

MONDAY INSIGHT

Primus' amazing turnaround

A year ago, **Primus Telecommunications** looked set to become yet another statistic in the telecom bust. Its share price had collapsed by 99% and the company itself admitted that it only had a couple of quarters worth of cash remaining. But, against the odds, Primus has not only managed to survive, but is now generating cash and dramatically increasing its customer base. Along the way, it has enjoyed a little bit of luck, especially with the improving Australian dollar, which has helped magnify its results when expressed in US dollar terms.

Primus has just reported its first-ever quarter of "*free positive cashflow*", adding \$US11 million to its cash position and generating ebitda of \$US26 million, a record for the company. Primus' comeback employed several strategies – one was the reduction of debt through buying back its own bonds for cents in the dollar, while another was simply pruning back costs in areas with low margins or sales volumes, such as wholesale voice and Internet data centres.

It's also fair to say that the mature Australian operation – based as it was on an antecedent **Axicorp** customer base that dates back eight years – was the key contributor to its survival. Like many hype-afflicted US telcos, Primus undertook a costly expansion into Europe, Japan and Latin America several years ago. It's Australian profits, and to a lesser extent Canadian revenues, have subsidised the losses of those ventures.

Primus' Australian operation has also set an example to the rest of the company. While much of its global empire toils away in irrelevant obscurity, Primus here has forged co-operative marketing deals with the likes of **Microsoft**, **Apple** and **Compaq**, while at the same time winning best ISP awards.

Of course, the turnaround hasn't been completely smooth. Primus is one of the more unloved companies in the industry, with plenty of ex-staff and managers happy to stick the knife in with their tales of unfair dismissals and clumsy threats regarding the company's commercial confidences. But Primus has done more than most global competitive carriers to stay in good stead – it has yet to miss a debt payment, it hasn't restructured at the expense of shareholders and it hasn't been forced to divest or close any major operations.

Last month, Primus signed a deal to acquire **Cable & Wireless'** US residential and SME customer base in a move that costs it nothing except a "*commission*" on billed revenues. It was a dream buy and capped off an amazing turnaround for a company that, at one point, had lost 99.75% of its share market value.

Primus' shares are now trading above the critical US\$1 danger zone and have begun to attract institutional investors of the ilk of George Soros. For the future, the company has to hope that recent signs of margins improvement in competitive long distance and Internet access hold up and that currency movements continue to favour those countries where it returns strong profits.

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