AMERICAN BANKRUPTCY INSTITUTE

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Finance in the Brave New World: A Post-Trump Evaluation of Trends, Options and Opportunities for Distressed Financings

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2017

PJT Partners

Finance in the Brave New World

A POST TRUMP EVALUATION OF TRENDS, OPTIONS AND OPPORTUNITIES FOR DISTRESSED FINANCINGS

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20 October 2017

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Panelists

- **Patrick Armstrong** – Goldman Sachs
- **Van Durrer** – Skadden Arps
- **Eric Hoffman** – Centerbridge
- **Matt Ross** – KKR
- **Nick Tally** – Wilmington Trust
- **Jamie O'Connell** (Moderator) – PJT Partners

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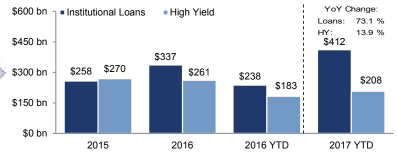
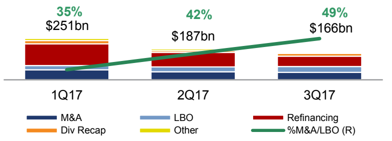
Leveraged Finance Markets Overview

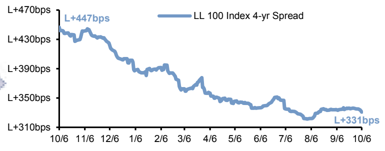
Themes | **YTD Outcomes**

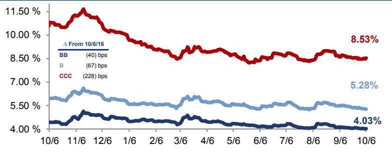
1 High Yield And Leveraged Loan Issuance Continue To Track Above Last Year's Pace



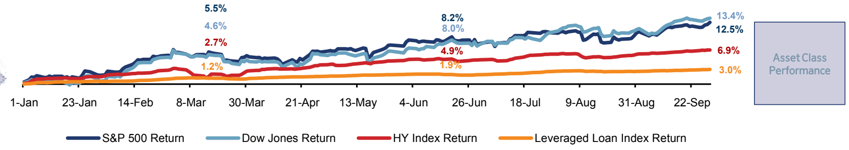


2 Favorable Technicals Drive Tight Pricing Environment For Issuers

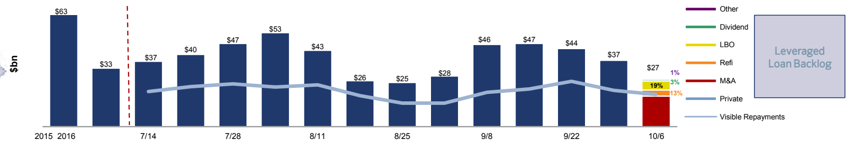




3 Markets Remain Firm In The Face Of Geopolitical Headlines & Continue To Climb Higher



4 Strong Investor Demand Expected In Q4 With Lighter Backlog



Source: AMG Data Services, Barclays Live, Bloomberg, S&P LCD News & Research.

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Trump's Impact

Trump's Puerto Rico comments were taken seriously by the market

> On 3 October 2017, Trump called to wipe out Puerto Rico's debt obligations in an interview

> Bonds traded down 10%+ post Trump's comments

Trump has used the bankruptcy process for his businesses six times

> Trump Taj Mahal
  - Overleveraged after overrunning construction costs
  - In 1991, entered prepackaged bankruptcy resulting in Trump ceding 50% to creditors for lower interest rates and a longer payoff schedule

> Plaza Hotel
  - Overleveraged after Trump's "expensive" acquisition of the hotel
  - Entered prepackaged bankruptcy in 1992, resulting in forgiveness of $250mm of debt and an interest rate reduction for a 49% stake in the hotel

> Trump Hotels and Casino Resorts
  - Operational downturn largely due to increased competition in Atlantic City (e.g., 2003 opening of the Borgata, a JV between MGM Mirage and Boyd Gaming)
  - In 2004, entered prepackaged bankruptcy in which Trump reduced his share from 47% to 27% of the company but remained in charge of its operations

Uncertainty from Trump regarding regulation could stifle deal activity

> Turnover and general uncertainty in government personnel could impact deal-making in regulation-heavy industries

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Trends – Sponsors Using Credit Agreement Loopholes

Financial sponsors have taken advantage of existing loopholes in credit agreements and indentures

> Extend runway
> Grow option value

Select examples include:

> Caesars
> J.Crew
> Claire's
> Neiman Marcus

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Caesars

In January 2008, Apollo and TPG acquired Caesars

Recession and increased competition due to looser gambling regulations compressed EBITDA

> 2013 CEOC leverage of ~13x LTM EBITDA

Sponsors began evaluating strategic alternatives in late 2013

> CEOC sold $2.2B assets to CGP
> CEOC uses cash tender offer for 2015 notes
> CEOC transfers properties to CERP
> Created a JV named CES to transfer Total Rewards and management resources
> At emergence, company plans to split into a REIT and an operating company

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Caesars (Cont'd)

Company confronted a variety of other challenges in bankruptcy

> CEOC filed in January 2015 with the support of ~$6.4B of First Lien Lenders
  - Extensive litigation and negotiation prevented an immediate resolution
    - Involuntary petition
    - Venue selection
    - Examiner report
    - Stripped parent guarantee after 5% equity sale

> Company reached a fully consensual deal in September 2016

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Marblegate Ruling impact?

> Regarding Section 316(b) of the TIA

> Second Circuit overturned a lower court reading that restricted coercive debt exchanges without 100% consent

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J.Crew

In 2011, J.Crew was acquired by TPG and Leonard Green & Partners

Substantial leverage and the 2019 maturity of its PIK Notes led J.Crew to evaluate strategic alternatives

> Company was leveraged over 10x 2017E EBITDA

> $566mm of 7.75% cash 8.5% PIK Notes due May 2019

> PIK Notes traded ~40 in late 2016

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In December 2016, J.Crew transferred IP Assets from a restricted subsidiary within the Term Loan collateral package to a new unrestricted subsidiary

> Used a $250mm Permitted Investments basket to transfer assets into a newly-formed foreign subsidiary, which subsequently contributed IP Assets to the newly formed unrestricted subsidiary

> $30mm new Sponsor-funded Term Loan pari passu with existing Term Loan

Exchange transaction

> Term Loan consented for $150mm pay down, 22 bps increase in spread, a 50 bps increase in amortization and tighter covenants

> PIK Notes received $250mm of new 13% first lien notes due 2021 at the new IP subsidiary, $190mm of parent's 7% perpetual preferred stock and 15% of parent's common equity

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Claire's

Claire's was acquired by Apollo in 2007

Substantial leverage, deteriorating operations and limited liquidity caused Claire's to evaluate restructuring transactions

> Company had ~12x leverage and less than $50mm of liquidity at the end of April 2016

> Company was managing $200mm of annual cash interest expense

Exchange transaction

> In October 2016, Company transferred IP rights to CLSIP, an unrestricted subsidiary

> Company exchanged its $228mm of its second lien notes due 2019, $103mm of its unsecured notes and $1mm of its subordinated notes for $40mm of new Claire's Stores term loans, $130mm of CLSIP term loans and up to $60mm of Claire's Gibraltar term loans

Current situation

> Company remains overleveraged (~10x LTM EBITDA) but extended runway by retiring 10.5% senior subordinated notes to avoid springing maturity on its revolving credit facility

> Company has ~$50mm of liquidity

> Next maturities in early 2019

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Neiman Marcus

Company was acquired in 2013 by Ares Management and the Canada Pension Plan Investment Board

Company began exploring options to reduce leverage

> ~11x of leverage

> No maturities until 2020

> $400mm+ of liquidity

In March 2017, company designated subsidiaries that conduct operations of MyTheresa and own certain stores as unrestricted subsidiaries

> Company began leasing the stores from the unrestricted subsidiary
  – Paying ~$5mm/year

Current situation

> Company may be contemplating exchanging its $1.56B of unsecured notes for new secured notes given its secured debt capacity
  – Exchange would capture discount and make the company more marketable to potential buyers

> Company may also raise debt at unrestricted subsidiaries

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Sectors

Energy

> Sustained low commodity prices have driven many remaining players into restructurings

> In 2017, price of oil has largely fluctuated between $45 and $55 per barrel compared to previously higher industry expectations

Retail

> Impact of:
- Changing consumer tastes
- E-commerce
- Declining traffic
- Customer conditioning to discounting
- Fast fashion

Healthcare

> Impact of:
- ACA
- Tough reimbursement landscape
- Dwindling patient volumes and rising costs

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DIP Trends

Alternative asset managers have entered the DIP lending space

> Bank regulators and leveraged lending guidance have impacted the ability of many large banks to provide DIP financing

> Second lien and unsecured creditors have shown a willingness to provide DIP financing to influence the bankruptcy process
- 21st Century Oncology: DIP split between first lien lenders and unsecured noteholders
- New Gulf Resources: DIP provided by second lien noteholders group

DIP market has been very fluid

> Westinghouse
- 32 parties contacted, 25 signed NDAs
- Limited information provided to parties
- Rate: L + 625
- Apollo ultimate lender

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