

MT 1927957686 Investor Update 16 Sep 2014 JR

Speaker key

MA Maddie
PC Paul Copley
RH Rob Hunt

MA Good evening ladies and gentlemen, and welcome to the bondholder update call. My name is Maddie, and I will be your coordinator for today's conference. For the duration of the call you will be on listen only. If at any time you need assistance, please press *0 on your telephone keypad, and you will be connected to an operator.

I will now hand you over to your host, Mr. Paul Copley, to begin today's conference. Thank you.

PC Good afternoon everyone. Thank you very much for joining the call at relatively short notice. My name is Paul Copley, I'm a partner with PwC here in London, and I'm working with two of the administrators who are also on this call, of Phones 4u, which is Ian Green and Rob Hunt. We've also got Allen and Overy who are our counsel on the phone as well.

So the intention of today's call is to give you a high level update on context, background as to why we are where we are, in the first couple of days worth of activity, to explain the process that we're going through at the moment to market and/or restructure the business, and what's happening in that respect, and then we'll also talk about how the administrators, via myself and my team, will interact with creditors, with bondholders, going forward.

Now, as the operator just said, there are no questions or answers on this call specifically. There will be opportunity for that, but the purpose of this call was really just to download some information to you, and then we'll follow up with a forum for Q&A at a later date.

So I'll now pass over to one of the joint administrators, Rob Hunt, who's the partner in PWC's Birmingham office, who will explain sort of from the ground what's been happening, and some context and background as to where we are. Rob.

RH Right, Paul, thank you. So just by way of brief background, Phones 4u has got, essentially, three businesses. The first business comprises 720 outlets throughout the UK, of which 160 sit within Dixon stores, and it retails handsets and mobile phone contracts, and it's business model is that the customer enters the shop, buys a handset and signs up to say for those contractual services over for the next two years. And then Phones 4u has a revenue share agreement with the network provider.

The majority of the provision of the network is via EE, but also is Vodafone and to a lesser extent with O2. It's got turnover of £1 billion, so \$1.6 billion, and 5,600 employees. It also has an insurance business, which is operated through the store network, which replaces damaged handsets and does third party repair facilities. That's got about 800,000 customers in it.

It's also got a Life Mobile business, the Life Mobile is essentially it's own network operation, which is called an MVNO, which is based upon a service offering to the subprime market, which is operated on the EE network. It's a relatively new business, with around 90,000 connections.

When we were appointed, yesterday afternoon at three o'clock, the directors had already taken, understandably, the decision to close the store network prior to our appointment, and they had sent home many of the people that worked in the store network, and a number of people at head office.

We will not be reopening those stores unless there's a realistic chance of someone either buying the business or part of it, and we can agree new trading terms with the network operators. One of the network operators has already been paid in advance for all of their September connections, and therefore it would be impractical and loss making for us to reopen the business in that form.

Since we've been in here we have made immediate contact with a number of interested parties, including the likes of EE, Vodafone and other network operators, as Phones 4u's principal competitor. There's communication going on with them to flesh out their agreement and their interest, and as we sit here today, there is an interest by some of those parties in part of this business.

We don't believe, as we sit here today, that that interest will extend to all of the interest. Those network operators are primarily focused, principally focused, on acquiring the business and parts of the business. When asked whether they would be interested in restructuring the business through some sort of debt restructuring, they have been lukewarm with regard to that.

It's difficult to see that there's going to be anything, a transaction in the timeframe here, other than two. Either a party is an existing network operator, or one who has ready access to a network. And I'll only be for part of a business. So at the moment we continue to be in a holding pattern, with the vast majority of the workforce to all intents and purposes laid off.

If we don't get positive conversations with those parties over the next 48 hours, we'll face little choice but to liquidate the position. That would involve a huge logistical exercise around recovering stock, which I'll come on to later, from around 700 outlets. And we've already got specialists involved in helping us look at that.

The daily costs of running this business are substantial, with 700 outlets and 6,000 people, and so from the bondholders perspective, as the parties with an economic interest in here, there's a real need to deal with this quickly, because otherwise that's going to deplete the cash balances that are available to them.

We have spoken to all employees over the last 24 to 48 hours, and we've sent out separate communications to them. We've agreed with them that we'll pay them, on an on-going basis, for the work that they do, and to the extent that they remain employed.

There were substantial monies owed to them, as at the date we were appointed on Monday, because they are paid for September, salaries at the end of September, so they've accrued wages. Those wages will be a preferential creditor, and rank at the top of the order of priority, before any secured creditor. So we've agreed to pay those, on the basis that they don't impact upon the cost. There is a net payment above the preferred creditor, but we have made that payment to protect the assets.

If I move on to the assets for a moment, there's stock, there is over 300,000 phones across 700 outlets. Most of the stock is in two handset providers, and one of those handset providers has a very strong retention of title clause, which means that it's able to recover the stock if it's not been paid for. And the other handset provider, it's less clear whether they've got a retention of title clause.

But both of those handset providers, they have got new products new to be launched imminently, and therefore the value of that stock is unlikely to increase rapidly. In common with most companies this size, the suppliers, there are a number of suppliers that are capable of holding us to ransom. Certain key functions like warehousing, logistics, and the IT services are outsourced, and we're in conversations with those parties about continuation of services.

There are some monies due to us, from the network operators, in respect of commissions that have been accrued and not yet been paid. Those have a five years run off cycle for collections, as a result of revenue share agreements. So many of those monies that are due are not yet payable.

The final thing I'd just add is the two smaller businesses, the insurance business. The insurance business relies on... I'm sorry, we were appointed to that at 11 o'clock this morning. That is a regulated business. That relies on the store network to provide contact with the customer, in that if you have a damaged handset you go into the store to get a replacement. That business model has had to have been changed to a phone system for processing claims.

That business has a lot of outsourced functions, but has, on the face of it, an in store base with a run off value, and we've already had expressions of interest from one particular party who's interested in acquiring that run off.

The final part of the business is the Life business, which is an MVNO, it's own in-house operation. And we have an expression of interest in that as well, but it is difficult to see how you could sell that business without some sort of agreement with EE who provide the wholesale network or airtime, which is then sold under the life brand.

That, I'm conscious, is a very brief overview. I'm just going to pause there, and whether my colleagues Ian or Paul want to add anything, or anything that they think I've missed off?

PC Thank you, Rob. What I'll do is, I'll just move on to how the bondholders might be involved in this process going forward, which will add to what you were saying Rob. First and foremost I want to reassure bondholders that our role in this – and I sat in on the call with Brown Rudnick earlier today, and to reassure you that our role in this administration is to maximise realisations of assets and costs for creditors.

And as Rob stated, we're mindful that there are substantial holding costs to being in a holding pattern over the course of the next days and weeks. But clearly, from our perspective, we effectively worked for you as creditors. We are mindful that if you have any suggestions as bondholders, that we welcome them, and I'll provide, at the end of this call, contact details for that, and with respect of what Louise was saying earlier this afternoon, if that takes the form of a restructuring proposal, of course we will listen to that.

And we're anxious to do so, sooner rather than later, simply because, as Rob said, as time goes on the costs will rack up, and indeed the likelihood of being able to restart the business will diminish, given that the business is currently closed.

Moving on, obviously, beyond any restructuring proposals that any interested party might have, as in insolvency in the UK, we as administrators need a forum to discuss with you our strategy and our proposals, and dealing with issues such as clawback claims, which, in due course, we will obviously examine. And that's a normal part of our job.

Clearly though, we are conscious that although the debt listing has been suspended in Dublin, many creditors have expressed the desire to remain public side, and not to learn private information. So at this stage, we will work with Citi, the known trustee, to find a way to do that. But I think it's fair to say we're going to need a private forum of creditors who we can talk to, we can discuss strategy in more detail, which you all may consider restricts you from trading, but obviously you'll take your own views on that, and your own compliance advice.

So at this stage, I appreciate this is going to be a short call, we are not going to take questions because effectively we've told you all we currently can. We obviously will schedule further calls as and when we're able to do so over the coming days. There will be a recording of this call on the Phones 4u finance website, and we'll also... or a link to it, effectively, and we'll reference it on an R&S as well as soon as possible, how to access a recording of this call.

Finally, if you have any questions for us, we will be setting up a sort of micro-website within PWC's site, and also an email address to contact, but in the meantime, if you as bondholders have any queries for us, please do email us. We may not be able to deal with everything in real time, but we will try and address as many of your questions as possible on future calls.

The email address of one of my colleagues to contact in the meantime is Peter Mayrs, his email address is peter.r.mayrs@uk.pwc.com. Thank you very much for dialling in, and we will announce further calls in due course. Many thanks.

MA Thank you ladies and gentlemen for joining today's conference. You may now replace your handsets, thank you.