I write in reference to Mr Strawbridge's letter of 17 July and to register concerns about the manner in which the Virgin administration has been conducted to date, and to make some observations for the administrators consideration.

It is noted that on June 26 the administrators " signed binding transaction documents for the sale of the business to Bain Capital and as such (the administrators) are not able to accept any alternate offer for sale."

Further, the administrators say they expect "to receive A Deed of Company Arrangement (DOCA) proposal from Bain Capital".

The administrators have not explained how a need for interim funding to keep the business trading transmogrified into a binding and apparently exclusive agreement to sell the Virgin business assets to Bain.

A sale is not the only means to recalibrate the Virgin business and keep it trading.

For example, agreement by major creditors to write down their debt, accept a lesser interest rate, extend their loan terms and postpone receipt of interest until the business Is up and running and meeting it's basic operational costs, coupled with a capital raising by the issue of convertible notes or similar utilising the companies shareholding, is one such means. Such a proposal would need to reflect employees' legal rights and guarantee 100% of Virgin employee entitlements and a lesser, but still substantial, return to the minor creditors over time.

A 35% write down of the major creditors debts would, for example, reduce those debts to around 4 billion, interest on which at 4.5% is $180m pa. Based on Virgin's pre Covid revenues of $5.8 billion pa, this sum is easily affordable once the business is fully operational when government travel bans are removed.

It is hard to see why employees unions would not support a proposal that guarantees 100% of employee entitlements.

Major creditors would obviously support such a proposal too because 65% is better than 10 or 20%.

Offering existing creditors equity in the company as well, up to (say) 50 or 60% would have the benefit of securing an ongoing source of capital.

Moreover, the balance equity would be available for an immediate capital raising like that mentioned above. Using equity to raise funding in this manner is proven. The case law indicates the current shareholders are unlikely to be able to oppose it.

Had a DOCA providing for this funding method been presented to creditors earlier, the administrators would have been able to offer collateral the absence of which they say was the reason they could not secure interim funding by June 30 except from Bain and only, apparently, as part of a binding sale to Bain.Why this obvious course was not pursued is of major concern.

Why didn't the administrators formulate such a proposal and present it to creditors before 30 June instead of focussing all their efforts, and the companies resources, exclusively on the Sale Process?

The administrators have known since their appointment that there were " significant cash constraints facing the Virgin companies " so commonsense suggests their efforts would have been usefully directed to this exercise from an early stage even if only as a fall back or option to a sale. There was never any guarantee that a sale would materialise, and it is still an uncertainty, so why not develop a back up plan/ option? Doesn't failing to do so simply give would be purchasers like

Bain greater leverage and diminish the realisable value of the business? Why put all the creditors eggs in the one Sale Process basket?

It is not too late for the administrators to develop a DOCA proposal that enshrines the suggestions above and present it for consideration at the second creditors meeting. As Middleton J. in the Federal Court pronounced last week, while the administrators could promote the Bain transaction as their preferred proposal, their " preference for one proposal does not justify the exclusion of all other proposals from consideration by the creditors".

Hopefully there is nothing in their agreement with Bain preventing the administrators doing so.

It appears the bondholders are also devising an alternative to the Bain deal. It is to be hoped that the administrators will give every possible assistance to the bondholders in their quest to produce a proposal to creditors that, in all likelihood, will produce a far superior outcome to existing stakeholders in Virgin than a fire sale of its assets. Presumably the administrators have not signed away in their deal with Bain their obligations to assist in this endeavour. After all, the interests of bondholders are more likely to align with other Virgin creditors than Bain's interests are.

I look forward to any light the administrators may wish to shine on the above matters, however, I ask that future communications from the administrators be confined to just the facts and not be used to promote what the administrators see as the virtues of the Bain deal to the exclusion of other proposals.Creditors are able to form their own view and should be allowed to do so with all relevant information provided in an unbiased, timely and fair manner.

I refer to the following statement in the final para of the 17 July letter -

" ...Bain Capital...are obliged to submit to us a proposal on 12 August 2020, which if approved by creditors at the second meeting, will provide a better return to unsecured creditors than if the sale is completed through the asset sale transaction. Details of the transaction,DOCA, return to creditors and our recommendation to creditors will be included in our report."

Please explain how the administrators know a proposal yet to be submitted to them will provide a better return.

Why are the administrators committing in their 17 July letter to a " recommendation to creditors" about the Bain transaction before they have received the DOCA submission from Bain and before they know what the return from the Bain deal will be, and in the absence of knowing what the bondholders alternative proposal is?

I enquire also about the reference in the July 17 letter to a resolution by the Committee of Inspection (COI) at its meeting on 9 July. The letter states the COI was taken through the Sale Process at that meeting and the resolution approving the administrators actions passed at its conclusion. What was the point of informing the COI of these matters two weeks after the administrators had signed the binding deal with Bain on June 26? Had the COI been provided with the transaction details before June 26 and given the opportunity to comment on them? Is it being suggested that the COI resolution somehow binds creditors? It clearly does not.

Regards,
Larry Lazarides

Sent from my iPad on July 19, 2020