

The UK Shareholders Association (UKSA)

Torex Meeting

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UKSA_Torex_Meeting2.ppt (Revised 29-Jun-07)

 UKSA

Health Warning

This is a public meeting!

Anything I say is likely to be opinionated and much of it could be downright wrong. Any information provided is given on the basis that it is true to the best of my knowledge but no warranty is provided as to its accuracy or reliability. You should take your own legal advice rather than rely on any statements made at this meeting if you feel you have any claims against the company or third parties. UKSA does not provide legal or investment advice.

What UKSA Does

- Promotes your rights as a shareholder.
- Promotes good standards of corporate governance.
- Campaigns for a fair market and fair tax treatment for private investors.
- Provides education and other benefits to members.

How UKSA Tackles “Problem” Companies

- We avoid campaigns provoked by disgruntled ex-employees and where there are obvious conflicts of interest (this delayed us somewhat in this case).
- We try to work with boards, not against them, but we don't like working behind closed doors or being made insiders.
- We are very careful to stick to the facts and avoid spurious allegations or distribution of unverified rumours.
- Legal action is our least favoured route.

Current Position Re Torex

- Company has disposed of its major operating subsidiaries to Cerberus, a private equity house, for £204 million.
- Bank debt and other liabilities exceed £210 million, so ordinary shareholders and bondholders will get nothing. Ordinary shares are therefore probably worthless.
- Parent company has gone into Administrative Receivership (KPMG)

Financial Figures

- Last brokers forecasts for 2006:
Revenue of £308m, pre-tax profit of £36m
- Actuals from last RNS announcement
(audited accounts will not be published):
Revenue of £246m, operating profit of
£4.2m, but after exceptional charges of
£195.8m, EBIT loss of £191.6m
- Loss of £12.7m in first 4 months of 2007.

On-Going

- Serious Fraud Office (SFO) Investigation.
- London Stock Exchange Inquiry into RNS Announcements (positive then negative).



What Went Wrong?

- Company expanded aggressively by acquisition with high debt levels, culminating in the purchase of Retail-J financed by convertible bonds. Ended up highly geared.
- Shares tipped in several financial publications without mention of the gearing.
- Questions raised about accounting practices, new CEO appointed, who ended up as the “chief whistleblower” as he put it. SFO called in and shares suspended.

What Went Wrong-2?

- Multiple sets of accountants and other consultants reviewing the books, at major expense, while doubts rose among staff, customers and suppliers.
- New board appointed, who claim to have looked at refinancing/restructuring possibilities but soon announced a “strategic review” with Jefferies.

What Went Wrong-3?

- Jefferies seemed to aggressively go down the disposal route, as most company brokers would.
- What to avoid when trying to sell an IT business so as to maximise value:
 1. No outstanding legal issues.
 2. No deadline.
 3. Make sure you can walk away.

Result: Nothing left for ordinary shareholders

What UKSA Did

- Approached Steve Marshall, Chairman - first contact in early April. Subsequently pointed out that disposals would be unlikely to be in the interests of shareholders, asked for a meeting (refused), and asked for assurances re shareholder vote on disposals (rejected). We also wrote to all shareholders.
- Introduced Alix Partners LLP as an organisation who believed they could put an alternative deal together.
- As no positive responses from the board, we organised and submitted an EGM requisition on the same day as the company made the final announcement.

UKSA Actions From Here

- Legal advice on disposal route and bypass of AIM Listing Rules.
- EGM Requisition?
- Longer term: possible actions against former directors, auditors, etc, if allegations are substantiated?
- Other actions (legal, etc)?

Major Issues

- Poor supervision of AIM companies, and bad corporate governance (Steve Marshall on Torex: “breathtaking corporate governance”).
- Banks still calling the shots when companies get into difficulties, when Administrative Receivership was designed to enable them to trade out of difficulties.
- Extended share suspension and failure to publish accounts or issue much in the way of news.

UKSA Membership

Look at www.uksa.org.uk

Membership helps us fight these kind of campaigns and fight for better standards.

New Group Chairman & Funding?



Questions

