

13 August 2013

# Pre-Result Update

Webinar 1



PXUPA Investor Group Supporters

PIGS

*PIGS is a committed group of volunteers formed in early 2012 specifically to protect the rights of PaperlinX hybrid investors - particularly those who cannot speak for themselves.*

*Our objective is to ensure that every vote counts; and that any outcome for PXUPA holders is fair and equitable.*

**Disclaimer:**

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# Welcome - why we are here today



## Graham Critchley, Convenor of PIGS

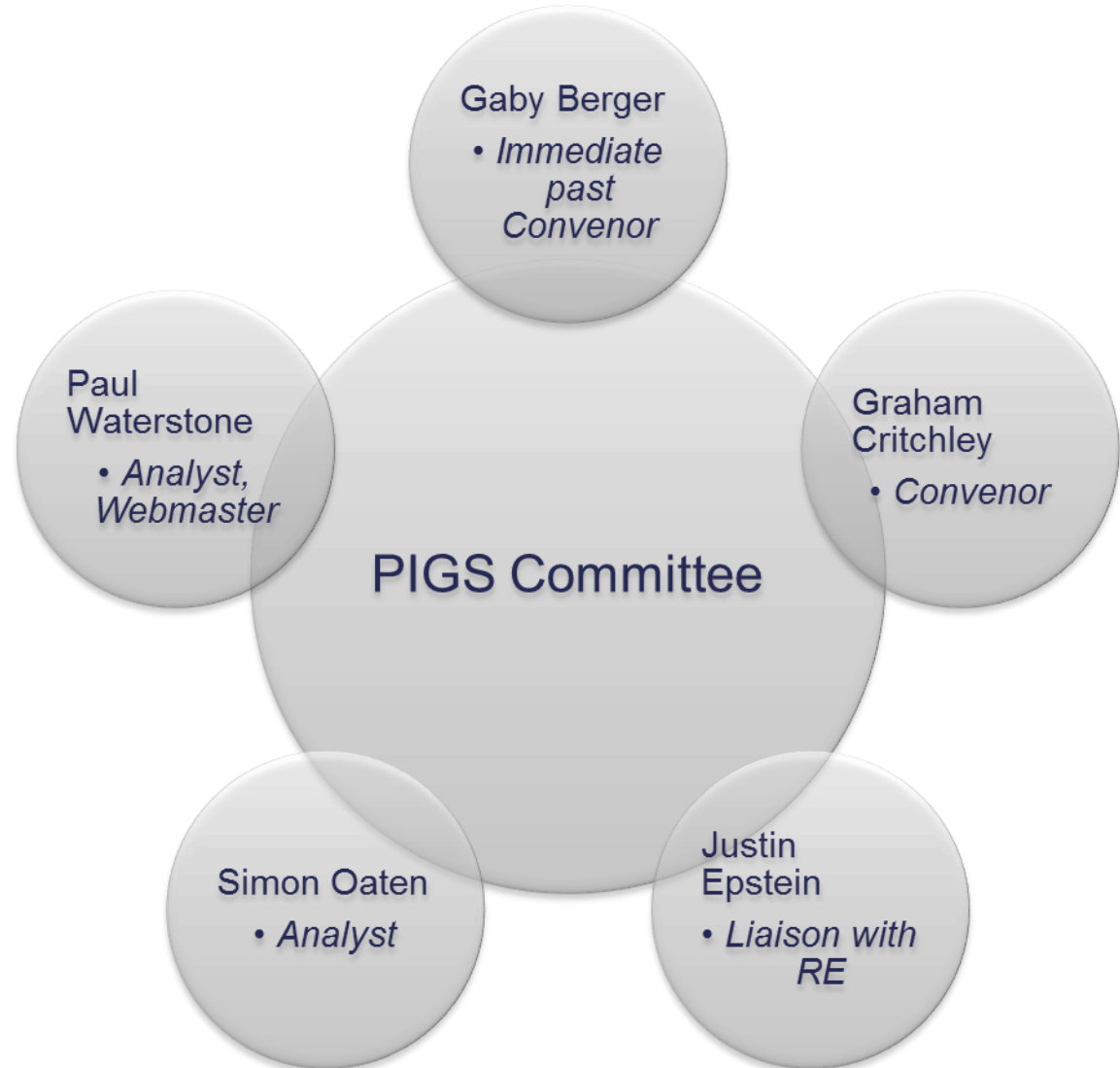
- Self-funded retiree
- Actively pursuing the cause of PXUPA holders since November 2011
- Author of [www.PaperlinX-Sux.com](http://www.PaperlinX-Sux.com)

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# PIGS: Team Structure & Key Roles

- The PIGS Committee comprises 5 volunteer fellow investors in PXUPA.
- The team has combined industry and financial experience of over 100 years.
- The team has a broad base of skills encompassing negotiation, financial analysis, valuation, strategy, and business management.
- We are committed to attaining the best possible outcome for all investors in PXUPA hybrids.



# Webinar Agenda



## 1. Board & Governance (Graham Critchley)



## 2. Financials & 2013 Result (Paul Waterstone)



## 3. Options for Hybrid-holders (Justin Epstein)



## 4. Call to Action, Q&A Session

- *Accredited journalists are invited to make further, more detailed enquiries post the webinar.*

# 1. Board & Governance



Graham Critchley, Convenor of PIGS

- Self-funded retiree
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## Board & Governance:

1. Nine months in review – nothing by PaperlinX
2. Diagram: PaperlinX's reporting structure
3. Discussion of governance issues
4. Impact of governance - what went wrong?
5. Losses borne by equity holders
6. Understanding forced conversion

# 1.2 Nine Months in Review



## Who's been doing what?

- PIGS has been quietly active. Refer to the timeline since December 2011 until the present. We've achieved a lot.
- The timeline is available on the [PIGS website](#).
- PaperlinX has done nothing about its capital structure in nine months, despite assurances to the contrary. It has ignored the hybrid holders.
- Meanwhile, credible reports from the UK (not from disgruntled ex- employees) indicate that staff morale is at a dangerously low level.
- **The time for Board action is now long overdue.**



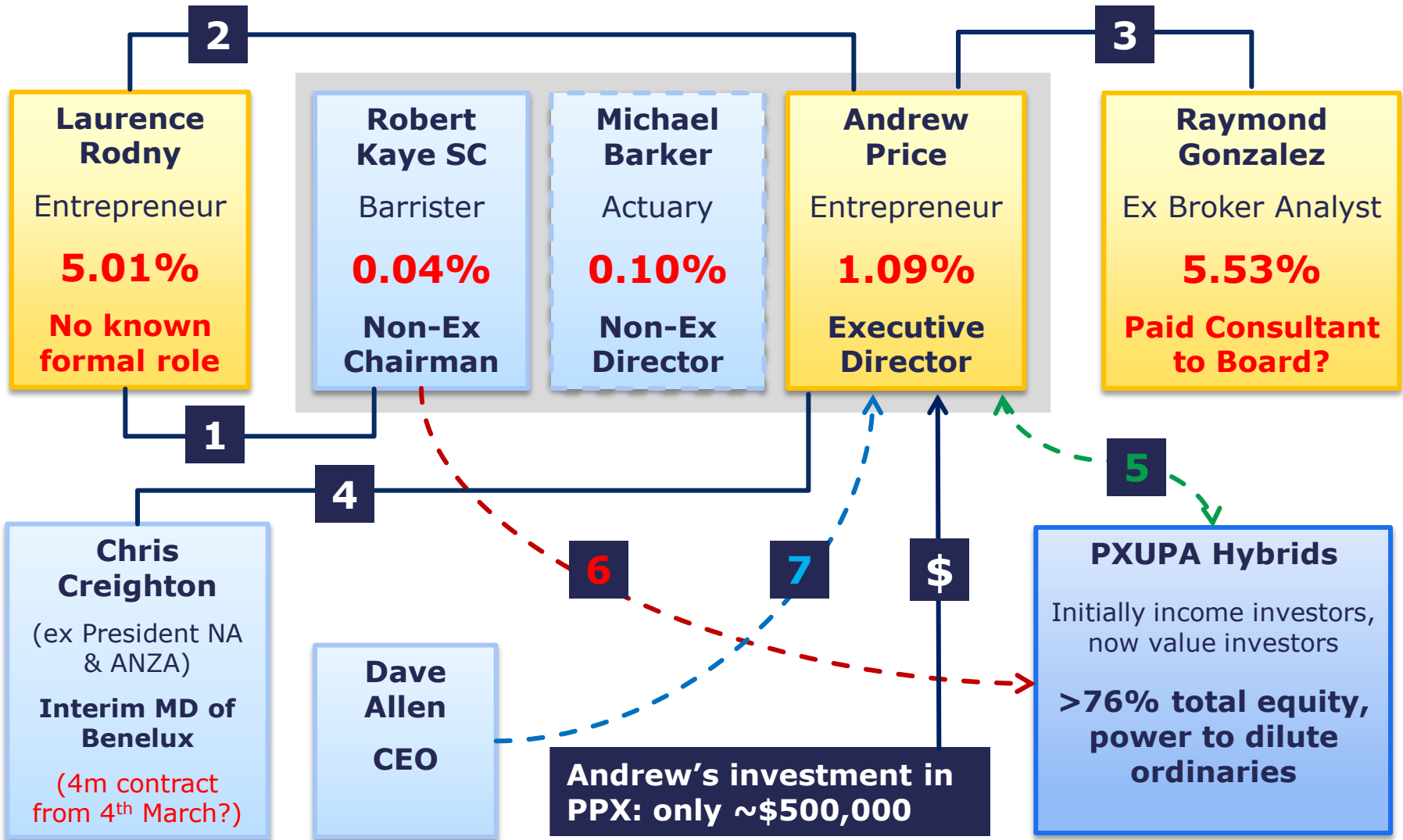


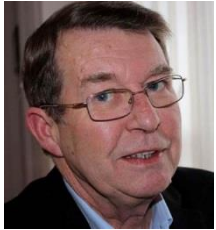
# 1.3 Nine Months in Review - Timeline



- **15 November, 2012** – Deferred PPX AGM chaired by Michael Barker.
- **22 November, 2012** – Inaugural [IAC open meeting](#) hosted by the Responsible Entity. The combined attendance at Sydney & Melbourne exceed the shareholder attendance at the PPX AGM held one week earlier.
- **3 December, 2012** – The Responsible Entity announced a change of auditor of the PaperlinX SPS Trust. This was an initiative of the IAC.
- **6 February, 2013** – PIGS released an [independent valuation](#) with forward valuations of \$0.00-\$0.116 for PPX, and \$43.94-\$100.00 For PXUPA. This gives market cap ranges of \$0m-\$70m for PPX, and \$125m-\$285m for PXUPA. These values would have dropped since then.
- **2 April, 2013** – [Robert Kaye replaces Michael Barker as Chairman](#), without explanation.
- **24 April, 2013** – PIGS released a discussion paper ["Corporate Governance Turning Opaque at PaperlinX"](#)
- **6 June, 2013** – PIGS released a discussion paper ["Fixing PaperlinX"](#)
- **4 July, 2013** – PIGS served a detailed formal complaint upon the Responsible Entity regarding its duty of care to PXUPA Holders. We await a response pursuant to the Responsible Entity's "complaints handling procedures".

# 1.4 Board and Key Management Personnel





## Extract from Chairman's Speech at 2012 AGM

### The New Board and Executive (page 1 of 12)

- *"Three directors is not a sustainable number in the longer term, and we will soon consider adding another independent director with particular regard to chairmanship of the audit committee."*

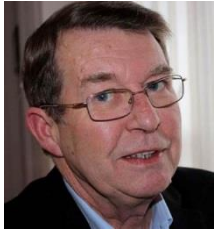


### What's happened since then?

- This Chairman was replaced.
- Another independent director has not been appointed.
- **We consider that the Board urgently needs a fourth and truly independent director to improve governance.**



# 1.6 Governance Issues #2 (Cohesion)



## Extract from Chairman's Speech at 2012 AGM

### The New Board and Executive (page 2 of 12)

- *"I can assure you that we are all working well together as a team, with a shared degree of urgency to improve the Company's fortunes."*



### What's happened since then?

- On April 2, the Company announced that Robert Kaye had been elected Chairman.
- No reasons were given; however in response to a press enquiry the Executive GM Corporate Services, Wayne Johnston, advised *ProPrint* that the job swap was a *"strategic rotation"*.
- **PIGS believes the Board needs to explain why an obviously independent and well-credentialed Chairman was 'rolled' after just six months.**



# 1.7 Governance Issues #3 (Integrity)



## Extract from Chairman's Speech at 2012 AGM

### Step-Up Preference Securities (PXUPA Hybrid) - page 5 of 12

- *"We are taking our responsibilities to hybrid holders very seriously and have formed a Committee of the Board chaired by Robert Kaye to deal with all matters associated with the Hybrid."*



### What's happened since then?

- Nothing.
- **PIGS was scheduled to meet with PaperlinX on August 15<sup>th</sup>.**
- **This meeting was cancelled after PaperlinX became aware of this Webinar.**



# 1.8 Governance Issues #4 (Disclosure)



## Extract from CEO's Speech at 2012 AGM

### Market Update (page 10 of 12)

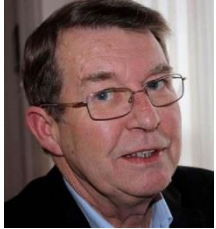
- *"If we cannot fix our loss making businesses in the Netherlands and Germany we will sell them."*



### What's happened since then?

- Nothing.
- **We consider that the Board has been remiss.**
- **They have not advised on progress resolving problems in the Netherlands and Germany.**





## What went wrong?

1. Did Andrew Price and his backers underestimate the challenges of stabilising then turning around PaperlinX?
  2. Is Andrew Price's management style suited to the task?
  3. Does the board have complex turnaround or capital restructuring experience?
  4. Did everyone forget about the hybrids, or is there a devious plan?
- **The hybrid debt of \$285 million is both an "interest free loan" and a "noose around the neck" of ordinary (PPX) shareholders.**
  - **We consider that the Board has been seriously remiss by ignoring the capital structure for so long.**
  - **Stakeholders deserve decent explanations from this Board.**



# 1.10 Losses borne by PXUPA



## Losses suffered by PXUPA : July 1, 2011 – June 30, 2013

- Capital loss of  $(\$32.80 - \$7.00) \times 2,850,000 =$  **\$73.5 million.**
- Four lost distributions totalling **\$42.8 million**, comprising:



Due Date	Per PXUPA
Dec 31, 2011	\$3.7531
Jun 30, 2012	\$3.3616
Dec 31, 2012	\$4.1303
Jun 30, 2013	\$3.7647
	<b>\$15.0097</b>
PXUPA on issue	<b>2,850,000</b>
Total	<b>\$42,777,645</b>

- During the same period, PPX Holders had a capital loss of \$73.9 million.
- **This is unacceptable given PXUPA's priority to income and capital.**



# 1.11 Understanding Forced Conversion



**Forced conversion of PXUPA into PPX depends on the price of PPX, not the price of PXUPA, whose entitlement is fixed at \$100:**



<b>PPX Price</b>	<b>PPX per PXUPA (Conversion Ratio)</b>	<b>New voting control of ex-PXUPA Holders</b>
\$0.20	513	71%
\$0.15	684	76%
\$0.10	1,026	83%
\$0.08	1,282	86%
\$0.06	1,709	89%
\$0.04	2,564	92%
\$0.02	5,128	96%

**This obviously doesn't suit the new Board, but it may be necessary for PXUPA holders to realise the underlying value in their investment.**

# Financials & 2013 Results



Paul Waterstone

- Managing Director, Waterstone Acquisitions P/L
- Investment Analyst and Professional Investor
- Top 100 PXUPA Holder

PXUPA Investor Group Supporters





## Financials & 2013 Results:

1. What to look for in the 2013 results
2. FY2013 forecasts by Region\*
3. Why the balance sheet needs to be fixed

\* Note that the regional forecast slides contain estimates for PaperlinX's revenue and EBIT performance in the second half of FY13 which are based on first half run rates, company commentary, industry research, and disclosure on restructuring programs/savings. They may be materially different from the actual results scheduled for release on August 21<sup>st</sup> and should not be taken as investment advice.

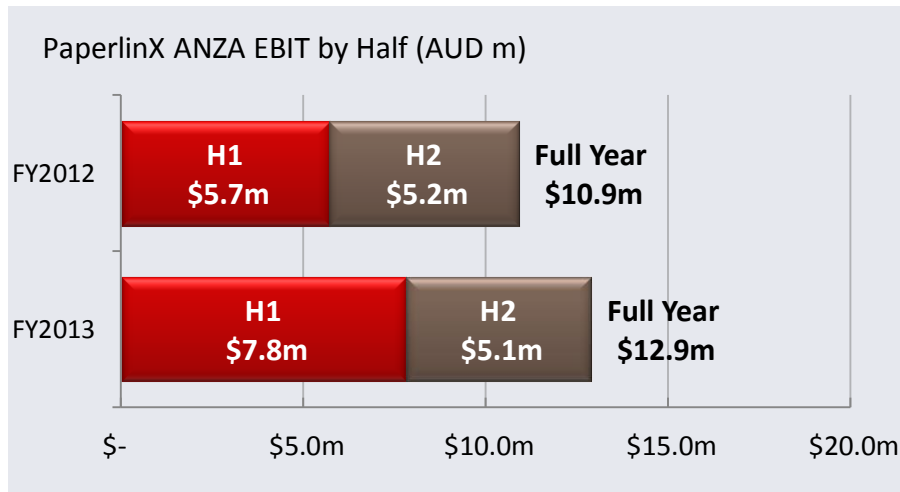
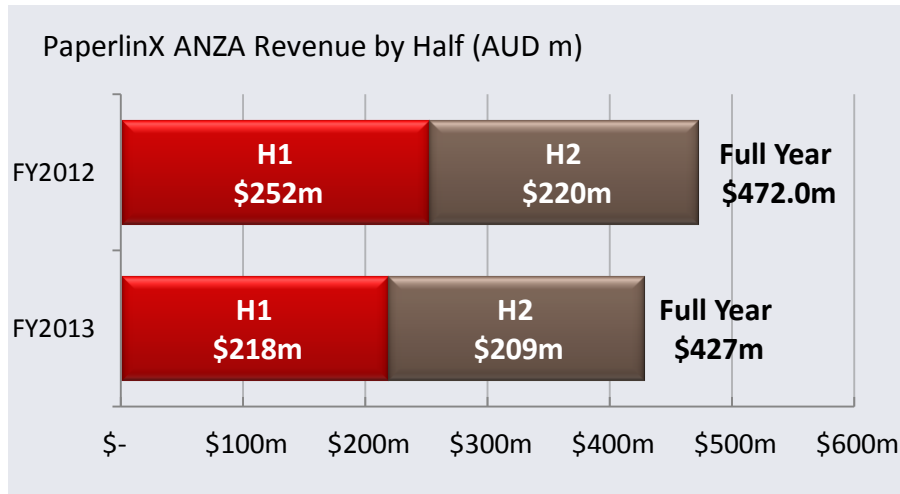
## 2.2 What to look for in the 2013 Results



### What to look for from the company:

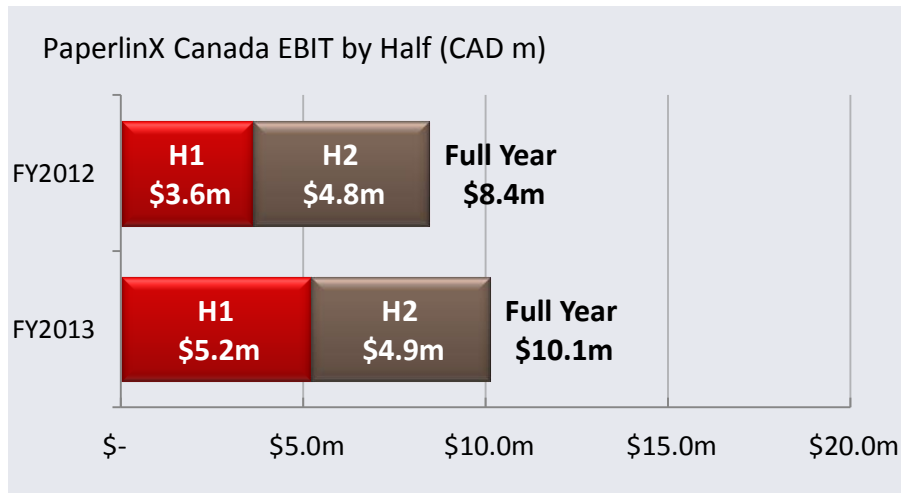
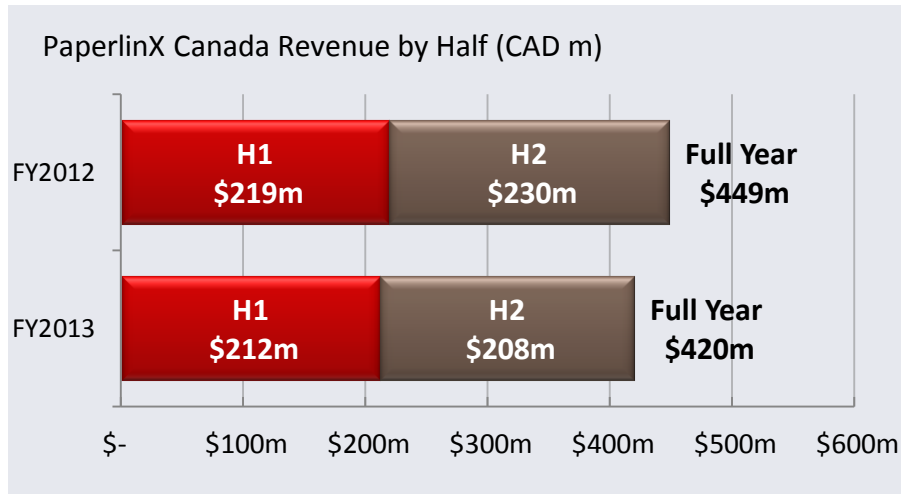
- Absence of 'hard number' disclosure on regional sales volumes and on 'new' product lines
- Explanation of what went wrong in the UK
  - *Inconsistency with David Allen's comments about UK being profitable*
- Progress or lack thereof with Netherlands restructuring
- Deterioration in working capital
- Cash top-up of UK pension plans
- Cash restructuring charges and quantification of benefits
- If the 3.6% first-half EBIT margin in ANZA was held
- Margin outperformance in Canadian Business
- Detail on options packages and consultant remuneration

## 2.3 PaperlinX ANZA Region



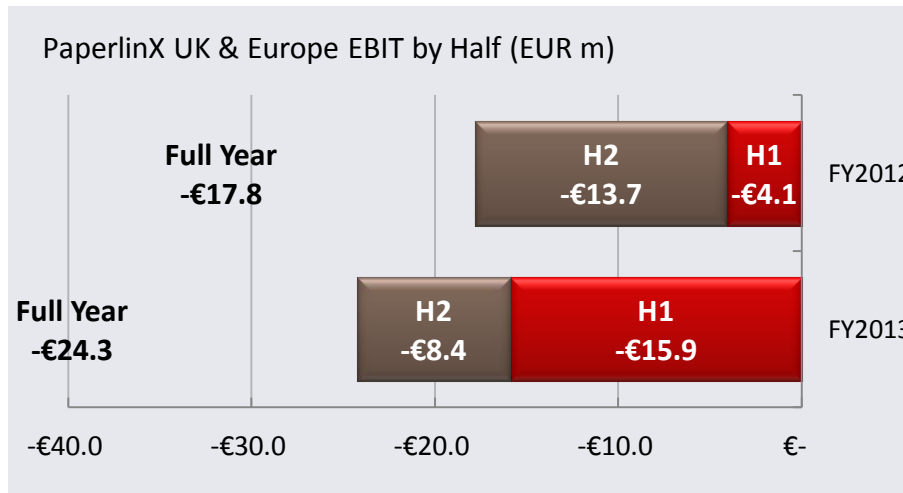
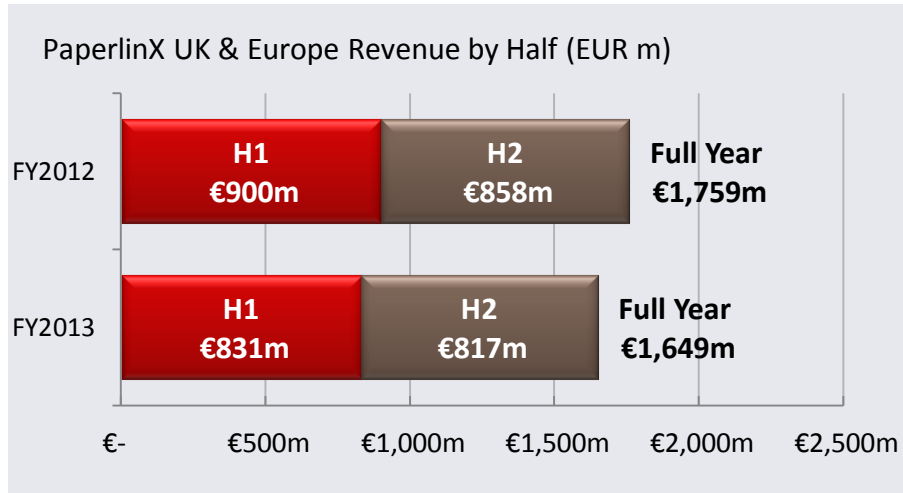
- Revenue decline due to market contraction and GEON insolvency (major customer).
- Result impacted by negative fixed cost leverage.
- Unlikely that the 3.6% operating EBIT margin achieved in first half will be maintained in the full year.

# 2.4 PaperlinX Canada Region



- Revenue expected to be relatively stable.
- Margin performance may be impacted by redundancies.
- Much depends on whether the redundancies were 'planned' or a reaction to declining volumes.
- Potential to surprise on upside.

# 2.5 PaperlinX UK & Europe Region



- Revenue decline due to loss of market share in UK and Netherlands.
- Expect materially worse EBIT loss versus 2012.
- Look for traction with restructuring initiatives, and disclosure of volume decline in UK.
- Important to understand whether the rationalisation and cutting ~12% of UK staff is having unintended consequences (e.g. morale).

# 2.6 Why the Balance Sheet needs fixing



## The Problem is Utilisation:

- Market share and asset utilisation falling in UK/Europe.
- PaperlinX isn't able to reduce fixed costs fast enough.
- E.g. Wider UK loss despite 150+ staff reduction.
- = **'Slash and burn' approach is apparently not working.**



## Capital is required to solve it:

- Capacity reduction is not enough given falling volumes – need to fill up trucks and warehouses to defray fixed costs.
- Capital is required to invest in acquisitions to bolster volumes.
- Capital is also required to fund restructuring and cover against adverse working capital movements.
- **PaperlinX is capital constrained and cannot raise capital with its dysfunctional balance sheet.**





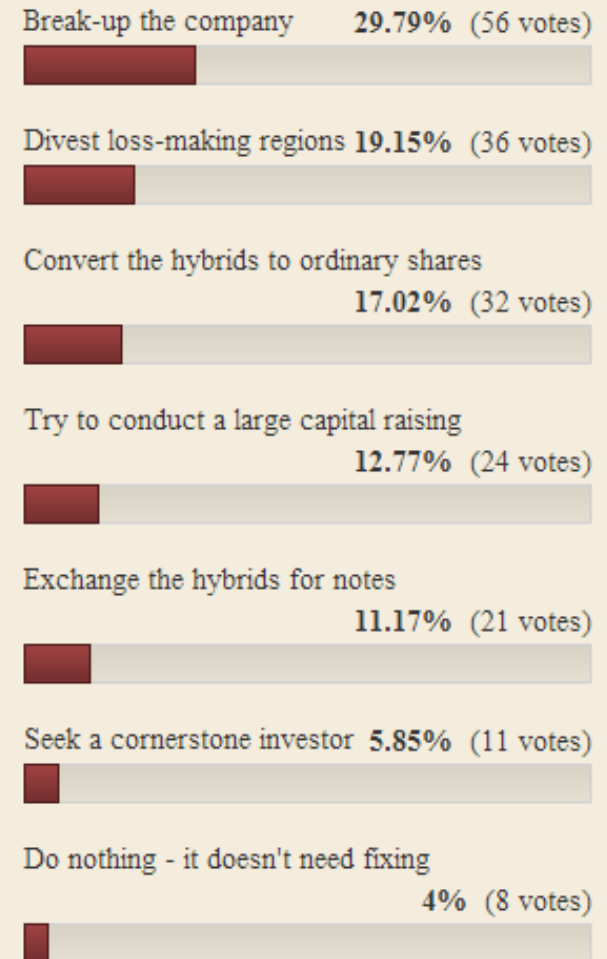
# 2.7 Something needs to be done



## In Summary:

- The reality is that PaperlinX needs to be recapitalised, and this means fixing the balance sheet.
- Until this happens, the turnaround is being jeopardised by capital constraint.
- This increases risk for all stakeholders, not just hybrids, but employees, pension plans, suppliers, bankers, and ordinary shareholders.
- PIGS have suggested seven constructive ways to fix the balance sheet and put them to a public poll.
- **The overwhelming response is that something needs to be done.**

### How would you fix PaperlinX?



# 3. Options for Hybrid-holders



Justin Epstein

- Founder and Executive Director of One Investment Group
- Members of the One Investment Group act as Responsible Entity/Trustee for in excess of 100 trusts
- PXUPA Investor

PXUPA Investor Group Supporters





## Options for Hybrid-holders:

1. Voting Thresholds
2. Why replace the Responsible Entity?
3. Replacing the Responsible Entity: Process
4. Once the Responsible Entity is replaced
5. Summary & Conclusion

# 3.2 The Voting Thresholds



## Three voting thresholds to consider:

### To call a meeting:

- **5%** of the votes that may be cast at the resolution or at least 100 members who are entitled to vote - to call and arrange a meeting for a proposed special resolution or an extraordinary resolution.



### An extraordinary resolution:

- **50%** of the total votes that may be cast i.e. those unitholders entitled to vote on the resolution - for example to replace the existing Responsible Entity with a new Responsible Entity or to terminate the scheme.



### A special resolution:

- **75%** of the votes cast by members entitled to vote on the resolution (i.e. of those members that do vote) - to amend the constitution.
- i.e. Assuming 100% of investors voted, this would result in a **25%** holding having the ability to block any vote.



# 3.3 Why Would We Consider Replacing The Responsible Entity?



**Replacing the Responsible Entity has been stated as:**

***"The ultimate expression of dissatisfaction by investors in a scheme is to remove the scheme operator"***

– Collective Investments: Other People's Money (ALRC Report 65).



**If the hybrid holders formed the view that there may be benefits in replacing the Responsible Entity, for example if:**

- i. the Responsible Entity was failing to act in the best interests of members;
- ii. the Responsible Entity was failing to put members' interests before its own interests where there was a conflict;
- iii. the ability to force a restructure of the existing structure; &/or
- iv. the appointment of an alternative Responsible Entity was likely to result in a favourable outcome for hybrid investors – e.g. taking action against the incumbent responsible entity for misleading and deceptive conduct.



# 3.4 How Do We Change The Responsible Entity?



## Process to change the Responsible Entity:

- i. Section 252B(1) – Responsible Entity required to call a meeting at the request of members with at least 5% of the votes or 100 members entitled to vote at the resolution.
- ii. Section 252B(6) – Responsible Entity must call the meeting within 21 days and the meeting must be held no later than 2 months after the request.
- iii. The Responsible Entity is responsible for the expenses of calling and holding the meeting and may meet those expenses from the scheme's assets.
- iv. Alternatively, pursuant to section 252D(1), members holding at least 5% of votes may call and arrange a meeting at their own expense.
- v. An extraordinary resolution - 50% of the total votes that may be cast by members entitled to vote.

# 3.5 What Happens If We Change The Responsible Entity?



## Typically there are three significant impacts as a result of replacing the Responsible Entity:

- The new Responsible Entity steps into the shoes of the former Responsible Entity;
- The new Responsible Entity is deemed to have always been the Responsible Entity; and
- The right to hold, and rights in relation to, scheme property pass to and vest in the new Responsible Entity.

# 3.5 What Happens If We Change The Responsible Entity? (Continued)



## PXUPA-specific matters to consider:

- Were any misleading or deceptive statements made in the Product Disclosure Statement? Ability to take action against the issuer?
- Termination of the Services and Indemnity Agreement – an agreement that appears to have created a conflict for The Trust Company (RE Services) Limited and can be seen an attempt at having a poison pill.
- Responsible Entity Removal Event – clause 7.4 of the PaperlinX SPS Terms enables the Responsible Entity to elect to Realise PaperlinX SPS by giving an Issuer Realisation Notice no later than 20 Business Days after the occurrence of a RE Removal Event.





# 3.6 Summary & Conclusion



- The Corporations Act arms us collectively with the power to force change – 5% to call the vote, 50% to force the change.



- We believe the Responsible Entity is, and has been, behaving at the instruction of PaperlinX – the Responsible Entity is not proactive but reactive.



- The Responsible Entity may have made misleading and deceptive statements to investors.



- There are consequences of the change of Responsible Entity; this process should better position investors, however, it should only be used as a last resort.

# 4. Call to Action



## PXUPA Investor Group Supporters

- Volunteer Investor Action Group

PXUPA Investor Group Supporters



# 4.1 Closing: Call to Action



## For PXUPA investors:

- Expect an opportunistic offer this year, probably by the 2013 AGM.
- If you do nothing you'll probably get nothing.
- If not already aligned with PIGS, join us now as every vote counts.



## For PPX investors:

- Urge your board to fix PaperlinX's crippled balance sheet.
- Support nomination of a fourth, independent director to improve governance.



## For PPX staff worldwide:

- Stay strong as the worst may well be behind the Company.



## For the Board:

- Engage in honest dialogue with your majority (80%) equity holders.
- Embrace the "transparency" so vocally advocated before incumbency.

# 4.2 'Radar' on Ethics



## An ethical decision-making process

Recognise an ethical issue when it arises: Would you be happy to see your actions reported on the front page of the newspaper? Count on being caught.

Assess relevant facts and persons affected: seek advice. Does it involve any *misleading or deceptive conduct*? Are you facilitating a fraud on anyone? Will anyone be hurt by your actions?

Don't be intimidated. Determine alternative courses of action.

Act in accordance with what you know is right.

Reflect over the event - learn from it and discuss with others



# Question & Answer Session



## PXUPA Investor Group Supporters

- Volunteer Investor Action Group
- We welcome further questions at <http://paperlinxpigs.wordpress.com> where this presentation will be available by 8:00pm AEST today.

PXUPA Investor Group Supporters



# Webinar 2

Will be held on Tuesday August 27<sup>th</sup> at 5.00 pm AEST

Click [here](#) to register now.

This webinar will cover the 2013 result and feature both analysts.



Register your holding and stay up to date on progress and developments:

**<http://paperlinxpigs.wordpress.com>**

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