

Verso Paper to buy New Page Holdings

Verso Paper is the acquirer in this deal. They are paper mill companies. Verso is paying \$900 MM for New Page. \$250MM will go out to New Page equity holders as dividend and \$650MM in interest paying note, which seems like a mezzanine note/preferred shares. They will also receive 20% equity, which at the moment the allotted amount is valued at \$30MM. Verso will assume \$500MM of New Pages debt. So, essentially, Verso is paying:

Dividend	250
New Notes	650
<u>Assumed Debt</u>	<u>500</u>
Total	1400

Not sure how well the newly merged entity, which will hold on to the Verso Paper name, will fare with the consolidated debt load. Pre-merger, Verso has \$1.2 Billion in debt and \$40MM in cash. So the additional debt of \$1.15BB, inclusive of the \$650MM in notes held by the New Page equity holders, will bring the total debt level to \$2.3BB.

Both are facing tough financial situation, heavily laden with debt. Verso Paper was part of International Paper but was sold to Apollo, a global PE firm. Subsequently, Verso was listed on the market through an IPO. The industry has seen severe pressure from smartphones and tablets, which is eating away at the print business market share.

Verso's share price jumped on the news, and many traders are speculating a short squeeze. This of course means there is a big buyer, or a consortium trading in the same direction, who is pushing up the share prices by buying large volumes in the market. Many shorts that were projecting a dismal fortune for the company, now need to close out their short position by buying back their positions, causing the share prices to increase further. We saw this happen with USEC, a government backed uranium enrichment co. whose stocks were manipulated by traders in 2013, and eventually filed for bankruptcy in Dec. 2013.

The book value of the paper mills may net off the debt, but the actual sale price for the mills, should the new Co. opt to pay down their debt, will be a fraction of the book value. We don't see this Company surviving much longer.

For the New Page Holdings equity holders, being independent or approving the merger should yield the same fate.

