HENDY咨询有限公司
为显示器及高科技行业提供战略咨询

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Hendy咨询为LG.Philips Displays(世界上最大的阴极射线管(CRT)生产企业，现名为LP Displays)的整合做咨询顾问

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LGPD begins liquidation of European units, Alvarez & Marsal report out

‘’Ferrier Hodgson在这个项目中一直与Hendy咨询合作，做出资产售出等方面的考量和选择…‘’

LG Philips Displays (LGPD) has commenced with a plan to cease financing its unprofitable business units and is to begin liquidating these entities as soon as January 27. At the same time, LGPD is in the process of creating a new entity (known as NewCo) consisting of core profitable assets, which could eventually be sold to third party investors.

The revelation was made last week at creditor meetings in London and Hong Kong at which various scenarios for dealing with the cathode tube maker’s crisis were presented by both LGPD’s financial adviser Alvarez & Marsal and the advisor to the steering committee of syndicated loan creditors, Ferrier Hodgson.

LGPD and Alvarez & Marsal in effect presented a fait accompli in noting that the process to carry out a deep rationalisation was announced on December 21 in press release in which Philips stated that it would no longer support LGPD’s operations and that it had written down fully its exposure to the joint venture. (See IFR Asia 437.)

Creditors were also informed at last week’s meeting that financing for many of LGPD’s operations in Germany, France, the Czech Republic, the Slovak Republic and Mexico would cease on January 27. LGPD also said it would on January 27 begin operation of the NewCo entity which would consist of viable entities in Asia and Brazil and component factories in Blackburn (UK) and the Sittard and Stadskanaal plants in the Netherlands. Engineering offices in Hong Kong and Eindhoven (Netherlands) will also be included in the new entity.

NewCo would exist as restructured, stand alone company that would not generate positive cumulative cashflow until 2010 and which would continue being exposed to risks of rapidly falling CRT prices and eventual CRT obsolescence.

Alvarez & Marsal projects that secured creditors to LGPD’s syndicated loan facility (which has US$673m now outstanding) would recover at current values – and not net present values – US$386m from the operations of NewCo. Including a 20% discount of “base case” projections, secured creditors would recover a nominal US$316m.

In its report, Alvarez & Marsal asserts that the plan to carve out profitable operations as stand-alone entities or to sell these off later is in the best interests of creditors, given the alternative of an all-out liquidation of LGPD.

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Alvarez & Marsal gives no estimate of proceeds that would come from the sale of NewCo but the report states that an all-out liquidation of LGPD – where every legal entity within the group would be wound up and ceases operations – would recover only a nominal US$222m for creditors of the secured syndicated loan facility.

The projections assume that in each of the three scenarios (full liquidation of LGPD, creation of standalone NewCo, and creation and eventual sale of NewCo) that syndicated secured loan creditors would foreclose in 2006 on the US$100m in guarantees given on syndicated facilities from sponsors LG Electronics and Royal Philips Electronics. This alone is believed to give a total return of 15% on the outstanding syndicated facility. Additionally, creditors would in 2006 be able to foreclose on the US$35m Barayo property in Spain and US$10m property Durham property in the UK.

Including the US$673m from the syndicated facility, LGPD faces a total of US$1.517bn in principal and interest obligations between 2006 and 2011, an amount that exceeds the company’s cashflow over the same period by US$1.1bn, according to the Alvarez & Marsal report. Indeed, under current conditions, LGPD is to run out of cash by February this year, the report states.

In this context, LGPD has asked its creditors to support its plan to create the stand alone NewCo entity by allowing LGPD to use, over a proposed 60-day standstill period, the use of European accounts receivables (with a book value of US$34m/ERV of US$26m) currently sitting in the Netherlands BV entity to fund the operations of NewCo.

Over this 60-day standstill period, creditors would not be able to enforce the pledges over NewCo security including European accounts receivables, NewCo shares and assets in Korea, Brazil, Indonesia, Blackburn, Sittard and Stadskanaal; a Korean FRN; and NewCo inter-company loans.

LGPD has prepared a business plan for the 2006–2012 period, which Alvarez & Marsal is to critically analyse and test over a 60-day period. At the same time Alvarez & Marsal is to explore the option of selling NewCo to a third party. After this 60-day period, when a revised business plan has been formulated creditors will be asked to consider the options of either selling the new entity to recover some value or whether to liquidate the entities.

The Alvarez & Marsal report argues that the plan to establish NewCo as a standalone entity minimises the risks to syndicated secured lenders because no additional cash from lenders is required. In addition, NewCo assets would be ring-fenced and lender security would remain intact (with the exception of European account receivables). All of these assets in a liquidation scenario would realise less than a 2.7% return on debt, the Alvarez & Marsal report states.

The strategy would also preserve value by minimising cash burn by carving out loss making elements of the group; preserve ongoing concern status thereby avoiding a “liquidation discount” to NewCo secured asset values; maximise value on NewCo receivables and avoid the need to fund costly European and North American restructuring/redundancy costs. In addition New Co is expected to be self-funding in the 60-day period.

The LGPD/Alvarez & Marsal proposals are in large part supported by the steering committee for the secured syndicated loan facility and its financial adviser Ferrier Hodgson. “The Ongoing Group [i.e. NewCo] should be formed in any scenario to maintain optionality and maximise value of assets,” a Ferrier Hodgson presentation made to creditors last week states.

However, the Ferrier Hodgson report seems to favour a sale to a third party which would occur between 2006–2007. **Ferrier Hodgson has been working with Hendy Consulting, a London-based network of**

consultants covering many areas of display, high-technology and semiconductor technologies, to work up sale options and considerations.

The Ferrier Hodgson report explores the scenarios of a restructuring of LGPD into NewCo, a third party sale of NewCo and an all-out liquidation of LGPD as it stands now.

The report assumes that between 2006 and 2012 syndicated lenders would recover, assuming a 12.47% discount rate, a present value of 42% – 55% nominal recovery – from the creation and operation of a NewCo standalone entity, and that an all-out liquidation of LGPD occurring between 2006 and 2010 would yield a present value recovery of between 24% and 42% on the syndicated loan outstanding of US$673m.

The presentation makes no projections for a sale to a third party, but states: “To be indifferent [sic] between restructuring (using LGPD price and volume assumptions which we consider to be optimistic) and third party sale, the Ongoing Group would need to be sold for US$100.7m.”

Thus the Ferrier Hodgson presentation recommends that syndicated loan creditors support NewCo by not enforcing the Netherlands receivables pledge, and requests that creditors “allow time to explore third party sale options and cashflow savings.”

The presentation states that “working capital is one of the biggest short/medium term issues” NewCo with LGPD forecast to require US$37.3m in 2006. However, working capital needs decline to US$12m if NewCo is given access to the Netherland account receivables. According to LGPD, NewCo would not need working capital until July.

Following last week’s creditor meetings, there were no trades in LGPD but the credit was bid at 38 with no offers seen. However, earlier in the week a US$4m portion of the syndicated loan facility traded at 39 cents, said distressed debt players.

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