

PagesJaunes

Bloomberg code: nd
Publishing/Advertising - France

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ODDO RECO	Subscribe
Amount	EUR 350m senior secured
Bond ratings	B2/BB
Maturity/Spread/Lead	7 years (2018) - NC 3, spd: ms+620bp (coupon around 9%), GS/MS
Comparable issues	Seat Pagine B3neg/B-neg 01/17 (call 01/13): Asw+838bp (yield: 11.8%) Wind (Ba2/BB) 02/18 (call 02/13): Asw+313bp UPC (B2/B-) 04/18 (call 04/13): Asw+500bp Sunrise (B3/B) 12/18 (call 12/14): Asw+402bp Ziggo (B2/B) 05/18 (call 05/14): Asw+380bp

ODDO rating	B+ (corporate)/ stable
Mdy's rating	B2 (corporate and bond)/ stable
Fitch rating	B+ (corporate) et BB (bond)/ negative
Ownership	Mediannuaire: 54.7%, employees: 0.6%, public: 44.5%, treasury stock: 0.2% (ownership details in the appendix).
Market cap.	EUR 2.1bn (1 year share perf.: -22%, SBF120: +9%)
Consensus	Buy: 22%, Sell : 33%, Hold: 45%

Company presentation:

. PagesJaunes is one of Europe's leading local advertising and information search groups. Its services are accessible via printed directories, the telephone, SMS (118 008 in France) and the Internet.

. With 4,776 employees in France, Spain, Luxembourg and Austria, it has 715,000 advertiser clients (almost ¾ on the internet).

Its activities break down into two segments:

1/ PagesJaunes in France (92% of sales and 99% of EBITDA in 2010), which publishes directories and sells advertising space in printed directories (PagesJaunes, L'Annuaire) and online ("pagesjaunes.fr", "pagespro.com"). Other activities include the creation and hosting of internet sites, telephone directory services (118 008), small online advertisements ("annoncesjaunes.fr"), and the inverted directory QuiDonc.

2/ International & subsidiaries (8% of sales and 1% of EBITDA in 2010). Its activities include the publication of mass-market printed and online directories (QDQ Media in Spain and Editus in Luxembourg) and complementary activities, such as Mappy cartographic services, PagesJaunes Marketing Services and Horizon Média internet advertising. Since March 2010, this segment has also included 123people (real-time people searches on the internet) and, since May 2010, Keltravo, a key player for helping private individuals find construction service providers.

. **PagesJaunes has a three-pronged strategy:**

1/ permanent content enrichment via the launch of new products and services for advertisers, partnerships with leading players in their sectors (allocine.com, Michelin, booking.com, autoplus, etc.), and users themselves (the "contributor");

2/ audience growth, thanks to the complementary nature of fixed and mobile internet and printed advertising;

3/ a higher return on investment for investors, mainly thanks to a renewed internet range.

The aim is to strengthen its positioning with SME/micro-business clients and large national corporates.

Businesses/Competition :

. **The group has a very strong competitive positioning in the internet** (European No.1 and world No.6 in terms of advertising revenues), a segment that represents 48% of its total sales today. In particular, it has a 25-30% share of the French local market, which is more resilient than the national market.

. PagesJaunes is the leading internet site creator for business customers (more than 75,000 companies), Europe's leading online advertiser and the world leader in real-time people searches on the internet (with its 123people unit). It is also a leading player in cartography (with Mappy) and the leader in mobile internet with more than 4m downloads of its PagesJaunes mobiles applications.

. **In France, where PagesJaunes generates almost all its EBITDA, its main competitors are:**

1/ internet search engines (Google, Voilà, Yahoo!, MSN) ;

2/ some thematic portals and specialist sites (viamichelin.com, voyages-sncf.com, hotels.com, etc);

3/ telephone directory of enquires, which have also been developed on the internet (118218.fr, 118712.fr, 118000.fr) ;

4/ free press internet portals (20 Minutes, Métro) ;

5/ players in the small ads market, be they property or automobile specialists or generalists;

6/ directory publishers (notably PubliGroupe, U Corsu, etc.), as well as local directories and guides.

. Fixed internet: pagesjaunes.fr has a very strong audience. With a coverage ratio of 42.7% and more than 18m unique visitors, it is in seventh place among French websites. Pagesjaunes.fr gained 51m visits in one year, rising from 885m visits in 2009 to 936m visits in 2010.

. Mobile internet: launched in December 2000, the site pagesjaunes.fr on mobile handsets was adapted for smartphone usage in 2009, especially the iPhone. The PagesJaunes application is present on more than 60% of French iPhones and is among the top five most downloaded applications.

Financial ratios

	2009	2010	2011e	2012
EURm				
Sales	1 164	1 125	1 117	1
GOP*	529	518	nd	nd
EBITDA	507	500	493	487
EBIT	487	482	471	465
NFC	82	98	94	91
Tax	132	139	136	135
NI	274	245	240	238
GOP/S	45.4	46.0%	nd	nd
EBITDA/S	43.5	44.5%	44.1%	42.9
EBIT/S	41.8	42.8%	42.2%	40.9

* Sales less external purchases, net operating charges and payroll charges (which do not include profit share and charges for payment in shares).

FFO	287	287	286	284
Ch. WCR	-3	4	10	10
FFOaWCR	284	292	296	294
Capex	-26	-43	-23	-23
FCF	258	249	273	271
Divid.	-269	-182	-163	-163
FCF af. div.	-12	67	110	108

GD	1	2 001	2006	2007
Cash.	67	106	195	282
ND	1	1 895	1811	1725
Sh. cap.	-2	-2 154	-2076	-
ND/EBITDA	3.8x	3.8x	3.7x	3.5x
FFO/ND	15%	15%	16%	16%
EBIT/NFC	5.9x	4.9x	5.0x	5.1x

Latest results

In 2010, sales fell by 3.3% vs. 2009 to EUR 1.1bn due to the 10% decline in the contribution of printed directories, partially offset by the 6% rise in internet revenues. **Gross operating profit decreased a little less sharply (-2.1% at EUR 518m)**, since the group continued efforts to cut costs in France and to enhance international profitability. As such, the margin rose to 46% (+0.6pts). **EBIT was roughly stable** (-1.1% at EUR 482m), **but the increase in net financial expense** (+19% at EUR 98m due to the 4.1% increase in the average cost of debt to 4.55%) **and tax** (+6% at EUR 139m) **impacted net profit, which was down 10.5% at EUR 245m.**

In Q1 2011, sales fell by just 1% (EUR 232m), hit once again by printed directories (-7.5%) while internet revenues continued to grow (+5%).

Management's guidance for 2011 was for flat sales and gross operating profit and a continuation of the high dividend policy.



Financial situation

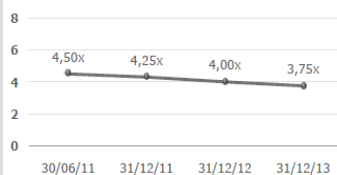
. FFO stabilised at EUR 287m in 2010. Including the change in the WCR (insignificant at EUR 4m) and the sharp rise in capex (+65% at EUR 43m), free cash flow edged down by 3% to EUR 249m.

. PagesJaunes only has bank debt. As at December 31, 2010, this consisted of a EUR 1,950m loan due November 2013 (margin of Eur+175bp) and an undrawn revolving credit line of around EUR 400m to finance cash needs (due in November 2013 and margin of Eur+175bp).

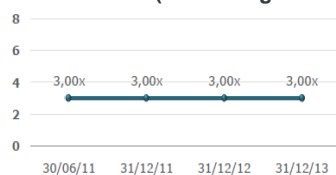
Bank lines contain default clauses and early repayment clauses in case of a change of control, as well as financial covenants: 1/ a net debt/gross operating profit ratio less than or equal to 4x until September 30, 2011 and 3.75x thereafter; and 2/ a gross operating profit/net interest expense ratio of above or equal to 3.75x until June 30, 2011 and 4x thereafter.

. In April, the group renegotiated part of this bank debt. It extended the maturity on a EUR 962m tranche by two years from November 2013 to September 2015. It also negotiated an easing of its covenants for the period 2011-13.

ND/GOP covenants



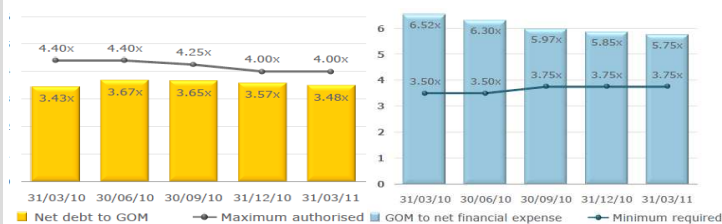
and GOP/NFC (after renegotiation)



In exchange for these adjustments, the margin over Euribor was increased on average from 175bp to 275bp.

. Including EUR 106m of cash, net debt stood at EUR 1.9bn on December 31, 2010 and at EUR 1.8bn on March 31, 2011.

. Credit ratios barely changed last year (ND/EBITDA of 3.8x in 2009 and 2010, FFO/ND of 15% in 2009 and 2010).



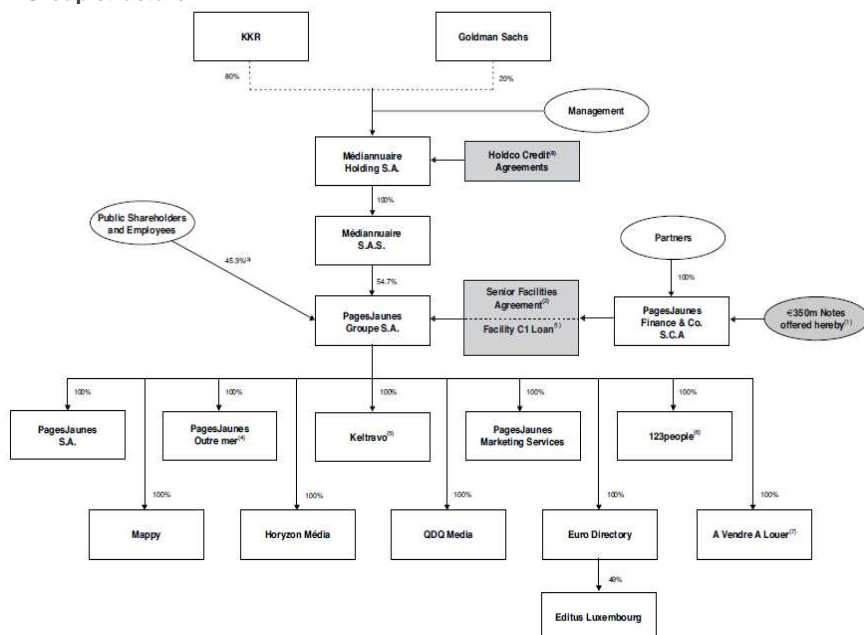
Credit opinion

. Fitch has assigned a B+ rating to PagesJaunes and a BB rating to the future senior secured issue. The outlook is negative. Among the positive points, the agency cited PagesJaunes' position in the advertising market in France and more precisely in directories. Fitch praised the group for its development of internet activities, which today represent almost half its sales. The group has also maintained strong margins, even during the crisis. The negative outlook is motivated by changing market trends, which necessitate a reorientation of PagesJaunes' business model (volume pressures on printed directories and an intensification of competition on the internet, reflected in stagnating sales). At the financial level, the payment of substantial dividends hampers swift debt reduction and limits scope for targeted investments or acquisitions in high valued-added internet products or services. The agency could raise its outlook to stable if management succeeds in meeting 2011 targets and restoring sales growth in 2012, which would confirm that growth in internet-based revenues are finally offsetting the decline in those generated by printed directories. However, any prolonged stagnation of sales or erosion of profitability, combined with a deterioration in the GD/EBITDA ratio above 5x (vs. 4.2x on our calculations in 2010) and negative FCF after dividends, could trigger a rating downgrade.

. Moody's has placed a B2 rating on the future issue with a stable outlook. The agency considers that liquidity is comfortable and calculates the unadjusted GD/EBITDA ratio at 4.2x in 2010. The rating could be upgraded if the adjusted GD/EBITDA ratio falls below 4x and the FCF/adjusted GD ratio rises towards 20% (vs. 12% on our calculations in 2010). In contrast, the rating would come under pressure if the adjusted GD/EBITDA ratio were to deteriorate towards 5x or if free cash flow turned negative.

. We consider that PagesJaunes' credit quality is in more line with a B+ rating than the B2 rating assigned by Moody's. We are placing it on stable outlook. We do not anticipate a major change in the operating profile, but the bond issue will improve financial flexibility and lead to a better balanced debt repayment schedule, thereby allowing the group to pursue its operations with some degree of comfort.

Group structure



Comparison with Seat Pagine

2010 - m EUR	PagesJaunes	Seat Pagine
Rating corp. Moody's	B2/stable	Caa1/neg
Rating corp. Fitch / S&P	B+/neg	CCC+/neg
Sales	1125	1111
EBITDA	500	445
EBIT	482	-304
FFO	287	139
FCF	249	74
Adjusted gross debt	2097	3020
Equity	-2154	375
EBITDA/NFC	5.1x	1.8x
FFO/adj. GB	14%	5%
Adj. GDj/EBITDA	4.2x	6.8x

Sources: Oddo, S&P



Summary points:

- ☺ **Orders have grown steadily since Q4 2010** (+1.4% in Q4 2010 and +3.1% in Q1 2011 vs. around -7% in 2009 and -1.5% in 2010). **Management expects this trend to continue in Q2 2011**, with a positive impact on sales forecast in Q4 2011.
- ☺ **PagesJaunes online services represent a growing share of sales.** Created in 1985 with the launch of the first PagesJaunes electronic directory on Minitel, the offer was rounded out in 1997 with the launch of the pagesjaunes.fr website and then, in 2000, with a version for mobile internet. In 2009, a version for the iPhone was developed, before being extended to other mobile systems (OVI, Bada, Windows 7 mobile, etc.) and the iPad.
- ☺ **The group has a high loyalty rate among its advertisers** (82% in 2010, the remainder also including divested and liquidated companies). In addition, client risk provisions in France are low (net provisions represented 0.42% of sales in 2010).
- ☺ **The EBITDA margin improved in 2010** (+0.6pts at 46%) thanks to the continued decrease in publishing costs (paper purchases and the cost of printing and distributing printed directories), allowing the group to harness a saving of EUR 24m in 2010. This more than offset growth in costs associated with new products and internet services.
- ☺ **The group is confident about growth in the internet audience of its websites** (which grew by 12% in Q1 2011 compared with the year-earlier quarter). **This trend should be underpinned by the partnership signed with Microsoft in March 2011**, through which PagesJaunes has become Bing's local search partner. This audience growth allows the group to raise prices, as it did in April (+2.5%), and this should boost internet sales from Q4 2011 onwards.
- ☺ **Its positioning in the local market in France is an asset, since the former is historically more resilient than the national market** (at the height of the crisis in 2009, it declined by just 4% vs. -11% for the national market). What's more, the local internet advertising market posted a CAGR of 16% over the period 2007-2009.
- ☺ **The bond issue will extend the average maturity of debt and create a more balanced repayment schedule** (see details in the appendices), with EUR 638m to repay in 2013, EUR 962m in 2015 and EUR 350m in 2018.
- ☹ Most of PagesJaunes' advertiser clients are artisans, independent professionals (including the self-employed) and small and medium-sized companies. In 2010, 659,017 advertisers used at least one of PagesJaunes' products to promote their products and services. **The client portfolio is fairly diversified**, since the 20 biggest advertisers represented just 1.4% of PagesJaunes' sales in 2010. Further, advertisers under the top ten business headings totalled 14% of sales.
- ☹ **Sales growth is modest** (CAGR of +0.8% in the past five years), **with internet sales** (CAGR of 15.5%) **still not offsetting the deterioration in sales linked to printed products** (-6.2%). For more details, see the appendix. **However, the margin (GOP/sales) remains high within a range of 44% to 46%.**
- ☹ **PagesJaunes faces mounting competition from internet groups** such as Google and Yahoo (the group's net subscriber additions in Q1 2011 did not exceed 8,600 vs. 14,000 in Q1 2010), while the increase in the penetration rate in rural areas (64% of total sales generated from printed products) is leading to an inevitable decline in usage of printed directories, which still represent 46% of consolidated sales.
- ☹ **Financial results were a little disappointing in 2010**, with sales down 3.3%, at the bottom end of the group's guidance range of -3% to -1% and two points below the consensus forecast (-1.3%). Net profit of EUR 245m was also 5% below expectations. The difference was due to weaker-than-expected internet sales growth in France, the continued decline in sales of printed directories and higher financial costs than forecast. **This situation was repeated in Q1 2011, when sales were down 1% (vs. the consensus forecast of +1%).** Despite strong audience growth at the group's internet sites in 2010 (+25.6%), internet revenues rose by just 5.5% in Q1 2011 (vs. +6.2% in 2010). In parallel, sales of printed directories continued to decline (-7.5%).
- ☹ **In February, the group announced that it is now forecasting flat sales and gross operating profit in 2011 (whereas it previously expected them to grow).** Despite the recovery in the advertising market year to date, management does not expect sales to rebound for two reasons: 1) the late cyclical nature of its business: there is a 6-12 month lag between when orders are signed and recorded as sales; and 2) the slow takeoff of internet revenues in France. The group reiterated its target to restore average sales growth of 5% in the medium term. However, this target does not apply to the years 2011 and 2012, only to 2013 or 2014 onwards.
- ☹ **Free cash flow generation is strong (EUR 230-300m annually since 2006), but the group has a generous dividend policy** (105% of 2009 FCF and 73% of 2010 FCF) **to deleverage its principal shareholder, Mediannuaire, following the LBO. This is not conducive to swift debt reduction**, explaining why credit ratios have barely changed (ND/EBITDA of 3.8x in 2009 and 2010, FFOF/ND of 15% in 2009 and 2010).
- ☹ **The deficit in the pension fund and other long-term benefits is steadily growing** (from EUR 43m in 2006 to EUR 64m in 2010).

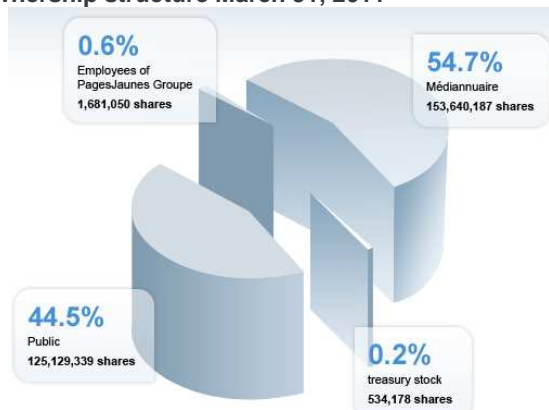
Market recommendation:

- **The group is preparing a seven-year EUR 350m bond issue due 2018 that is not callable for three years and is guaranteed by PagesJaunes SA shares. The bonds contain a redemption clause at 101% in case of a change of control triggers ratings downgrades (or their possible withdrawal). The bonds will be rated B2/BB.**
- **As we saw above, this bond issue aims to refinance the A2 tranche of the bank loan (EUR 345m due November 2013 at a margin of EUR+250bp).**
- **There are few peers in the sector besides Italian counterpart Seat Pagine (much lower rating of Caa1/CCC+). If one extends the field to B-rated credits (which trade at Asw+400-500bp on the 2018 maturity) and BB-rated ones (around Asw+300-350bp), it seems interesting to us to take positions in the bonds, which should be priced at around Asw+620bp (the coupon would be around 9%), a particularly attractive spread in view of the inherent quality of the group's fundamentals.**



Appendices:

Ownership structure March 31, 2011

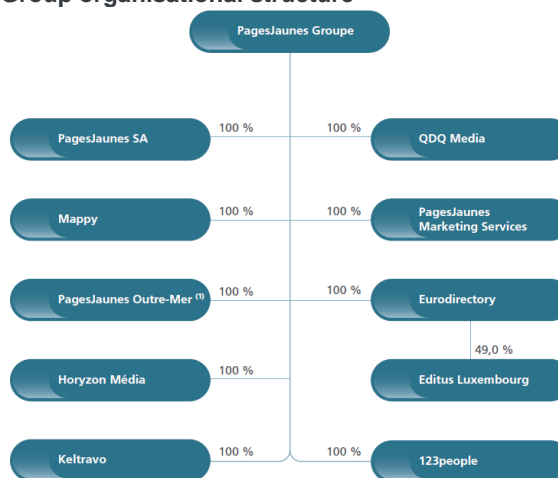


. On February 4, 1946, the French telecoms minister appointed the *Office d'annonces* ("l'ODA"), a company controlled by the state through advertising agency Havas, to control advertising in directories in metropolitan France.

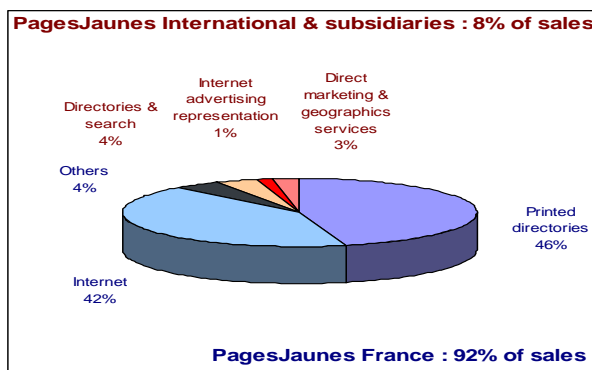
. The ownership structure of the ODA changed on several occasions until 1998. In July 1998, Havas, which had full control of the ODA at that time, sold its stake to Cogecom, a France Telecom subsidiary. In 2000, prior to Wanadoo's IPO, France Telecom transferred some of the activities of the SNAT (the France Telecom division responsible for publishing telephone directories) to the ODA, before transferring all its shares in the DOA to Wanadoo. The ODA's name was changed at that time to PagesJaunes, which became the owner of almost all France Telecom's directory publishing activities.

. The group was floated on the stockmarket in 2004 and subsequently expanded internationally. Lastly, in October 2006, France Telecom sold a 54% stake to the company Médiannuaire and its sole partner, Médiannuaire Holding, controlled by a consortium of private equity funds (KKR: 80% and Goldman Sachs: 20%), in the framework of an LBO.

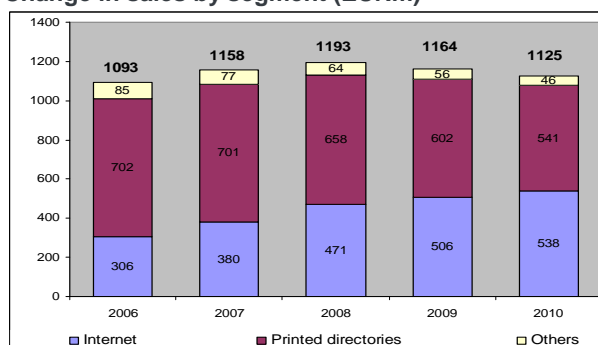
Group organisational structure



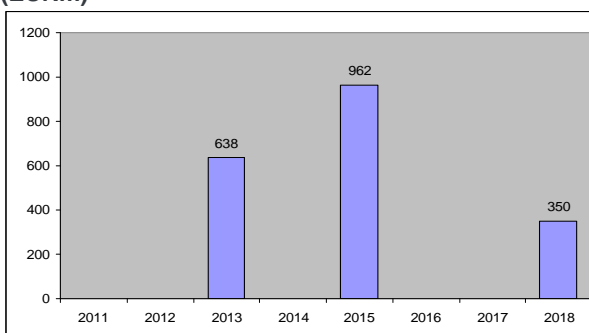
2010 sales breakdown



Change in sales by segment (EURm)



Pro forma repayment schedule of the bond issue (EURm)



Source: PagesJaunes

Unique internet visitor (Fixed)

n°1	Google	36.5
n°2	Microsoft	27.5
n°3	Facebook	27.2
n°4	Orange	24.6
n°5	Benchmark group	20.3
n°6	PagesJaunes	20.1
n°7	TF1	19.1
n°8	Vivendi	18.4
n°9	Iliad	18.2
n°10	PPR	18.1

Unique internet visitor (Mobile)

n°1	Google	10.8
n°2	Facebook	10.0
n°3	Orange	9.7
n°4	SFR	7.6
n°5	Bouygues	5.0
n°6	Aple	4.9
n°7	Microsoft	4.6
n°8	PagesJaunes	4.2
n°9	Wikimedia	3.6
n°10	Twitter	3.5



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