July 21, 2009

Ticker Symbol: PMUG (OTCBB)

Price: $3.50

MARQUIS RESEARCH, LLC

Primus Telecom

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Anyone remember post-bankruptcy stocks? Here is one fresh off the press with a potential for 100%-200% return. Primus Telecom emerged from a prepackaged bankruptcy on July 1, 2009. During reorganization, which lasted a mere 107 days, it shed 55% debt, 90% of the new stock was issued to old creditors and the remaining 10% was set aside for management. The "orphan equity" recently began trading on the OTC Bulletin Board under the ticker symbol PMUG. The new stock is trading at a P/E ratio of 3x management's projected 2010 EPS and Price/Free cash flow of 2x. In comparison, the peer group average P/E is 9x. With an eventual listing on the NASDAQ and management nicely incentivized to perform and "get the story out", the stock price could multiply several folds from its current, depressed valuation.

Business Description: Headquartered in McLean, VA, Primus is an integrated telecommunications company which provides voice, VOIP, Internet, wireless, data and hosting services to business and residential customers in the US (23% of revenues), Canada (27%), Australia (27%), the United Kingdom (13%) and Western Europe (10%). The Company was founded in 1994 and over the next decade, expanded its operations around the world via acquisitions financed by debt. Since 2004, Primus had been transitioning from a "low tech" long distance carrier to an integrated service provider (VoIP, broadband, wireless, hosting etc).

Events leading to Chapter 11 filing: The transition was progressing well - - EBITDA rose from $17 mm in 2005 to $59 mm and $63 mm in 2006 and 2007, respectively. Management had guided EBITDA to grow to $75 mm in 2008. However, the global economic weakness and the strength in the US Dollar (which lowered foreign earnings), lowered 2008 EBITDA to $66 mm. At this time of shrinking profits, company debt was coming due in 2009. Due to its heavy debt burden ($578 mm), lower profitability and frozen credit markets, the Company could not find a liquidity source and filed for Chapter 11 under a pre-negotiated plan with its creditors. Under the Plan of Reorganization, 55% of its existing debt was extinguished and old common stock was cancelled.

Post reorg capital structure: Post emergence, the company has net debt of $225 mm and 9.6 mm of new common stock. In addition, certain creditors were granted 4.5 mm warrants, with a five year term and strike prices ranging from $12.22 to $26.01. Finally, the old common shareholders received 2.665 mm Contingent Value Rights (CVR) which entitle holders to receive 2.665 mm share of new common stock if the total enterprise value exceeds $700 mm. At the current price of $3.50, Primus is trading at an enterprise value of $259 mm, assuming no dilution from the warrants and CVRs.

Projections: These are management's projections filed with the Plan of Reorganization (US $000):

	2009	2010	2011
Revenue	745,960	739,447	747,391
EBITDA	66,030	67,055	73,137
Net Income	NM	10,527	17,265
FD Shares	NM	9,600	9,600
EPS	NM	1.10	1.80
Oper Cash Flow	19,195	39,968	42,779
CapEx	(16,982)	(22,103)	(23,073)
Free CF*	2,213	17,865	19,706

*2009 free cash flow includes $9,825 of restructuring charges

Recent performance: Typically, companies in Chapter 11 do not file 10-Qs or 10-Ks with the SEC. However, Primus's March quarter 10-Q was filed with the SEC and June 2009 quarter should be filed by August 15, 2009. Interestingly enough, Q109 EBITDA grew to $20 mm from $15 mm a year ago in spite of a 14% decline in year-over-year revenues (mainly due to cost cuts). In any event, this is just one data point and I would be careful in extrapolating an $80 mm annualized EBITDA for 2009. On the other hand, if history is a good guide, management will be quite motivated to show improved results down the road as they are 10% owners of the new Company.

Relative Valuation: You can see in the table below that comps are trading at an average 2010 P/E multiple of 9x (high 12x-Low 8x) and TEV/EBITDA multiple of 5x (High 7x-low 4x). The comp P/E average implies a value of $10 for Primus stock and TEV/EBITDA implies $11-$12. For those who are skeptical of relative valuation, I point to free cash flow - - at present, the stock is trading at 2x projected 2010 free cash flow which most (mortals) would consider to be dirt cheap.

	TEV/EBITDA	P/E
US		
AT&T	5	9
Verizon	6	12
Australia		
Telstra	6	11
Telecom Corp New Zealand	4	7
Canada		
Telus	4	9
Europe/UK		
BT Group	4	7
Vodafone	7	8
France Telecom	4	8
Telecom Italia	5	9
Average	5	9

Catalyst:

1. NASDAQ Listing and greater visibility
2. Management Getting the Story Out
3. Refinancing the high cost (14.25%) debt, once credit markets normalize.

For more detailed analysis, please contact me at 201-785-4477 or farukh@marquisllc.com.

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