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EMI worth £2bn less than we paid, Hands says

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Guy Hands, the boss of private equity group Terra Firma, has admitted EMI is worth £2bn (\$3.1bn) less than he paid for it in 2007, in a calculation that could provide a valuation benchmark for any future sale of all or part of the indebted music company behind Coldplay and Lily Allen.

Mr Hands wrote last November to Citigroup <<http://markets.ft.com/tearsheets/performance.asp?s=us:C>>, the bank that financed the ill-fated £4.2bn takeover by Terra Firma, proposing a "complete restructuring of EMI" based on a new enterprise value of just £2.2bn.

The letter, filed by Citigroup with a New York court on Friday, is the first official acknowledgement that Terra Firma's equity is all but worthless.

Mr Hands offered to raise £1bn of new equity if Citigroup would write off £1bn of debt, before suing the bank after it turned his offer down.

Mr Hands' proposal <<http://www.ft.com/cms/s/0/2dlfe7b2-ec0b-11de-8070-00144feab49a.html>> valued EMI Music Publishing at £1.46bn and EMI Music, its record company, at less than £800m. Terra Firma has written down its original equity by 90 per cent.

The offer "would enable Citi to realise a certain and quick recovery" at a significant premium to the valuation of Warner Music, EMI's closest rival, he argued. Citi refused to write off debt without getting something in return, saying it did not see "sufficient value".

The letter discloses that Mr Hands offered to split EMI in two, a move that could have ringfenced its more stable music publishing arm, protecting that part of Terra Firma's investment should EMI Music breach covenants on Citigroup's loans, as it now risks doing.

Separating recorded music from music publishing could also have paved the way for a sale of one or both divisions, according to a person close to the company. Another person close to the company said this was not Mr Hands' motivation. Mr Hands' statement that he believed Terra Firma and Citigroup were "in agreement in relation to a number of key components of an acceptable solution, including the need to separate the two businesses", is likely to encourage would-be-bidders.

Warner Music has said it sees no regulatory hurdles <<http://markets.ft.com/tearsheets/performance.asp?s=us:WMG>> to a bid for EMI Music. Industry observers believe EMI Music Publishing would attract offers from private equity firms and pension funds should it come up for sale.

Mr Hands' letter highlights his concern about "adverse publicity" if no agreement were reached with Citigroup before his EMI acquisition vehicle filed accounts for the year to March 3. Those accounts, released this month, showed auditors had "significant doubts" about the company's ability to continue as a going concern.

Terra Firma now needs to raise £120m from investors by June, or risk losing control of EMI to Citigroup.

The letter also shows concern about EMI's pension liabilities

<<http://www.ft.com/cms/s/0/33e0bc9c-11cd-11df-b6e3-00144feab49a.html>> . The proposal to Citigroup included injecting £75m upfront to the pension scheme and m in payments over nine years.

Citigroup, which denies Terra Firma's claim that it fraudulently misrepresented the position of a rival bidder in the 2007 auction, said in its court submission that a London trial would not jeopardise the Terra Firma chairman's status as a tax exile in Guernsey.

Terra Firma argued this month that the case belonged in New York.

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