronics, with the Technicolor business added in 1995. Optical disc manufacturing and distribution in 2015, with the purchase of the set-top box and cable modem business of Cisco Systems added the same year, was supplemented in 2017 with the purchase of the set-top box businesses from Pioneer and LG.

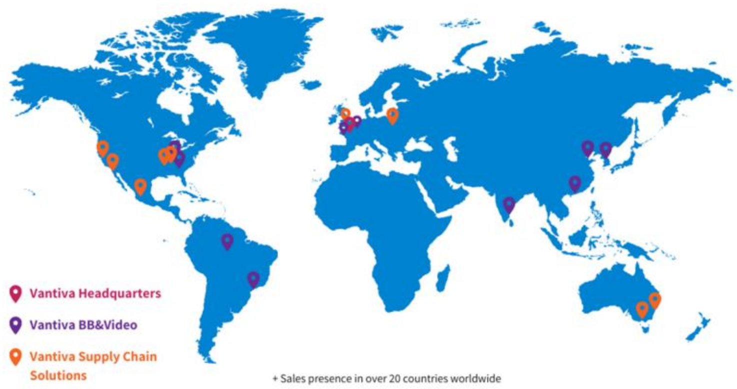
Turbulence in more recent history

By 2019, the weight of the group debt was significantly compromising the operational management of the group and the first priority of newly appointed CEO Richard Moat was to oversee a financial reconstruction. In February 2020, his plan was set out, outlining €150m of cost savings (up from the €40m previously identified and with an implementation cost of €90m over three years), alongside a proposed rights issue to raise €300m. Successful completion of the rights issue was a prerequisite for the reconstruction of the debt. However, these plans were scuppered by the onset of the COVID-19 pandemic, which had a particularly negative impact on the key customers of TCS. With the spread of the pandemic and the associated uncertainty, the ability of the group to conduct the rights issue in Q220 as originally envisaged was compromised and by late May the group's equity value of €58m compared to end March net debt of €1.6bn. Negotiations with the debt holders ran close to the wire, which undermined the group's credit rating further and put the group's future in sufficient doubt for the management to seek temporary protection from creditors via Chapter 15 in the United States. All was resolved through August and September of 2020 (and the various stages of the process were described in our reports through that year) with debt funding and a subsequent debt-to-equity swap, alongside a rights issue at €2.98, above the price at the time, which was taken up by 18.1% of equity holders.

Over the course of 2022, plans were laid then implemented for a partial spin-out of 65% of the equity in TCS, obtaining a second separate listing on Euronext, Paris. A key reason cited by management was to obtain more appropriate valuations for the two parts of the business, which have different underlying dynamics. The two new entities were independently quoted as of 27 September, as Vantiva (ENA: VANTI), being Connected Home and Vantiva Supply Chain Services (SCS), and Technicolor Creative Studios (ENA: TCHCS).

Vantiva is a global group, with its headquarters in Paris, France, and sales operations in over 20 countries worldwide, as illustrated in Exhibit 1, below.

Exhibit 1: Vantiva's global operations



Source: Vantiva

Consistency of operational management

Following the spin-out of TCS, the board has been reconfigured, with Richard Moat remaining the chair. The CEO is Luis Martinez-Amago, who joined the group in 2015 and became president of Technicolor's Connected Home division. His earlier career spanned leading businesses in fixed broadband networks, applications business and wireless transmission in numerous different geographies. The CFO, Lars Ihlen, has also been with Vantiva for a while, having been the CFO of Connected Home for 11 years and again has a background in the telecoms sector across the globe. He is based in the United States. COO Francois Allain has been with the group since 2018, again with Connected Home. The CEO of SCS is David Holliday, who joined in April 2020 and has a background in management across the telecoms industry and in diverse geographies. The group's commitment to developing its presence in IoT, described below, is characterised by the appointment of a senior VP for the newly established division, Reza Raji.

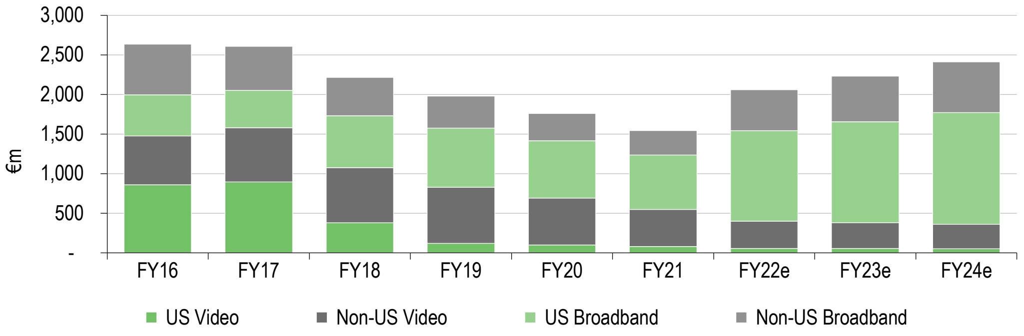
Connected Home: Strong growth as supply chain eases

Vantiva's Connected Home division represented 76% of group revenues across 9M22.

It is a global leader in customer-premises equipment solutions, which enable service providers to bridge the final gap into the user's home or workspace. Broadband gateways now account for the larger share of revenues (c 65% of FY21 Connected Home revenues, building to 71% in Q322), with the balance derived from solutions aimed at video, now increasingly focused on Android TV.

As can be seen in the exhibit below, video used to be the larger proportion of revenues, with the majority generated in the US market. However, demand for 'traditional' set-top boxes (STBs) entered a structural decline as the market evolved and a coherent management strategy was put in place in 2018 to reorientate the business. In addition to putting the emphasis into developing market-leading products designed for speedy and reliable delivery of broadband into the home, the strategic plan targeted taking out $140m of fixed costs over three years (from a fixed cost base of €324m in FY17).

Exhibit 2: Evolution of Connected Home revenue split between products



Source: Vantiva, Edison Investment Research

Tackling this shift in the market at the right moment has simply ensured Vantiva's survival, given the speed of the decline in demand and the limited ability to dictate operating margins given the small but powerful customer base. Management's aggressive action to reduce fixed costs enabled it to remain profitable despite the dramatic shrinking of its US STB business and an unprecedented hike in commodity prices in 2017. Management's strategy was to:

- reposition the business to focus on opportunities in broadband and on Android TV;
- simplify and make the business more efficient – migration to a platform approach, rather than a wide range of bespoke products; focusing on fewer, more profitable customers; adoption of a partnership approach with a more restricted set of trusted suppliers;
- optimise operations – greater efficiency in engineering, a major step-up in process automation and lower operating costs; and
- build supply chain resilience.

With the onset of the COVID-19 pandemic, this last point became even more pertinent (as did the transition to the supplier partnership approaches). New difficulties emerged with the sourcing and shipment of crucial components across a wide range of industries, including those supplied by Connected Home. Simultaneously, demand increased as workers were more commonly working from home, alongside children who needed to study and be entertained. All needed fast and reliable broadband to be able to do their jobs, while suppliers' ability to provide them with the equipment that they needed to do so was compromised by problems sourcing and shipping the necessary components.

Market-leading products for long-standing premier client base

A key part of the strategy outlined above centres on investing in market-leading technologies. Connected Home was at the forefront of the roll-out of DOCSIS 3.1 (cable) gateways and, alongside its GPON (fibre) gateways, it now has an installed base of over 60m gateways worldwide.

Exhibit 3: Selected Connected Home b/band customers

Source: Vantiva

Exhibit 4: Selected Connected Home video customers

Source: Vantiva

The customer roster comprises major industry names, as illustrated here, with the group serving 60% of the top 10 global broadband providers. Management estimates its global market share to have been 16% as at April 2022, excluding China. For video, half of the top 10 global video service providers are customers and global market share in Android TV is put at 45%, with an installed base of over 50m STBs. Its main competitors in customer premise equipment are CommScope, Humax, Huawei, Arcadyan, Sagemcom and ZTE.

Innovation remains key, with sustainability increasingly important

The cycle of technological innovation is an important element of the network service provider's (NSP's) own marketing to the ultimate paying customers. A typical contract with an NSP will comprise:

- a development phase: typically 15 months;
- an active sales phase: typically two years;
- a run-off: typically eight months; and
- a product lifespan of five to six years.

Non-recurring engineering costs are paid upfront by the NSP.

In Q322, Vantiva launched a new Ultra Hub solution for Vodafone UK, the first DOCSIS reference design kit (RDK) for Deutsche Telekom, and a new generation gateway for Bouygues Telecom, clearly demonstrating the global nature of the market. With Wi-Fi 6/6E combined with 5G shifting expectations on what is 'normal' performance in the home, attention is already starting to move towards Wi-Fi 7. Vantiva gave its first product presentation on this at the Broadband World Forum in October this year in Amsterdam.

Growth of streaming supports video offering

The group's video offering is centred on Android TV software, where it is the industry leader with a 45% market share (source: management, excluding China). As with the customer-premise equipment described above, Vantiva's products help service providers optimise their customers' experiences, for example through using Wi-Fi repeaters, data analytics, IoT and far field voice, as illustrated below.

Exhibit 5: Product examples in video

Source: Vantiva

The group has implemented more than 30 Android TV upgrades and has the most Netflix, Amazon Prime Video and Disney+ certifications in the industry. Working closely with operators, the technology also allows for a degree of customisation for brand differentiation. This could mean integrating traditional pay TV features into the Android TV environment, such as front-end configurations, security solutions or parental control.

Sample customers are shown above in Exhibit 4, and in Q322 Vantiva added Android TV for TalkTalk UK.

Sustainability climbing the agenda

Vantiva (previously Technicolor) has adopted an active stance on sustainability for some years, implementing the EcoVadis assessment platform for suppliers in 2018. It was awarded Platinum status (the top 1%) for sustainability leadership in December 2021. The group is also a certified and audited member of the Responsible Business Alliance (RBA), having successfully implemented its code of conduct throughout its supply chain. RBA membership includes compliance requirements for periodic third-party audits of all critical suppliers, with a particular focus on human rights.

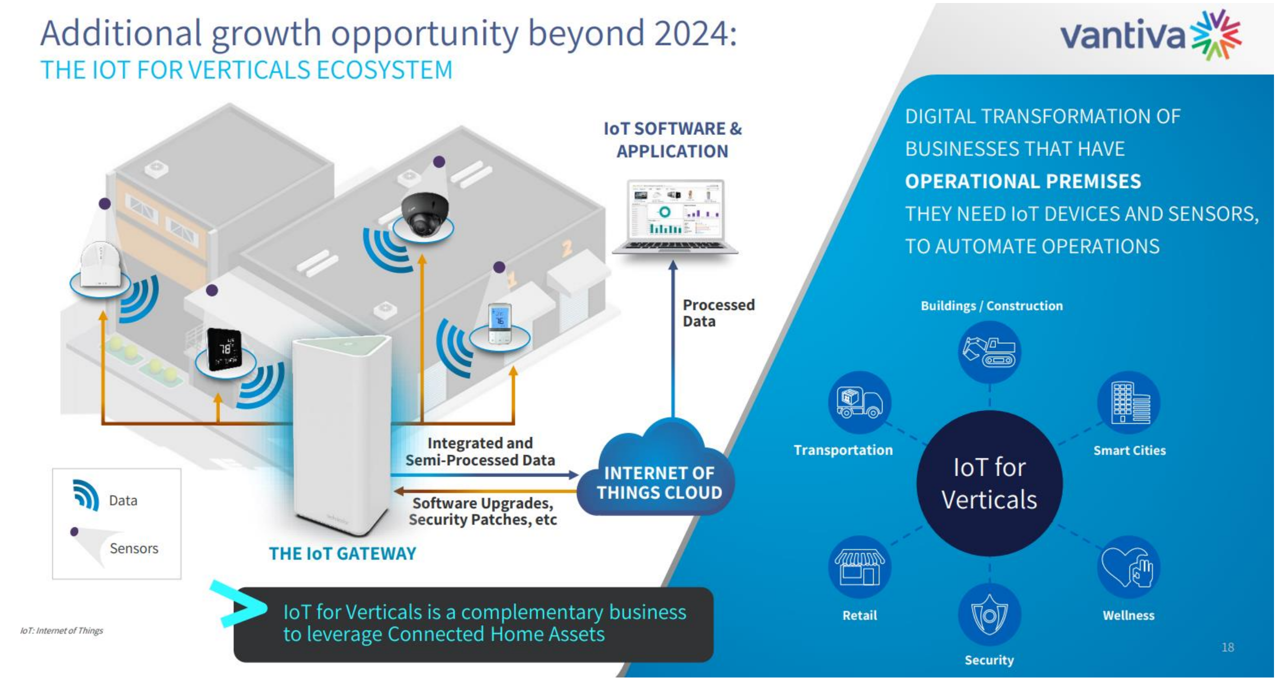
With respect to climate change and the circular economy, Vantiva committed a carbon trajectory to the Science Based Targets initiative (SBTi) and the Net-Zero Standard at the end of 2021, with targets being validated during the current year. Products are increasingly designed with recyclable componentry and packaging optimised within these goals.

This is not simply a matter of best practice. It is increasingly a requirement from the group's customers, who are themselves looking for certification and compliance through their own supply chains.

Existing market growth supplemented by complementary opportunities

Management estimates that the addressable market for its existing customer premise equipment product offerings globally is $7.3bn for FY22, of which by far the largest part is in ultra-broadband at $5.3bn, with the balance made up of €0.7bn in Android TV and $1.3bn in other video. Estimated CAGR through to FY25e is 9%, with the fastest element being that for Android TV (+16%) and the slowest 'other' video, at +2%.

Exhibit 6: IoT opportunities



Source: Vantiva

In addition to the ongoing development of new generation products for broadband and Android TV, Vantiva's management is looking towards some adjacent opportunities, the most promising of which looks to be in IoT for verticals (IoT being connecting physical assets and digital infrastructure, verticals referring to the specific industries or environments). This sits very neatly alongside the existing customer premise equipment, with the group's experience in connected devices within the home of direct relevance, alongside its practical commercial capabilities in design, development and manufacture at scale. This is reinforced by the group's credentials in data security, which are particularly strong given the existing customer roster.

Statista estimates the global value of the IoT market at $19bn in FY21, rising to $28bn in FY24e, with smart home technologies rising from $0.9bn to $1.4bn over the same period. Figures for the market size cited by management are higher ($27bn in FY21 rising to $41bn by FY25e), with the addressable element growing from $7bn to $11bn over that time. This roughly doubles the size of the total addressable market from that of the existing offering.

SCS set to build on its transferable expertise

SCS represented 24% of group revenues in 9M22.

This business has to date primarily been focused on supplying DVDs, Blu-Ray and CDs, principally on behalf of the major film studios to the consumer market, for which it is an important partner. Management estimates that its global market share is around 70%, with a 90% share of the key North American market. Its activities comprise mastering, replication, packaging and distribution. Competitors in the DVD market include Sony and Arvato, both of which now have most of their activity concentrated in the European market.

While this is many ways a legacy business, the value derived by the studios from retail sales remains significant even as streaming dominates, while for consumers the quality of the viewing experience can be notably better. For the studios, this is a high-margin activity. Although the figures themselves are not separately reported, the investment in the product and IP has already been made and recouped so far as possible across theatrical release and/or streaming licensing.

The logistical element of getting physical product into consumers' hands via retail channels is complex and not within the sphere of expertise of the studios, giving the remaining providers of this service, such as SCS, a degree of leverage on pricing. Its key customers include all the major Hollywood Studios such as Warner Bros., The Walt Disney Company, Universal, Sony, Fox and Lionsgate, independent film studios, software and games publishers, and major music publishers. Most are covered by multi-year contracts, typically with volume exclusivity and/or time commitments. Over the last few years, the focus has been on the renegotiation of studio contracts to reflect the continuing volume declines, with updated terms. Satisfactory terms were not reached with Paramount on replication and mastering, which activity expired in mid-2021, but the group retains the distribution contract.

These major studios represent around 80% of FY21 volumes, with the balance derived from other DVD, games and audio discs, including an 85% worldwide share in Microsoft Xbox disc replication.

SCS has now completed the first phase of its transition, which comprised a significant business transformation, reducing the real estate footprint. Two major North American facilities were closed in FY21 in rationalisation accelerated due to the COVID-19 pandemic. It runs strategically positioned key manufacturing facilities in Guadalajara (Mexico), Piaseczno (Poland) and Melbourne (Australia), with services such as packaging and distribution in the United States (Tennessee and Alabama), Canada, Europe and Australia, supported by a multi-region/multi-site facility platform, with a further packaging and distribution facility near the US border in Mexico. The prototyping and microfluidics operations (see below) are based in Camarillo (California, United States) and Poland. SCS has its head office in Memphis, Tennessee, United States.

Diversification strategy in action

With the DVD business in structural decline as viewers' consumption habits change, SCS management has adopted a strategy of leveraging the existing competencies and assets into new activities, some of which are more closely related than others.

Exhibit 7: Targeted activities

Status	Activity	Manufacturing	Fulfilment	Transportation
Historic	Disc	✓	✓	✓
Growth / diversification	Vinyl	✓	✓	✓
Growth / diversification	Microfluidics	✓		
Growth / diversification	Supply chain & fulfilment		✓	✓
Growth / diversification	Transportation, freight, brokerage			✓

Source: SCS

The precision manufacturing activities have already extended into vinyl LPs, where demand remains strong. With an impressive client roster of major labels, including two of the three major music groups (being Universal Music, Warner Music and Sony Music), and the third on the cards for FY23, capacity here has been the issue and revenues would have climbed more steeply had the group been able to fulfil demand. Commercial record pressing started in May 2022 and additional capacity is scheduled to be commissioned quarter-by-quarter through FY23 and FY24.

The extension of operations into microfluidics is a less obvious transition but becomes more logical in the context of the group's experience and reputation in high precision engineering in clean-room environments. The group achieved its ISO 13485 (Medical Device Quality Management System) certification in H122 and completed a state-of-the-art clean-room production cell in Q322 ahead of initial commercial production.

The supply chain and fulfilment activities are more of a natural extension, given the group's activities in logistical fulfilment of customers' DVD requirements and its existing warehousing infrastructure. New customers have been added through FY22 to date, the freight brokerage is building well and management reports achieving growing margins. Although the level of disclosure in not granular enough to confirm, it seems logical that higher volumes would achieve this margin enhancement aim.

TCS spin-off completed in September

The planning and implementation of spinning out TCS from Vantiva has been months in the planning and was executed broadly to plan with the backing of the key debtholders, including Angelo Gordon and Bpifrance. While the businesses had previously operated effectively independently, their balance sheets were intertwined, which required convoluted procedures to disentangle. Part of the process involved the issue of Mandatory Convertible Loan Notes, which were issued and converted just prior to the split, raising €300m.

The deal saw 65% of the shares in TCS spun out and distributed to existing Technicolor shareholders on a one-for-one basis, with Vantiva retaining a 35% interest. The plan had been to sell this residual stake in due course, to take advantage of what had been hoped to be higher valuations of simpler business with distinct characteristics. The proceeds were to have eliminated the remaining Vantiva debt and provided a further injection of capital. TCS has since warned on profits (early November) and the share price dropped from the €1.56 level to the current price of around €0.25.

Sensitivities

The risk profile of Vantiva is very different from the previous, larger Technicolor Group, with the financial reconstruction rendering it a much less risky investment prospect, albeit one where the value of the equity remains heavily overshadowed by the value of the debt. Continuing sensitivities include:

- **Capital constraints/ability to de-leverage**. The financial reconstruction has stabilised the group's debt position (detailed in the Financials section, below). At the time of the spin-out at end-September, Vantiva's shares were valued at €1.22 (vs €0.24 now), giving a market capitalisation of €434m, compared to end September net debt of €369m at nominal value – around the same quantum as the then value of the group's residual holding in Technicolor Creative Studios. The intention had been that at a suitable juncture, this shareholding would be sold in the market and the proceeds used to deleverage Vantiva. Given November's profit warning from TCS, whereafter TCS's share price fell from €1.56 and now trades at around €0.25, this course of action has obviously been delayed.
- **Connected Home**'s hardware sales model offers investors little visibility. Customer deployment can drive rapid shipment growth in short periods but can fade just as quickly. Component shortages and supply chain disruptions can have a marked impact on revenues, while historical hikes in memory costs have demonstrated the sensitivity of its margins to component prices.
- **Component availability** is now improving, and logistical bottlenecks are easing, but management reports that some key components are still in short supply, compromising the group's ability to meet customers' requirements in full.
- **Customer concentration**. Connected Home has a small but increasing customer roster. Geographic diversity insulates it from the extreme swings in individual markets, and Latin and South America, which had been problematic markets, have seen notable improvements. The Q322 report refers to some slowdown in Asia and Europe.
- **Margin management** has been improving for Connected Home, with the close relationships with core clients enabling recovery of increasing input costs and a better product mix has also been beneficial. The earlier programme to remove operating costs from the business means that it should now be operating with a high degree of efficiency.
- **Ability to grasp the IoT opportunity.** As IoT is a relatively new and fast-growing market, Vantiva should not have to supplant major incumbents to gain share but will need to be agile and innovative to build relationships of the quality and longevity that it benefits from across the rest of the business.
- **DVD demand** has been in decline for some years, and it is managing the decline that is the greater issue. Cost has been taken out of the business and contractual arrangements with customers renegotiated, limiting the additional moves that can be made purely on DVDs to protect margins.
- **Execution risk on CSC diversification** strategy is a factor, given the breadth of opportunities being pursued. However, there is little currently built into our modelling based on these activities, with the potential to build substantial global operations.
- **Currency.** Vantiva operates in global markets, weighted to the United States (65% of FY21 revenues) and reports in euros. Much of the input cost will also be in US dollars, providing a natural hedge. However, reported revenues obviously benefit considerably from the shift in the dollar to euro exchange rate. For Q322, the constant rate growth was 27.1%, while the reported rate was a gain of 47.0%; for 9M22 the equivalent figures were +11.0% and +23.5%.

Valuation

Vantiva in its new format as a standalone group with more focused activities and a clearer outlook should be able to achieve a value more appropriate to its underlying worth. However, there is a lot of history, and it may be a while before the market trusts that management will be in a position to deliver on its objectives. Maintenance of financial guidance for the current year and for FY23 is a good start in this respect.

The other issue in valuing the group's equity remains it being overshadowed by the value of the debt and the recent corporate strategy having been determined in close collaboration with the debt holders. The issue and conversion of the mandatory convertible notes earlier in the year should have brought the interests of the two groups into closer alignment.

Vantiva has a shareholding of 35% of the equity in Technicolor Creative Studios, which at today's share price of €0.25 is worth around €48m, the equivalent of €0.14 per Vantiva share.

Rating not yet referencing revenue, earnings

It is difficult to find truly relevant peers as Vantiva's activities are not replicated in an obvious way in other quoted organisations. We have therefore taken a broad-brush approach to include manufacturers of consumer and communication equipment, acknowledging that the choice is highly subjective. The lack of good quoted peers for SCS means that, although using a sum-of-the-parts approach would be preferable, it is not practicable. As the diversification moves forward, finding sensible comparators for the activities may become easier, and we will evolve our methodology.

Exhibit 8: Global peer ratings

Company	Price (local)	Pricy Ccy	Market cap ($m)	Price ytd (%)	EV/Sales hist (x)	EV/Sales FY1 (x)	EV/Sales FY2 (x)	EV/ EBITDA hist (x)	EV/ EBITDA FY1 (x)	EV/ EBITDA FY2 (x)
Cisco Systems Inc	48.59	USD	199,613	-23	3.7	3.5	3.3	11.8	9.7	9.2
Hon Hai Precision Industry Co	102	TWD	46,156	-2	0.2	0.2	0.2	6.1	5.7	5.3
Qualcomm Inc	119.78	USD	134,273	-35	3.2	3.6	3.2	8.6	9.2	8.0
Arista Networks Inc	129.04	USD	39,431	-10	12.4	8.5	6.8	37.4	20.4	16.5
MediaTek Inc	716	TWD	37,381	-40	1.9	1.9	1.9	8.0	7.5	8.5
TE Connectivity	120.83	USD	38,331	-25	2.6	2.6	2.4	11.1	11.4	10.5
Harmonic Inc	13.62	USD	1,436	16	3.0	2.4	2.0	46.0	17.8	12.2
Corning Inc	33.28	USD	28,149	-11	2.4	2.3	2.2	8.8	8.5	8.1
CommScope	8.01	USD	1,669	-27	1.4	1.3	1.3	11.5	9.8	8.5
Broadcom Inc	525.82	USD	223,197	-21	9.2	7.6	7.2	17.2	12.4	11.8
Average				-18	4.0	3.4	3.1	16.6	11.2	9.9
Vantiva	0.22	EUR	81	-77	0.2	0.2	0.1	2.9	2.9	2.9
Discount					**-95%**	**-95%**	**-95%**	**-82%**	**-74%**	**-71%**

Source: Refinitiv, Edison Investment Research. Note: Prices as at 7 December 2022.

For the reasons given above, we hesitate to use this peer comparison to draw firm conclusions beyond that, looked at on a conventional revenue or earnings basis, the valuation is well below that accorded to these other stocks.

DCF points to good upside

We have also considered a DCF approach, using our modelled estimates through to FY24 with top-line growth moderating thereafter, but with a continuing steady improvement in adjusted EBITDA margin and capex continuing at around 3.0% of revenues. This ought to be reasonably conservative, given the underlying growth in the addressable markets, as outlined above, and we may revisit our assumptions as the independent financial record builds. Taking a WACC of 10% and a terminal growth rate of 1%, our modelling suggests a value of around €0.56/share, which is 2.5x times the current share price. We have made no assumption of any dividend from the TCS shareholding, and the revenues are not consolidated, so it could be argued that this value should be added to the DCF-derived figure, which would give an equivalent share price of €0.70.

Exhibit 9: DCF (€/share) at varying WACC and terminal growth rates

		Terminal growth rate				
		0%	**1%**	**2%**	**3%**	**4%**
WACC	**14%**	0.10	0.12	0.15	0.19	0.23
	13%	0.17	0.21	0.24	0.29	0.34
	12%	0.26	0.30	0.35	0.41	0.48
	11%	0.36	0.42	0.48	0.56	0.66
	10%	0.49	**0.56**	0.64	0.75	0.90
	9%	0.64	0.73	0.85	1.01	1.23
	8%	0.83	0.95	1.12	1.36	1.72
	7%	1.07	1.25	1.50	1.89	2.53
	6%	1.38	1.66	2.08	2.77	4.15
	5%	1.83	2.28	3.02	4.51	8.99

Source: Edison Investment Research

Financials

Vantiva has published illustrative summary financial information for FY21, being the published Technicolor figures with adjustments as shown below, and it is on these figures that we have rebuilt our model going forward. Longer-term historical records are as extracted from the group accounts, so may not be truly comparable. Post publication of the full year figures, scheduled for 9 March 2023, we will get audited accounts for Vantiva as a standalone business, at which point we should have greater granularity on the underlying elements of income statement, cash flow and balance sheet.

Exhibit 10: Illustrative FY21 accounts with adjustments, continuing activities

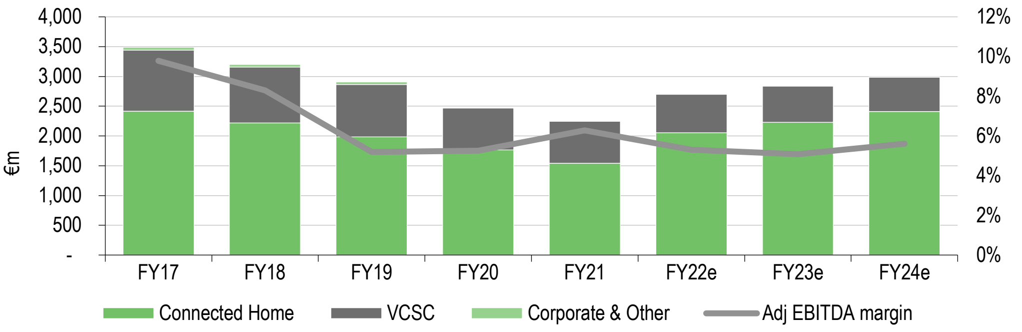
€m	Published FY21 Technicolor Group accounts	Adjustments	Illustrative Vantiva accounts
Revenue	2,898	(647)	2,251
Cost of sales	(2,494)	517	(1,977)
Gross margin	404	(130)	274
Gross margin %	13.9%		12.2%
Selling and admin expenses	(263)	81	(182)
R&D expenses	(84)	1	(83)
Restructuring	(37)	6	(31)
Net impairment	(5)	2	(3)
Other income/(expense)	14	(9)	5
EBIT (continuing operations)	30	(49)	(19)
EBIT margin %	1.0%		-0.9%
Net financial expense	(126)	(44)	(171)
PBT	(97)	(93)	(190)
Tax income (expense)	(24)	10	(15)
Loss from continuing operations	(121)	(83)	(204)
Discontinued operations	(19)	947	928
Net loss for the year	(140)	864	724
Cash generated from continuing activities	14	(126)	(112)
Net cash used for investment	(67)	0	(66)
Net cash used in financing	(68)	(367)	(435)
Net cash from discontinued activities	(29)	552	524
Cash & CE at start of year	330	(28)	301
Net increase (decrease) in cash & ce	(149)	60	(89)
Forex gains (losses)	16	(16)	0
Cash & CE at year-end	196	15	211

Source: Vantiva, Edison Investment Research

Connected Home dominates revenue, adjusted EBITDA

The vagaries of componentry and memory chip supply have long been a major factor in the performance of the Vantiva elements of the old Technicolor group. With the added difficulties of transporting components and manufacturing during a global pandemic, Connected Home has had more than its fair share of issues to deal with, with its revenues retreating from €2.64bn in FY16 to €1.54bn by FY21. Meanwhile, the structural decline in the DVD market saw revenues drop from €1.97bn (from the old Entertainment Services division) to €0.70bn in FY21, although this is more of a reflection of the group walking away from unprofitable business and taking the associated 'hit' to revenues.

Exhibit 11: Vantiva revenue and adjusted EBITDA margin



Source: Technicolor, Vantiva, Edison Investment Research

In terms of the adjusted EBITDA margin, this was at its lowest in FY19 as the business was being reconstructed and refocused as described above, with some recovery coming through in FY21.

FY22e to date showing good progress

Exhibit 12: Summary Q322, 9M22 results

	Q321	Q322	% change	% change cc	9M21	9M22	% change	% change cc
Connected Home								
Revenue	330	584	77%	54%	1,100	1,481	35%	11%
Adjusted EBITDA	16	33	104%	83%	72	103	42%	28%
Adjusted EBITDA margin	*4.9%*	*5.7%*			*6.5%*	*6.9%*		
SCS								
Revenue	198	181	-9%	-18%	481	476	-1%	-9%
Adjusted EBITDA	29	25	-14%	-22%	39	40	3%	-7%
Adjusted EBITDA margin	*14.6%*	*13.7%*			*8.1%*	*8.4%*		
Corporate & Other								
Adjusted EBITDA	-10	-7	-23%		-25	-20	-20%	
Group								
Revenue	528	765	45%	27%	1,585	1,958	24%	11%
Adjusted EBITDA	36	50	42%	26%	86	123	42%	28%
Adjusted EBITDA margin	*6.8%*	*6.5%*			*5.4%*	*6.3%*		
Adjusted EBITA	9	21			11	43		
Adjusted EBITA margin	*1.7%*	*2.7%*			*0.7%*	*2.2%*		

Source: Vantiva

The shift in the relevant currencies has flattered the results year to date, but the underlying progress is also positive, with Connected Home revenues up 11% at constant currency after a particularly strong Q322. For SCS, the comparison against Q321 was always going to be tough, given the strength of that quarter as sales took off post lockdowns.

The shift in the mix from the higher-margin SCS business to the structurally lower-margin Connected Home division has diluted the group's performance on this front, masking the step-up in the achieved margin at Connected Home, reflecting increased volumes, a better pass-through of additional costs to customers and underlying cost control.

Management guidance for FY22 and FY23 has been maintained, being for adjusted EBITDA of more than €140m in both years. This takes into account continuing strong Connected Home demand through Q422, particularly for broadband product and further declines in DVD, with vinyl production not yet sufficiently scaled to meet demand.

Guidance for adjusted EBITA is in a range of €38–48m for FY22e, coming down to €29–39m in FY23e, reflecting increased investment in technology and new product development. Our modelling is at the top end of these ranges, with the more tangible improvements starting to show through more strongly from FY24e. The debt reconstruction should mean a markedly lower interest burden, with the level becoming clearer when the FY22 results are available in March (Q322 financial information was restricted to the figures given above, plus free cash flow pre-financials and tax). Guidance is given on the basis of €1:US$1.15.

FY22 cash flow improving

The FY21 illustrative accounts show a free cash outflow from continuing activities of €63m before interest and tax (€112m after, as shown in Exhibit 10, above). The 9M21 figure quoted in the Q322 announcement shows an outflow of €261m, implying a very strong inflow in the final quarter of the trading year.

For the current year, the position is greatly improved, with a 9M22 outflow of just €26m, following an inflow of €10m in Q322. Full year guidance is for an inflow before financials and tax of €62–72m, implying a Q4 inflow of €88–98m, which looks to be achievable given the normal operating seasonality.

For FY23e, guidance is for a lower number (and a wider range), at €43–63m. We consider this to be a very cautious position and have modelled a slightly better performance at +€75m.

Balance sheet reconstructed and manageable

The end-FY21 Technicolor group accounts showed gross debt of €1,027m, plus lease liabilities of €193m. The illustrative Vantiva accounts show end-FY21 gross borrowings of €391m and lease liabilities of €58m and shareholders' funds of €660m (from €134m), which constitutes a markedly different investment proposition.

The Technicolor group EGM on 6 May 2022 approved the issuance of €300m of Mandatory Convertible Notes (MCN), being 115.4m MCN convertible at €2.60. This was fully subscribed by existing shareholders, including Angelo Gordon and Bpifrance, the two largest equity shareholders currently. These MCN were issued on 15 September and converted on 23 September, ahead of the partial spin-off of TCS, with the additional shares included in our modelling for Q422. As part of the spin-off process, TCS raised debt on its own account and used part of the proceeds to repay what was previously intra-company debt to Vantiva, leaving Vantiva with a strengthened balance sheet.

The bulk of the debt is categorised as current borrowings, which aligns with the earlier intention to liquidate the remaining TCS shareholding. The lenders have been supportive of this further round of reconstruction and the details of the current debt position are as disclosed below. With improving free cash flow, but continuing to report negative net income, our modelling envisages a broadly stable net debt position at end FY23 and steady reduction thereafter.

Exhibit 13: Details of debt facilities at end-September

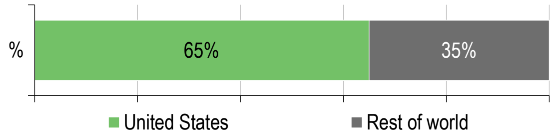
Lender	Characteristics	Nominal amount (€m)	IFRS amount (€m)	Nominal rate	IFRS rate
Barclays	Cash: Euribor 3M +2.50% & PIK	250	243	6.5%	10.9%
Angelo Gordon	Cash: Euribor 3M +4.00% & PIK	125	118	10.0%	15.7%
Wells Fargo	8.75%			8.8%	8.8%
Operating Lease		76	76	10.4%	10.4%
Capital Lease		1	1	2.8%	2.8%
Other		1	1	0.0%	0.0%
Total debt		**452**	**437**	**8.1%**	**12.1%**
Cash & cash equivalents		83	83		
Net debt		**369**	**355**		

Source: Vantiva

Exhibit 14: Financial summary

€m	2021	2022e	2023e	2024e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	2,250	2,700	2,840	2,990
Cost of Sales	(1,976)	(2,432)	(2,610)	(2,722)
Gross Profit	274	268	229	268
EBITDA	141	143	144	168
EBITA	46	48	39	78
Amortisation of acquired intangibles	(38)	(38)	(38)	(38)
Exceptionals	34	67	35	35
Reported operating profit	(19)	20	11	50
Net Interest	(171)	(114)	(64)	(63)
Profit Before Tax (norm)	(186)	(123)	(50)	(10)
Profit Before Tax (reported)	(190)	(94)	(53)	(13)
Reported tax	(15)	(5)	(10)	(9)
Profit After Tax (norm)	(200)	(128)	(60)	(19)
Profit After Tax (reported)	(204)	(99)	(63)	(22)
Discontinued operations	928	928	0	0
Net income (normalised)	(200)	(128)	(60)	(19)
Net income (reported)	724	829	(63)	(21)
Average Number of Shares Outstanding (m)	241	301	355	355
EPS - normalised (c)	(83)	(42)	(17)	(5)
EPS - normalised fully diluted (c)	(77)	(42)	(17)	(5)
Dividend per share (c)	0.00	0.00	0.00	0.00
Revenue growth (%)	(9)	20	5	5
Gross Margin (%)	12.2	9.9	8.1	9.0
EBITDA Margin (%)	6.3	5.3	5.1	5.6
EBITA Margin (%)	2.1	1.8	1.4	2.6
BALANCE SHEET				
Fixed Assets	987	874	784	714
Intangible Assets	767	692	619	585
Tangible Assets	140	100	83	47
Investments & other	41	41	41	41
Deferred tax and other	39	41	41	41
Current Assets	1,529	1,595	1,597	1,628
Stocks	335	382	382	372
Debtors	295	337	336	328
Cash & cash equivalents	211	189	192	241
Other	686	687	687	687
Current Liabilities	(1,512)	(1,246)	(1,354)	(1,396)
Creditors	(634)	(761)	(800)	(842)
Tax and social security	(40)	(40)	(40)	(40)
Short term borrowings	(410)	(19)	(19)	(19)
Other	(427)	(426)	(495)	(495)
Long Term Liabilities	(343)	(753)	(753)	(753)
Long term borrowings	(42)	(452)	(452)	(452)
Deferred tax	(6)	(6)	(6)	(6)
Other long term liabilities	(295)	(295)	(295)	(295)
Net Assets	662	470	274	192
Minority interests	0	0	0	0
Shareholders' equity	662	470	274	192
CASH FLOW				
Net profit	(204)	(99)	(63)	(22)
Depreciation and amortisation	138	152	130	115
Working capital	(101)	39	40	62
Tax and interest	(50)	(95)	(50)	(49)
Exceptional & other	106	(6)	54	53
Operating cash flow	(112)	(9)	111	159
Capex	(69)	(75)	(78)	(80)
Acquisitions/disposals	0	0	0	0
Equity financing	287	293	0	0
Dividends	0	0	0	0
Other	(30)	(40)	(30)	(30)
Net Cash Flow	76	168	3	49
Opening net debt/(cash)	841	241	282	279
FX	0	0	0	0
Discontinued	524	(193)	0	0
Other non-cash movements	0	(16)	0	0
Closing net debt/(cash)	241	282	279	230

Source: Vantiva illustrative accounts, Edison Investment Research

Contact details	Revenue by geography
8, rue du Renard 75004 Paris France +33 (0)1 88 24 31 95 www.vantiva.com	

Management team	
Chairman: Richard Moat	**CEO: Luis Martinez-Amago**
Before joining Technicolor as CEO in November 2019, Richard Moat was CEO of Eir (Eircom) (2014–18), having previously been its CFO (2012–14). Prior to Eir, Richard was deputy CEO and CFO of EE, having spent 17 years with Orange. He has served as a C-level executive for major telecoms and media companies all over the world and is based in Ireland.	Luis Martinez-Amago joined Technicolor in 2015 and was appointed president of the Connected Home division and a member of the group executive committee in 2018. Before joining Technicolor, he was the CEO of Alcatel-Lucent Shanghai Bell in China, having been president of the EMEA region. Previously, Luis led several worldwide business divisions that spanned Fixed Broadband Networks, Applications Business and Wireless Transmission. He is based in Atlanta, Georgia and Paris, France.
CFO: Lars Ihlen	**COO: Francois Allain**
Lars Ihlen is responsible for finance and real estate. He has 25 years of experience in the telecommunication industry and served the last 11 years as CFO for the Connected Home division of Technicolor. Prior to that, he held various positions in finance for Alcatel-Lucent and Mikron Infokom. He is based in Atlanta, Georgia.	François Allain has 25 years of experience with multinational telecommunications and technology companies. During his career, he has managed and led teams that include research, development, operations, management and sales. He is based in Paris, France.

Principal shareholders	(%)
Angelo Gordon	22.4
BPI-Groupe	10.8
Briarwood Chase Management	7.0
Credit Suisse AM	6.3
Barings (UK)	5.2
Farallon Capital Management LLC	4.1

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