# INSTITUTIONAL DISTRESSED DEBT RESEARCH

**Performance Plus Advisors Inc.** **Distressed Debt Research**
**July 5, 2011** **Stephen P. Vlahos**

# NEWPAGE GROUP

NewPage is one of the largest producers of coated and specialty paper in North America. Recent quarterly sales, $904 million with a loss of $88 million and adjusted EBITDA of $85 million. On June 30, 2011 NewPage paid it's interest expense on $1.770 billion of 1st lien debt. Investors will now focus on the company's ability to pay it's next big debt obligation due Nov 30, 2011. The market is sensing a financial restructuring this year or in 2012.

Cerberus Capital owns 76.8% of NewPage and Stora Enso Oyj 20.2%. Apollo Global Management and Avenue Capital Group have been aggressive buyers of the 2nd lien debt and expect to own the equity in the new restructured company. Apollo controls Verso Paper and Avenue holds a large position in AbitibiBowater.

**HEADLINES & DEADLINES**

The 10% notes are scheduled to mature in May 2012. NewPage prior to maturity must either repay or refinance these bonds. If not the maturities of various other parts of it's capital structure will accelerate. In January 2011, the company extended it's $500 million revolving credit facility. Lenders of $470 million of the revolver accepted extension, while $30 million did not. NewPage did not repay or refinance the 10% notes by July 4th, and the maturity of that $30 million is moved to October 3rd. If NewPage does not repay or refinance the notes before December 2nd, the $470 million of the revolver will mature March 2012. Then, if these notes are not repaid or refinanced by January 31st, the maturity on the 11.375 percent notes will be March 31, 2012 instead of the scheduled maturity of December 2014.

See Important Disclosures

**VALUATION ASSUMPTIONS**

(4 X Multiple)

| | | | |
|---|---|---|---|
| EBITDA Projection | \$350 million | \$375 million | \$400 million |
| Market Multiple | X 4 | X 4 | X 4 |
| Enterprise Value/Valuation | 1.4 billion | 1.5 billion | 1.6 billion |
| Less Capital Leases | 151 million | 151 million | 151 million |
| Less Credit Facility | 95 million | 95 million | 95 million |
| Value Available for | | | |
| \$1.688 billion 1st Lien Bonds | \$1.154 billion | \$1.254 billion | \$1.354 billion |
| Recovery Expectations | | | |
| 1st Lien Bonds | 68% | 74% | 80% |
| Value Available for | | | |
| \$1.030 billion, 2nd Lien Bonds | 0 | 0 | 0 |
| Recovery Expectation | | | |
| 2nd Lien Bonds | 0% | 0% | 0% |

| | | | |
|---|---|---|---|
| EBITDA Projection | \$425 million | \$450 million | \$475 million |
| Market Multiple | X 4 | X 4 | X 4 |
| Enterprise Value/Valuation | 1.7 billion | 1.8 billion | 1.9 billion |
| Less Capital Leases | 151 million | 151 million | 151 million |
| Less Credit Facility | 95 million | 95 million | 95 million |
| Value Available for | | | |
| \$1.688 billion 1st Lien Bonds | \$1.454 billion | \$1.554 billion | \$1.654 billion |
| Recovery Expectations | | | |
| 1st Lien Bonds | 86% | 92% | 98% |
| Value Available for | | | |
| \$1.030 billion, 2nd Lien Bonds | 0 | 0 | 0 |
| Recovery Expectation | | | |
| 2nd Lien Bonds | 0% | 0% | 0% |

**VALUATION ASSUMPTIONS**

(4.5 X Multiple)

| | | | |
|---|---|---|---|
| EBITDA Projections | $350 million | $375 million | $400 million |
| Market Multiple | X 4.5 | X 4.5 | X 4.5 |
| Enterprise Value/Valuation | $1.575 billion | $1.688 billion | 1.8 billion |
| Less Capital Leases | 151 million | 151 million | 151 million |
| Less Credit Facility | 95 million | 95 million | 95 million |
| Value Available for $1.688 billion 1st Lien Bonds | $1.329 billion | $1.441 billion | $1.554 billion |
| Recovery Expectations 1st Lien Bonds | 79% | 85% | 92% |
| Value Available for $1.030 billion, 2nd Lien Bonds | 0 million | 0 million | 0 million |
| Recovery Expectation 2nd Lien Bonds | 0 % | 0 % | 0 % |

| | | | |
|---|---|---|---|
| EBITDA Projection | $425 million | $450 million | $475 million |
| Market Multiple | X 4.5 | X 4.5 | X 4.5 |
| Enterprise Value/Valuation | 1.91 billion | 2.03 billion | 2.14 billion |
| Less Capital Leases | 151 million | 151 million | 151 million |
| Less Credit Facility | 95 million | 95 million | 95 million |
| Value Available for $1.688 billion 1st Lien Bonds | $1.666 billion | $1.779 billion | $1.892 billion |
| Recovery Expectations 1st Lien Bonds | 100 % | 100 % | 100 % |
| Value Available for $1.03 billion, 2nd Lien Bonds | 0 | $91 million | $204 million |
| Recovery Expectation 2nd Lien Bonds | 0 % | 9 % | 20 % |

## VALUATION ASSUMPTIONS

(5 X Multiple)

| | | | |
|---|---|---|---|
| EBIDA Projection | $350 million | $375 million | $400 million |
| Market Multiple | X 5 | X 5 | X 5 |
| Enterprise Value/Valuation | 1.75 billion | 1.875 billion | 2.0 billion |
| Less Capital Leases | 151 million | 151 million | 151 million |
| Less Credit Facility | 95 million | 95 million | 95 million |
| Value Available for | | | |
| $1.688 billion 1st Lien Bonds | $1.504 billion | $1.629 billion | $1.754 billion |
| Recovery Expectations | | | |
| 1st Lien Bonds | 89% | 100% | 100% |
| Value Available for | | | |
| $1.030 billion, 2nd Lien Bonds | 0 | 0 | $66 million |
| 2nd Lien Bonds | 0 % | 0 % | 6 % |

| | | | |
|---|---|---|---|
| EBITDA Projection | $425 million | $450 million | $475 million |
| Market Multiple | X 5 | X 5 | X 5 |
| Enterprise Value/Valuation | 2.13 billion | 2.25 billion | 2.38 billion |
| Less Capital Leases | 151 million | 151 million | 151 million |
| Less Credit Facility | 95 million | 95 million | 95 million |
| Value Available for | | | |
| $1.688 billion 1st Lien Bonds | $1.879 billion | $2.0 billion | $2.129 billion |
| Recovery Expectations | | | |
| 1st Lien Bonds | 100 % | 100 % | 100 % |
| Value Available for | | | |
| $1.030 billion, 2nd Lien Bonds | $191 million | $316 million | $441 million |
| Recovery Expectation | | | |
| 2nd Lien Bonds | 19 % | 30 % | 43 % |

## SUMMARY AND RECOMMENDATION

On June 4, 2011 we rated as **Neutral** trading at approximately 96 cents on the dollar, the 11.375 percent senior notes due December 2014. These bonds have traded as low as 90 on fears of a Chapter 11 filing. Recently, NewPage made its $100 million interest payment and the 1st lien debt is now trading approximately 93.

We still expect a more attractive entry price for investors and continue to rate the 11.375 percent senior notes as **Neutral**. We believe these securities are best positioned in a restructuring because of the senior position these securities have in NewPage's capital structure.

On June 4, 2011 we also rated the 2nd lien floating rate notes due May 2012 and the 10 percent second lien notes due May 2012, trading at approximately 42 as a **Sell**. These second lien notes are trading at approximately 32 cents on a dollar. We continue to rate these securities as a **Sell**.
This recommendation is based on our analysis and speculation that EBITDA expectations will fall between $350 million and $425 million and therefore a projected recovery in a Chapter 11 Bankruptcy or other restructuring will bring a value below the current market.

## WALLPAPER

There is no expected recovery or value in a Chapter 11 filing for the 12 percent senior unsecured PIK Notes due November 2013.

## DISCLOSER – CERTIFICATION

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## RATING SYSTEM EXPLANATION

Buy: We generally expect "**Buy**" rated investment returns to be greater than or equal to plus + 20% From date of the original recommendation.

Neutral: We generally expect "**Neutral**"rated investment returns to deviate plus or minus + or – 20% From the date of the original recommendation.

Sell: We generally expect "**Sell**" rated investments returns to be equal to or greater than minus – 20% From the date of the original recommendation.

## ANALYST RATING DISTRIBUTION AS OF 7/5/2011

| | Number of Companies | Percent of Total |
|---|---|---|
| Buy | 2 | 25% |
| Neutral | 4 | 50% |
| Sell | 2 | 25% |
| Total | 8 | 100% |