Refocus on Cash Optimization, Operating Efficiency/Improvement and Special Situations

June 9, 2020
Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. We work with clients across diverse sectors on matters of good governance and transparency.

~4,000 TOTAL PROFESSIONALS GLOBALLY

MORE THAN 19,000 ENGAGEMENTS PERFORMED IN 2019

13,500 CLIENTS INCLUDING NEARLY 47% OF THE S&P 500

THE AMERICAS

~2,000 PROFESSIONALS

EUROPE AND MIDDLE EAST

1100+ PROFESSIONALS

ASIA PACIFIC

700+ PROFESSIONALS
ONE COMPANY

ACROSS 25 COUNTRIES WORLDWIDE

THE AMERICAS
Addison
Atlanta
Austin
Bogota
Boston
Buenos Aires
Cayman Islands
Chicago
Dallas
Denver
Houston
Libertyville
Los Angeles
Mexico City
Miami
Milwaukee
Minneapolis
Morristown
Nashville
New York
Philadelphia
Reston
St. Louis
San Francisco
São Paulo
Seattle
Secaucus
Silicon Valley
Toronto
Washington, D.C.
Westlake

EUROPE AND MIDDLE EAST
Abu Dhabi
Agrate Brianza
Amsterdam
Barcelona
Bari
Berlin
Bilbao
Birmingham
Channel Islands
Dubai
Dublin
Frankfurt
Hamburg
Lisbon
London
Longford
Luxembourg
Madrid
Manchester
Milan
Moscow
Munich
Padua
Paris
Pesaro
Riyadh
Rome
Turin
Warsaw
Zurich

ASIA PACIFIC
Bangalore
Beijing
Guangzhou
Hanoi
Hong Kong
Hyderabad
Melbourne
Mumbai
New Delhi
Shanghai
Shenzhen
Singapore
Sydney
Taipei
Tokyo

DUFF & PHELPS

Copyright © 2020 Duff & Phelps LLC. All rights reserved.
## ENHANCING VALUE Across a Range of Expertise

### Valuation Advisory
Valuation and consulting for financial reporting, tax, investment and risk management purposes
- Valuation Services
- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions

### Corporate Finance
Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions
- M&A Advisory
- Fairness and Solvency Opinions
- Transaction Advisory Services
- ESOP and ERISA Advisory
- Private Equity - Financial Sponsors Group
- Distressed M&A and Special Situations
- Private Capital Markets and Debt Advisory
- Financial Restructuring

### Governance, Risk, Investigations and Disputes
Combined Duff & Phelps and Kroll risk management and mitigation, disputes and other advisory services
- Business Intelligence and Investigations
- Global Disputes Consulting
- Global Restructuring Advisory
- Cyber Risk
- Legal Management Consulting
- Security Risk Management
- Compliance Risk and Diligence
- Compliance and Regulatory Consulting

### Prime Clerk
Provides bankruptcy and class action claims administration through its proprietary software and industry leading management team.
- Chapter 11
- Strategic Communications
- Contract Review
- Corporate Actions
- Class Action
Speakers

Ray Newman

- Ray Newman leads the Transaction Advisory practice globally in New York and has more than 25 years of transaction experience
- Specializes in analysis of financial statements in transaction and restructuring situations for corporate and private equity clients
- Prior experience with Deloitte & Touche, Arthur Andersen, manager in Viacom’s internal audit department, and served as a director of worldwide accounting and finance for Home Box Office

Mark Kramer

- Mark Kramer is a Managing Director and leads the U.S. Strategy for Transaction Advisory Services. He has more than 20 years of Transaction Advisory Services experience
- Specializes in distress investment advisory including pre-restructuring and work out analyses
- Prior to joining Duff & Phelps, Mark led the Transaction Advisory Service group at PwC
- MBA from Lake Forest Graduate School of Management and BS in Accounting from University of Illinois

Kurt Steltenpohl

- Kurt Steltenpohl leads the Operations Improvement practice in New York and has 20 years’ experience
- Specializes in operations improvement in transaction, turnaround, and special situations for corporate and private equity clients
- Prior experience with Alvarez & Marsal’s private equity services, PwC, and boutique firm PRTM, and served as a U.S. Navy submarine officer
- MBA, MS, and BS in mechanical engineering from MIT

David W. Prager

- David W. Prager is a managing director in the New York office, primarily focusing on restructuring advisory and expert witness assignments
- David has over two decades of experience as a financial advisor, interim manager, restructuring professional and expert witness
- Prior to joining Duff & Phelps, David spent over 18 years at Goldin Associates, a leading restructuring advisory boutique
- CFA; graduate of the Wharton School, University of Pennsylvania
Current Distressed Paradigm

- Short-term cash model
- Longer-term forecast
- Cash Optimization
- Rescue or DIP Financing
- Operational Improvements
- Valuation
- Recapitalization
- Sale Process

In-court process now starting earlier—often before operating changes or capital solution are in place.
Cash Optimization
Cash Optimization

Case Study: Project Printing

Background

• Throughout this presentation we will refer to a previous redacted project with a company experiencing debt covenant and cashflow issues, Project Printing.
• Project Printing involved a $250m printing company based in the north east of U.S. As the overall printing industry declined, the company faced a corresponding decline in both revenue and margins.
• Although the company had not yet violated any debt covenants, management’s forecasted results would result in the company falling out of covenant compliance, even after implementing management’s proposed cost saving measures.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TTM EBITDA, less CapEx</td>
<td>$16,946</td>
<td>$17,754</td>
<td>$21,430</td>
<td>$23,257</td>
<td>$24,851</td>
<td>$24,493</td>
</tr>
<tr>
<td>TTM fixed charges</td>
<td>16,860</td>
<td>16,992</td>
<td>18,526</td>
<td>20,665</td>
<td>21,966</td>
<td>22,610</td>
</tr>
<tr>
<td>Fixed charge coverage</td>
<td>1.01x</td>
<td>1.04x</td>
<td>1.16x</td>
<td>1.13x</td>
<td>1.13x</td>
<td>1.08x</td>
</tr>
<tr>
<td>Covenant level</td>
<td>1.00x</td>
<td>1.00x</td>
<td>1.05x</td>
<td>1.10x</td>
<td>1.15x</td>
<td>1.20x</td>
</tr>
<tr>
<td>In compliance?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
| Leverage Ratio
| TTM Restructured EBITDA | $20,525   | $21,094    | $24,332   | $25,212   | $26,423   | $26,467    |
| Total Funded Debt  | 114,044   | 115,418    | 110,399   | 108,545   | 102,634   | 102,144    |
| Debt/EBITDA        | 5.56x     | 5.47x      | 4.54x     | 4.31x     | 3.88x     | 3.86x      |
| Covenant Level     | 5.75x     | 5.75x      | 5.25x     | 4.75x     | 4.25x     | 4.00x      |
| In compliance?     | Yes       | Yes        | Yes       | Yes       | Yes       | Yes        |
| Minimum EBITDA
| TTM Restructured EBITDA | $20,525   | $21,094    | $24,332   | $25,212   | $26,423   | $26,467    |
| Covenant Level     | 18,816    | 19,740     | 22,050    | 24,058    | 25,872    | 26,460     |
| In compliance?     | Yes       | Yes        | Yes       | Yes       | Yes       | Yes        |
Cash Optimization
I. Loan Covenant Analysis

Issues/Risks
- Decreased revenue and increased debt drives changes in management's projections, which result in covenant compliance issues.
- On a mid- to long-term horizon, PPP loans exacerbate covenant compliance issues, as the company cannot adjust its payroll cost structure to the level required.

Response
- Create a loan compliance model to increase visibility into forecasted results and the impact of management's assumptions on expected covenant compliance.
- Include sensitivity analysis of key assumptions under potential post COVID-19 scenarios within the model.

Impact
- Establishes a baseline for where the company currently stands regarding covenant compliance and determines where it will stand on a projected basis.
- Provides management with the insight needed to make informed decisions to avoid covenant compliance issues in the future.

### Fixed Charge Coverage Ratio - Sensitivity Analysis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base case</td>
<td></td>
<td>1.01x</td>
<td>1.04x</td>
<td>1.16x</td>
<td>1.13x</td>
<td>1.13x</td>
<td>1.08x</td>
</tr>
<tr>
<td>Printing revenue sensitivity</td>
<td></td>
<td>0.94x</td>
<td>0.93x</td>
<td>1.01x</td>
<td>0.95x</td>
<td>0.99x</td>
<td>0.94x</td>
</tr>
<tr>
<td>Cost savings sensitivity</td>
<td></td>
<td>1.00x</td>
<td>1.01x</td>
<td>1.09x</td>
<td>1.04x</td>
<td>1.03x</td>
<td>0.98x</td>
</tr>
<tr>
<td>Combined sensitivity</td>
<td></td>
<td>0.93x</td>
<td>0.89x</td>
<td>0.94x</td>
<td>0.87x</td>
<td>0.88x</td>
<td>0.84x</td>
</tr>
</tbody>
</table>

### Leverage Ratio - Sensitivity Analysis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base case</td>
<td></td>
<td>5.56x</td>
<td>5.47x</td>
<td>4.54x</td>
<td>4.31x</td>
<td>3.88x</td>
<td>3.86x</td>
</tr>
<tr>
<td>Printing revenue sensitivity</td>
<td></td>
<td>5.83x</td>
<td>6.03x</td>
<td>5.14x</td>
<td>5.07x</td>
<td>4.51x</td>
<td>4.50x</td>
</tr>
<tr>
<td>Cost savings sensitivity</td>
<td></td>
<td>5.59x</td>
<td>5.68x</td>
<td>4.83x</td>
<td>4.72x</td>
<td>4.35x</td>
<td>4.35x</td>
</tr>
<tr>
<td>Combined sensitivity</td>
<td></td>
<td>5.87x</td>
<td>6.28x</td>
<td>5.51x</td>
<td>5.62x</td>
<td>5.11x</td>
<td>5.14x</td>
</tr>
</tbody>
</table>

### Minimum EBITDA - Sensitivity Analysis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base case</td>
<td></td>
<td>$20,525</td>
<td>$21,094</td>
<td>$24,332</td>
<td>$25,212</td>
<td>$26,423</td>
<td>$26,467</td>
</tr>
<tr>
<td>Printing revenue sensitivity</td>
<td></td>
<td>$19,397</td>
<td>$19,108</td>
<td>$21,594</td>
<td>$21,685</td>
<td>$23,265</td>
<td>$23,335</td>
</tr>
<tr>
<td>Cost savings sensitivity</td>
<td></td>
<td>$20,427</td>
<td>$20,451</td>
<td>$23,114</td>
<td>$23,418</td>
<td>$24,151</td>
<td>$24,164</td>
</tr>
<tr>
<td>Combined sensitivity</td>
<td></td>
<td>$19,299</td>
<td>$18,465</td>
<td>$20,376</td>
<td>$19,891</td>
<td>$20,993</td>
<td>$21,033</td>
</tr>
</tbody>
</table>

Sensitivity Analysis Scenarios
1. Base case
2. Printing revenue case
3. Cost savings case
Many middle-market companies do not prepare short-term cash flow forecasts as a component of their ongoing reporting, as was the case for Project Printing.

All companies impacted by COVID-19, even those with excess cash flow historically, may experience cash flow shortages.

- Create and regularly maintain a 13-week cash flow forecast.
- Calculate free cash flow for desired periods on both an actual and an adjusted basis.

Eliminates some of the mystery behind running a business by clarifying exactly how much cash will be required in the near term to fund operations and when it will be required.

Puts management in the position to act proactively as opposed to reactively.

Provides insight into expected recurring EBITDA, changes in working capital, and capital spending.

13-week Cash Flow Forecast

<table>
<thead>
<tr>
<th>Week</th>
<th>19-Dec</th>
<th>26-Dec</th>
<th>2-Jan</th>
<th>9-Jan</th>
<th>16-Jan</th>
<th>23-Jan</th>
<th>13-Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash Inflows</td>
<td>$3,570</td>
<td>$830</td>
<td>$830</td>
<td>$5,570</td>
<td>$1,304</td>
<td>$1,778</td>
<td></td>
</tr>
<tr>
<td>Cash Outflows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll/401k</td>
<td>-</td>
<td>948</td>
<td>948</td>
<td>948</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Check Run Requirements</td>
<td>2,048</td>
<td>2,015</td>
<td>1,896</td>
<td>1,422</td>
<td>1,067</td>
<td>1,067</td>
<td>1,185</td>
</tr>
<tr>
<td>COD Inventory Purchases</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>-</td>
</tr>
<tr>
<td>Arachnid License</td>
<td>83</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rent</td>
<td>83</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Management Fee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Total Outflows</td>
<td>2,214</td>
<td>3,048</td>
<td>2,133</td>
<td>2,453</td>
<td>1,150</td>
<td>2,161</td>
<td>1,268</td>
</tr>
<tr>
<td>Net Cash Flow from Operations</td>
<td>$1,460</td>
<td>$(2,216)</td>
<td>$(1,303)</td>
<td>$(1,623)</td>
<td>$4,420</td>
<td>$(877)</td>
<td>$519</td>
</tr>
</tbody>
</table>

Disbursements:

- RMC License Fees
- DSMO
- RMC Operating Expenses

Total Investment Requirements
Grand Total Beginning Cash

<table>
<thead>
<tr>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Forecasted Operating Cash Flow

Cash flow from operations - base
Cash flow - scenario 2
Cash flow - scenario 3

Source: Schedule prepared by Management
**Cash Optimization**

### III. Working Capital Analysis

<table>
<thead>
<tr>
<th>Issues/Risks</th>
<th>Response</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Management has neither robust nor timely data to effectively manage working capital.</td>
<td>• Analyze the company's historical and prospective working capital levels given management's business plan.</td>
<td>• Decreases levels of working capital and increases operating cash flow, which the company can use to fuel a turnaround or pay down existing debt.</td>
</tr>
<tr>
<td>• Weaknesses in working capital may have been identified but resources to develop an effective solution are not available.</td>
<td>• Identify opportunities to reduce current and future levels of cash in working capital.</td>
<td></td>
</tr>
<tr>
<td>• As a result, the company has a greater level of cash tied up in working capital than necessary to operate the business.</td>
<td>• Assess whether the company can generate additional cash through CCC and quantify the potential impact.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• In Project Printing, we identified an opportunity to increase DPO by 15 days.</td>
<td></td>
</tr>
</tbody>
</table>

#### Accounts Payable Financing Opportunity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Historic DPO</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Comp Group DPO</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Projected Accounts Payable</td>
<td>$4,971</td>
<td>$5,420</td>
<td>$5,017</td>
<td>$5,035</td>
<td>$4,698</td>
<td>$5,198</td>
</tr>
<tr>
<td>Extended Accounts Payable</td>
<td>13,198</td>
<td>14,389</td>
<td>13,318</td>
<td>13,367</td>
<td>12,472</td>
<td>13,799</td>
</tr>
<tr>
<td>Potential Debt Reduction</td>
<td>$8,227</td>
<td>$8,969</td>
<td>$8,302</td>
<td>$8,332</td>
<td>$7,774</td>
<td>$8,602</td>
</tr>
</tbody>
</table>

- Company currently pays suppliers in a timely manner to take advantage of discounts
- By extending payment, the Company would forego these discounts but reduce its line of credit balance
- Paying down debt balance would positively impact debt covenant compliance
Operations Improvement
Situation. A restaurant chain became distressed after 3 years of declining revenue and EBITDA. Duff & Phelps advised the client on bankruptcy filing, the operational improvements / restructuring, and the distressed asset M&A/sale process.

Approach. Cash Flow Modeling / Optimization, and Operations Improvement

Results. Duff & Phelps supported the client to navigate bankruptcy, conduct an auction, transfer ownership, and manage the estate. At the outset, Duff & Phelps took ownership of the cash flow forecast to serve the needs of all stakeholders: management, bank, lenders, court, and potential bidders. The business successfully completed a combo sale and emerged from bankruptcy.
• Key objective:
  – Identify any near-term efficiency opportunity to improve liquidity
  – Answer ‘turnaround-ability’ question
• Conducted a rapid operations diligence to evaluate functional and business process performance
• Identified EBITDA opportunities from:
  – Location closures in waves
  – Management and labor headcount reduction
  – Reprioritization of IT and other initiatives to reduce costs and focus the business on restoring profitability.

### Operational Improvement

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Operational Improvement</th>
<th>Results EBITDA</th>
<th>Timing Weeks</th>
<th>One-time Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Footprint Optimization</td>
<td>• Close z stores immediately</td>
<td>$XXX</td>
<td>2 - 4</td>
<td>$ZZ</td>
</tr>
<tr>
<td></td>
<td>• Close additional s-t stores if w</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Food &amp; Beverage Procurement</td>
<td>• Decrease weekly food purchases</td>
<td>$XXX</td>
<td>1 - 2</td>
<td>$ZZ</td>
</tr>
<tr>
<td></td>
<td>• Hone ‘scratch kitchen’ ingredients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Restaurant Operations</td>
<td>• Reduce store-level management to reduce costs</td>
<td>$XXX</td>
<td>2 - 4</td>
<td>$ZZ</td>
</tr>
<tr>
<td></td>
<td>• Improve effectiveness of restaurant operations/KPIs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Menu Item Rationalization</td>
<td>• Reduce menu item count</td>
<td>$XXX</td>
<td>4 - 6</td>
<td>$ZZ</td>
</tr>
<tr>
<td></td>
<td>• Replan Happy Hour program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td>$2 - 4m</td>
<td>TBD</td>
<td>$ZZ</td>
</tr>
</tbody>
</table>

• Insufficient to prevent restructuring
• Growth opportunity for Bidders / Buyers
Operational Improvement
Footprint Analysis and Value Optimization

- Key objectives:
  - Footprint analysis to determine which 10 stores to close
  - Maximize total EBITDA to maximize valuation
  - Growth potential to keep bidder interest
- To financial metrics, added operational metrics such as General Manager Rank, Private Dining, Productivity (SPLH)
- Evaluated closure scenarios based on remaining store mix metric performance

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Financial</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Sales</td>
<td>EBITDA</td>
</tr>
<tr>
<td>Baseline</td>
<td>$127.8</td>
<td>$7.1</td>
</tr>
<tr>
<td>Scenario A: Poor Profitability</td>
<td>$102.7</td>
<td>$8.8</td>
</tr>
<tr>
<td>Strategy (10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scenario B: Store Type (In-line</td>
<td>$101.1</td>
<td>$8.6</td>
</tr>
<tr>
<td>Mall) Strategy (10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scenario C: 'No Private Dining</td>
<td>$103.5</td>
<td>$8.7</td>
</tr>
<tr>
<td>Strategy' (10)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Same Valuation (EBITDA)
- Different Growth Potentials
Operational Improvement
Cash Flow Modeling in the COVID-19 Market

Situation and Approach

Cash Forecasting and Scenario Planning at a Pre-Distressed Consulting Firm

Situation.
A consulting firm was in default, and the lenders requested Duff & Phelps work with management to implement a 13-week cash flow model. One week into the engagement, the business suffered rapidly declining revenues due to the national quarantine for the COVID-19 crisis.

Approach. Cash Flow Modeling

Results.
Duff & Phelps built a 13-week cash flow model, loaded two weeks of actuals to test the results, and ran scenarios to support stakeholder decision-making. The lenders leveraged the model to support 2020 budget revisions and the risk to cash flow needs. Management and the lenders reached agreement on an amendment to the loan agreement.

• In response to the COVID-19 market conditions, the model was upgraded with additional revenue and associated cost reduction scenarios to support management decisions to conduct workforce reductions and across-the-board compensation reduction for all employees.
Illustrative Restructuring Process

- Short-term cash model
- Longer-term forecast
- Cash Needs
- Rescue or DIP Financing
  - Cash collateral
  - Priming lien
  - Unencumbered asset
- Sale Process
  - Pre-filing process
  - Stalking Horse
  - 363 Auction
  - Free and Clear
- Valuation
  - Businesses to divest
  - Executory contracts
- Recaptialization
  - Debt capacity
  - Cash flow coverage
  - Identify non-financial liabilities
  - Equitization
- Petition and First Day Declaration
  - Critical Vendors
  - Other First Day
  - Rejections
- Ongoing Reporting
  - Monthly Operating Reports
  - SOFAs and SOALs
- Disclosure Statement
  - Confirmations

Copyright © 2020 Duff & Phelps LLC. All rights reserved.
Value Allocation

**Secured**
- To the extent of collateral
- Entitled to adequate assurance

**Super-Priority Administrative**
- DIP lender

**Administrative**
- Actual, necessary costs and expenses of preserving the estate

**Priority**
- Certain taxes and government claims
- Certain pre-petition employee claims

**Unsecured**
- Subordination agreements are inter-creditor, but may be enforced

**Equity**
- Best Interest of Creditors
  Each holder of a claim will receive or retain property of a value not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7

**Discrimination**
- The plan may not discriminate unfairly with respect to each class
  - Allows for variation in treatment in-court, provided it is “fair”
  - Out-of-court may provide additional flexibility, including ability to “gift” to junior classes

**Absolute Priority Rule**
- The holder of any claim or interest that is junior will not receive or retain any property unless the senior class has been paid in full

**Feasibility**
- The plan is not likely to be followed by the liquidation, or the need for further financial reorganization
  - Among other things, requires that the debtor is reasonably likely to be able to pay its restructured debt

**Out-of-court restructurings present more opportunity to deviate from absolute priority**
# Other Bankruptcy Tools

## Sale Free and Clear
- § 363 allows for sale of debtor’s assets free and clear of encumbrances, including most restrictions on sale
  - Highest and best bid
  - Often requires an auction, formal sales process or other independent proof of value

## Automatic Stay
- All litigation involving debtor is stayed automatically upon commencement of bankruptcy
  - Stay applies worldwide
  - Disputes are generally channeled to bankruptcy court
    - Non-core matters subject to *de novo* review by district court

## Cram-Down
- Plan can be imposed upon non-consenting creditors
  - Limits on treatment of secured creditors
  - Must meet requirements under the code
  - Requires affirmative vote of one impaired class (2/3 in dollars, majority in number)
    - Some discretion in creating classes

## Avoidance Actions
- Bankruptcy Code and state law provide for unwind of certain pre-petition transactions if the company were insolvent at the time
  - Preference—payment on antecedent debt outside of the ordinary course
  - Constructive fraudulent conveyance—transfer for less than reasonably equivalent value
  - Fraudulent conveyance—transfer with actual intent to hinder, delay or impair creditors

## Contract Rejection
- “Executory contracts” may be rejected
  - Essentially, deems the contract terminated and any damages are pre-petition claims
  - “Executory Contracts” are those for which a material performance obligation remains *on both sides* (e.g., leases)
  - Debtor generally can reject in its reasonable business judgement

## Use of Collateral
- Debtor may use encumbered property even if otherwise in default
  - Includes use of cash collateral
  - Allows for priming liens by new lenders
  - May have to provide “adequate assurance” against decline in value
    - May consist of interest payments, fair market rent, replacement liens, administrative claim for declines in value

---

*Copyright © 2020 Duff & Phelps LLC. All rights reserved.*
IV

2020 Market Recovery Insights
COVID-19 will likely have a lasting impact on consumer buying behaviors at the point of sale and service delivery in retail, restaurants, healthcare, and professional services businesses. All strategic options will be on the table including turnaround plan(s) to retool the operations for the new marketplace, to potentially restructure the debt, and/or to position the assets for new ownership and rapid recovery.

Opportunity
- Distressed small business M&A activity will increase as liquidity issues grow.
- Distressed businesses will require significant operational changes to align services to the new market, e.g. retail, restaurants.
- Chapter 11 reorganization presents opportunity to buyers, especially private equity.

Approach
- Evaluation of the strategic alternatives for the distressed business

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell</td>
<td>$27m</td>
<td>$27m to $33m</td>
<td>$27m</td>
</tr>
<tr>
<td>Improve, then Hold or Sell</td>
<td>$0m to $1m</td>
<td>$2m to $6m</td>
<td>$0m to $1m</td>
</tr>
<tr>
<td>Restructuring</td>
<td>$6x to $8x</td>
<td>8x to 10x+</td>
<td>1x to 3x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th>EBITDA</th>
<th>Multiple</th>
<th>EV</th>
</tr>
</thead>
<tbody>
<tr>
<td>$27m</td>
<td>$0m to $1m</td>
<td>6x to 8x</td>
<td>$5m to $10m</td>
</tr>
<tr>
<td>$27m to $33m</td>
<td>$2m to $6m</td>
<td>8x to 10x+</td>
<td>$10m to $25m</td>
</tr>
<tr>
<td>$27m</td>
<td>$0m to $1m</td>
<td>1x to 3x</td>
<td>$1m to $3m</td>
</tr>
</tbody>
</table>

How we can help
- Baseline cash forecast to support all stakeholders and potential outcomes.
- Rapid cost control and cash optimization.
- Identify operations changes and investment required.
- Raise capital, restructure, run a sale process and/or reorganize business.
- Implement operations changes to create value.
## 2020 Market Recovery Insights
### Operational Improvement Activity

<table>
<thead>
<tr>
<th>Client Situation</th>
<th>Duff &amp; Phelps’ Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transactions</strong></td>
<td><strong>#1: Deal timing is postponed</strong></td>
</tr>
<tr>
<td></td>
<td>- Re-evaluate sale perimeter</td>
</tr>
<tr>
<td></td>
<td>- Divest assets to generate cash</td>
</tr>
<tr>
<td></td>
<td>- Launch pre-sale operations improvement to boost value</td>
</tr>
<tr>
<td></td>
<td><strong>#2: PE PortCo’s are not performing:</strong></td>
</tr>
<tr>
<td></td>
<td>- EBITDA target shortfall, covenant breaches</td>
</tr>
<tr>
<td></td>
<td>- Assess ‘turnaround-ability’</td>
</tr>
<tr>
<td></td>
<td>- Gain visibility to cash position real-time</td>
</tr>
<tr>
<td></td>
<td>- Quantify supply chain risks</td>
</tr>
<tr>
<td><strong>Turnaround</strong></td>
<td><strong>#3: Permanent change in customer behaviors</strong></td>
</tr>
<tr>
<td></td>
<td>- Reduce and reconfigure cost structure</td>
</tr>
<tr>
<td></td>
<td>- Retool product/service(s)</td>
</tr>
<tr>
<td></td>
<td>- Manage distressed asset</td>
</tr>
<tr>
<td><strong>Operational Restructuring</strong></td>
<td><strong>#4: Long-term uncertainty in mobilization for recovery</strong></td>
</tr>
<tr>
<td></td>
<td>- Identify and mitigate supply chain risks</td>
</tr>
<tr>
<td></td>
<td>- Plan workforce for recovery</td>
</tr>
<tr>
<td></td>
<td>- Utilize technology and analytic solutions to ramp-up and support growth</td>
</tr>
<tr>
<td><strong>Operational Strategy</strong></td>
<td><strong>#4: Long-term uncertainty in mobilization for recovery</strong></td>
</tr>
<tr>
<td></td>
<td>- Identify and mitigate supply chain risks</td>
</tr>
<tr>
<td></td>
<td>- Plan workforce for recovery</td>
</tr>
<tr>
<td></td>
<td>- Utilize technology and analytic solutions to ramp-up and support growth</td>
</tr>
</tbody>
</table>

- **Deal Strategy**
- **Carve-out Alternatives Analysis**
- **Pre-Sale Operational Improvement**
- **Liquidity/Cash Flow Modeling**
- **Rapid Business Turnaround**
- **Supply Base Risk Analysis**
- **Operational Restructuring**
- **Cost Redux (COGS, SGA, R&D)**
- **Distressed Asset Sale**
- **Operational Strategy**
- **Supply Chain Resiliency Design**
- **Reshoring of Manufacturing**

---

**Copyright © 2020 Duff & Phelps LLC. All rights reserved.**
Duff & Phelps Approach to Cash Optimization in Distressed Situations
By integrating the service teams with specific transaction and situational experience – Investment Banking, Transaction Services, Restructuring, Operations and Performance Improvement – Duff & Phelps advises capital and debt providers to achieve maximum value on troubled investments.

**Restructuring**
- Debtor and creditor advisory in Chapter 11 and out-of-court reorganizations
- Distressed debt / Special situations advisory
- Exchange offers and consent solicitations
- DIP and Exit financing

**Transaction Services**
- Buy and sell-side due diligence
- Tax structuring
- Pro forma analysis
- Post-acquisition working capital analysis

**Investment Banking**
- Mergers and Acquisitions
- Private Placement of Debt and Equity
- Transaction Opinions
- Modeling / Forecasting

**Operations and Performance Improvement**
- Turnaround and Operational restructuring
- Performance improvement
- Strategic review
- Transactions; disposal optimization and acquisition integration

---

Copyright © 2020 Duff & Phelps LLC. All rights reserved.
Our restructuring and special situation advisors have decades of experience dedicated to advising in restructuring and special situations. Our experience includes advising on hundreds of middle market special situation transactions, as well as many of the largest, most complex restructurings over the past 25 years, including Pacific Gas & Electric, Delphi, Global Crossing, Lehman Bros, ResCap, Six Flags, Inc., and Visteon Corporation, among others.

We have a global restructuring advisory and special situations team, with professionals based in North America, Europe, Cayman Islands, India, Australia, Brazil, China and Hong Kong. The global reach of our restructuring advisors allows us to provide creative, timely, and reliable solutions to meet the demanding needs of our clients.

Our core services include advising on restructurings and bankruptcy reorganizations, turnaround and crisis management, special situation M&A advisory, raising capital to fund turnarounds and bankruptcies, and related litigation support.

Our core restructuring and special situation services are fully-integrated with the firm’s broader platform. We have a proven track record of providing accounting support, preparation of business plan projections, 13-week cash flow forecasting, and assessment of liquidity and optimal debt levels.

Our core restructuring services are supported by the firm’s dedicated industry groups, debt capital markets coverage, and sponsor relationships. Our restructuring teams are committed to leveraging all the firm’s resources to serve the needs of each client.
Duff & Phelps’ Comprehensive Services in Special Situations

Comprehensive Services

Duff & Phelps' Restructuring and Special Situations practice is uniquely positioned to assist businesses and their stakeholders to rescue, stabilize, and maximize value during periods of financial instability.

Our dedicated restructuring and special situations professionals leverage the firm’s global platform to serve the specific needs of our clients.

For decades, our practice has forged longstanding relationships with the most active capital providers in the special situation community – allowing us to deliver timely, creative, and reliable solutions to our clients.

- Workout and restructuring negotiations
- Consent solicitations and exchange/tender offers
- Plan of reorganization structuring and negotiations

- Litigation and dispute advisory
- Fraud, forensics and corporate recovery investigations
- Asset tracing and recovery

- Fairness and solvency opinions
- Business valuations
- Complex/illiquid asset valuations
- Asset appraisals

- Focus on Consumer, Energy, Healthcare, Industrial and Manufacturing, Technology, and Aerospace

- Sale of stressed and distressed businesses
- Divestiture of underperforming/non-core corporate assets
- Bankruptcy and receivership sales

- Bank and non-bank financings to fund turnarounds or in rescue situations
- DIP and Exit Financings in Chapter 11

- Turnaround and Crisis Management
- Operational Improvement, including cost reduction and revenue enhancement
- Business plan valuation and debt capacity analysis
- Key Employee Retention Programs
- Cash flow and working capital management and forecasting
- Monthly Financial reporting

Copyright © 2020 Duff & Phelps LLC. All rights reserved.
Contact

Ray Newman  
Global Head of Transaction Advisory Services  
Raphael.Newman@duffandphelps.com  
+1 212 871 7144  
New York

Mark Kramer  
U.S. Strategy Leader in Transaction Advisory Services  
Mark.Kramer@duffandphelps.com  
+1 312 697 4522  
Chicago

Kurt Steltenpohl  
Managing Director, Operational Strategy and Process Improvement  
Kurt.Steltenpohl@duffandphelps.com  
+1 917 754 7267  
New York

David Prager  
Managing Director, Restructuring Advisory  
David.Prager@duffandphelps.com  
+1 212 277 0129  
New York
Disclaimer

Any positions presented in this session are those of the panelists and do not represent the official position of Duff & Phelps, LLC. This material is offered for educational purposes with the understanding that neither the authors nor Duff & Phelps, LLC or its affiliates are engaged in rendering legal, accounting or any other professional service through presentation of this material.

The information presented in this session has been obtained with the greatest of care from sources believed to be reliable, but is not guaranteed to be complete, accurate or timely. The authors and Duff & Phelps, LLC or its affiliates expressly disclaim any liability, including incidental or consequential damages, arising from the use of this material or any errors or omissions that may be contained in it.
For more information about our global locations and services, please visit:
www.duffandphelps.com

About Duff & Phelps

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. We work with clients across diverse sectors on matters of good governance and transparency. With Kroll, the leading global provider of risk solutions, and Prime Clerk, the leader in complex business services and claims administration, our firm has nearly 4,000 professionals in 25 countries around the world. For more information, visit www.duffandphelps.com.

M&A advisory, capital raising and secondary market advisory services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC. Pagemill Partners is a Division of Duff & Phelps Securities, LLC. M&A advisory, capital raising and secondary market advisory services in the United Kingdom are provided by Duff & Phelps Securities Ltd. (DPSL), which is authorized and regulated by the Financial Conduct Authority. Valuation Advisory Services in India are provided by Duff & Phelps India Private Limited under a category 1 merchant banker license issued by the Securities and Exchange Board of India.