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The Pandemic Era: Did Corporate Valuation Change?

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MAY 11-13, 2022

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Valuation During Abnormal Market Conditions: Retail Bankruptcy

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When the Calculation of Beta Requires Extra Attention

- Beta is a measure of a company's **systematic risk**
  - Beta represents operational risk or business risk. This risk cannot be diversified away.
- Instances when it may not be possible or meaningful to simply run a regression to calculate Beta:

  - **Privately Held Company**
  - **Recent IPO**
  - **Corporate Divisions**
  - **Highly Distressed Company**
  - **Drastic Change in Capital Structure**
  - **Shock to the Economy**

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Case Study: Tailored Brands

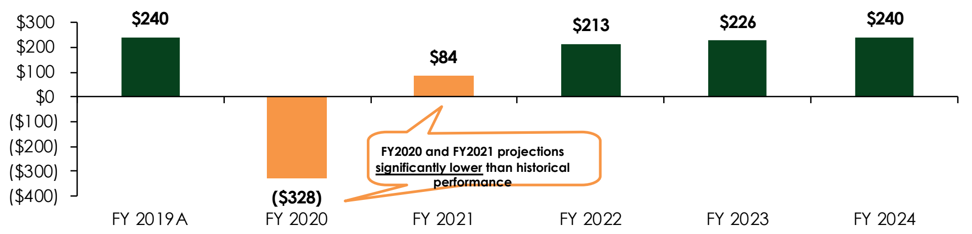
Tailored Brands Management Projections

- Tailored Brands projections already reflected the impact of COVID-19 on the business. Management stood by its projections throughout the bankruptcy, stating they represented the best estimate of its performance going forward.

TAILORED BRANDS

Using reduced cash flow projections as a result of COVID-19, value declines by 15% - 20%

Tailored Brands Historical vs Projected EBITDA



Source: Tailored Brands Form 8-K as of Oct. 7, 2020.

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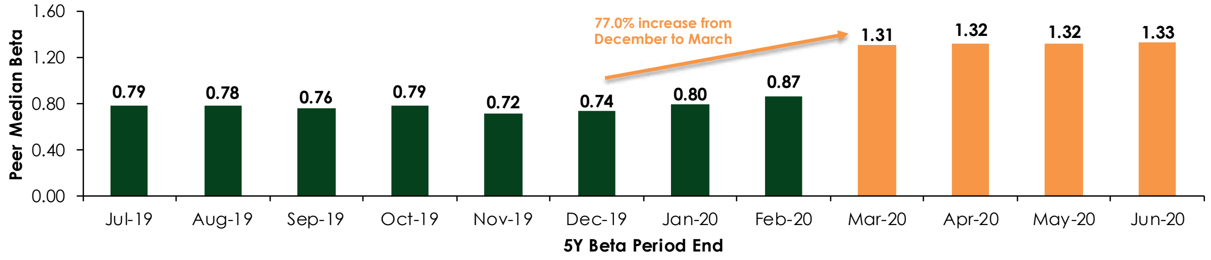
Case Study: Tailored Brands

Tailored Brands Peer Companies' Median 5Y Betas

- Tailored Brands 5Y monthly Beta increased from 0.74 to 1.31 from December 2019 to March 2020. The March 2020 monthly data alone drastically increased the overall Beta.

5Y Median Levered Beta



Source: FactSet.

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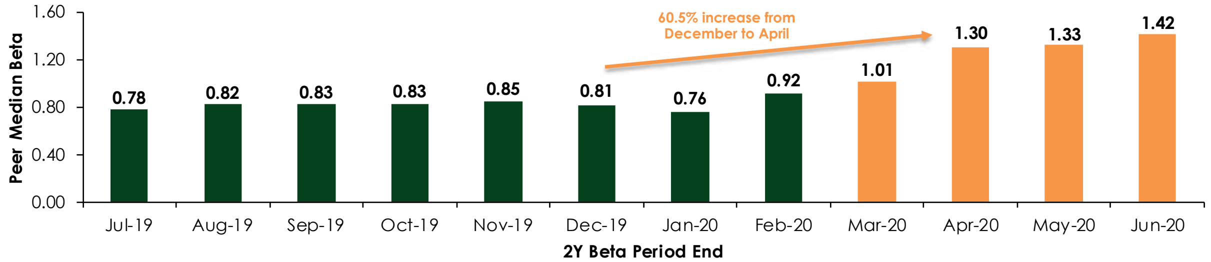
Case Study: Tailored Brands

Tailored Brands Peer Companies' Median 2Y Betas

- Tailored Brands 2Y weekly Beta increased from 0.81 to 1.30 from December 2019 to March 2020. The weekly data from the month of March 2020 alone increases the overall Beta.

2Y Median Levered Beta



Source: FactSet.

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Case Study: Tailored Brands

Tailored Brands Hypothetical WACC Calculations

- A pre-COVID Beta normalizes the discount rate, to account for abnormal market volatility: thereby **preventing double-counting effects of COVID-19 on projected cash flows**, which already include the impact of this atypical market.

5 Year Beta	12/31/2019	03/31/2020	% Increase
Median Levered Beta of Peer Group	0.74	1.31	78.4%
Median Unlevered Beta of Peer Group	0.73	1.14	55.2%
Tailored Brands Relevered Beta	**0.92**	**1.42**	**55.2%**

Source: FactSet, St. Louis Federal Reserve Database, Duff & Phelps' Cost of Capital Navigator, and Management Projections. 7

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Case Study: Tailored Brands

Tailored Brands Hypothetical WACC Calculations

- Using an increased beta as of March 2020 would result in an inappropriate increase in Tailored Brands' discount rate and consequently, a reduced value.
- For example, for a hypothetical continuing cash flow of $1,000, the WACC calculated using pre-COVID inputs results in a present value of $10,309, however, using post-COVID inputs, the value would be $8,290.

Beta as of:	12/31/2019	03/31/2020
Beta	0.92	1.42
Cost of Equity	11.0%	14.1%
WACC	9.7%	12.1%
Impact on $1,000	$10,309	$8,290

In this hypothetical example, using an inflated beta would result in a reduction in value of 20%, all else being equal

Source: FactSet, St. Louis Federal Reserve Database, Duff & Phelps' Cost of Capital Navigator, and Management Projections. 8

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Covid-19 Impacted Company's Valuations Differently

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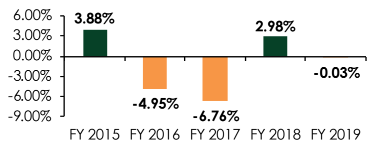
How has Valuation Changed as a Result of COVID-19 for Retailers?

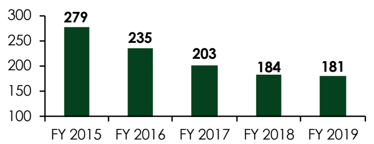
Brick-and-Mortar "Retail Apocalypse" Accelerated by COVID-19

- Moody's Investor Service February 7, 2017 Department Stores Industry Report: "[o]ver the coming decade, **we expect department stores to generate nearly 35-40% of their sales from e-commerce**, compared to an estimated 20% today… **the shift in sales from a high fixed cost model (physical stores) to a variable cost (e-commerce) structure** will make it tough for companies to maintain operating margins."

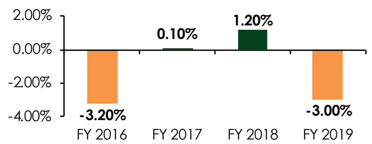
Neiman Marcus Same Store Sales Growth



J. Crew Store Count



Tailored Brands Same Store Sales Growth



Brick-and-mortar retailers had experienced declining same store sales and reduced store counts, which was then accelerated by COVID-19.

Source: FactSet.

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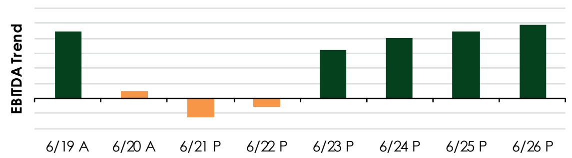
How has Valuation Changed as a Result of COVID-19 for Retailers?

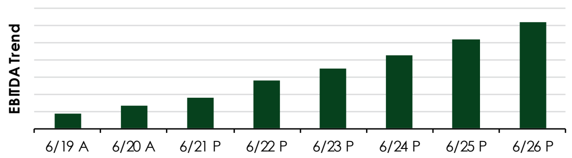
Brick-and-Mortar vs E-commerce Businesses

- Projections **made after March 2020** by brick-and-mortar retail businesses, such as Neiman Marcus, projected a dramatic dip in response to the COVID-19 pandemic. In stark contrast, e-commerce businesses, such as MyTheresa, projected steady growth.

Neiman Marcus Historical vs Projected EBITDA



MyTheresa Historical vs Projected EBITDA



In this E-commerce businesses projected steady growth even after the COVID-19 pandemic began.

Source: Management Projections.

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Case Study: MyTheresa

UCC Valuation:
$925 million

Emerged from Bankruptcy:
September 25, 2020

IPO Value (pre-market):
$26/share → $1.9 billion

MYTHERESA

IPO Date:
January 21, 2021

IPO Day Closing Value:
$31/share → $2.2 billion

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Valuation in Bankruptcy and COVID-19

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Case Study:

In *re Chesapeake Energy Corporation, et al.*
Case No. 20-33233 (DRJ) (Bankr. S.D. Tex.)

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Case Study: *Chesapeake Energy*

- On June 28, 2020, Chesapeake Energy Corporation, along with its affiliates and subsidiaries (collectively, the "Debtors" or the "Company") filed for chapter 11
- Prepetition, the Debtors faced several financial and macroeconomic challenges
  - As of the Petition Date, the Debtors had about **$9.169 billion** in total funded debt obligations, the bulk of which was incurred to fund expansion efforts from the previous decade
  - The onset of the COVID-19 pandemic created a liquidity crisis for the Company:
    - Demand for oil and gas plummeted while supply increased rapidly
    - On March 9, 2020, the WTI index declined 24.59 percent in a single day
    - For a brief period, in April 2020, the price for WTI crude oil for May delivery settled at negative $37.63 per barrel

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Case Study: *Chesapeake Energy (cont.)*

- In response, the Debtors engaged counsel and financial advisors in mid-March 2020 to begin exploring a potential restructuring
- Negotiations with major stakeholders lasted from mid-April to mid-May 2020 when the parties agreed to a framework for the restructuring
- The Debtors' plan centered on, among other things:
  - A debt-for-equity swap of first lien, last out lender claims for 76% of the Company's equity;
  - Second lien lenders would receive 12% of the equity, the right to participate in a $600 million rights offering, and warrants for additional equity;
  - Unsecured noteholders would receive 12% of the equity and warrants; and
  - Revolver lenders, owed $2.3 billion, would share in the company's $2.5 billion exit financing on a dollar-for-dollar basis and provide a $925 million DIP facility
- These transactions were premised on a **$3.25 billion** valuation of the Company

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Case Study: *Chesapeake Energy (cont.)*

- On September 11, 2020, the Debtors filed their chapter 11 plan of reorganization and sought to have the plan (as subsequently amended) confirmed on December 15, 2020
  - Because of rebounding energy prices, though, the Debtors' financial advisor revised upwards the Debtors' enterprise value to between **$3.5 billion** and **$4.7 billion**, with a midpoint of **$4.1 billion**
- The unsecured creditors committee ("UCC") objected to the plan, and its objection centered on the Debtors' proposed valuation
  - The UCC maintained that the Company's total enterprise value was actually **$7.1 billion**
  - The increase was because of, among other things, increased commodity prices and increased M&A activity in the industry between reaching the deal in mid-May and confirmation in December

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Case Study: *Chesapeake Energy (cont.)*

- A 13-day contested confirmation hearing ensued with each party providing expert evidence to support its valuation theory
- On January 8, 2021, the bankruptcy court rejected "everyone's valuation models"
  - The court found the Debtors had a total enterprise value of $5.129 billion
  - By that point, oil prices were up 39% and U.S. natural gas futures up 56%
- The court confirmed the Debtors' plan on January 13, 2021, and the Company emerged from chapter 11 on February 9, 2021
- Recent estimates put the Company's total enterprise value between **$7 and $8 billion** (i.e., consistent with the UCC's position at confirmation)

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Case Study:

In re Rental Car Intermediate Holdings, LLC

Case No. 20-11247

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Case Study: *Hertz*

- On May 22, 2020, Hertz, along with its affiliates and subsidiaries (collectively, the "Debtors" or the "Company") filed for chapter 11 and was the largest bankruptcy of the COVID era
- Hertz was one of companies most negatively impacted by the COVID-19 pandemic
  - April 2020 saw 73% decline in y-o-y revenue
  - "Margin call" on vehicle financing driven by decline in used car prices
  - At time of filing, implied TEV was $2.4bn
- Case represented truly holistic restructuring
  - $22 billion in capital raised across capital structure and in ABS vehicles
  - Restructured $24 billion in liabilities
  - Sold Donlen business for $890 million
- Highly successful resolution with ultimate Plan of Reorganized paying all creditors in full and providing pre-petition shareholders with **$1.2 billion** in value

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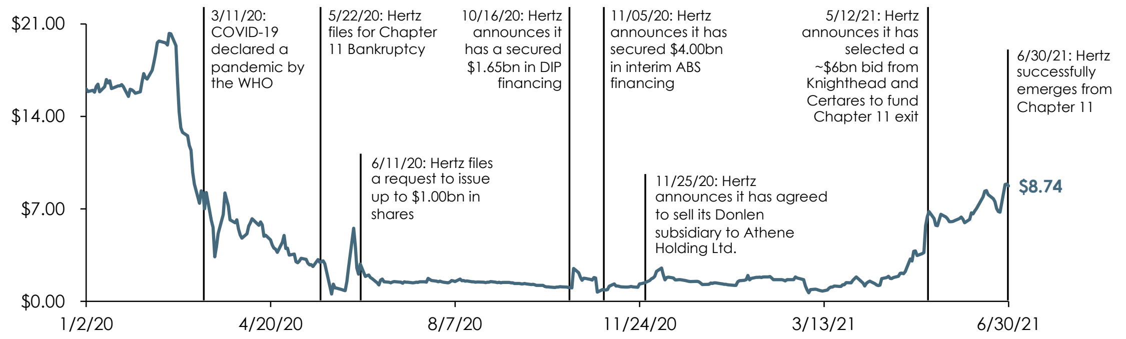
Case Study: *Hertz (cont.)*

Hertz Share Price



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Faculty

Alice J. Byowitz is a partner in the New York office of Kramer, Levin, Naftalis & Frankel LLP, where she represents mutual funds, distressed investors, indenture trustees and creditor committees in some of the largest, most complex and highest-profile municipal restructurings and corporate reorganizations, both in and out of court. Her clients include Oppenheimer Funds/Invesco, Nuveen Asset Management, Franklin Advisers and BlackRock, and she currently represents the Official Committee of Unsecured Creditors in the Hertz Corp.'s bankruptcy. Ms. Byowitz has been involved in the nation's largest municipal bankruptcies, including those of Puerto Rico, Detroit and Jefferson County. She played a key role on the Kramer Levin team representing holders of more than $10 billion of bonds issued by Puerto Rico, including in a victory before the U.S. Supreme Court and two before the U.S. Court of Appeals for the First Circuit on behalf of holders of $3.2 billion of bonds issued by the Puerto Rico Electric Power Authority, as well as in negotiating a landmark restructuring support agreement prior to enactment of the federal Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) restructuring law. Ms. Byowitz was involved in the firm's representations of holders of $1 billion in certificates of participation in the Detroit chapter 9 bankruptcy case and holders of $900 million in secured sewer warrants of Jefferson County in its chapter 9 bankruptcy case. She received her B.A. *cum laude* in the classics from Princeton University in 2007 and her J.D. in 2012 from New York University School of Law, where she was senior articles editor and staff editor of the *Annual Survey of American Law* and a student member of the New York City Bar Association's Bankruptcy Committee.

Bradley T. Giordano is a partner in the Restructuring Group of McDermott Will & Emery LLP in Chicago, where he represents debtors, equity sponsors, lender groups, creditors and strategic investors in all aspects of in-court and out-of-court restructurings and special-situation transactions. He advises senior managers and boards of directors on operating in chapter 11, fiduciary duty considerations and strategic restructuring alternatives. In addition, he advises credit and private-equity-fund clients in connection with strategic acquisitions or dispositions of distressed assets. Mr. Giordano's restructuring experience includes complex multijurisdictional and cross-border matters spanning multiple industries, including health care, retail, energy, technology, hospitality, media, airlines, aircraft manufacturing, telecom and heavy machinery. He received his B.A. *magna cum laude* from DePauw University in 2006 and his J.D. in 2009 from the University of Virginia School of Law.

Cullen Murphy is an executive director with Moelis & Company in its Capital Structure Advisory group in New York, where he specializes in recapitalizations across a variety of industries. Prior to Moelis, he was an distressed-investment analyst at a distressed-private-equity fund. Mr. Murphy's experience includes the recapitalizations of Hertz, Medmen, Sears, RentPath, Party City, Skillsoft, Aptiv, David's Bridal, Alpha Media and INAP. His in-court and out-of-court representations include companies, creditors, shareholders and bidders. Mr. Murphy received his B.S. in economics from the University of Denver, his M.S. in mathematics from Fairfield University and his M.B.A. from Cornell University.

Brad Orelowitz, CPA is a senior vice president of The Michel-Shaked Group in Boston. For almost 30 years, he has provided business consulting services to boards of directors, investors, shareholders, law firms and governmental agencies nationwide, including more than 20 years with MSG. Prior to joining MSG, Mr. Orelowitz was the CFO of a retail business and an audit manager for a public accounting firm. His practice at MSG focuses on valuation, bankruptcy, damages, accounting, securities, capital markets, employment, and pensions and retirement plan issues. Mr. Orelowitz has performed valuations, solvency and damages analyses in numerous industries, including cable, drug distribution, education, energy, financial services, health care, industrial, insurance, leisure, manufacturing, media, medical, pharmaceuticals, real estate, retail, software, sports franchises, technology, telecommunications, tire and rubber and tobacco. A significant number of his assignments involved financial distress, restructuring, solvency and other bankruptcy-related consulting. Mr. Orelowitz has written on topics such as valuation, bankruptcy, pension and ERISA issues. He is a member of the American Institute of Certified Public Accountants (AICPA) and ABI, and he has contributed several articles on valuation and bankruptcy to the *ABI Journal*. He has also delivered seminars to law firms and has taught business school classes on valuation as a guest lecturer. Mr. Orelowitz received his a Bachelor of Commerce with accounting and auditing majors and a Bachelor of Accounting Science with honors from the University of South Africa, and his M.B.A. with high honors from Boston University.

Adam Zirkin is a partner and financial analyst with Knighthead Capital Management in New York. He previously served as vice president and director of investments at Harbinger Capital Partners. Mr. Zirkin received his Bachelor's degree *cum laude* in biochemistry from Brandeis University.