

BPIFRANCE: THE LEADING PUBLIC INVESTOR AND ITS LAC1 FUND



*Interview with José Gonzalo,
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bpifrance

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During the Covid-19 pandemic, controlling certain companies with key know-how and managing supply chains was crucial. Do the pandemic and the Bpifrance LAC1 fund mark turning points for foreign investment control in France? Can we talk about a change in philosophy?

José Gonzalo: The initiative for this project came about because we noticed the lack of a “French core” in our companies and the significant involvement of investors from the English-speaking world. There are no pension funds in France, unlike in English-speaking countries, and yet such funds hold on average between 3 and 6% of the capital of French listed companies. Although French companies are attractive, they lack a stable French shareholder base ready to support them over the long term. Bpifrance aims to remedy this, primarily through the creation of the LAC1 fund. Bpifrance has also used its own equity to become a shareholder in some 600 French companies of all sizes, 25 of which are listed, including Stellantis, Orange and Valéo, but our resources are limited.

This is why we set out to raise a dedicated fund and attract French and foreign investors by drawing on our professionalism and our experience in creating value for the companies we support.

We have a good track record, a team whose professionalism is widely recognised, and a name in the market that no longer needs introduction. The LAC1 fund was launched in May 2020 with the goal of acquiring significant minority stakes in CAC 40 and SBF 120 companies, and thereby becoming one of the top three investors. Our objective is always to create long-term value in the companies whose development we support through a stable shareholder base. To achieve this, we make our shareholding conditional on having a seat in the company’s governance structure.

We have raised nearly €5 billion, despite the Covid pandemic which stalled prospecting, particularly abroad.

The starting point was French institutional shareholders, around 15 of whom were impressed by our investment proposition and past successes. Together, they subscribed to €1 billion. French family offices make up our second group of investors: the Dassault family, for example. Armed with this solid French base, we turned to foreign investors such as the Mubadala sovereign wealth fund in Abu Dhabi.

To date, we have made five investments in ARKEMA, EssilorLuxottica, Exclusive Network, SPIE, and Seb.

Do you have a specific investment policy for the growth of LAC1? Are you targeting any particular sectors?

José Gonzalo: The fund is not intended to target particular sectors. On the contrary, it is a multi-sector fund focused primarily on creating sustainable value by taking environmental and social criteria into consideration.

Bpifrance adjusts to these companies' issues and growth phases on a case-by-case basis. To do this, we have a variety of tools for investing, including LAC1 and our own equity, depending on the specific issues. For example, we invested in NEXANS, a French submarine cable and information carrier, using our own funds. This is a sector that we have identified as strategic.

Our vision of the key sectors of the French economy and heritage is broad, and we are prepared to use all the means at our disposal to support their growth and play a part in consolidating an important French base.

How do you approach your search for value creation? Do you have a think tank and how do you identify strategic sectors?

José Gonzalo: Bpifrance has no intention of getting involved in sectors of key importance to national sovereignty, such as defence or national transport (Air France, SNCF).

However, we do work in partnership with the French government in supporting these key sectors through various sale and purchase operations. For example, when we sold our stake in ERAMET – a mining company in New Caledonia – to the State, it made sense for the State to become a shareholder in this company with a public service vision. By contrast, when a company has a purely commercial purpose, we can buy out the State's holding, as was the case with PSA, which became Stellantis. Each case is different, and we work closely with the government to determine the most appropriate shareholder. Bpifrance's vision of strategic sectors is also broader and includes education, health and renewable energy.

For our investments using our own equity, we present and validate them in an investment committee made up of representatives from the French Investments Agency and the Caisse des Dépôts together with independent experts, chaired by Frédéric Saint Geours. The French Investments Agency is therefore aware of our projects, but it does not choose our investment sectors. Our vision is broad and we collaborate with many public-sector stakeholders, but our choices are our own. Our investments are very diverse and varied and may involve an energy engineering company, such as TECHNIP Energie, or companies in the educa-

tion sector, such as GALILEO and IPESUP, or in the audiovisual production sector, such as MEDIAWAN.

We are a public shareholder that behaves and operates like a private-sector operator. This is what makes Bpifrance – and LAC1 in particular – unique. It also explains its success.

What are your criteria for selecting a company eligible for LAC1 funds? Are regular follow-up activities carried out after a company has received funds? How do you ensure you are involved in a company's governance strategy?

José Gonzalo: This is a question at the heart of the debate, because we ask the companies we invest in through LAC1 to follow the same governance practices as all our investments. The basic philosophy is to apply the private equity method to listed companies: a lot of work is done up front during the due diligence phases and then, once the investment has been made, a dedicated team carries out a lot of follow-up work.

To ensure that each transaction is properly followed up, five or six of our team members work closely with each company on a weekly basis. This ensures that board meetings are prepared thoroughly in advance and that we are kept fully informed of all the company's issues and projects. This diligent preparation gives us credibility and means that other board members listen to what we have to say.

The reports prepared in advance during due diligence include strategic studies, business plans and analyses of financial questions and concerns. Environmental, social and governance (ESG) criteria also receive special attention. ESG assessments are carried out using multi-criteria ratings incorporating the environmental criterion measuring carbon emissions, greenhouse gas emissions, local sourcing of raw materials and so on, and the governance criterion measuring gender equality within the management bodies and management team. The three ESG components undergo in-depth studies, and the areas in which they are applied are closely examined. Changes to the parameters are tracked, and if our teams notice that the expected performance is not being achieved, it is their professional responsibility to make this known.

In terms of governance involvement, we are represented on the board by a team member with extensive experience, chosen by us for their skills and knowledge of the company. This person receives no attendance allowance, thereby guaranteeing their independence.

Our professional backgrounds qualify us to build consensus within the boards of directors.

Who do you work with on a daily basis? How do you coordinate your work with directors and other stakeholders?

José Gonzalo: We work mainly with the company's management team.

From a governance perspective, as well as sitting on the board of directors, we sit on the various committees, particularly those we consider to be key. These are typically the remuneration, appointments, audit and Corporate Social Responsibility (CSR) committees. If there is no CSR committee, we urge the management team to create one.

Concerning our dealings with other directors and stakeholders, we justify our voting recommendations based on a great deal of data analysis and studies. This enables us to make objective arguments as rationally as possible.

Our dialogues with managers are transparent and constructive, sometimes acting as an intermediary between the CEO and the people involved.

Our aim is not to be an activist shareholder, but to play a constructive role. Bpifrance is a supportive but demanding shareholder.

The Emirati fund Mubadala is involved in financing the LAC1 fund. Does this not contradict the goal of protecting French companies from international investors?

José Gonzalo: LAC1 is regulated by the AMF and therefore benefits from its framework as a traditional asset management company. This means that only members of the asset management company can make decisions.

Within this framework, the investment made by the Mubadala sovereign wealth fund was defined in advance in the same way as for other subscribers to the fund. As for the investments, they are chosen freely by asset manage-

ment company Bpifrance Investissement, without compromising its independence.

In addition to the quarterly reports sent to subscribers, the fund follows strict information rules to justify the trust they place in us. They trust us with their investment choices as long as Bpifrance Investissement adheres to the fund's investment proposition.

One of the subscribers to the LAC1 fund is Bpifrance itself, which invested €1 billion of its own equity. This is an important point, because it shows that the majority of investors are French, backed by French institutional partners together with French family offices. Moreover, if the fund grows in size, Bpifrance has committed to reinvest up to €2 billion, which means that it will still be the largest shareholder when the second round of fundraising closes, thereby ensuring its continued decision-making authority.

How does Bpifrance interact with other investors in these sectors?

José Gonzalo: We work closely with regional funds, which provide a solid institutional framework and allow us to leverage their regional knowledge and recognition. The larger national French funds, such as Ardian or Tikehau, are also a way for us to build up our French base, and we decide on a case-by-case basis whether or not to work with them.

We may be asked by major foreign funds to be partners in large-scale deals in French companies. In this case, we agree to work alongside them, but we do so as part of a constructive relationship for both parties and for the benefit of the target company. Our involvement with them is then well received by the market and market participants. However, we are particularly careful about the governance rights we secure with them.