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Subject: EMI
Date: Fri, 12 Feb 2010 11:46:41 +0000

- * company was acquired in all cash offer for £4bn, then 18.5 times last financial year (2007) EBITDA
- * EMI's debt end 2009 is £2.6bn
- * EMI long term facilities provided by Citi were
 - * £1.4bn securitisation bridge facility for music publishing
 - * £1.2bn senior facility for music and music publishing
 - * £155m mezz for music
 - * The debt facilities only had one financial covenant testing net debt to maintenance EBITDA
- * Citi could not syndicate the debt as markets shut down shortly after deal was closed. Citi has repeatedly tried to sell debt, also as part of loan portfolio package, but has not succeeded
- * Terra Firma asked for £120m fresh equity injection to fix covenant breach expected in March 2010 (next covenant test)
- * EBITDA year to March 2009 was £298m of which £163m A&R and £135 music publishing; March 2010 expected to see significant deterioration on back of dramatic revenue decline
- * It is expected Terra Firma will not succeed in trying to raise additional equity capital for EMI
- * Once covenant breached a four week stand still period is triggered after which, if solution is not found, company goes into administration. Likely date for this to happen is early June 2010.
- * Citi is then expected to take ownership of EMI through a debt for equity swap
- * The expectation is that Citi will then try to sell the company. Split of A&R from music publishing is widely expected with A&R business going to one of the existing majors. Music publishing could be sold to either majors or financial investors or could be run for cash. Various attempts at breaking up the music publishing business have failed and it is not expected to be sold piece meal
- * EMI is likely to file for insolvency / go through administration in the UK. UK administration process is markedly different from Chapter 11; more legalistic, less predictable, less commercial
- * With equity value gone; valuation multiples for music down and EBITDA down, Citi's debt has to be written down significantly to make new investment of equity capital possible
- * Paul Simpkin (who is now head of leverage for Europe at Citi) underwrote original deal

DS waits for instructions from JEE

Maybe we contact Citi (good friend of mine knows Paul Simpkin well) to register interest for part of debt before going into administration; Citi may be interested in reducing its holding ahead of administration as long as selling tranches does not reduce its ability to effect debt for equity swap?

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