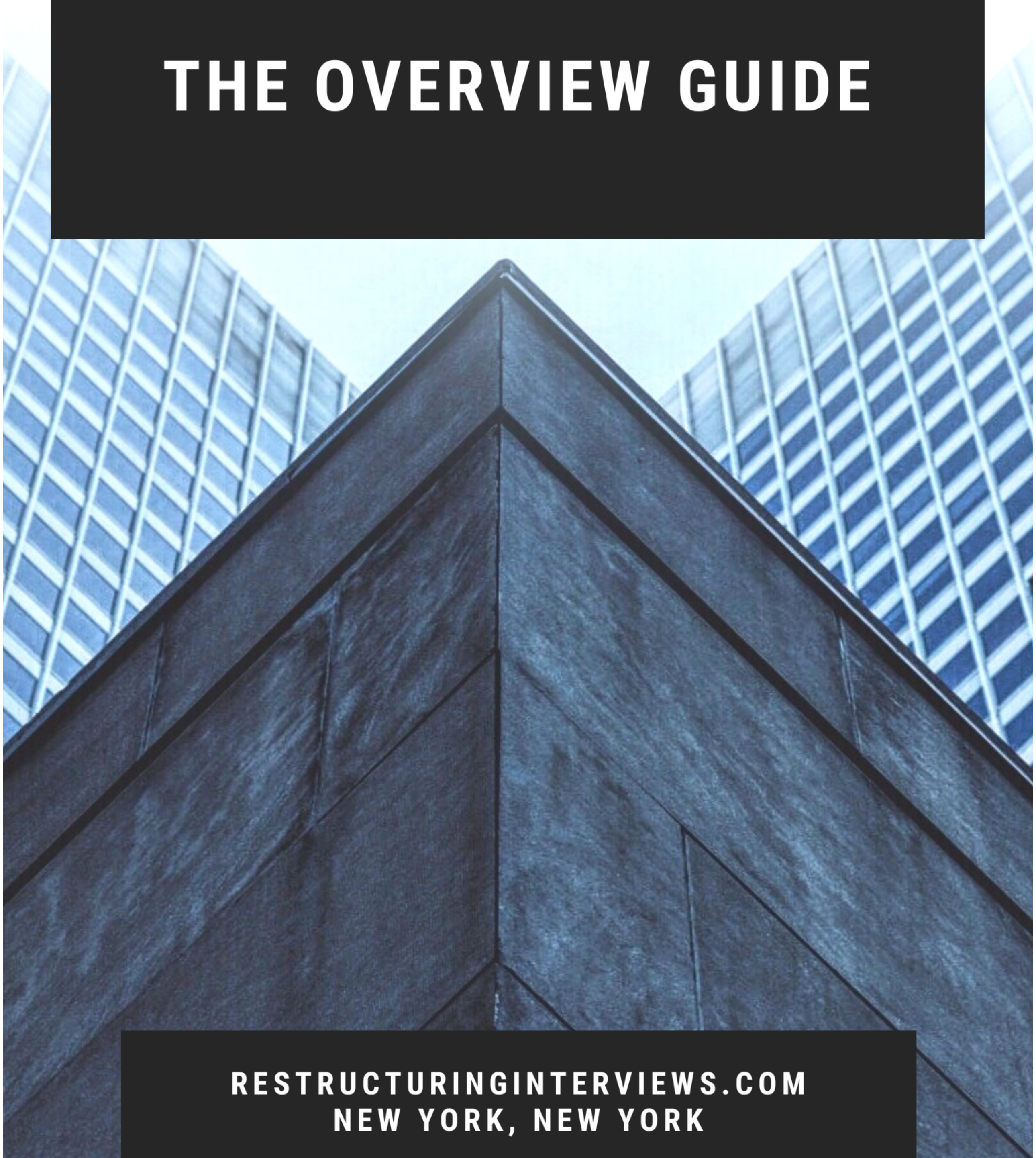
RX INTERVIEWS

THE OVERVIEW GUIDE



RESTRUCTURINGINTERVIEWS.COM
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A Note Before Beginning…

The best way to stand out in a restructuring interview – given that restructuring is quite opaque – is to demonstrate during your interviews that you have a contextual understanding of what restructuring banking *really* is all about. This is something that implicitly bleeds through during interviews, just as a candidate not really getting what restructuring is, even if they're getting most questions right, bleeds through.

So, this guide is meant to build up your contextual understanding; thereby making it easier for you to really understand (not just memorize) the questions and answers in all the other guides in the members area.

I'll be taking a more practical approach in this guide: covering what restructuring banking really is, what the day-to-day largely looks like, and give you some examples of the kinds of things you'll be staffed on as a summer or nascent analyst or associate.

There may be a significant amount of terminology that you are not familiar with throughout this guide. But don't worry about that. Just power through. I didn't want this overview guide to be too long or too overwhelming, so many of the questions and answers (found in the members area) are meant to drill down and provide more nuance around some of the topics discussed in this guide.

There's no getting around the fact that the world of restructuring can get immensely complicated, and that most deals can't be as cleanly distilled as they can be in M&A. As a result, throughout these guides I've tried my best to not go too overboard with details and focus in more narrowly on both what you need to know for an interview and what you'll do as a summer or newly minted full-time analyst or associate.

It's very easy in the world of restructuring to get bogged down in the details as they are seemingly endless. What these guides are meant to do is teach you what you need to know to get in the door and then punch far above your weight in your first few months on the job by seeing some of the things you'll be asked to do before you're asked to do them.

As you've no doubt recognized, putting these guides together has been a little hobby for me – albeit one that, given the price charged and the time invested, is completely financially nonsensical!

But it's been incredibly rewarding to see just how impactful these guides have been. It's fair to say that the vast majority getting jobs in restructuring today have gone through these guides, and that's really heartening. So, if you end up getting an offer due to these guides, be sure to let me know. It always makes my day to get those e-mails.

With this little preamble out of the way, let's get started…

What You Need to Know

Chapter 1

INTRODUCTION

Welcome to the world of restructuring.

These guides were created because while most investment banking prep guides have a very small section on restructuring, they miss the mark regarding what restructuring interviews are *actually* like and what the job is *really* all about.

So, through these guides you'll not only learn what kinds of questions to expect and how to answer them well, but you'll also get a feel for what restructuring is like in practice.

Because my aim isn't just to help you land you an offer (although that's an essential first step!) it's also to help ensure you know what you're getting yourself into and that you surpass all expectations during your first few months on the job.

Many come into restructuring and quickly feel frustrated and confused – even if they've spent time in M&A or LevFin – because of just how foreign many restructuring concepts are, and how unique each pitch or deal (relatively speaking) tends to be.

However, if you have a good bearing on what tasks you'll be given in your first few months on the job and know what they should look like, it'll make you feel immeasurably more comfortable and confident as you then begin to get placed on the weird, unique, and usually quite exciting live deals that exist in restructuring.

In the end, banking is banking. So, in an abstract sense, there are obviously deep similarities between RX and M&A. Because, regardless of if you're in M&A or RX, you'll still sit at your desk for long hours looking at companies (some you're engaged by, some you hope to get engaged by), get paid for advisory services by those you've been engaged by, and primarily produce models (spreadsheets with a seemingly never-ending series of tabs) and decks (presentations with a seemingly never-ending series of slides).

…However, the kind of companies being dealt with, the kinds of analysis done, and the thought process that binds this all together could hardly be more different.

The fact that RX and M&A are similar in a more abstract sense (they're both banking!) but deeply different in a more practical sense has created a bit of a bind when it comes to how interviews are conducted…

It used to be the case that the world of restructuring banking was so insular and so small that interviews were more or less exactly the same as traditional M&A interviews, but the technical difficulty was ratcheted up a few notches.

It's not that the questions asked were overly relevant to the job, it's just that you couldn't reasonably expect inexperienced college students coming into an interview to know much of anything about potential out-of-court restructuring solutions or be familiar with terms like springers or cramdowns.

So, the mindset among interviewers was basically, "We'll extend an offer to whoever seems to be the most technically competent, even if they don't know much about restructuring, because they'll probably be able to pick it up quickly on the job."

This slightly laxer attitude stemmed, in part, from just how few RX offers were given out even just a few years ago (like when I did my summer analyst stint). Back then many (e.g., Evercore) filed their incoming analyst class more through full-time recruiting than through summer recruiting, while others opted for having generalist programs (e.g., Centerview) as opposed to having dedicated restructuring seats for summers or full-time analysts.

But over the past few years RX IB recruiting has radically changed. Restructuring groups have expanded significantly and, as a consequence, most now have greatly expanded the number of summer analyst or associate offers they're handing out while also creating dedicated restructuring recruiting pipelines.

This doesn't necessarily mean that it's any easier to get a restructuring offer today than it used to be – while the number of seats have expanded, so too have the number of colleges being recruited from and the popularity of restructuring. While restructuring has always been the most popular group to join, it's now reached a new level of popularity.

Anyway, the point is simply that restructuring recruiting has matured a great deal – and this has led to RX interviews becoming their own beast that you'll need to conquer. There will be some similar questions to what you'd find in a traditional M&A interview (e.g., accounting questions) but you will also be asked quite in-depth questions about restructuring itself. In fact, most interviews are now dominated by restructuring-specific questions as opposed to more traditional banking questions.

The good news is that the threshold for answering these restructuring-specific questions is *reasonably* low. Even just understanding what the question is asking earns you marks, as many coming into interviews don't have that much of an idea of what restructuring is all about. So, it's not necessarily like M&A banking where a single wrong technical answer can knock you off the offer list – if you're given a tougher question and need some help to answer it, you won't necessarily be dinged.

The bad news is that restructuring in practice is quite different than what you'll gleam from reading a book like Moyer's *Distressed Debt Analysis* – not to mention the fact that there's a certain unique rhythm or structure to restructuring interview questions.

For example, we'll spend a lot of time through the guides talking about waterfall questions and all their various permutations and nuances. These questions, like many you'll get asked in an interview, are a bit like a table with a few leaves in it; something that can start small and then be expanded further and further.

When I entered into restructuring many of my peers were blindsided by how different restructuring was in practice to the academic or theoretical side that we were taught a bit about in college (most coming into restructuring at that time came from Wharton or, occasionally, Harvard -- although now, as mentioned, recruiting is much more diverse).

An interviewee who can successfully communicate restructuring concepts well and has a contextual understanding of what a restructuring banker *actually* does puts him or herself in the top percentile nearly automatically.

In a traditional M&A interview it's easy to convey that you know what a M&A banker does as there are so many resources available that everyone has a rough idea. When conducting restructuring interviews, however, it becomes readily apparent when an applicant just doesn't *really* know what restructuring bankers do.

THE AIM AND STRUCTURE OF THESE GUIDES

The primary aim of all the guides contained in the members area is to ensure that you can ace your restructuring interview; not only by ensuring you know the kinds of questions that will be asked, but also by building up your contextual understanding of what restructuring is all about.

In the members area I've tried to breakdown how you should think about approaching going through the guides based on the amount of time you have to prepare. So, if you missed that rundown, make sure to go back and read it.

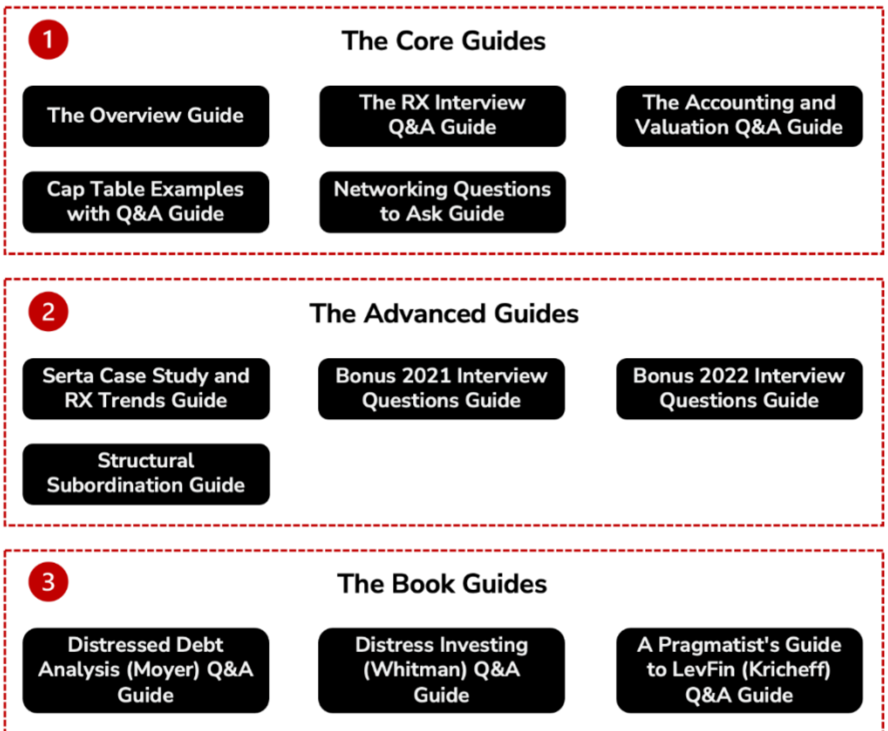
There's no getting around the fact that there's a lot of content in the members area which can be equal parts daunting and overwhelming. But keep in mind that I've tried my best to use interview questions as a way to explain more difficult concepts (thus why many answers are a page or more long!) while building up concepts slowly through creating progressively more difficult interview questions.

If you're pressed for time, it's best to quickly read through this guide to give yourself a general lay of the land and then dive into the actual interview questions themselves. Keeping in mind that most of the interview questions, especially in the Advanced Guides, are meant to teach you through the answers. So, don't get demoralized if you find yourself not knowing the answers after reading the questions.

The world of restructuring is typified by a certain degree of fuzziness where, around the edges, smart people can disagree vehemently (e.g., the consternation over non-pro rata uptiers, as discussed in the Serta guide).

As a result, it's common in restructuring for interviewers to provide pushback to candidates who seem to have a grasp on what restructuring is all about. If this happens to you during an interview, don't think you've done anything wrong. It's generally a good sign when your interviewer wants to open up a bit and be a bit contrarian with you.

Here's an overview of all the guides currently in the members area, along with how they're categorized…



And here's a brief run-down of what each guide is meant to do…

- **The Overview Guide:** This guide, that you're reading now, is meant to give you a broad overview of restructuring and the day-to-day tasks of a junior in restructuring. Don't treat this guide as a mere introduction you can pass by – contained within it are the actual deliverables you'll be tasked with producing, along with a primer on the industry, the players, and what restructuring really is in practice. It ends with an overview of how you should approach restructuring interviews. Once again, don't skip this guide just because it's an "overview". Just knowing answers to restructuring questions is entirely insufficient without a broader understanding of what restructuring banking is all about.

- **The RX Interview Q&A Guide:** This guide contains 143 lengthy restructuring-specific questions and answers. Some of which are contextual (e.g., around what the day-to-day job is, etc.) and some of which get into specific terminology. This guide contains some of the classic restructuring technicals (e.g., waterfalls) that are then built up and expanded on in the Bonus Guides.

- **The Accounting and Valuation Q&A Guide:** This guide contains 96 questions and answers surrounding accounting and valuation. Many RX interviewers will still ask you the "traditional" IB technical questions, especially around accounting, so you need to be prepared for them. I compiled some of the most popular ones here that are most relevant to RX and, where possible, always tried to put a RX-spin on them.

- **The Cap Table Q&A Guide:** This guide goes over several cap tables and how to think about them. Creating and understanding cap tables is critically important. So much so that in some interviews you'll be given cap tables and asked questions about them (which is exactly how I've structured this report).

- **The Networking Guide:** This guide goes over how you should approach networking along with some good questions that you can ask during calls. In restructuring, the best way to get your foot in the door for a first round – even if you have a strong resume and on campus recruiting – is networking. Just beware that frequently networking calls can turn into quasi first round interviews, so make sure you start networking after reviewing at least this guide and some of the classic interview questions in case you get asked them.

- **The Serta Case Study Guide.** This guide discusses two major trends when it comes to out-of-court restructuring solutions: the rise of non-pro rata uptiers (e.g., Serta, Boardriders, Trimark, Incora) and unsub transfers (e.g., J. Crew, PetSmart, Envision Healthcare). To break down these trends, I discuss the case of Serta, which was one of the most contentious restructuring transactions of the past few years that involved the company deciding between these two styles of out-of-court transactions. In the end, they opted to do a novel non-pro rata uptier. If you aren't sure what any of this means, you will by the end of the guide!

- **The Structural Subordination Guide.** Structural subordination questions weren't overly popular a few years ago. But since writing this guide going over some hypothetical structural subordination questions, they've suddenly begun cropping up more in interviews (funny how that happens!). Needless to say, you should read through this relatively short guide – the concept of structural subordination may take a few hours to sink in, but it's easy once you get a handle on it.

- **The Bonus 2021 Interview Guide.** This guide goes over some more obscure questions that have come in interviews, along with some that I've made myself to drill down on certain concepts.

- **The Bonus 2022 Interview Guide.** This guide is similar to the 2021 Interview Guide: a series of questions that either came up during interviews or that I've created myself to discuss certain concepts more granularly.

- **The Distressed Debt Analysis Guide:** This guide contains 145 questions and answers developed partly from *Distressed Debt Analysis* by Moyer, which is the Bible of distressed debt and restructuring. This will help you focus on key terms you should know about. Just keep in mind, especially if you're short on time, that Moyer's book is phenomenal, but also over two decades old now.

- **The Distressed Investing Guide:** This guide contains 78 questions and answers developed partly from *Distressed Investing* by Martin Whitman (the legendary distressed hedge fund manager). These questions and answers are more practical than those in The Distressed Debt Analysis Guide and should reinforce what you've learned throughout all the guides in the members area.

- **The Pragmatist's Guide to LevFin Guide:** This guide contains 108 questions from *A Pragmatist's Guide to Leveraged Finance* by Kricheff. This is where most of the vocabulary you need to know around debt resides. It's important to remember that restructuring is really all about understanding debt and capital structure dynamics – so this guide will provide a good base for you when it comes to essential terms you need to know.

There's a lot of information here, and for a good reason…

RX IS THE MOST COMPETITIVE JOB IN BANKING

It always has been, and likely always will be.

Restructuring has been dominated by just a few shops who have worked for years to build up expertise in this narrow field. And, as previously mentioned, this concentration of restructuring activity within just a few shops has translated into restructuring being one of the most difficult areas of banking to break into – but, with RX groups expanding so much over the past few years, it's getting marginally easier and the colleges being recruited from is expanding quite a bit.

A question that crops up every now and then is: why are there just a handful of shops with restructuring groups (PJT, Moelis, HL, Evercore, etc.) and why don't bulge bracket banks play a meaningful role here? It's not like restructuring isn't lucrative – quite the opposite: the fees are ridiculously good.

This is a fantastic question. It gets to the core of figuring out whether a candidate really has a contextual understanding of what restructuring is all about.

The reality is a bit complicated and has a few different "right" answers, but here's one that will show you're thinking about it the right way…

In M&A the institutional framework of the bank matters a great deal. It matters that you have a robust equities research division in the client's niche, that you have a robust equity or debt capital markets division, etc. In short: it matters that you're a full-service investment bank, and part and parcel of being a full-service investment bank means that you have a *balance sheet*.

In restructuring, not only do none of these things matter, they actively impede the ability of a bank like what is described above to engage many clients in need of restructuring, whether out-of-court or in-court, due to perceived or actual conflicts of interest.

Here's how: If XYZ Company goes and raises $500mln in debt that debt will be syndicated by, for example, JPM. The syndication will, as always, be spread around and become part of the composite balance sheet of any investment bank that actively has any kind of debt trading business (in other words, every full-service investment bank). Equity researchers at every investment bank will then write about the company – assign buy, sell, hold recommendations – and meet with management (if the company is large enough).

When the company needs to restructure, we run into an issue. Obviously JPM is conflicted (how can they give restructuring advice, after having raised debt for them that is now trading poorly and perhaps put them in a restructuring scenario!). But what about other banks? Can banks that have purchased that debt, or held it on their balance sheet, or made prognostications on the soundness of the firm, etc. give sound advice?

The quick and dirty excuse could be, "Well there's a fire wall between different divisions within a firm like JPM to avoid conflicts of interest", and this is, like, legally more-or-less true. But, in practice, companies want fully independent advice when it comes to restructuring that can't be tarnished by any perceived conflicts.

This is partly because restructuring – at its bones – comes down to the debtor (company) telling the creditors (debt holders), "Hey, we agreed to some specific terms here around this debt, but we're in a bad spot now. It's regrettable. But how about we do something different that puts us on the line for less?"

If the bank advising the company has any kind of conflict of interest – perceived, real, or border-line imaginary – then creditors will be liable to sue and say that the advice of the bank is per se perjured because they were complicit in some airy-fairy kind of way in getting the company into the predicament they've found themselves in.

So, to ensure that there can be no perceived conflict of interest whatsoever companies look to investment banks that don't have balance sheets – that are pure independent advisory banks who have no prior dealings with the company in question.

In today's parlance these firms are often called Elite Boutiques (EBs) and have both an M&A side and a RX side. Sometimes analysts and associates will work across M&A and RX (Moelis), but most of the time they are separate and distinct (PJT, Evercore, HL, etc.).

IN RX, MDs MATTER EVEN MORE

In M&A banking – which is a term I'm using broadly here to also encompass coverage groups, etc. – the MD that leads the deal team matters, sure. But the institutional framework around the MD also matters a great deal.

In practice, companies will and do choose a bank like Goldman, for example, to be at least part of a given deal for the name brand. The relationship that the company has with the MD matters to an extent and there will always be a pre-existing relationship of some kind. But you'll frequently have scenarios where the relationship isn't *that* well cultivated. In this latter case, Goldman may not be lead-left on the deal, but they'll have a roll due to the perceived prestige and vote-of-confidence that the GS name lends.

In restructuring it's an entirely different story. First, in many deals there won't be *any* pre-existing relationship between the MD and the company, because the company usually hasn't needed to do any form of restructuring beforehand. Second, the company, when choosing their advisor, won't *really* care about the institutional framework that PJT vs. Greenhill brings to the table – in restructuring you're really providing pure advisory services, so a company isn't really giving someone a mandate because of auxiliary benefits like having a robust capital markets division.

Anyway, when a company in need of restructuring is deciding what the hell to do – with their liquidity evaporating, stock plummeting (if public), maturity walls coming up, and executives leaving – restructuring shops go in to make their pitch and there are few preconceived notions on the part of the company's management as to what shop should be picked.

This makes being in restructuring as an analyst or associate exciting as it's relatively (for banking) meritocratic. The best pitch that proposes the best restructuring solutions will often win. Further, unlike in M&A banking, the solutions dreamt up by each restructuring shop will often look fundamentally different.

If you work in M&A at many smaller firms, you'll do endless pitches knowing that you're not going to win the vast majority of them. Your pitch is a nicety to the company. The CEO wants to feel important and have a dozen banks come groveling for a piece of his or her business, but they'll likely go for the more "prestigious" bank.

In many restructuring scenarios you'll have a much smaller subset of firms that all come in to make their case with little to no prior experience with management. If your shop's pitch is good and if it resonates, you have a good shot at winning the mandate.

Note: This is obviously painting a slightly rosy picture of how mandates are obtained in restructuring. In the end, a company's management will look at the transactions the restructuring shop has worked on in the past, talk to their outside legal counsel if they've already been retained, etc. and quickly get a feel for what shops are most active and which are not. But every year you'll have a large mandate go to a firm outside the upper echelon of shops (e.g., the debtor-side mandate of Washington Prime Group, one of the biggest chapter 11 cases of 2021, went to Guggenheim – a great shop, but one that certainly has lesser deal flow than PJT, EVR, or HL).

Note: I should mention one large caveat here: in restructuring you can get either debtor-side mandates or creditor-side mandates. As you'd expect, ad hoc creditors who are hiring a restructuring shop will involve a cast of usual suspects (e.g., distressed debt hedge funds, the credit arms of PE funds, etc.). So, if an MD has a good relationship with a certain large creditor (e.g., PIMCO) that's dealing with a company that's going to be restructuring, then that can help grease the wheels of getting the mandate.

Note: Also, keep in mind that another key constituency when it comes to handing out restructuring mandates will be sponsors (PE firms) with portfolio companies in need of restructuring. In this situation, the sponsor may have worked with a certain MD many times before. So, in this case, relationships (obviously!) matter more. For example, Apollo is always bringing on PJT whenever they have an issue.

Note: The final caveat here is that many companies who are facing stress (e.g., diminishing liquidity or maturity walls coming up) won't want to jump right into filing if it's at all avoidable. Rather, management will want to try to buy themselves time by potentially doing out-of-court restructurings – kicking the can down the road and hoping the business can turn itself around before filing becomes inevitable. For example, I wrote a whole guide on Serta's out-of-court restructuring, but it's likely they'll end up having to file as they haven't been able to fully turn around their business. The same applies to J. Crew, that I also discussed in the guide, who did a novel out-of-court restructuring in 2017 but then ended up filing in 2020. So, in these scenarios, a company may hand out a mandate multiple times over a few years to the same shop.

So, you can really think about restructuring mandates as originating from (primarily) four different pathways: companies that have no prior experience with restructuring, and have no prior relationship with a restructuring advisor; creditors who have lots of experience with restructurings but who are hiring some advisors to help; sponsors who need help with a troubled PortCo and have likely worked with a certain MD or RX group many times before; and a company that has tried a number of restructuring transactions in the past to right-size their balance sheet, so keep coming back to their original advisor for additional assistance (e.g., Revlon).

WHY CHOOSE RX?

This is an extremely common interview question. In the RX Interview Q&A Guide I give a more succinct answer, but you shouldn't just regurgitate what I tell you. Rather, you should think deeply about it yourself and use this question as an opportunity to implicitly show off your understanding of restructuring, as you never know how many opportunities you'll get throughout your interviews to do so.

Certainly, a good and quite unique answer is what I just brought up in the prior section. Restructuring is a small world, with a few shops competing for most mandates, so the work you do as an analyst or associate really matters. Your work can truly move the needle on getting mandates because most companies will not have a particular shop they're predisposed to working with prior to the initial meeting, and the solutions pitched will vary significantly between shops.

However, the most traditional answer – which is a good and safe one to use – would involve discussing how restructuring operates at the intersection of finance, law, and psychology. The latter almost always being something that gets missed by many still in college, because the psychological element comes into play through the cajoling and pork belly politics of bringing a deal together between the debtor and the relevant creditors – whether it be out-of-court or in-court.

To generalize quite a bit – perhaps to an unfair extent – in M&A things are a bit more formulaic: if you're working with an acquirer, they'll end up with a target in mind (potentially one that has been brought to their attention by their advisor) and then the focus will be largely on facilitating due diligence and coming up with the "right" valuation.

And what this right valuation should be is reasonably formulaic. For example, if I'm trying to come to a decision as to what a company is worth and am putting together a DCF model as part of my approach, we can argue about WACC, but our argument will be around +/- 100bps. Likewise, we can argue about the right revenue growth rate or how much the terminal value should make up of the enterprise value. But these are things, in the end, that are on the margins. In other words, even if we have disagreements we're still in the same ballpark and our enterprise values will likely not be *that* different.

However, in restructuring two smart people with years of experience can look at a company and one can say: we should just extend out the maturities and bank on a turnaround, another can say there should be a debt exchange involving existing Senior Notes being exchanged for new 2L Converts, and yet another can say the writing is on the wall and that the company should try to do a pre-pack Chapter 11 ASAP.

These are all hugely different things. They reorganize the company's balance sheet in fundamentally different ways and vary in terms of how easy they are to complete, how comprehensive they are, and how much they fundamentally change the company.

And no one really knows what the right answer is – even in retrospect. Every transaction is unfalsifiable. You can't run it again under the same conditions while trying a different strategy. It all comes down to the financial implications of the transaction (e.g., whether the transaction truly allows for a rightsizing of the company), the legal ability to get it done (e.g., whether sufficient consent from certain creditors can be obtained), and the psychology of the creditors (e.g., whether you can convince certain creditors this is worthwhile doing).

Nothing in banking is overly prescriptive (something many just entering the industry don't appreciate until they're older). However, restructuring is the purest form of "art" in banking you'll find. In restructuring, ideas matter more than in any other form of banking – and the more creative the ideas you have are, the better you'll do.

This is also why restructuring is a rather exclusive area, its why compensation is generally higher, and it's why you will often work with a team from very impressive backgrounds.

If that's intriguing to you, then restructuring might be a good fit…

BUT RX IS NOT WHAT IT SEEMS

In M&A there's less fundamental variation (for lack of a better turn of phrase) in the style or structure of deals that are done, along with the modeling work that will be done by investment bankers.

For example, if you're asked an open-ended question in an M&A interview about the kind of modeling you'll be doing, it's entirely reasonable to say something like, "Since valuation is more of an art than a science, and reasonable people can disagree, you'll normally do comps, precedents, and a DCF and then present these as a 'football field'"

But in the world of restructuring, this kind of question is a bit non-sensical as it'll be contingent on the *kind* of deal you're working on and what the *point* of the modeling is.

As we'll get into in more depth throughout this guide, there's a fundamentally different mindset that you're approaching out-of-court and in-court situations with.

In out-of-court situations, you're trying to figure out a way to put together a solution (that's amenable to both the company and its key creditors) for solving some issue that could result in the company needing to file (e.g., pushing out maturity walls, resolving a liquidity issue, etc.).

So, in this situation, determining the overall valuation of the company isn't the primary goal. Because, even from a more philosophical perspective, the valuation will be heavily contingent on whether or not an out-of-court solution can be effectuated (because the company is at a bit of a binary intersection where one way is a road toward filing, and the other is a road that at least forestalls filing – so there'd naturally be a valuation discrepancy, prior to the restructuring occurring or not, between the two).

Instead, the primary goal of the modeling done in an out-of-court situation will be to determine the effect and viability of pursuing various kinds of potential restructuring solutions – as there's no point doing something if, in the end, the company isn't going to be any better or worse off than it was previously.

For an out-of-court situation, what you'll spend most of your time doing is creating comprehensive recap models. These are just large operating models that flow through different out-of-court scenarios so that you can see how leverage, liquidity, etc. change as a result of a given restructuring solution.

For example, you may have a model that can toggle between a few different debt exchanges with differing terms, levels of participation, etc.

Since you've already built an operating model, you can certainly do a little DCF as well, as that'll just require using the projections you've already made, getting to FCF over the projection period, discounting those cash flows back at some rate, and then applying some terminal multiple.

But the *point* of the modeling done in an out-of-court situation isn't per se to figure out the precise valuation of the company (e.g., figure out the enterprise value), it's to project how a company will look at a more fundamental level after effectuating some proposed out-of-court solution (e.g., that it'll no longer be on the pathway to needing to file next year because its liquidity position will improve due to the proposed restructuring).

Note: There are some exceptions here, and it's not to say that you won't do a little DCF or comps analysis for a distressed company that's doing an out-of-court solution. Rather, these will be incidental or auxiliary to the recap model. What I'm trying to get across here is a more fundamental point about the modeling that really matters and will invariably happen in an out-of-court situation, which surrounds flowing through a given restructuring solution through an operating model to see the impact.

In an in-court situation, the point of the modeling done (from a banking perspective) will be different and actually more familiar to you. Because in an in-court situation you need to develop a Plan of Reorganization that lays out who's impaired and what their getting in consideration (recovery). But to do that you need to determine what the enterprise value of the company is (post-reorg), how much debt they'll have after emerging from bankruptcy., etc.

Determining the post-reorg value of a debtor, after they've filed, is even more difficult and uncertain than determining the value of a healthy company. So, this is *really* more of an art than a science. But you need to get to some kind of valuation, and what you'll do is look primarily at comps and do a DCF based on the future expected cashflows of the company post-reorg.

As you can imagine, there are plenty of valuation fights in-court – as we get into later when discussing J. Crew's 2020 Chapter 11 – as there's lots of room for argument over the "true" value of a debtor, and its value will inevitably have large consequences for certain creditors (as the point of a Chapter 11, in almost all cases, is that certain creditors are going to get nothing or quite a bit less than their claim value).

With the benefit of hindsight, plenty of Chapter 11 cases assign either too high or too low of a valuation – no different to how many healthy companies that are acquired, in hindsight, look overvalued or undervalued.

Note: Attached to the end of this guide is a deck from Lazard that walks through how they were thinking about the post-reorg enterprise value of J. Crew (technically, Chinos) which informed the Plan of Reorganization. It's great to look through, as it'll help you see certain nuances surrounding, for example, how to think about the cost of debt, debt-to-capitalization, etc. in this kind of situation for the purposes of creating a DCF (all of which are contingent on the actual contours of the Plan). It should also be noted that you'll have coverage banker(s) involved (sometimes heavily) in aspects of the in-court valuation work. So, there's a bit of a symbiotic relationship when it comes to valuation work.

Anyway, I don't want to get too ahead of ourselves here. But it's important to keep in mind the level of diversity that exists within restructuring and how the two sides of the restructuring coin (out-of-court vs. in-court) will involve a slightly different perspective.

However, in the end, all restructuring boils down to trying to right-size the debtor by changing up their capital structure and putting them on a more sustainable path forward.

Note: It should be noted that you can also have distressed M&A situations (e.g., 363 sales in-court). This isn't something we'll talk about much as it's less common, won't come up in interviews, and will usually involve folks from M&A getting involved in it.

Note: Thus far I've used some terminology that may seem a bit clunky and confusing to you right now. If you are not fully following everything I've said, don't worry. Much of it will be cleared up through this guide, and more nuanced aspects of restructuring I've opted to talk about through questions-and-answers as I think that makes things more digestible.

RX SHOPS AND THEIR RANKINGS

In a previous section, we talked about why the bulge bracket banks don't have "traditional" restructuring practices. Instead, restructuring groups are housed within smaller independent advisory shops, most prominently in the elite boutiques (EBs).

So, a natural question many will have is how these restructuring groups stack up against each other. This is an entirely natural impulse to have, but one that's impossible to answer with any degree of real specificity (e.g., ranking shops individually 1, 2, 3, 4, 5…).

In restructuring – just like every other area of banking – there are league tables. But these league tables aren't really taken that seriously and are rife with issues…

For example, many league tables you'll see in restructuring will just tally up the amount of debt a restructuring group advised in-court since that's all public information and makes it quite easy to compile and compare (e.g., if the company had $4b of debt pre-filing, then you ascribe $4b to the debtor-side advisor).

But this (obviously) ignores the reality that a significant amount of activity occurs out-of-court. Indeed, most of the creative and lucrative (from a fee perspective) transactions are now happening out-of-court.

Further, arguments can be had over how much debt being restructured should really be ascribed to an in-court debtor-side mandate (e.g., with how few large in-court mandates there are to go around, just getting one could rocket you up the league table and step over those with a larger set of more complex deals -- which just seems, like, wrong).

To get around this issue of how much credit you should be ascribing to a restructuring group for landing a large mandate, some create league tables based just on the amount of deals done (or at least the amount of deals publicly reported).

This does get around the issue of one large mandate skewing the league table, but it poses yet new problems as not all mandates are created equal. For example, debtor-side mandates are (generally) going to be much more time-intensive than creditor-side mandates, and within the creditor-side universe there's a large diversity as well when it comes to how complex and time-intensive a given mandate is (e.g., advising an ad hoc group participating in a non-pro rata uptier vs. advising the official committee of unsecured creditors, which can often be a bit more prosaic).

Anyway, there are few things that you'll be able to get all restructuring investment bankers to agree on, but one thing they will agree on is this: league tables in restructuring suck.

So, when it comes to ranking restructuring shops, you need to take a bit more of a holistic approach – thinking about the kinds of deals they've been on, how consistently they've gotten top mandates, how many more creative or novel transactions they've had their hands on, etc.

What I've decided to do is give you a list of tiers when it comes to restructuring groups. But before showing you the tiers, let me make a few preemptive points…

First, even though restructuring class sizes have expanded significantly over the past few years, there still aren't that many offers to go around. So, just getting an offer in restructuring is an accomplishment regardless of where the firm falls (within reason!) in anyone's rankings.

Second, the lateral market in restructuring is quite a bit different than you've likely heard about in M&A. The reality is that if you're at a lower tier shop, but want to lateral after a year or two, assuming we aren't in an incredibly slow restructuring environment, you'll get interviews. Given how relatively few are in restructuring to begin with, just having any exposure puts you at the front of the line for lateral opportunities at higher ranked groups.

Third, if you're coming into restructuring as an analyst (or even as an associate) then you should care less about deal flow (e.g., what contributes to league tables) than you do about exit opportunities. And the good news is that while in M&A you have a deep distribution in exit ops depending on what bank you're at – or even what group you're in within a bank – in restructuring you're going to get a healthy number of opportunities if you're at any well-known shop (e.g., those listed below).

This latter point is really the most important: you should care most about exit opportunities. And while you'll definitely have a significant distribution in exit ops between PJT and Baird, for example, if you're at any of the shops listed below, you'll get a solid assortment of credit opportunities.

Further, if you're at one of the Tier 1 shops listed below, then you'll get interviews across credit and regular-way private equity if you want to go that route (the latter being something that an increasing number from PJT, EVR, and HL are opting for).

The mistake many in college make is focusing too much on current deal flow and thinking that will inform the exit opportunities several years down the line. While that may be directionally true, the reality is that exit opportunities – like everything else in finance – is informed by precedence. For example, it used to very rare that anyone in RX at HL would go into regular-way private equity but once a few started, the precedence was set. Even if HL has a few relatively down years, from a deal flow perspective, it'll be the case that the exit opportunities largely don't change – and, for any incoming analyst or even associate, that's what you should care most about.

Anyway, below are my four tiers for restructuring shops. I'm purposefully clumping firms together, and thinking partly through the lens of exit opportunities as opposed to just looking at who's got big mandates recently, etc.

While I'm sure there are some who would quibble with the exact placement of certain groups on the list, it's one that most in the industry will think is directionally correct.

Tier 1: PJT, Evercore, Houlihan Lokey (HL), Lazard, Moelis

Tier 2: Centerview, PWP, Ducera, Guggenheim, Rothschild

Tier 3: Miller Buckfire, Greenhill, Piper Sandler, Jefferies

Tier 4: GLC, Raymond James, PJ Solomon, Baird

Note: This list is not comprehensive and there are some smaller shops that – depending on the year – can do very well. Further, just as an aside, from the bank's perspective fees are (obviously!) the measure of most import and fees are not always linear to the liabilities that have been reworked. For example, fees can be greater on a transaction involving a complicated exchange of notes than on simply re-working a term loan (even if the face value of the term loan is larger than the notes being exchanged). And there's naturally more fee opacity when it comes to out-of-court work, on both the debtor- and creditor-side, than in-court work where the fee schedule is filed with the court.

A NOTE ON CREDITOR AND DEBTOR SITUATIONS

As you likely already know – or have inferred from what I've written above – in restructuring you can advise either the creditor-side (those who hold the debt) or the debtor-side (the company that issued the debt).

Further, while there's only one debtor-side mandate to go around (e.g., you aren't going to see PJT and EVR team up to advise the company!) there can be multiple creditor-side mandates to go around.

For example, in the out-of-court restructuring of Service King (sponsor-backed, owned by Blackstone) you had PJT with the debtor-side mandate, EVR with a creditor-side mandate (advising an ad hoc group of term loan lenders), and HL with a creditor-side mandate (advising an ad hoc group of noteholders).

The reason why different groups of creditors will hire different advisors is (obviously) that they have different incentive structures and are going to be asked by the debtor to accept different things (e.g., maybe the term loans are being asked to extend out their maturities, while the noteholders are being asked to exchange their debt).

Anyway, there is a general impression that some restructuring groups are more debtor-side focused, and some are more creditor-side focused. In practice, there's some truth to this as smaller restructuring shops do tend to have quite a few more creditor-side mandates.

However, it's a faux pas – to put it lightly – to say during your interviews that a certain shop is debtor-side or creditor-side focused. The reality is that all shops are going to be competing on some debtor-side and creditor-side mandates, and often if they fail to get the debtor-side mandate they'll try to get a creditor-side mandate thereafter.

For example, some think that HL – which has historically been a larger group, by headcount, than the others – is mainly a creditor-side shop. But they routinely get large debtor-side mandates (e.g., Seadrill), so it's entirely untrue that they're creditor-side focused. It's just that there are more creditor-side mandates to go around, and their larger size allows them to take on a larger swath of mandates than others.

RX EXIT OPPORTUNITIES

When becoming a new analyst or associate in any area of banking, exit ops always need to be considered. Because there's no getting around the reality that banking hours are invariably long, stressful, and are not something that most (but not all!) want to do forever.

With traditional M&A banking that's perfectly fine. You don't *need* to go on to a swanky private equity or hedge fund. If you want a lower salary, more flexibility, and the ability to settle nearly anywhere (geographically) you want, then you can go get a good corporate development role with relative ease.

However, in the world of restructuring there is a bit of a downside: you develop a very specific skillset that's highly valued among a small minority, but that's just not overly relevant to the vast majority.

It is hard – though not impossibly, of course – to leave the world of high finance when you're in restructuring. While in traditional M&A, as already mentioned, it's not only easy, but also what the majority end up doing eventually – either right after their banking stint, or perhaps after a short buy-side stint.

So, most restructuring bankers will follow one of two paths: staying in restructuring (either in the same group or lateralling to another) or moving to the buy-side. And between these camps, there's quite a bit more back-and-forth movement than you'd have in M&A. For example, it's not entirely uncommon in restructuring for someone to leave to the buy-side after their analyst stint and then make their way back to banking after a few years.

In M&A not leaving banking after two years can create a bit of a stigma. People will wonder whether or not you got exit ops or not. If not, why not? If yes, why stay in banking?

This isn't really an issue in restructuring. It's not completely uncommon to stay for two, three, or four years and then move to the buy-side (although the majority leave after their analyst stint). Anyway, the point is: unless you want to do regular-way private equity – in which case you really should participate in on-cycle recruiting to maximize your odds – there's less time pressure in restructuring. If you want to stay in the realm of credit in some capacity, there will be ad hoc opportunities that arise over time. In other words, it won't be that there's just a weeklong period where you need to recruit or else you'll have missed all the opportunities (as is largely the case with MF PE recruiting these days).

In the end, a non-trivial number of people find that they like the advisory component of restructuring and opt to stay past their first few years (although this is becoming less common, especially at top tier shops).

Why folks choose to stay is partially due to the fact that exit ops don't dry up after your first few years, getting an MBA or MBA/JD is almost never required, and most firms are quite open to you sticking around for longer if you'd like (with PJT being the one exception where you're expected to leave after your analyst stint, at least as of this writing).

Outside of staying in restructuring, the vast majority funnel their way into the buy-side. As mentioned, leaving to corporate development rolls, start-ups, etc. is really quite rare given that the skillset you build in restructuring doesn't really jive with these kinds of roles.

There are two broad buckets when it comes to buy-side exits: credit funds (e.g., private credit, traditional distressed, etc.) and regular-way PE (e.g., joining KKR, Apollo, BX, etc. just as you could've coming from a top M&A group). You'll also, occasionally, have some from top restructuring groups join more regular-way hedge funds too (e.g., Baupost) although this is rarer as most interested in going the hedge fund route will opt to stay in the realm of stressed or distressed credit.

Historically, regular-way private equity and hedge funds (that don't specialize in distress) have not been overly keen on restructuring analysts. This is primarily because restructuring bankers haven't had much (if any) exposure to the normal processes involved in M&A transactions and all the more mechanical attributes that come along with them (e.g., constantly parsing through data rooms, etc.). These are just not things restructuring bankers deal with day-to-day and will have had as many reps in.

However, this is all changing and it's much more common for you to see restructuring analysts make their way to more traditional PE shops – and almost always to mega-funds like Apollo, BX, KKR, etc.

This change has largely been driven by a recognition by MF PE shops that top banking candidates out of college are opting to do restructuring – so, if they want to grab those who were top in college, then it's entirely sensical to extend offers to those in restructuring even if their banking training won't be as applicable. Plus, it's not like all the concepts used in regular-way private equity are going to be foreign or that it won't take just a few weeks for someone coming from restructuring to get up-to-speed.

But, as you would expect, the vast majority of those in restructuring that flee to the greener (maybe) pastures of the buy-side will move to a private credit or distressed role – which could, obviously, involve being in a credit group of a private equity shop (e.g., GSO at Blackstone).

This should lead you to the question of…

WHAT EXACTLY ARE DISTRESSED FUNDS ANYWAY?

While this is a guide meant to help you ace your restructuring banking interview, it's worth taking a moment to talk about what distressed funds really are. Especially since you'll spend a non-trivial amount of your time as an analyst or associate dealing with them.

Like everything in restructuring, it's a tad bit complicated and difficult to distill in just a few pages. But let's give it a go.

First, let's create two separate buckets. Broadly speaking distressed funds are either: credit shops (e.g., the credit arm of a private equity fund, a large fund that deals only with senior debt, etc.) or what I'll refer to as "pure" distressed debt hedge funds (e.g., those that have a wide mandate across the capital structure and primarily buy up debt in the secondary market and are less likely to provide any new-money funding to those in need).

As you likely know, many private equity funds (KKR, Blackstone, Apollo, TPG, etc.) have credit investing arms. These firms, because they're so good at raising funds as they do it so often, will invest in credit largely up-and-down the capital structure in both distressed and investment grade companies. With a proclivity (often) for getting involved in a situation where they can also lend new money to a company facing distress.

One of the ways in which you'll deal with these funds (as an analyst or associate) is perhaps best illustrated with an example:

Let's say that you're dealing with an over-levered company that needs to re-work its capital structure. Perhaps you – or, more aptly, your MD – has come up with the brilliant idea of exchanging the current Senior Unsecured Notes (meaning bonds that aren't secured against any of the company's collateral) and issuing new 2L Notes (meaning new notes that have a second lien against some or all of the company's collateral).

So, the Senior Unsecured Notes will exchange into new 2L Notes (no cash trading hands) but maybe the company also wants to issue another $100m of 2L Notes to get an infusion of cash into the company (it's quite common for a debt exchange to come along with a "new money" component – as was the case with the aforementioned Service King).

Well, who is going to invest in these new 2L Notes? What traditional lender would want to touch it given that you're doing a restructuring because, obviously, of financial strain?

The answer is credit funds. And those who you will often look to first are those with the biggest pools of capital who like participating in new-money situations that are hairy (like the credit arms of PE funds, along with certain kinds of more unclassifiable players that do a bit of everything, but that have huge pools of capital, like a PIMCO).

The second bucket, pure distressed hedge funds, have some crossover with the aforementioned credit funds. Indeed, you may very well send inquiries to some of the larger distressed funds about participating in the above scenario.

However, these purely distressed debt (or mainly distressed debt) hedge funds will primarily be looking at opportunities to exclusively buy the *existing* credit of struggling companies that they think are trading at too large a discount. Either because they believe a beneficial restructuring (from their perspective) will take place or perhaps because they think the company will be able to turn things around without needing to restructure at all.

Note: This latter strategy – that you'll see often referred to as pull-to-par – involves finding a company with debt trading well below par that you think can turn things around. So, maybe you buy some Senior Notes trading at 75 with three years to maturity and a coupon rate of 8%. Well, if the company doesn't file or restructure out-of-court in a way that touches the Senior Notes – and assuming the company is in a position in three years where they can refinance the Senior Notes upon maturity – then you're looking at around a 20% IRR (YTM).

Alternatively, these distressed funds could be buying up part of the capital structure because they think a Chapter 11 will occur and they think they're in an ideal place to be made whole or get a recovery significantly above the price they paid for the debt.

As you can tell, the main differentiating line that I would draw is that what I've called "pure" distressed funds are taking smaller, more aggressive positions. They are less likely to be interested in dedicating $40m to newly issued 2L Notes, and more likely to be interested in taking bets that will involve buying existing debt in the secondary market.

Further, these "pure" distressed funds will often be (on average) much more aggressive, creative, litigious, and willing to tackle opportunities that larger credit funds may find slightly too risky, too niche, or too small.

While it's impossible to give a truly comprehensive list, here's a taste of some of the larger credit or "pure" distressed funds that fit the above two definitions. You can Google them and perhaps get a glimpse into some of the transactions they've participated in (although, in distressed credit, things are much more opaque).

- Anchorage
- Angelo, Gordon, & co
- Apollo
- Appaloosa
- Ares Capital Management
- Aurelius Capital
- Blackstone Tactical Opportunism
- Bluemountain
- Brookfield Capital Partners
- Bain Capital
- Brigade Capital
- Canyon Capital
- Contrarian Capital
- Centerbridge
- Cerberus
- Davidson Kempner
- Eaton Vance
- EIG Investment Management
- Elliott Associates

- Fortress Investment Group
- Fir Tree
- Goldentree
- GSO Capital (BX)
- GS MBD Private Credit
- Highbridge Capital Management
- Highland
- KKR
- HPS
- Invesco
- Marathon Asset Management
- MC Credit Partners
- Monarch
- Oaktree
- Och Ziff
- Paloma Partners
- PIMCO
- Riverstone
- Tennebaum Capital
- Third Point
- TPG Capital
- TRT Holdings
- Silver Point Capital
- Solus Alternatives
- Sound Point Capital Management
- SVP
- Whitebox
- WL Ross
- York

Needless to say, this is a bit of a smorgasbord list. The AUM of these funds, the amount they dedicate to distressed, and the risk appetite they have all differs. But they all have dedicated some reasonable amount towards distressed activities over the last five years and folks coming out of restructuring have wound up at most or all of the names above.

Note: In the old days (e.g., a decade ago) there used to be a much brighter line between what credit funds would do and what more pure-play distressed debt funds would do. Indeed, a decade ago the entire industry of direct lending and private credit was a mere fraction of what it is today. However, in recent years, there's been a real blurring of the lines; nowadays most pure-play distressed funds will lend new money in certain situations, and even quite conservative credit funds will get involved in more creative activities in-court and out-of-court (e.g., teaming up to create blocking positions, proposing more creative transactions that will result in heavy litigation, etc.).

By way of example of the divergent strategies of the funds listed above, [here is a pandemic-era interview] from March 26, 2020, on Bloomberg with Bruce Richards of

Marathon Asset Management. The whole thing is worth a listen, and Bruce is a frequent guest on Bloomberg TV, but go to 2:11 where he begins talking about his playbook.

"…Our playbook is to buy the performing assets at deeply distressed prices. To buy senior in the capital structure; what we consider to be above the fulcrum for [those] companies we believe that have more risk so we're in the safe part of the capital structure. So, we'll have a par recovery at very deep discounted prices."

What Bruce is saying here – in layman terms – is that they're interested in going in and buying securities in the secondary market (e.g., not participating in new issuance) quite high up in the capital structure. So, likely focusing on term loans (TLA, TLB, etc.) or secured notes.

Their strategy is to buy these securities at distressed prices *only* if they believe that they will get a par recovery without the company needing to file (e.g., classic pull-to-par, as outlined in the prior section) or if they're confident they'll get full recovery if the company files Chapter 11 (because they believe they won't be an impaired class, but rather will be made whole due to their asset coverage).

Note: A fulcrum security is the first security in the capital structure that's impaired (in other words, not made whole).

What Bruce is articulating is not necessarily the strategy that many of the distressed funds listed would be interested in. That doesn't make it a bad strategy at all, just different and more conservative. For example, Elliott isn't an exclusively distressed fund but when they get involved in distressed situations they have a more active bend.

Practically, this means they'll look more for opportunities to buy into what they consider to be an impaired class. This way if a Chapter 11 occurs, they have more power to dictate what the company will look like upon exit from Chapter 11 (e.g., developing a blocking position in an impaired class in order to block the Plan of Reorganization until it better aligns with what they think should be done).

Note: Once again, if some of the terminology flying around is confusing, don't worry. Next we'll be getting to the RX 101 section where it's all explained (plus you have 500+ questions-and-answers that get into all of this).

RX in Context

Chapter 2

HOW TO NAIL A RESTRUCTURING INTERVIEW

Let's start fleshing out what your overarching aim is here: acing the interview.

You can break down any restructuring interview today into three primary components:

1. Answering traditional accounting and valuation questions (e.g., what you'd also get in an M&A interview – although those you'll be asked will be of the harder variety).

2. Answering restructuring specific technical questions (e.g., about capital structures, some relatively basic terminology, past deals, etc.)

3. Demonstrating you have some contextual understanding of what restructuring is all about (e.g., using the right terminology in your answers, not making any faux pas as illustrated by our previous creditor-side vs. debtor-side discussion, etc.).

The third point may puzzle you. But what your interviewers will be assessing – beyond if you just get the answers to their questions right – is whether you really understand what restructuring is all about and are genuinely interested in it. As restructuring has become so popular that many are drawn to it due to the prestige and exit ops, not genuine interest.

Given all of this, I've tried to design all the guides to help ensure that you can tackle all three primary interview components:

1. For traditional accounting and valuation questions, these are covered in The Accounting and Valuation Q&A Guide along with a few harder questions in the Bonus Guides. (Because of the unique nature of RX, only some of the valuation and accounting questions you see in traditional M&A interviews are asked).

2. For restructuring specific technical questions, these can be found through all the other guides in the members area. There are hundreds upon hundreds of questions to ensure you know the concepts and language of restructuring (in the members area I lay out the best approach to sequentially tackling these guides).

3. For building up a general contextual understanding of restructuring, this is covered by this guide where I'll cover the day-to-day, what deliverables look like, etc. and also throughout the Q&A guides (as I provide quite lengthy explanations meant to really build up your understanding, not just give you an acceptable answer).

So, let's pull back the curtain a bit and talk about what being a restructuring banker is really all about…

DAY IN THE LIFE

Look: banking is banking.

Given that you're reading these guides you've no doubt either already had an internship in M&A or have read enough other guides, forum posts, etc. to get the gist of the general contours of what it means to work in banking.

Much of the work – in an abstract sense – between M&A and RX will be similar: you'll spend lots of time putting together decks (in PPT) and models (in Excel) and turning comments that are scratched out in often indecipherable handwriting (from your VP or MD).

However, in restructuring there are some notable differences in the deliverables you'll be creating that are worth keeping in the back of your mind…

Within all restructuring groups, you can divide your work into four main categories:

1. Screens
2. Profiles
3. Pitches
4. Live deals

There may be other things you do from time to time, like summarizing where the general bond market is for some MD, putting together a case study to be inserted into the back of a pitch deck, etc. but that makes up a vanishingly small part of the job.

The core part of the job – at the analyst and associate level – can more-or-less be broken down into the four categories above. And if you're a summer analyst or associate, you'll likely be doing a lot of screens and profiles while helping out a bit on a pitch or live deal.

Anyway, one of the best ways to stand out and show off your contextual understanding of restructuring in an interview is to have a good grasp of the kinds of things you'll be asked to do, what they look like, and why you're being asked to create them in the first place.

But before we discuss each of these four areas, we should set the stage a bit by discussing how a live deal ends up coming to fruition – or, in other words, the role that screens, profiles, and pitches play in the run up to getting a mandate.

HOW DEALS COME TO FRUITION

In a prior section we walked through the way that deals generally flow into a group, which can be bucketed (mostly) into four separate categories:

1. The MD knows a partner at a sponsor (PE firm) and the partner reaches out about a portfolio company that needs helps (e.g., needs to restructure their capital structure).

2. The MD knows a creditor of a company that will need to restructure soon, or perhaps has already announced their intention to, and so a pitch is prepared to try to get a creditor-side mandate.

3. The MD has already worked with the company on previous restructuring transactions. For example, Revlon did a series of out-of-court restructurings to try to right-size their capital structure over several years before finally (mercifully) doing a Chapter 11. So, if there's a need for yet another attempt, a quasi-pitch will be presented on additional potential restructuring solutions.

4. The MD gets industry screens, has profiles built for him or her, and then puts out a feeler to see if the company (that they have no prior relationship with) is looking for options around potential restructurings solutions. If so, then a debtor-side pitch will be done.

Of course, there are other machinations, but this is generally how things work. So, in the first, second, and third situations most of the work prior to a pitch is being done at a more senior level (e.g., the MD is having conversations and perhaps asking you to put together a profile but is otherwise keeping things high-level until a pitch is deemed warranted).

Put another way, the first, second, and third situations are more targeted, while in the fourth situation the MD is engaging in a bit of a fishing expedition: looking for those that may need to restructure, trying to get a high-level feel for what their current situation is, and then planning their approach.

So, in the fourth situation the process goes roughly as follows…

1. You'll do an industry screen of all the companies in a given industry that you think are approaching distressed levels (we'll talk about what kind of characteristics to look for shortly).

2. You'll then be told by the MD which companies they've like profiles done of (a profile is going to be slightly more in depth than the screen).

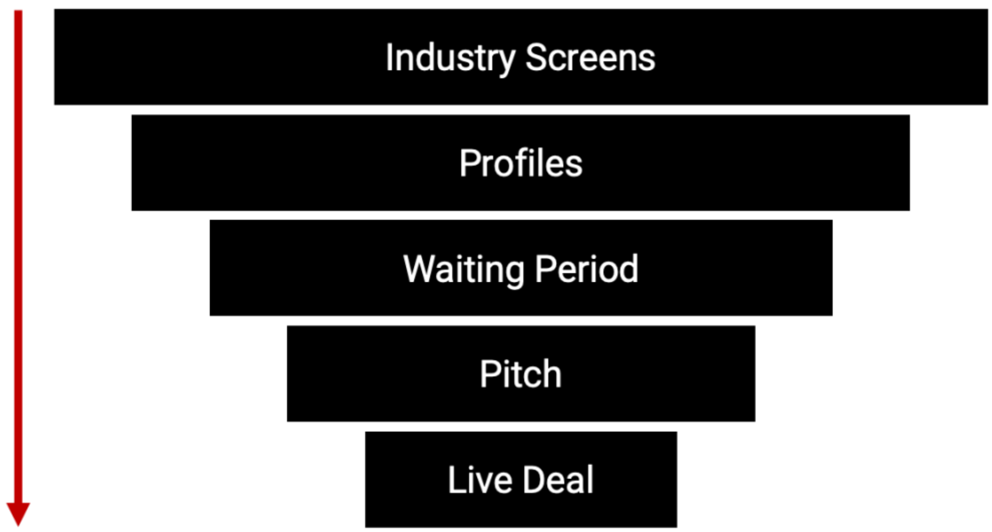
3. You'll then wait for the MD (sometimes days, weeks, or months) to call around and see if said company would be interested in hearing a pitch. Assuming, of course, that the profile was done on a company that really needs to restructure soon.

4. You'll then become part of a small "deal team" for the pitch (usually one analyst, one associate, one VP, and then the MD), and then usually just the MD and VP will go and pitch the company.

5. Then, if you end up getting the mandate, you'll have yourself a live deal (where all those fees come from that keep the lights on).

As you can tell, this five-step process is a kind of funnel where you initially cast a wide net and then narrow in over time (again, it can be years from when you created a profile to when a live deal happens).

So, you'll start by creating screens to get a general feel of a certain industry (e.g., what companies in industrials are approaching distressed territory); then you'll create profiles of a subset of those companies that appear like they may need to restructure relatively soon; then, whenever your MD has deemed it appropriate, you'll pitch a few of those companies; then you'll (hopefully!) get a mandate or two.



Note: To be clear, during your time as an analyst or an associate you'll always be creating (or updating) industry screens and creating (or updating) profiles in order to keep up-to-date on the names that are most closely circling the distressed drain.

Note: As mentioned before, if your group has prepared a pitch for a company and they opted to give the mandate to another group, you'll use largely the same material to go and pitch any ad hoc creditor groups that have formed – or seem liable to form – to illustrate to them how you think they can maximize their return through a potential restructuring (e.g., what they should be arguing for the company to do).

RX 101

Chapter 3

INTRODUCTION

When I began in restructuring, one of my associates – who went to law school prior to getting into restructuring – gave me the following advice:

"My professor in contract law told us on the first day: every contract has more or less the same elements, but every contract is different. The same is true in restructuring."

How true that turns out to be. The devil is truly in the details in restructuring. That's why throughout these guides I've tried to lay out all the pieces of the restructuring puzzle and provide the context for how it all fits together (while omitting some of the gorier details to hopefully not make these guides too overwhelming to go through).

What I want is for you to understand what you need to know for interview purposes, see how to do the easiest and most common things you'll be doing on the job, and then let you figure out all the finer details once you begin (since no one will expect you to know all the finer details on tallying up basket capacity to determine how much incremental secured debt a company can raise, etc. on your first day, never mind in an interview).

In RX 101 we're going to a quick dive into the *practical* world of restructuring. This is meant to give you the context and background necessary to understand the hundreds of questions in the members area.

But keep in mind that I use some of the questions-and-answers – especially in the Bonus Guides – to discuss more nuanced points that go a bit deeper than what we'll discuss here. As I think it's always a bit easier to learn in a question and answer format.

HOW WE GET TO DISTRESS

In traditional M&A a big part of the job is coming up with a story: how did the company originate, how has it grown, why is it unique and special, etc.

In restructuring we also need to come up with a story. But the story will revolve around how the company got to the point of distress.

Broadly speaking distress originates from having a capital structure that just no longer fits and is too burdensome to carry around much longer. In other words, the capital structure needs to be right-sized, and the main question will be whether this can be done out-of-court or will require going in-court (filing Chapter 11).

Hypothetically, a company with no debt can have their sales decrease indefinitely so long as expenses are paired down in equal measure. But, of course, in reality almost all large companies are built on leverage with significant debt burdens and with each piece of debt having different maturities, coupons, covenants, etc.

An important point to understand and that you may even get asked in an interview is whether a healthy, fast-growing company can ever become distressed.

The answer is absolutely! A company could be growing rapidly, have positive FCF, etc. but have large tranches of debt coming due. If a negative economic event of some kind then occurs and credit markets freeze up, the company may not have the ability to refinance (refi) their debt.

So, while this ostensibly healthy company would normally have the capacity to refinance their debt coming due, if they can't find any takers for their debt offering and don't have sufficient cash on their balance sheet to pay the principal of their existing debt at maturity, then they'll need to restructure.

Alternatively, perhaps the interest rate environment has changed so significantly that the company can't refi their debt at prevailing rates while maintaining positive FCF (after accounting for cash interest).

Most of the time a distressed company won't look like this, of course. Most of the time the company has had either flat or negative growth, sluggish EBITDA and FCF, and the market has grown increasingly pessimistic about the company's ability to survive with so much debt on the books.

In reality, almost all distressed situations, for practical purposes, come down to the inability of a company to continue servicing their existing debt, or an inability of a company to refi their debt traditionally as it matures.

Like I said previously, if a company has no debt and can keep expenses tethered to revenue, they can kind of sluggishly limp along without much issue for years on end. However, if you have a large capital structure you will have to worry about so-called called "maturity walls". These maturity walls refer to when pieces of the capital structure (debt) come due and all of a sudden you either need to a) repay the principal balance of the bond or loan in cash (most companies don't have tens or hundreds of millions of cash sitting on their balance sheet!) or b) issue new debt while using the proceeds to pay off the principal balance of the old debt (refinancing).

When you're building screens and profiles (to be discussed in detail later) a key thing you'll be looking for, and telling your MD about, are the maturity walls of the company.

Many companies that will likely need to restructure in the future try to push off the inevitable as long as possible. So, you should think about maturity walls as being an impetus for needing to restructure – as when the maturity walls begin to approach, the company needs to figure out whether they can refi their debt or not. And if it doesn't appear likely that they can, then they'll need to then begin exploring restructuring solutions.

So how we get to distress most of the time (assuming the company isn't just having a liquidity crisis whereby they can't continue to pay cash interest on existing debt, even if it matures years from now) is by butting up against maturity walls and then the company not being able to "roll over their debt" (meaning raise new debt to "retire" the old debt).

Therefore, a more specific question to consider is why a company would *not* be able to roll over the debt – or, in other words, why would people suddenly not want any new debt issued by this company?

Here are a few reasons:

- Limited Liquidity
    - Liquidity, for our purposes, means the amount remaining on the revolver and the (non-restricted) cash on the balance sheet (we'll discuss a few nuances to calculating liquidity, in a restructuring context, later on).
    - Liquidity can be projected by just taking current liquidity for this year and adding/subtracting the amount of FCF expected for the company next year (this is called a liquidity roll forward, which we'll also discuss later on).
- Blowing Through Covenants
    - All debt has a certain sets of covenants. Typically, the two most important financial covenants are leverage covenants (e.g., Debt / EBITDA) where the lower the better and coverage covenants (e.g., EBITDA / Cash Interest Expense) where the higher the better.
    - Almost all pieces of debt will set a certain limit for leverage ratios and a certain minimum for coverage ratios. If a company blows through these covenants, the debt holders have the technical right to force the company (involuntarily) into Chapter 11.
    - So, if a company is close to their existing covenants and they're trending in the wrong direction, people will be a bit remiss to lend more money to the company lest they get forced into a restructuring scenario soon
    - Covenants can also preclude the company from raising incremental (additional) debt throughout the capital structure. This is a slightly more technical point, that doesn't come up in interviews, but credit docs will lay out a series of baskets, which will define how much additional debt, if any, can be raised in various parts of the capital structure (e.g., some broad categories you'll look for in credit docs surround permitted indebtedness, permitted liens, restricted payments, and permitted investments). We'll discuss this more later on.
- Credit Rating Downgrades
    - If a company is downgraded by the major credit rating agencies (Moody's and S&P) then that will obviously make people generally uneasy to lend.

- More importantly, if the company is downgraded from investment grade to high yield that will preclude many traditional lenders from buying any new issuance of debt (because their mandate is to buy only investment grade securities).
- Evolving Rates Environment
    - When moving from a low rates to a high rates environment, it may be that the company's capital structure is comprised of debt raised during a low rates environment. Therefore, it may be the case that refi'ing in a higher rates environment, all else equal, will cause a significant enough change in cash interest expense that it suddenly looks unappealing to lenders.

So, for the purposes of restructuring, a company gets to the point of distress when they reach a point where their liquidity has dried up to such an extent that they won't be able to continue to service their debt (meet their cash interest expense) or need to refi part of their capital structure due to upcoming maturity walls but are unable to.

Just because a company isn't doing well (e.g., maybe their stock has declined 90% over the past few years) doesn't mean that the company is necessarily in distress *for our purposes* (since maybe they have minimal debt, maturating years from now, and have enough cash to get them through a number of years).

In fact, a common mistake many make in interviews is saying that a sign of a company needing to restructure is that the company's stock (assuming it's public) has declined significantly. While a company's stock declining significantly is a sign of the public losing faith in the company, it doesn't speak to the company's capital structure needing to per se be addressed.

In the end, restructuring requires a catalytic event that will force the company to do something – whether it's an out-of-court restructuring or in-court restructuring – and those catalytic events invariably revolve around liquidity or maturity issues of some kind.

Note: I suppose I should note there are small exceptions to companies filing due to liquidity or maturity wall issues. For example, there have been a spat of Chapter 11 cases recently revolving around tort claims whereby an otherwise healthy company files in order to (hopefully) force a resolution to the (sometimes astronomical) number of lawsuits against them. This has given rise to the controversial and heavily litigated Texas Two-Step Chapter 11 strategy, which I wrote a long blog post about you can read:
https://restructuringinterviews.com/blogs/restructuring/texas-two-step

CAPITAL STRUCTURES

All of restructuring really begins and ends with capital structures. So, much of your work really boils down to understanding what a company's capital structure is (sometimes that can get incredibly unruly, especially for multi-nationals), who owns various parts of it, and how to reconfigure it in a way that's amenable to both the debtor and to key creditors.

Capital structures are represented by what are called “cap tables”. Cap tables are going to be part of nearly every deliverable you create in restructuring – they’ll be a centerpiece of screens, profiles, pitches, and live deals.

A cap table is just a simple and digestible representation of a company’s capital structure that gives key details of each part of the capital structure (e.g., maturity, coupon rate, etc.). Since examples of cap tables are shown later on in this guide – along with there also being a dedicated guide to looking at cap tables in the members area – we won’t discuss cap tables too much here.

Instead, let’s briefly talk about capital structures more broadly – including what they are, how they’re structured, and what to watch out for.

Figuring Out the Capital Structure…

Capital structures can be found in the 10-K and 10-Qs of any public company. Sometimes they’ll be laid out quite well, so you can relatively easily slot them into the proper cap table format (see examples below for how cap tables should look), and other times you’ll need to hunt around to find all the pieces.

Practically, what you’ll do is use BamSEC (which allows you to highlight and copy and paste SEC documents easily) to find the elements of the capital structure. The most important thing you’ll need to dig for are the unique terms associated with each element of the debt, which should be included in the footnotes that accompany all cap tables.

For private companies – if you have no underlying credit or financial docs for it – you’ll have to rely on services like Reorg, Debtwrite, S&P reports, etc. to see if they have written about the company and if they’ve detailed what the capital structure looks like. Usually, if the company is remotely stressed or distressed, Reorg and Debtwire will have put together a cap table of their own (although, if possible, you always want to check their work and not rely entirely on what they’ve done).

How Capital Structures are, well, Structured…

Every mature company will have some of the following elements:

- Secured Debt
    - Including revolvers, term loans (TLA, TLB, etc.), and secured notes (bonds)
- Unsecured Debt (bonds)
- Subordinated Debt (bonds, structurally below unsecured debt)
- Mezz Debt (anything like convertibles, preferred stock, etc.)
- Equity (common shares)

Secured Debt

Secured debt has historically been issued by a traditional bank and is usually, but not always, syndicated. Syndication means that a bank will front the initial capital for the loan, but then sell off chunks of the loan to third parties (hedge funds, pension funds, CLOs, etc.). This debt will then trade on the secondary market and there will be active pricing for these pieces (which can be found on MarkIt and Bloomberg).

Note: Since the financial crisis, non-bank lenders (e.g., direct lending and private credit funds) have been increasingly providing secured debt financing for many of the companies that end up needing to restructure in later years: https://www.cambridgeassociates.com/wp-content/uploads/2018/04/Tracing-the-Rise-of-Direct-Lending.pdf

Secured debt, as mentioned, is traditionally comprised of two distinct pieces: revolvers and term loans.

A revolver (sometimes called a "revolving ABL" or just "ABL" depending on its structure) is essentially like a credit card with a certain limit (determined by the borrowing base). You can draw down the revolver at any time and pay it back whenever you want (either partially or entirely). However, unlike a credit card, it does have a maturity date. A revolver sits at the very top of the capital structure above everything else; making it both the most secure and making it have the lowest interest rate of anything else in the capital structure.

Just like a bank issuing you a credit card assigns a certain limit to the credit card, so too do revolvers involve limits. These limits are determined by the borrowing base, which is a certain % (below 100%) of the most liquid assets of the company like inventory or AR. The bank or lender issuing the revolver makes a determination as to just how liquid the assets are of the company and what the % should be to ensure that they have appropriate collateralization.

Revolvers will often operate under grid pricing. You should be careful to look at the footnotes of the financial statements of a company to make sure you catch this. Grid pricing means that a revolver will be, for example, L + 250-350 depending on how much of the revolver is drawn at any given time. If only, for example, 20% of the revolver is drawn the interest rate may be L+ 250. However, if 80% of the revolver is drawn than the interest rate may "flex" to L + 350.

Note: We're currently in the later innings of the transition from LIBOR to SOFR. SOFR being the new benchmark for pricing in the wake of the LIBOR scandals of the past. So, nowadays you'll see most things priced as "S +" not "L +":
https://www.whitecase.com/insight-our-thinking/us-levfin-2022-sofr-transition-progresses

Grid pricing is utilized to account for risk. If a revolver is heavily drawn that probably means the company is having some cash flow problems (no different than a person having cash flow problems and using a credit card heavily).

Term loans are loans extended primarily by traditional banks or the aforementioned non-bank lenders and come in several varieties (often, it's the case that the revolver and term loan were issued by the lender). Term loans, for large companies, are almost always at least partially syndicated so you will have pricing on them (which is important for your cap table, as you'll see).

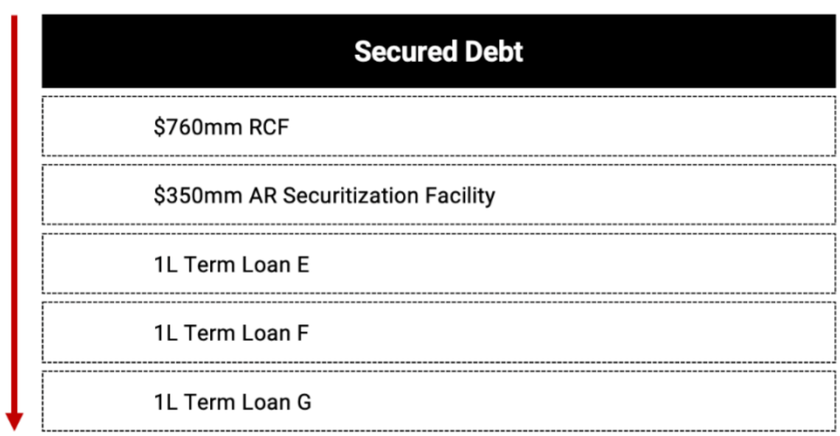
Term loans are usually structured to be second in priority after only the revolver. If the company does not have a revolver, then the term loans are the most senior piece of the capital structure.

You'll often see term loans referenced as either being TLAa and TLBs or sometimes TL1s and TL2s.

There are no hard and fast rules as to the differences between TLAs and TLBs. Generally speaking, TLAs will be issued by traditional commercial banks whereas TLBs will be offered widely (like bonds) and purchased on issuance from institutional investors like mutual funds and CLOs.

Further, TLAs will have more favorable rates, shorter maturity, and more amortization. TLBs rarely have any amortization.

You'll often also see a company with more than two term loans, which will be labeled alphabetically. For example, take a look at TransDigm (NYSE: TDG) which has a very large capital structure with a significant amount of secured debt residing at the top. See their 10-K here.



Here you can see why practice makes perfect. It's probably not obvious, at least at first glance, if both the first two items are revolvers and why these term loans begin at E. What about A, B, C, D,…?

Here's what's going on: the $760mm RCF (revolving credit facility) is, as the name implies, a revolver. But given the amount of AR the company has they've also got a $350mm A/R Securitization Facility.

Because the company has so many short term, highly liquid assets the RCF and AR Securitization Facility draw from two different borrowing bases (one draws, as the name implies, from AR and the other draws from everything else that is short term and highly liquid like inventory).

So, here's a question: Is that AR Securtization Facility a revolver or a term loan?

To answer that look at the 10-K and you'll see that they can draw from this facility and pay it down; it's not given to them in a lump sum and paid back in a lump sum. Thus, it's a revolver and so TransDigm has two revolvers that just happen to draw from two different borrowing bases.

Now they also have Term Loans that they call, in their 10-K, Tranche E, Tranche F, and Tranche G. These are 1L term loans (meaning they have first lien on all the assets not covered by the revolvers) and the reason there are no A, B, C, and D tranches is that they already existed earlier, but were retired.

Because they have multiple term loans going on it's easier (so as not to confuse people) to just continue down the alphabet.

Most companies will have a revolver and at most two term loans. TransDigm is the exception to the rule. But pulling up their 10-K (or any company's 10-k) and just seeing how things are worded will make it all (usually) quite clear as to what's going on.

When it comes to making sure you are accurately describing a company's capital structure, half the battle is just understanding the different terms used to refer to the same thing.

For example, revolvers can be called either a "RCF", "ABL", or "Securitization Facility". Structurally, they're all revolvers, but just with subtle differences as to the underlying collateral stemming from their borrowing base.

Note: You may see, in the press or in your day-to-day, discussions around levered vs. unlevered loans. This is rather confusing terminology. All a levered loan refers to is a loan with a non-IG credit rating.

Note: You can have secured bonds (referred to normally as "Secured Notes" or "Senior Secured Notes"). All this means is that the bonds are backed by a certain set of collateral. Just like regular bonds they have a fixed interest rate and no amortization. So, technically, you could have a company with a revolver, multiple term loans (a TLA and a TLB), and secured notes (bonds). In fact, many companies have exactly this set up.

To keep this all straight, here's a reasonably good summation of what distinguishes the major types of secured debt – just keep in mind that moving forward SOFR will be utilized as opposed to LIBOR.

	"Pro Rata" Tranches		"Institutional" Tranches
	Revolver	Term Loan A	Term Loans B, C, etc.
Funded/Unfunded:	Funded or Unfunded.	Funded (occasionally deferred).	Funded (occasionally deferred).
Representative Applications:	Acquisition financing, refinances indebtedness, fees and expenses, future acquisitions, capital expenditures, and general corporate purposes.	Acquisition financing, refinancing indebtedness, fees and expenses.	Acquisition financing, refinancing indebtedness, fees and expenses.
Pricing:	LIBOR + applicable margin on funded amount. Commitment fee on undrawn amount.	LIBOR + applicable margin.	LIBOR + applicable margin, at a premium to the pro rata tranches (approx. 50 to 75 bps).
Maturity:	5 to 7 years.	5 to 7 years.	6 to 9 years.
Availability:	Can be borrowed and repaid at any time prior to maturity.	Generally in a single draw at closing. May include a delayed-draw feature.	Generally in a single draw at closing. May include a delayed-draw feature.
Required Amortization/ Repayment:	Bullet at maturity or reducing commitment schedule. Outstandings may convert to a term loan at a specific future date.	Generally, increasing amortization payment requirements in concert with free cash flow growth.	1% per annum, with balance due in final year prior to maturity.
Prepayments:	▪ Mandatory prepayments from net proceeds of debt, equity and asset sales as well as excess cash flow recapture may apply.	▪ Mandatory prepayments from net proceeds of debt, equity and asset sales as well as excess cash flow recapture may apply.	▪ Mandatory prepayments from net proceeds of debt, equity and asset sales as well as excess cash flow recapture may apply. Can refuse in certain cases if Term Loan A is outstanding. ▪ Call premium may be required based on market conditions.
Security:	Determined by issuer's credit ratings. ▪ BB+/Ba1: generally secured by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%). ▪ BB/Ba2 or below: secured by all assets, by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%).	Determined by issuer's credit ratings. ▪ BB+/Ba1: generally secured by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%). ▪ BB/Ba2 or below: secured by all assets, by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%).	Determined by issuer's credit ratings. ▪ BB+/Ba1: generally secured by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%). ▪ BB/Ba2 or below: secured by all assets, by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%).
Pricing Grid:	Always.	Always.	Based on market conditions.
Covenants:	Maintenance covenants.	Maintenance covenants.	Maintenance covenants.
Registration:	None.	None.	None.
Principal Investors:	Commercial banks, investment banks.	Commercial banks, investment banks.	CBOs, CLOs, prime rate funds, insurance companies, commercial banks, investment banks.

Unsecured Debt

Secured debt is, as the name would imply, backed by some form of collateral. Unsecured means there's a generalized claim on the assets of the company – from a priority perspective – but there's no claim on specific assets. So, in the event of a restructuring, if the secured debt is made whole, then the residual value of the company will flow to the unsecured debt because they're next in line and have a generalized claim.

For example, if the company has an EV of $400 and it has secured debt of $300m along with unsecured debt of $200m then, in the advent of filing, there will be a 50% "recovery" by unsecured debt while the secured debt is made whole.

Unsecured debt comes in the form of bonds (these are usually referred as "notes", and that's the term I'll be using through most of the questions and answers in other guides). Bonds are offered broadly, bought by a wide swath of market players, and thus have more active trading than loans and revolvers. Bonds also feature no amortization.

Bonds are generally of most interest (although not always!) to distressed funds who like to play around in-court situations as they are most likely to be impaired in the event of a default unless the company has a very top-heavy capital structure (as is a bit more common these days).

Note: Impaired simply means they aren't made whole (like secured debt often will be) as the value of the company isn't sufficient to cover them. In a Chapter 11 you'll have impaired and unimpaired classes. The former referring to those who are not going to get back their full claim amount, and the latter referring to those that are. Impaired classes are put in a powerful position during a Chapter 11, as impaired classes are those that get to vote to accept or reject a debtor's Plan of Reorganization (POR).

Unlike loans and revolvers, conventions are a bit more settled as to what we call bonds. Here are some examples, all of which would refer to unsecured debt:

- 4.750% Senior Notes
- 5.750% Priority Senior Notes
- 6.500% Unsecured Notes
- 7.350% Debentures
  - What bonds are referred to in Canada and the UK most commonly

Note: Something you always have to be mindful of is that a company can more-or-less call a debt instrument anything they want – what matters is what the underlying credit docs say. So, just because you see something like 5.750% Priority Senior Notes don't automatically assume those are higher priority than some other notes because of the name. You always need to look in the docs to see what priority the debt has in relation to other parts of the capital structure.

Note: If a bond is secured, then it'll *usually* be clear as the name of the bond will most often have "secured" in it (e.g., "4.750% Senior Secured Notes").

Unlike loans and revolvers, unsecured debt is not spread off of LIBOR or SOFR. When a loan or revolver is spread off of LIBOR (e.g., L + 250) or SOFR (e.g., S + 250) we call this floating (because as LIBOR or SOFR changes, so too does the interest expense).

Note: We're currently in the later innings of the transition from LIBOR to SOFR. SOFR being the new benchmark for pricing in the wake of the LIBOR scandals of the past: https://www.whitecase.com/insight-our-thinking/us-levfin-2022-sofr-transition-progresses

A bond just has a fixed interest rate, for example 4.750%, so the interest payment is locked in and known with certainty regardless of what happens in the overall rates environment (so, all else being equal, funding your capital structure with bonds looks relatively better if you did so in a low rates environment if we're now in a higher rates environment).

Subordinated Debt

Subordinated debt is almost always comprised of bonds that simply rank structurally lower than secured and unsecured debt.

Most companies don't have separate subordinated debt, and thus most cap tables do not feature it. However, in the credit docs of any subordinated debt it'll be made clear that it ranks lower in priority, and thus in cap tables (examples of which you'll see soon) subordinated debt should be placed lower than unsecured debt.

Mezzanine Debt

Mezzanine debt (mezz debt) is the lowest form of debt in the capital structure.

In reality, mezz debt is a catchall term. It includes things that have debt-characteristics, but are not clearly a bond, loan, or revolver. All mezz debt is unsecured.

Mezz debt includes things like convertible debt, preferred stock, PIK debt that otherwise has no collateral claim, etc. All these instruments either have an equity component (convertible debt can be converted into equity, preferred stock is equity that pays a dividend) or does not pay cash interest (PIK debt pays interest in the form of more debt).

Mezz debt is usually very small in size compared to the traditional secured and unsecured parts of the capital structure. It also is usually privately placed and therefore highly illiquid (sometimes you'll see convertible debt actively traded, but it still will be quite small volume compared to other areas of the capital structure).

Note: In a cap table you'll often put an "Other" line item at the very bottom for things like capital leases, which can arguably be considered like mezz debt. Convention varies as to whether or not to include it. Generally, it is if it's reasonably large.

Equity

Equity just refers to common stock. This common stock is what you would find trading on the stock market (assuming the company is public). Common stock is of almost no interest to us as it almost invariably gets nothing in restructuring scenarios (with the exception of a small nominal value "tip" sometimes).

However, there have been some solvent debtor cases through the pandemic whereby equity has received some meaningful recovery. This is because many companies that filed in the immediate aftermath of the pandemic, but then saw their business rebound quickly while they were still in-court. The most notable case being Hertz, because it turned into a bit of a meme stock after filing, which everyone mocked because it was assumed that equity holders would get no recovery – but then it turned out they did: https://www.bloomberg.com/news/articles/2021-05-12/hertz-picks-knighthead-certares-offer-in-bankruptcy-auction

Covenants and more…

All loans and bonds come attached with a series of covenants and other features that limit what the company can do. If certain covenants are violated, this can lead to those holding the debt (with the covenants that were violated) forcing the company into involuntary bankruptcy (Chapter 11). However, in practice, nearly all of those that file do so *voluntarily* before creditors think of forcing the company to do so.

Understanding the covenants and other features of debt in any given capital structure is incredibly important. Because even when maturity walls are reasonably far away, a company can still need to restructure because of these covenants and other features.

What covenants and other features are tied to each revolver, loan, and/or bond varies wildly. You can gleam some information on most of these from the financial docs of the company (10-Ks and 10-Qs). However, the nitty-gritty details are laid out in the credit docs (the actual term sheets underlying each of the pieces of debt).

While there's a proclivity for certain types of debt to have certain types of covenants, keep in mind that these are all negotiated for. So, during hot credit markets, you'll see quite loose credit docs and during tighter credit markets, you'll conversely see more restrictive credit docs.

In the next few pages, I'll provide a very high-level overview. Because while being able to read through credit docs is an incredibly important part of the job, it's also something that you'll learn on the job – and not something you'll be interrogated about in an interview.

- **Three Types of Covenants**

Within credit docs you'll find three broad categories of covenants: affirmative, negative, and financial. With affirmative covenants being relatively mundane (e.g., surrounding the need to send financial reports to lenders in a timely manner) and with negative and financial convents being much more heavily negotiated by lenders.

Whenever there's a controversial restructuring transaction (e.g., J. Crew, PetSmart, Travelport, Serta, Boardriders, Trimark, Incora, Envision, etc.) that ends with up with lots of litigation, that litigation will all surround whether negative covenants gave the company the ability to do the controversial thing or not.

Note: I'm using the term "credit docs" as a catchall. If you see the term "credit agreement" it's usually going to be referring to the credit docs associated with loans / revolvers, if you see the term indenture it's going to be referring to the credit docs associated with bonds.

Affirmative Covenants

Affirmative covenants specify things that the borrower (company) must routinely do, such as providing financial reports, maintaining properties, etc. These are generally pretty boilerplate although there are slight differences depending on the nature of the company (e.g., if they're a restaurant chain or a deep-sea driller).

Here's a summation of some classic affirmative covenants, not all of which will necessarily be included in any given credit doc:

Financial Reporting Requirements	In a credit agreement, debtholders want to ensure that the borrower provides periodic financial reports, including (in some cases) certain non-public information. In an indenture, debtholders want to ensure that the issuer files the required disclosure documents regularly with the SEC. Much of the time debtholders rely on the company's public reporting for updates on its operating performance and financial position.
Maintenance of Corporate Existence	Debtholders want to ensure that if a company becomes involved in acquisition transactions, it remains the surviving entity and that it complies with all laws and filing requirements.
Payment of Taxes	Debtholders want to ensure that a company pays all of its obligations to various taxing authorities as required on a timely basis.
Maintenance of Properties + Insurance	Debtholders want to ensure that a company satisfactorily maintains its assets in good working condition to support ongoing business operations. In addition, issuers are required to maintain customary insurance policies to protect against damage to their assets and operations in certain events.
Compliance With Laws	Debtholders want to ensure that a company remains in compliance with the laws within the jurisdictions in which it operates.

Negative Covenants

Just as affirmative covenants require that the borrower (company) must do certain things, negative covenants require that the borrower (company) must not do certain things.

Negative covenants are extremely important and are usually the most heavily negotiated points in credit docs. This is because negative covenants restrict how much additional debt the company can raise, where that additional debt can be raised within the capital structure, and how the company can move money within its corporate structure (e.g., how money can potentially be moved away from where existing creditors can access it!).

So, for example, in any controversial restructuring the root issue boils down to whether the negative covenants allowed the company to either remove assets from where existing creditors have access (e.g., unrestricted subsidiary transfers, as discussed in the Serta guide) or raise additional debt in the current capital structure in ways that weren't previously predicted (e.g., non-pro rata uptiers, as also discussed in the Serta guide).

The kinds of negative covenants you'll see will revolve around permitted indebtedness, restrictions on liens, restricted payments, restrictions on assets sales, etc. It all gets quite complicated and reasonable people can interpret things wildly differently.

Here's a summation of some classic negative covenants, not all of which will necessarily be included in any given credit doc:

Additional Indebtedness

Debtholders want to restrict the company's ability to incur additional debt, for example.

- Other senior debt (secured or unsecured).
- Other subordinated debt.
- Debt acquired with acquisitions.
- Guarantees of the debt of other companies or unrestricted subsidiaries (i.e., non-guarantor subsidiaries).
- Assumed debt of a subsidiary that becomes a party to the indenture or credit agreement.
- Capital lease obligations.
- Vendor debt.

Restricted Payments

Debtholders want to restrict a company's ability to do the following.

- Make investments in other companies.
- Pay dividends or make other cash distributions.
- Redeem junior securities.
- Eliminate an existing subsidiary from being a party to the indenture or credit agreement.

Change of Control

- A change of control typically occurs when a majority of a company's voting stock is purchased by another entity or when a majority of a company's board is replaced.
- This covenant protects debtholders from a potential deterioration in creditworthiness that may arise as a result of a change in control.
- In a credit agreement, a change of control is an event of default that allows the debtholders to demand immediate repayment of all outstanding loans.
- Typically, a bond indenture requires a company to make an offer to repurchase the notes (at a predetermined price, usually 101%) in connection with a change of control.

Asset Sale Proceeds

When assets above a specific threshold are sold, the debtholders want the Company to use the proceeds either to reinvest in its business or to repay debt. They do not want the company to apply the money to uses that may weaken the creditworthiness of the obligor, like paying a dividend to shareholders or giving an excessive bonus to the CEO.

Acquisitions

- Intended to control the magnitude of future acquisition activity since acquisitions may result in a deterioration in creditworthiness and may increase the risks associated with integrating acquired operations.
- Debt instruments often place limitations on: (i) the size of permitted acquisitions; (ii) the amount of an acquisition that can be financed by debt; (iii) the amount of the target's debt that can be assumed; and (iv) the pro forma financial profile of the consolidated company.

Additional Liens

- A lien is a first claim on an asset that affords substantial rights to the lien holder in a bankruptcy. These rights include assurances that a company cannot permit other creditors to have a direct lien on pledged assets ahead of the first lien holder, and that the lien holder has a priority claim on the proceeds from the sale of the secured assets ahead of all other creditors.
- A "negative pledge" or other limitation on additional liens prevents the company from granting liens on its assets to other creditors, thereby ensuring that the value of the assets to existing debtholders is not impaired by virtue of a lien benefiting others. A negative pledge is generally required by both secured and unsecured debtholders.

Sale/Leaseback

- In a sale/leaseback transaction a company sells an asset, like a factory, to a finance company and then simultaneously leases it back under an off balance sheet long-term operating lease.
- Intended to limit off balance sheet obligations and to protect the collateral value of physical assets owned by the company.

Transactions with Affiliates

Debtholders want to restrict the company's ability to enter into transactions with affiliates, that may not be fair to the company or its various stakeholders; for example:

- Loans and other payments to officers, directors, etc.
- Contracts with companies owned or controlled by officers, directors, etc.

Transactions above a specific value typically require Board approval and/or a Fairness Opinion.

Lines of Business

- Debtholders provide capital in part because they believe management has expertise in running the company in a specific business, like building materials. They do not want that management team expanding into a totally unrelated line of business, like the production of Hollywood action movies.
- Intended to restrict a company's business activities to its existing areas of expertise.

Financial (Maintenance / Incurrence) Covenants

Financial covenants are those you're probably most familiar with. They prescribe certain financial ratios the company must adhere to (e.g., maximum senior leverage, maximum total leverage, minimum interest coverage, etc.).

Note: In the credit docs, the definitions of things like EBITDA will be carefully described. Because (obviously) there are different ways you can think about EBITDA – for example, certain things will be allowed to be added back to EBITDA. So, it behooves both the company and creditors to have an air-tight definition so there's no ambiguity as to how the financial ratios should be calculated (this will all be spelled out in the credit docs).

Maintenance covenants refer to those financial covenants included in credit agreements (the credit docs for loans), while incurrence covenants refer to those financial covenants included in indentures (credit docs for bonds).

With maintenance covenants, the borrowers much remain in compliance with these covenants, and they'll be tested (usually) on a quarterly basis through the length of the credit agreement. Failure to comply will (usually) constitute an event of default.

With incurrence covenants, the borrower will be limited in what it can do if it's breaching the financial covenants in the indenture (e.g., won't be allowed to raise additional debt).

Here's a summation of some classic financial covenants, not all of which will be included in any given credit doc:

Maintenance Financial Covenants	• Total Debt / EBITDA • Senior Debt / EBITDA • Interest Coverage Ratio (EBITDA / Interest Expense) • Fixed Charge Coverage Ratio (EBITDA – Capex / Interest Expense) • Total Debt / Total Capitalization • Limitation on Capital Expenditures
Incurrence Financial Covenants	• Total Debt / EBITDA • Fixed Charge Coverage Ratio (EBITDA – Capex / Interest Expense)

The Case of ATI Physical

Let's briefly discuss a real-world example here. Needless to say, there are thousands of examples we could discuss. But ATI Physical is as good as any.

ATI was groaning under the weight of its capital structure in 2022 and had an issue: its 1L TL and (undrawn) revolver were coming due in 2023, so they needed to figure out how to refi them.

ATI knew it wouldn't be overly straight-forward with the $555m 1L TL, given that it was levered at 14x through the secured part of its capital structure. So, they began working with Evercore to figure out a way to extend out maturities and bolster liquidity.

In other words, they wanted to figure out how to kick the can down the road and hope for a turnaround in their business as opposed to doing a more fulsome restructuring.

Needless to say, this caused a bit of apprehension among the 1L TL lenders who wanted to make sure no trickery happened. So, an ad hoc group of 1L TL lenders retained PJT to advise them throughout the process.

In the end, because the business wasn't really *that* distressed and there was a discrete thing that needed to happen (deal with the 1L TL and undrawn revolver), a resolution was reached that both bumped out maturity walls by quite a few years and bolstered liquidity.

This was accomplished through retiring the existing 1L TL and revolver (both maturing in 2023) with a new TL (at a significantly higher rate) and new revolver (both maturing in 2027). Further, they also issued $165 in perpetual preferred stock with a 12% dividend payable in PIK.

Here's the pro-forma cap table…

ATI Physical Therapy Inc. Capitalization											
	9/30/21		12/31/21		Pro			EBITDA Multiple		Cash Interest	
(USD $ in millions)	Amount	Adj.	Est. Amounts[1]	Adj.	Forma[2]	Maturity	Rate	2021A	PF	2021A	PF[11]
Priority Secured Debt											
New $50M Payment Priority Revolving Credit Facility due 2027[3]	$0.0	-	$0.0	-	$0.0	2/23/2027	SOFR+350-400			$0.0	$0.0
Total Priority Secured Debt	**$0.0**		**$0.0**		**$0.0**			**0.0x**	**0.0x**		
Secured Debt											
$70M Revolving Credit Facility due 2023[4]	-	-	-	-	-	5/10/2023	L+400-450			-	-
First Lien Term Loan due 2023[5]	557.1	(2.0)	555.0	(555.0)	-	5/10/2023	L+350			25.0	-
New $500M Term Loan due 2028[6]	-	-	-	500.0	500.0	2/23/2028	SOFR+675-725			-	41.3
Total Secured Debt[7]	**$557.1**		**$555.0**		**$500.0**			**14.0x**	**12.6x**		
Total Debt	**$557.1**		**$555.0**		**$500.0**			**14.0x**	**12.6x**		
Less: Cash and Equivalents[8]	(66.1)	17.5	(48.6)	(77.0)	(125.6)						
Net Debt	**$491.0**		**$506.4**		**$374.4**			**12.7x**	**9.4x**		
Cash / PIK 12% Series A Perpetual Preferred Stock[9]	-	-	-		165.0		12.0%			-	19.8
Total Preferred Stock	**$0.0**		**$0.0**		**$165.0**			**12.7x**	**13.6x**	**$25.0**	**$61.1**
Net Debt + Preferred Stock	**$491.0**		**$506.4**		**$539.4**			**12.7x**	**13.6x**		
LTM Company Adj. EBITDA	**$80.9**		**$39.8**		**$39.8**						
Liquidity											
RCF Commitments	$70.0		$21.0		$50.0						
Less: Borrowings	-		-		-						
Less: Letters of Credit	(1.2)		(1.2)		(1.2)						
RCF Availability[10]	$68.8		$19.8		$48.8						
Plus: Cash and Equivalents	66.1		48.6		125.6						
Total Liquidity	**$134.9**		**$68.4**		**$174.4**						

And, if you're curious, here's the full credit agreement for the new TL and revolver: https://www.sec.gov/Archives/edgar/data/1815849/000119312522053291/d10853dex101.htm

The TL has grid pricing (S + 675-725) that flexes up based on the amount of secured leverage the company has (e.g., gets more expensive if the leverage ratio goes up, as that obviously makes the company more likely to default).

With that said, there's an interesting wrinkle – because this wasn't a regular-way refi, but rather one for a quite stressed company – whereby the company for the first year can elect to pay 2% of the interest in PIK, although that will result in the overall interest rate going up by 0.50% if the company chooses to do this.

Another interesting wrinkle is that the revolver can have $10m added onto it if the company so chooses – and this $10m, along with the rest of the revolver, will have prepayment priority over the term loan.

Through March 2024 there's a minimum liquidity buffer (something you don't see all the time) of $30m, calculated as cash on the balance sheet plus revolver availability. This is meant to avoid a situation whereby the company, in a last-ditch attempt to avoid bankruptcy, just draws down all their revolver to keep the ship afloat.

After the liquidity buffer covenant expires, it'll be replaced with a more traditional leverage covenant (remember: we'd classify this as a financial maintenance covenant!). The covenant will start being tested in June 2024 at 7x secured leverage, but then step-down overtime to 6.25x by March 2025 and thereafter.

This is a pretty typical financial (maintenance) covenant. For healthy companies, it'll likely just be a static leverage ratio (e.g., 5x) whereas with stressed or distressed companies they'll often have an amount that steps down over time – as ideally you want the company to be delevering over time. Because if they don't, it'll be more unlikely they'll be able to refi when the debt comes due again.

If the secured leverage covenant is breached and not cured (remedied) within 15 days, then that'll be considered an event of default. All credit docs will specify what is and what is not an event of default, as you don't want to end up in a scenario where it's ambiguous as to whether the company really defaulted or not – default may seem like a self-explanatory word, but there are many ways to argue what does and does not constitute a default.

As is quite typical in this cov-lite era – even for stressed borrowers – there are usually only a handful of financial covenants, along with a smattering of boiler-plate affirmative covenants (e.g., you need to pay your taxes!). So, I won't belabor talking about affirmative covenants here. If you click the link above and look for "ARTICLE 5", that'll provide a listing of the affirmative covenants.

What's more important to pay attention to are the negative covenants, as outlined in ARTICLE 6. As you'd expect, given the stressed nature of ATI, these are quite restrictive – it's a highly levered company, so lenders don't want to provide much wiggle room for them to add on yet more debt.

Breaking down negative covenants and adding up incremental debt capacity is far beyond what you need to know for an interview, but what you'll find is that there are a series of different ways that the company can add a bit of extra debt through various parts of the capital structure (usually contingent on them meeting certain leverage ratios).

So, for example, we discussed how $10m of additional revolver debt can be added. They can add even more if they comply with a 4.5x secured leverage ratio – which is, obviously, far away from where they are now! But the thinking is that if the company is able to grow EBITDA so significantly that their leverage ratio falls to 4.5x, then they should be able to add additional pari (similar ranking) debt as they must be quite healthy with such a relatively low leverage ratio and additional debt may help spur continued growth.

There are additional baskets giving the company the capacity to make restricted payments, make investments in joint ventures, etc. These are all typical covenants, but what's notable is how small the amounts are here (e.g., just a few million here and there).

ATI Holdings - 2022 Credit Agreement Flexibility Scale	
Sponsor Advent, Fortress	**Use of Proceeds** Refinancing
Pari Secured Debt: **At least $10mm [does not reflect revolving availability]**	[1]Investments: **At least $18mm of general-purpose investments, $10mm of investments in unrestricted subsidiaries, $10mm of investments in non-guarantor restricted subsidiaries**
Incremental Debt: Greater of $10mm and 15% of EBITDA, *plus* additional amounts in compliance with a 4.5x secured leverage ratio (***at least $10mm***) *Up to $10mm of incremental revolving commitments may be incurred (which may also have payment priority), initial term loan lenders will have the right of first refusal to provide incremental financing in excess of $10mm and holders of the Preferred Shares may not provide incremental financing (but may acquire incremental term loans in the open market)* *Initial term loan lenders have 50bps of MFN protection with no sunset; because the general-purpose liens basket can only provide junior lien capacity, the incremental debt basket provides the Borrower with its only pari secured debt capacity*	**General Investments**: Greater of $6.5mm and 10% of EBITDA (***at least $6.5mm***) **Investments in Unrestricted Subsidiaries**: $10mm **Investments in "joint ventures"**: Greater of $6.5mm and 10% of EBITDA (***at least $6.5mm***) **Investments in Non-Guarantor Restricted Subsidiaries**: $10mm, when aggregated with Permitted Acquisitions of non-guarantor restricted subsidiaries (***$10mm***) **Available Amount (compliance with a 5x secured leverage ratio to access the ECF component)**: Based on retained ECF from the FY ending December 31, 2023 (may not be less than zero), *plus* other typical amounts received after closing (*explicitly excludes proceeds from Preferred Shares*), *plus* $5mm (***$5mm***) **Leverage-Based Investments**: Compliance with a 4.5x total leverage ratio
Structurally Senior Debt: **$10mm**	Dividends: **At least $8.25mm**
Non-Guarantor Restricted Subsidiaries Reserved General Debt, Ratio Debt, Utilization of General Debt Basket Sublimit: $10mm (***$10mm***)	**Shared Restricted Payments, Prepayments**: Greater of $3.25mm and 5% of EBITDA (***at least $3.25mm***) **Available Amount (compliance with a 5x secured leverage ratio to access the ECF component)**: (***$5mm***) **Leverage-Based Restricted Payments**: Compliance with a 4x total leverage ratio
Other Debt: **At least $10mm of junior lien debt, arguably at least $165mm of unsecured debt**	Prepayments of Junior Lien, Unsecured, Subordinated Debt: **At least $8.25mm**
Leverage-Based Junior Lien, Unsecured Ratio Debt: Compliance with a (i) 5x secured leverage ratio, if such debt is junior lien and (ii) 5.5x total leverage ratio, if such debt is unsecured	**Shared Restricted Payments, Prepayments**: Greater of $3.25mm and 5% of EBITDA (***at least $3.25mm***)
General Debt, General Junior Liens: Greater of $10mm and 15% of EBITDA (***at least $10mm***)	**Available Amount (compliance with a 5x secured leverage ratio to access the ECF component)**: (***$5mm***)
Unsecured Contribution Debt (available to the Borrower, subsidiary guarantors): Debt equal to 100% of cash contributions and proceeds from equity issuances that are not otherwise applied, as long as such debt is incurred within 30 days of receipt of such contributions (*arguably includes proceeds from Preferred Shares;* ***$165mm***)	**Leverage-Based Prepayments**: Compliance with a 4x total leverage ratio
Other Terms	
(1) Strong Prohibitions on Unrestricted Subsidiary Transfers - Not only does the Credit Agreement prohibit unrestricted subsidiaries from holding more than $10mm of total assets, but it also prohibits material IP transfers from loan parties to any subsidiary that is not a guarantor, any Consolidated APC, Non-Consolidated APC or any Affiliated Practice; material IP-owning subsidiaries are also prohibited from being designated as unrestricted subsidiaries	

Also, you'll note that there are strict prohibitions on unrestricted subsidiary transfers to avoid any kind of unsub shenanigans whereby assets are stripped and sent to an unrestricted sub. This is something explained at length in the Serta guide.

Anyway, it's important, for interview purposes, to focus on what will actually come up in interviews. No one is going to be giving you a credit doc and asking you to identify what baskets are available to tap (e.g., where additional debt can be raised, if you think unrestricted subsidiaries can be utilized, etc.).

This is all stuff that you learn on the job and will take you quite a few reps to get a feel for. And even after many reps, there will be disagreements over exactly what certain credit docs allow a company to do or not, as is stressed in the Serta guide and the lawsuits that eventuated thereafter.

But I wanted to briefly dive a bit deeper here, because looking at credit docs will be something you'll do constantly on the job. And in most pitches you'll be "spreading" docs by showing what the company's credit agreements or indentures are allowing it to do.

Notes Covenants

With notes (bonds) you're also going to have affirmative, negative, and financial covenants. But, as you'd expect, things are a bit less restrictive with notes as they're further down the capital structure.

However, you'll still have boiler-plate affirmative covenants; a mix of financial covenants, most of which are reasonably loose; and some negative covenants meant to protect the notes from having too much debt placed around them, but again this is much looser (in general) than what you'll find with loans.

For example, notes can have language (negative covenants) surrounding how much secured debt can be layered overtop of them; language around how much dividends, investments, and transfers can occur (e.g., how much value leakage can occur); and all of that – similar to what you'll find in the credit agreements for loans.

When it comes to the ability to add most incremental debt, there will be tests the company needs to pass (e.g., you can add incremental senior debt unless secured leverage is greater than 6x or FCCR is less than 1.75x).

For example, you could see language that there's a secured credit facility debt basket not to exceed i) the greater of $2.5b and the maximum amount permitted under a 5.75x first lien leverage ratio, plus ii) the greater of $1.0b and 100% of EBITDA.

Ultimately, the priority of unsecured debt is to ensure that, if a default were to occur, there's not too much senior debt ahead of them (as then nothing falls to the unsecured creditors!) or that there can't be too many assets sent away from where the unsecured will have access to them if a default occurs (e.g., dividends out, unrestricted sub transfers, etc.).

Note: Sometimes clauses will be included about how much debt (subordinated to the notes) can be added.

In terms of financial covenants, there can be a few different types that are included. Since interest coverage uses all of cash interest in the denominator it's usually the same ratio (e.g., 2.0x) for every class of debt. You also will find leverage tests for notes as well.

A Note on Cov-Lite

In recent years you may have heard that we're in a "cov-lite" era (meaning, an era where loan and bond offerings have minimal covenants). While true, this is referring primarily to financial ratio covenants – like leverage, coverage, etc. – and less to negative covenants (e.g., permitting additional debt incurrence, although these are heavily bargained for so in hot credit markets these tend to get loosened quite a bit too).

As you can tell from our discussion above, a huge priority of holders of term loans and bonds is making sure that not much other debt is housed around them that could impair their recovery in the event of an in-court restructuring.

While this is (once again) beyond the scope of what you need to dive into for interview purposes, here's a good introductory overview to the features of cov-lite loans: https://www.paulweiss.com/media/3978887/goodison_wagner_practicallaw_aug2019_update.pdf

Call Protection

When a bond is offered, there will often be call protection embedded in it. So, for example, if a bond is issued at par ($100) – as is usually the case – if the company then wants to, for whatever reason, buy back the bonds within a certain period of time post-issuance, then they must pay $102 or $103 or some such number higher than par.

The reason why those buying bonds at issuance want this is that when they buy a bond, they are assuming they will get a certain desirable yield moving forward. So, if their debt is going to be bought back earlier than anticipated, they want some form of additional compensation – thus locking in a slightly higher yield, over their holding period, than they would have otherwise had.

Springers

Spring forwards (also known as "springers") are the most common feature you need to be aware of and footnote clearly for your MD to see on any screens or profiles you do.

A springer is shown in the next chapter, when discussing screens, to make things clear but let's give a quick example here.

Let's say you have a term loan due in 2022 but have other unsecured notes below them that are due in 2020. The term loan may have a springing maturity such that if the unsecured notes are not re-financed significantly (leaving less than $10m left, for example) by a certain date, then the term loan maturity springs to 90 days before the unsecured notes mature (in other words, over two years prior to when the term loan would have otherwise matured).

Why would the term loan put this in place? They are operating under the assumption that if the unsecured notes haven't been re-financed by a certain date, then it's because the company is in a place of near-distress and can't refi them. So, the term loan wants to make sure they get refi'ed or at least get first attention before the notes becomes due.

Facility	Maturity Date	Springing Maturity Date	Springing Maturity Trigger
Revolver	February 1, 2026	August 31, 2024	On the springing maturity date, there exist outstanding term loans that have not been repaid or refinanced with debt maturing after Feb. 1, 2026.
Old $1.4B Term Loan	August 31, 2024	N/A	N/A
New $1.55B Term Loan	August 31, 2026	April 1, 2025	On the springing maturity date, at least $185mm of the company's 6.750% senior unsecured notes due 2025 are outstanding and have not been refinanced with debt that matures on or prior to 91 days after Aug. 31, 2026.
6.750% Senior Unsecured Notes	July 1, 2025	N/A	N/A

Conclusion…

What we've just covered are the major covenants and other features you should be loosely aware of. The reality is that a revolver, term loan, or bond can have an incredibly broad set of terms, so we can't cover everything in one (incredibly short) overview.

However, what we've just gone over will give you much more than you would ever need to know in an interview and will allow you to better understand the screen and profile examples we'll be going over shortly.

If the concepts laid out above are still a bit fuzzy, they'll be cleared up when you go through all of the questions and answers. I've tried to keep this guide relatively short so that it's not too overwhelming and so that I can treat more nuanced concepts individually through a question-and-answer format – which (hopefully!) makes them easier to digest.

WHAT WE CAN DO TO RIGHT SIZE

We now know what a company facing distress looks like and we know the dynamics of their capital structure. So, if we think they'll need to restructure, what can be done?

You can break down restructuring solutions into two categories: out-of-court and in-court.

Out-of-court solutions involve the debtor approaching key creditors and coming up with a solution (that a sufficient number of creditors consent to) for right-sizing the capital structure that will almost invariably involve the creditors taking a hit of some kind or another.

The question then becomes why creditors would agree to do anything that could involve them taking a hit. The answer will boil down to the solution being proposed by the company being better – in the mind of the creditors – than the alternatives (e.g., some other kind of out-of-court solution the company could try or the company filing). Put another way, every creditor will do what they think will maximize their returns or, alternatively, minimize their losses from the debt they're holding.

In an ideal world, you'd like all companies to at least explore doing out-of-court solutions before filing because they're less invasive and buy the company a bit more time to try to turn things around. In-court restructurings simply take longer, will involve nearly every party in the capital structure to a certain degree, and can get quite messy, quite fast.

Needless to say, out-of-court restructurings don't always work. Sometimes a company will try to right-size via an out-of-court restructuring, hope they can turn around their business, but still end up needing to file Chapter 11 down the road. For example, in the case of Revlon they tried a myriad of out-of-court solutions before finally, when there appeared to be no other viable out-of-court options to try, filing Chapter 11 in 2022.

In the world of restructuring, most enjoy working on out-of-court restructurings than in-court cases – they're less process driven and can get incredibly creative (as discussed in the Serta guide).

In general, all out-of-court restructurings will involve either exchanging existing debt for new debt or equity, extending out maturities of existing debt, or changing the money-terms of existing debt (or all three at once!). But just because all out-of-court restructurings can be boiled down to these three elements, that doesn't mean they can't get very complicated, very creative, and very contentious.

Note: Just to be crystal clear, out-of-court restructuring do not need to involve every tranche of debt in the capital structure. In fact, most are focused on just one or two tranches of debt – typically those that are coming due soon. So, for example, if you have a revolver, two term loans, and five notes in a capital structure, perhaps only one note is the issue (because it matures soon, and the company can't cleanly refi it). If that's the case, then that singular note will be the primary focus of the restructuring.

If the company's capital structure can't be right sized out-of-court – either because there's too much debt to possibly make an out-of-court solution work, the company has no liquidity and is unlikely to be able to turn things around, or no agreement between the company and the creditors can be reached – then an in-court restructuring will take place.

By in-court restructuring I'm referring to Chapter 11. A Chapter 7 (full liquidation) is obviously an option, but that's not what restructuring investment bankers are hired for as a Chapter 7 involves a U.S. trustee being appointed and simply liquidating the company by the rule of absolute priority. In other words, a Chapter 7 is a pretty mechanical process: you're just taking the company, liquidating everything you can, and then distributing it to creditors by priority. So, there's per se no creativity or deal-making happening here.

You can think about a Chapter 11 as taking two forms: a "traditional one" (taking months or up to a few years) or a "pre-pack" (where everything is pretty much wrapped up *prior* to filing, so the debtor will only need to stay in-court for as little as a day or, at most, a few months).

Note: The "traditional" form of Chapter 11 is usually called a "freefall" because it involves the company filing with little prep-work done beforehand. The reason why it takes longer is that there's no Plan or Reorganization prior to filing – that's figured out while in-court. Whereas with a pre-pack the company has a Plan detailing how the company will be reconstituted and has already solicited the requisite number of votes from its creditors approving this Plan – so filing is more of a formal process to codify what has already been agreed to out-of-court.

Note: Sitting in between a "freefall" and "pre-pack" is a "pre-arranged" or "pre-negotiated" filing. This, as you can probably guess from the name, is when the company has developed a Plan, or at least a robust outline of one, but hasn't solicited votes on it from its creditors yet. As a reminder, in a pre-pack the company has solicited votes for its Plan pre-filing and in a freefall there is no Plan at all pre-filing!

Below is a diagram showing roughly how you can think about all of this:

OUT-OF-COURT RESTRUCTURING

In out-of-court restructurings, the possibilities for how transactions can look are virtually limitless. It'll all depend on just how distressed the company is, what the creditors are willing to do, and what the underlying debt being dealt with looks like.

However, the general idea is that we're trying to accomplish at least one of the following three goals:

- Retire or otherwise extinguish the part of the capital structure that cannot be simply re-financed.
- As a consequence of the transaction, ensure the company has adequate liquidity to ensure it's viable moving forward (e.g., through reducing down its cash interest or getting an infusion of new capital).
- Delever the capital structure as much as possible.

While I've broken down the ways that a capital structure can be restructured into three elements (e.g., exchange, extension, or change of terms), the reality is most comprehensive out-of-court deals will combine these elements (e.g., exchange some notes for new debt with a longer maturity while simultaneously amending an existing term loan to have a longer maturity).

Needless to say, as an analyst or associate you aren't really coming up with how a company should restructure – coming up with viable solutions is the job of your MD.

However, you will be responsible for creating the recap model that shows how a proposed transaction will impact the company along with the pro-forma cap table showing how the capital structure will be altered. Both of which will illustrate how maturity walls have been pushed back, or how liquidity will be enhanced, or how leverage will be diminished – or all three of these things!

But even though you aren't responsible for idea generation, you are responsible for having an idea of what's going on – and if you're looking to transition to the buy-side in a distressed role this is a skill you will need to carefully develop over your stint in restructuring. Because part of what you'll need to develop is an intuition for what kinds of restructuring transactions are likely to be proposed by a stressed or distressed company.

Extensions

As will be discussed shortly, when a restructuring banker goes and pitches a company, they will set out a series of "alternatives" (meaning solutions) to the capital structure. These alternatives will often be of varying complexity (e.g., what's easiest to accomplish but may not buy the company much time to turn things around, and what's hardest to accomplish but most comprehensive).

One of the solutions that's almost always presented – either as a stand-alone solution or as part of a broader solution – is a simple amend-and-extend.

An amend-and-extend simply involves amending the underlying credit docs of a given security to extend out the maturity date. This is something that (obviously) would come in handy if a company doesn't think it can refi an upcoming maturity wall – perhaps because of recent poor corporate performance – but believes it can turn things around.

So, for example, let's imagine that we have a revolver, due in a year, at L+200 and a term loan, due in a year as well, at L+400. If the firm is on relatively shaky ground, it may find it difficult to refi (meaning raise a new revolver and term loan to pay off the existing ones).

An obvious solution is to not get into trying to do complicated exchanges or considering doing a full-blown a Chapter 11. Rather, it may be entirely possible just to push out those maturities by a few years – especially if the company is not *overly* distressed.

Now, if the company doesn't turn around in a few years, you'll be back to square one. But if the company can turn itself around – without having to worry about raising new debt – then this could be a perfect solution.

Note: When going through a lot of the Q&A, you'll see me frequently use the word "optionality". Everything we're doing out-of-court really boils down to trying to maintain a company's optionality – in other words, trying to give them time to turn things around before having to go through a Chapter 11 which will almost certainly evaporate the equity.

Anyway, amend and extend transactions are incredibly common and generally follow a similar format. Just keep in mind that these are all negotiated points, so not everything below will be done in every amend-and-extend.

- The revolver will be paid what's called a "consent fee", which is usually around 100bps (1%) but can be up to 200bps (2%).
- The revolver and term loan will both be given "enhanced economics" (e.g., you could bump the revolver from L + 250 to L + 300 and the term loan from L + 400 to L + 500 – or get more fancy with adding a PIK component, using more aggressive grid pricing, etc.).
- If the company is struggling, but still has a healthy cash balance, the term loan can be "paid down" so you give the term loan holder(s), for example, 5% of the total amount outstanding in cash now (e.g., if the term loan was for $100m then you would give them $5m now to consent to amend their docs).

So, in our little hypothetical example above, in exchange for all of this, the creditors agree to amend the docs to tack on an extra few years to their maturity (e.g., taking it from 2024 to 2026 or 2027 or whatever).

Note: If you're looking for an example, here's an overview of Augusta Sportswear's amend-and-extend: https://www.moodys.com/research/Moodys-assigns-B3-to-Augusta-Sportswears-extended-term-loan--PR_470635

Note: A slightly more nuanced point is that with an amend-and-extend another carrot the company can use to entice creditors to consent is tightening up the credit docs (e.g., getting rid of any loopholes that would allow for more creative and contentious out-of-court solutions, such as a non-pro rata uptier or unsub transfer, as discussed in the Serta guide).

Anyway, amend and extends work well for what they are: a way to delay maturity walls and buy time for the company to get into a better place (hopefully!) financially.

What we'll be doing most of time is just offering the revolver and term loan holder(s) enhanced economics, some money up-front (consent fee for the revolver and pay down for the term loan), and in return getting the maturities pushed out. However, there's no amount that's set-in stone for how much economics should be enhanced, how much cash will be given to holders, or whether the docs are amended in any other ways. This is what keeps restructuring relatively exciting: every transaction is (relatively) novel.

Part of the benefit to the company is that this leaves alone the rest of the capital structure (for example, the notes) and doesn't dilute equity. But, of course, paying the "pay down" and "consent fee" will cost the company cash immediately to do so.

Change of Terms

I'm using "change of terms" as a bit of a catchall phrase here so that we can discuss consent thresholds (something that'll be relevant to many out-of-court transactions).

Remember that most non-money clauses for a piece of debt can be changed with just 50% +1 consent from the creditors holding that debt – with some things, surrounding releasing liens on collateral for example, needing 2/3% +1 consent – so there is room to amend certain parts of the credit docs around non-money terms without needing full consent from creditors.

Note: In the underlying credit docs for a given piece of debt it'll be specified what consent thresholds are needed to do most things.

Doing a "change of terms" is often a pre-requisite to getting certain kinds of "exchanges" done. In other words, many more fulsome out-of-court transactions are going to require that the underlying credit docs for certain pieces of debt be amended.

For example, one of the more contentious out-of-court transactions of 2022 was Incora. It involved an exchange (actually a few of them!) and, in order for the exchange to work, it required changing the terms underlying a few existing indentures.

The reason the transaction was so contentious and will be so heavily litigated is because of a group of large creditors banding together to change the terms of existing Senior Secured Notes – with a so-called "manufactured" 2/3rds majority – to strip the liens underpinning the Senior Secured Notes. This was all done just moments before they exchanged their Senior Secured Notes for new debt that had a higher priority and had liens replicating those they just stripped from the Senior Secured Notes!

If that all sounds quite complicated, in a (very long) blog post I delved into exactly what happened here and explain how the change of terms was effectuated and why it was needed. Linked in the post is also the initial complaint filed by certain aggrieved creditors against the company and these large creditors after the transaction occurred...
https://restructuringinterviews.com/blogs/restructuring/incora-restructuring-uptier-exchange-transaction

Exchanges

To recap: amend and extends are relatively common and doing a change of terms, on its own, is not overly common (as when restructuring bankers get involved the company almost invariably needs to do something more intensive than just a change of terms). But doing a change of terms often goes hand-in-hand with doing something slightly more complicated, like an exchange…

Exchanges can take many forms, but at their heart they involve retiring – or mostly retiring – piece(s) of debt by giving those current debt holders a new piece of debt or some other form of consideration (e.g., equity, cash, or some combination of debt, equity, and cash).

From the company's perspective, they'll want to do an exchange when:

- They have debt maturing shortly that they know can't be refinanced
- They have cash interest expense that has become too onerous to handle
- They have a leverage ratio, coverage ratio, etc. that's butting up against a limit

The debt holders, all else being equal, will want to do an exchange if they think the company will default if something isn't done and their recovery value will be lower than if they do the exchange (even if that involves them realizing losses now).

Note: As in the case of Serta, Incora, etc. there may be a hidden motive for creditors wanting to do an exchange: it puts them in a better position relative to other creditors through exchanging debt into a higher priority than those that weren't allowed to participate in the exchange. That'll become clear when you read the Serta guide or the Incora post.

It's very common to see a scenario whereby an exchange occurs to handle some notes while an amend-and-extend occurs with the revolver or term loans if you have most of the capital structure coming due at the same time (perhaps because of springers).

It's probably easiest to illustrate exchanges my looking at a little example, so let's do that…

Imagine we have $250 on Unsecured Notes that are expiring next year. They're trading down around 60 and a recovery analysis shows they would recover a little less than that. Let's say, because the company wasn't doing too great when the bonds were first issued, that they have an 8% coupon. That's a lot of cash going out every quarter on these notes and perhaps that has led to there being pretty negative FCF for the company.

Given this, the company can approach the noteholders understanding:

- The Unsecured Notes are trading well below par
- The company barely has the cash to pay these Notes and likely won't be able to moving forward – consequently, the company will have to file Chapter 11 sooner or later if these Notes aren't dealt with
- In the event of a Chapter 11 the Notes won't receive much recovery – especially if the company continues to deteriorate further – and so maybe we think they'll receive just forty or fifty cents on the dollar (although, given they'll be a heavily

impaired class, their recovery will likely come in the form of post-reorg equity which has large upside potential).

So, the restructuring bankers who have gotten the debtor-side mandate (working on behalf of the company) come up with the following proposal:

The $250 in Unsecured Notes will be offered an exchange – with at least 90% participation being needed, so that almost all the existing Unsecured Notes are extinguished – whereby participating noteholders will receive their pro-rata share of $125 worth of 10% 2L PIK Notes due five years from now, and $125 worth of equity.

So, for example, a holder participating in the exchange who has $50 worth of Unsecured Notes will receive $25 in new 10% 2L PIK Notes and $25 worth of equity.

What we're doing here is trying to extinguish an old tranche of Unsecured Notes – that are maturing next year – by trying to entice those holding the Unsecured Notes with new debt, at a higher priority and with a higher coupon, and equity.

Now we're only giving noteholders half of the face value of their holdings in new debt because the rest comes in equity. But we'll try to convince them that this is a good deal because their $100 face value of debt, at current trading prices, is only worth $60 – and we're giving them $100 worth of value (half coming in new debt, half coming in equity).

So, unless the noteholders think that the equity they're getting is virtually worthless then this could be viewed as quite enticing – because remember that the equity should, theoretically, benefit from the company delevering from this transaction ($125 in new 2L PIK debt is replacing the $250 in Unsecured Notes) and pushing back the maturity wall. In other words, noteholders should (hopefully) believe this transaction significantly forestalls the company having to file, which should lead to the equity rallying quite a bit over the near term (especially if the company is able to use this breathing room to turn around the business!).

Anyway, the company will likely be on-board with this exchange because:

- The exchange likely delays the company having to file, as the maturity wall – likely the major impetus for them having to file – is pushed out. This, in turn, ensures the equity value of current shareholders (including management) isn't wiped out.
- The exchange pushes out maturity walls by getting rid of the Unsecured Notes that were about to mature – thus, buying the company time to try to (hopefully!) effectuate a turnaround.
- The exchange will lower the company's *cash* interest by $250*0.08 = $20 as the new debt will be PIK.
- The exchange, on day one, delevers the company significantly as you're retiring $250 of debt, but only adding $125 of new debt – and then, obviously, adding additional debt gradually from the 2L PIK Notes (e.g., $12.5 in the first year).

The Unsecured Note holders may be enticed by this transaction as well because:

- The 2L PIK Notes are going to provide them a higher position in the capital structure vs. their previous Unsecured Notes.
- With equity trading at very suppressed levels – given the fear around having to file in the next year if the Notes can't be dealt with – the equity they're given as part of this transaction could rebound in value significantly. Thereby providing them asymmetric upside (e.g., they get some stability from higher priority debt, but then their equity has uncapped potential upside if the company turns things around!).
- The Unsecured Notes don't have to worry about the company filing next year, at which time their recovery value may be even more diminished than it is now (e.g., in a year from now they may assess that their recovery value will only be 30 cents on the dollar or something because of continued business deterioration).

Exchanges, functionally, are tender offers. Current debt holders have the right to reject the exchange offer and see what happens moving forward. However, in practice, restructuring bankers working with the company will work with restructuring bankers representing the creditors (if they've been retained) and try to get a high participation rate.

In regular-way exchanges, you'll want there to be a very high participation rate so that you don't have a little remaining "stub" of the pre-existing debt. Because then, if their maturity is coming soon, you still need to figure out how to deal with them (although it'll be a bit easier, theoretically, because there's a smaller amount outstanding).
To remedy the holdout problem whereby some don't participate, you'll see more coercive tactics utilized to entice everyone – or virtually everyone – to participate. For example, if you have 80% of a given tranche of debt that seem like they're going to participate in an exchange you can have them agree to vote, just prior to the exchange, to strip all possible covenants on the debt thereby leaving those that choose to stay behind with much worse protection. This will (hopefully) get the holdouts to reconsider their position and participate when the exchange actually occurs.

Note: It should be added that we've seen a spat of non-pro rata exchanges. In these kinds of exchanges, you aren't trying to maximize participation. In fact, it's quite the opposite: a minority of those holding the relevant debt won't even be given the opportunity to participate – regardless of if they would want to or not. This allows the majority who do participate in the exchange to exchange their pre-existing debt for newer debt that has a higher priority than the pre-existing debt – leaving the minority debtholders, who weren't given the ability to participate, in the cold and often being stripped of their covenants in the process. This is covered in much more depth in the Serta guide and Incora post.

Ultimately, when it comes to out-of-court restructuring, exchanges are almost always discussed and will be a part of any comprehensive solution. This is because exchanges allow for the biggest transformation of the capital structure out-of-court both in terms of pushing out maturities, lowering cash interest, and lowering leverage.

IN-COURT RESTRUCTURING

Before beginning it should be noted that we won't be covering Chapter 7 in any real depth as it will only come up in your interview in the context of you knowing the difference between Chapter 11 and Chapter 7 – plus, the actual mechanics of a Chapter 7 aren't relevant to your role.

This is because in Chapter 7 you have a full liquidation of the company whereby a U.S. Trustee is appointed by the court and has the sole responsibility for liquidating the full assets of the company and distributing the proceeds by rule of absolute priority.

There is a tangential connection between Chapter 11 and Chapter 7 in that a Chapter 11 case can be transformed into a Chapter 7 (liquidation) if the best interests test fails – which simply means that if a Chapter 11 Plan of Reorganization (POR) provides non-approving creditors with worse recoveries than if the company were simply liquidated, then it's in the best interests of creditors to simply liquidate it.

Since the entire point of restructuring bankers is to (obviously) try to right-size companies and put them on a more stable future trajectory – or, conversely, maximize the return of creditors if you have a creditor-side mandate – let's dive into Chapter 11.

Many of those looking to get into restructuring – even when they're first on the job – think that the job really revolves around Chapter 11. This isn't entirely irrational: most of what you'll read about in the financial press, etc. will revolve around Chapter 11 cases.

But, as previously discussed, your job isn't going to begin and end with Chapter 11. In fact, freefall Chapter 11 cases will become something you (probably) are going to try to avoid being staffed on as they involve quite a bit more busywork for an analyst or associate relative to a nice out-of-court or pre-pack.

When it comes to mandates, it's often the case that getting a mandate on a Chapter 11 will be a result of having previously advised the company on out-of-court options which may or may not have been done. Then, when it becomes inevitable that the company will have to file, the role of a restructuring banker will be to try to get them in-and-out as quickly as possible with a right-sized capital structure in hand.

In fact, it's not unusual for a company to get on board with doing something out-of-court (e.g., a comprehensive exchange) but then find some creditors are balking at the idea. But, if enough seem receptive, then the company may explore doing a Chapter 11 to try to force through the exchange and take advantage of the other goodies that filing provides (e.g., if you're a retail company, being able to assign, assume, or reject leases).

Anyway, Chapter 11 involves a company filing for bankruptcy protection – placing an immediate, automatic stay on the capacity for debtors to collect – and gives the company (referred to as the debtor once it has filed) the time and space it needs to reorganize.

The Chapter 11 process is overseen by the court – with most cases being filed in one of just a few jurisdictions, like Delaware, as that's where most companies are incorporated and where the most case law has developed – and involves the company determining who the impaired classes are (those who will not be made whole but will get something) and coming up with a Plan of Reorganization (POR).

This POR will lay out the classes of debt and what they're getting in consideration (e.g., what their recoveries are and in what form they will come in). PORs can stretch into many hundreds of pages but always adhere to a similar format (e.g., it's in Article III where the "classification and treatment of claims" will be discussed and in Article IV where the "means of implementation" of the Plan will be discussed).

After a POR has been developed, voting on the Plan will take place. However, only those creditors who are in an impaired classes will get to vote on the Plan, as anyone made whole will be deemed to (obviously) accept and anyone getting nothing will (obviously) be deemed to reject it. If the Plan is accepted by two-thirds by dollar amount and one-half by number of holders in each *impaired* class, then the Plan is approved, and the debtor will re-emerge from bankruptcy with their new capital structure as outlined in the Plan.

Note: To be clear, even if there's a minority (e.g., 20%) of some class who vote to reject the Plan, if a sufficient amount of each impaired class voted to accept the Plan, then the Plan will be binding on all of those within each class – whether they like it or not.

There are really two types of Chapter 11 cases you'll see: pre-packs and "traditional" or "freefall" Chapter 11s. There's also "pre-arranged" or "pre-negotiated" cases that kind of sit in the middle – to my mind, these are still really freefall cases, but just in case you get a prickly interviewer who asks you what types of cases exist, beyond pre-packs and freefalls, this is what they'd be referring to.

Pre-Pack Chapter 11

With a pre-pack, as the name would imply, the company will work with key creditors to build up support around a potential Plan of Reorganization. Then, once support has been built for how the company will restructure (e.g., what the recovery of each class will be, what the post-reorg capital structure will look like, etc.), a formal Plan will be drawn up and votes will be solicited on it *prior* to filing.

Assuming the Plan is accepted by a sufficient number of creditors in each impaired class, the company can then confidently file with its pre-accepted Plan knowing that the outcome of filing is pre-ordained.

Note: For votes obtained prior to filing to be accepted as valid once in-court, the Plan must have been sent to all creditors – even if the company thinks they're unlikely to agree to the Plan. Further, the company needs to make quite detailed financial disclosures.

During the first day in-court, the accepted Plan will be submitted, and a confirmation hearing will take place shortly thereafter. The amount of time the debtor stays in-court can vary from one day to a few months depending on if there are any objections, procedural errors, or if the debtor is doing any auxiliary things that can only be done in-court (e.g., rejecting leases, etc.).

In recent years, there have been some debtors (e.g., Belk and CWT) that have done pre-packs and got in-and-out of court in just one day. Something that provides a bit of bragging rights to the debtor-side advisors for having everything so buttoned up prior to filing (if you're curious, Lazard was debtor-side on Belk, HL was debtor-side on CWT).

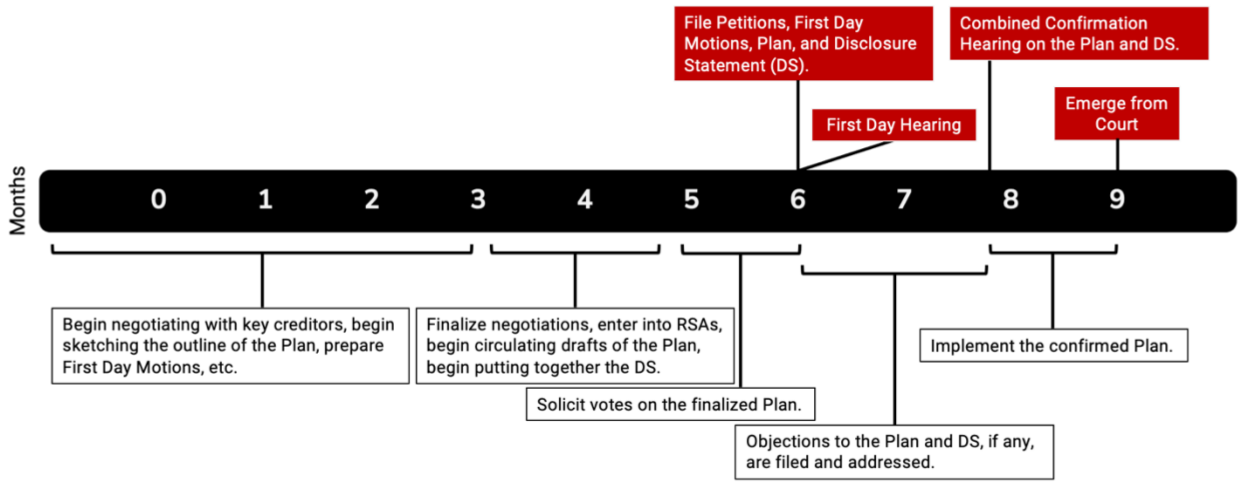
The benefits of doing a pre-pack are quite obvious. Having a Plan drawn up prior to filing greatly speeds up the process, mitigates cost, reduces uncertainty regarding the outcome, and mitigates the reputational harm that can occur when you have a long and drawn out bankruptcy – something that can have real economic impact if vendors begin to extend you much worse terms due to apprehension about you having filed.

Given these benefits, an obvious question would surround why every Chapter 11 isn't just a pre-pack. And the answer is that, in an ideal world, every case *would* be a pre-pack. But the nature of a pre-pack is that you need voluntary consensus from disparate creditors around a Plan pre-filing and, unfortunately, it often takes a long drawn out process before intractable sides can finally come to some agreement surrounding a Plan (or, if push comes to shove, be forced to come to some agreement by the court overseeing the case).

For example, think about a company like Hertz that did a freefall in 2020 and then, much to everyone's surprise in the industry, became a meme stock. Hertz had a pretty unruly capital structure and when they filed the business was circling the drain due to the pandemic. Moelis (the debtor-side advisor of Hertz) actually made a valiant effort to try to corral creditors prior to filing to bring some order to the case, but just how many creditors there were scattered around made it quite difficult to do outside the context of actually filing – and then, after filing, it became a bit of a gong show that ended up with equity holders getting a sizeable recovery.

It likely won't surprise you that many pre-packs – especially those that get done in just a few days – involve sponsor-backed companies. This is because sponsors are (obviously) more sophisticated when it comes to the process and understand how much a company can be damaged – from a value destruction perspective – through a drawn out case. Further, a sponsor-backed company will tend to have a pretty concentrated capital structure (e.g., not a bunch of small tranches of notes) and have sophisticated creditors who own quite large amounts of the debt.

So, with sponsor-backed companies, when they get into trouble it's often easier to get the debtor and large creditors in the same room and bang out a fulsome agreement pre-filing, because both understand that it serves neither party to do a freefall given the more unpredictable outcomes that could eventuate, enhanced cost, time it will take, and reputational harm that can occur with customers and vendors.



Note: You can find the docket for Belk below, which I've pre-sorted for you. If you scroll down and click on Docket #9, you'll find the combined Disclosure Statement, POR, pre-filing RSA, future financial projections, and liquidation analysis. In other words, all the major documents of a finished Chapter 11 case – with the most important being the POR. https://cases.ra.kroll.com/belk/Home-DocketInfo?DocAttribute=6563&DocAttrName=PLANDISCLOSURESTATEMENT_Q&MenuID=16375&AttributeName=Plan%20%26%20Disclosure%20Statement

Note: You can find the docket for CWT below, which I've also pre-sorted for you. If you scroll down and click on Docket #47, you'll find the combined Disclosure Statement, POR, pre-filing RSA, financial projections, and liquidation analysis. https://restructuring.ra.kroll.com/carlsontravel/Home-DocketInfo?DocAttribute=4397&DocAttrName=PLANDISCLOSURESTATEMENT_Q&MenuID=9582&AttributeName=Plan%20%26%20Disclosure%20Statement

Note: Just so you're aware, Kroll is a claims agent – just as Epiq, Stretto, Omni, etc. are – that provides a full docket allowing you to easily (and freely!) poke around a Chapter 11 case. With freefall cases there can be thousands upon thousands of docket items, so they can get quite unruly to navigate. But, for interview purposes, you should care most about just the DS and POR.

Note: The disclosure statement (DS) is something a debtor must file and get approved by the court *prior* to the POR being voted on. The DS will be sent to all creditors – along with the POR – when soliciting votes, and the point of the DS is to provide creditors with accurate background information on the debtor, discuss how each class will be treated, demonstrate that the Plan is feasible, etc. In other words, the DS is almost like a condensed layman's terms overview of the debtor and its Plan. As discussed in a latter section, if you're trying to get up-to-speed on a completed Chapter 11 deal to talk about in an interview, just reading through most of the DS will tell you everything you really need to know about who the debtor is, how they got into trouble, what they tried to do pre-filing to right-size their capital structure, what classes exist and how they were treated, and what the post-reorg capital structure will look like – all of which should be integrated in your "tell me about a deal" answer if discussing an in-court case.

Note: In a pre-pack the Court will usually approve the DS and POR in the same hearing, since everything has been buttoned up pre-filing, but in non-pre-pack cases there will be separate hearings (as the timeline graphic for the pre-arranged case illustrates) with the DS occurring before the POR hearing.

Pre-Arranged Chapter 11

You can think about a pre-arranged (pre-negotiated) case as being a middle ground between a pre-pack and a freefall with some attributes of each.

In a pre-arranged case, the debtor will have signed a Restructuring Support Agreement (also known as a Plan Support Agreement) with some key creditor groups outlining what the Plan should look like and that the creditors will support the Plan. However, the crucial distinction here is that no votes are solicitated – you're essentially just getting creditors you think you can work with on board with a certain Plan pre-filing.

When the company files, the full POR will be filed either on the day of filing or shortly thereafter. Then the debtor will solicit votes – just as in any other Chapter 11 case – from all of those who are entitled to vote.

So, a short-hand way you can think about a pre-arranged case is that the company feels, pre-filing, that they have a solid block of creditors who are "on their side" but don't feel they have a sufficient number that, if the Plan were to be voted on pre-filing, it would get accepted.

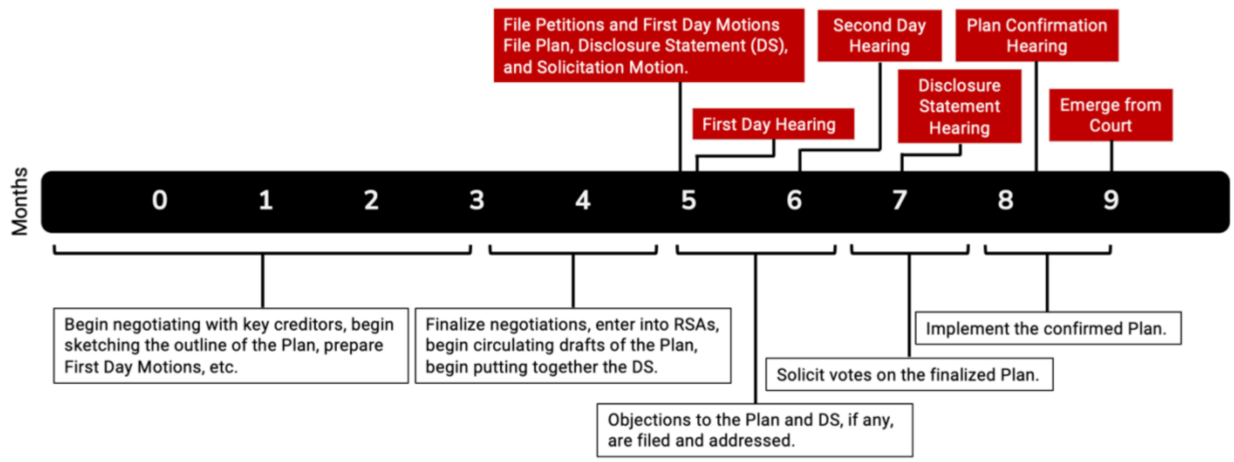
But by entering into court and immediately – or nearly immediately – filing a Plan with significant support from existing creditors, they hope that can act to strong-arm other creditors into supporting the Plan (e.g., decide not to put up a fight because of how much consensus seems to have been built around the Plan).

As you'd expect, a pre-arranged bankruptcy will generally take a bit longer than a pre-pack. Even if the Plan is submitted on the day of filing, there will probably be a bit of a delay as you need to solicit votes, there's a higher likelihood of their being objections to the Plan from creditors who weren't involved pre-filing, etc.

But a pre-arranged case is still much quicker (and less expensive!) than a freefall and usually you're looking at something that will take at least a month to six months to get done depending on what occurs while in-court.

Note: While I'm trying to avoid getting too into the weeds, it should be noted that in a pre-pack when the company solicits votes pre-filing they need to disclosure quite a bit of information – this is one of the requirements for having votes solicitated out-of-court be deemed valid once in-court (as the court wants creditors to be fully informed prior to voting). So, a benefit of the pre-arranged bankruptcy is that you don't have to do as much pre-filing disclosure, and simply do the regular disclosure that's part of any Chapter 11 case once filed.

Note: The Restructuring Support Agreement (a.k.a. Plan Support Agreement) that will be signed by key creditors prior to a pre-arranged case is largely in-line with what you'd expect. It's an agreement to support the Plan being contemplated by the debtor right now, requires that creditors restrict their trading of debt, and gives the company an out by saying that the company can terminate the RSA and propose a different Plan if it's believed to be in the best interests of the estate. To be clear, creditors signing an RSA / PSA doesn't constitute a solicitation of votes.



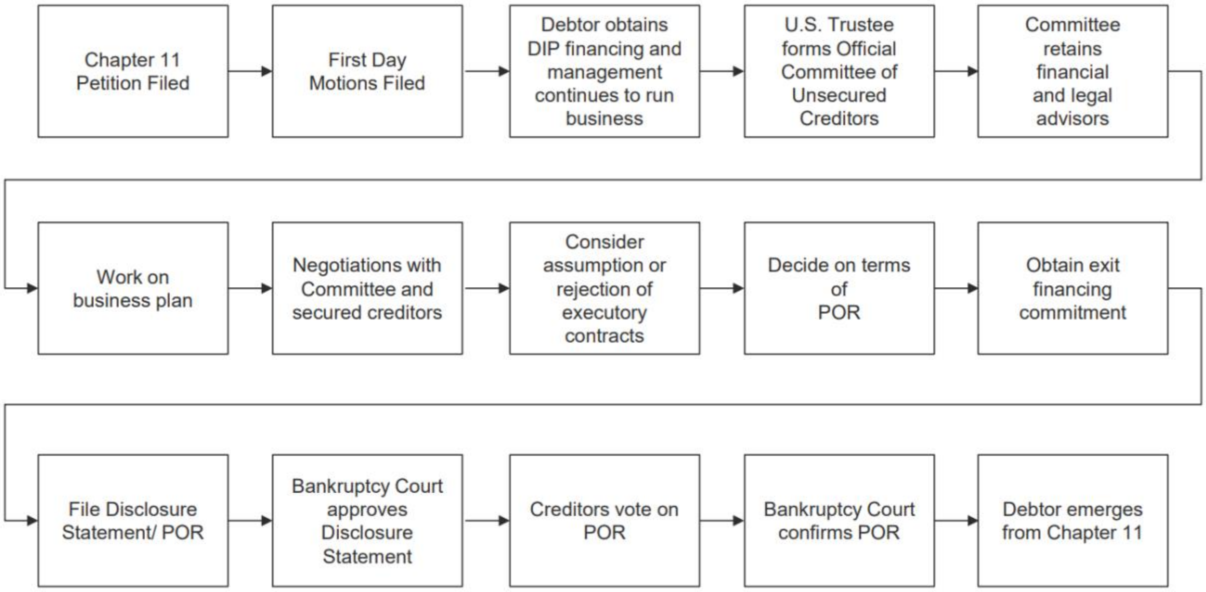
Freefall Chapter 11

It's important to keep in mind that Chapter 11 is a defined process that has a series of steps in it that are going to be applicable regardless of if a company is doing a pre-pack, pre-arranged, or freefall case.

If we boil it all down to its essence, then we can say Chapter 11 has four general steps:

- Potentially some restructuring of the debtor's operations through asset sales; contract assumptions, assignments, and rejections; lease assumptions, assignments, or rejections, etc.
- The development and dissemination of a POR that lays out clearly who the classes of debt are, how they're treated (e.g., what their recoveries will be and in what form), and how the debtor will implement the Plan.
- The vote on the Plan by the relevant (impaired) classes.
- The confirmation of the Plan by the Court in the Plan Confirmation Hearing, and the eventual emergence of the debtor from bankruptcy.

If we want to get a touch more technical, then the following is a more nuanced overview of the steps involved from beginning to end:



If we take a step back and ask ourselves what the whole point of the Chapter 11 process is, it's to provide a company a venue (or, if you prefer, a safe space) to truly right-size its operations and set them up for success after they emerge from court.

This is accomplished, in part, through providing an automatic stay upon filing that forecloses all actions and lawsuits against the company; access to liquidity through Debtor in Possession (DIP) financing to fund its operations; and, most importantly, a formal process that will force the debtor and its relevant creditors to come to some agreement to comprehensively right-size the balance sheet of the debtor. And, if no voluntary agreement can be arrived at, have the court cramdown a Plan on the creditors who are being obstinate.

Note: For a more thorough debrief on cramdowns, see the following post: https://restructuringinterviews.com/blogs/restructuring/cramdown-in-chapter-11

Further, there are special provisions inside the Bankruptcy Code like Section 365 – covered in the questions and answers in other guides – that allow for the debtor to get out of bad contracts (e.g., if you're a retailer, then leases) much easier than they could of if they hadn't filled.

And, from the creditors perspective, what a Chapter 11 ensures is that you're treated equitably with all others in your class (e.g., all others holding the same type of debt) unless you consent to being treated differently. Further, if you're a more actively oriented creditor (e.g., a distressed debt fund) the Chapter 11 process may give you the ability to give the company new money (e.g., through providing DIP financing or participating in a debt or equity rights offering) that can (potentially) provide a very sizeable return.

Note: While rights offerings are definitely outside the scope of what you need to know for interviews, if you're curious about what they are and how they work, I wrote a (very long) post on them here: https://restructuringinterviews.com/blogs/restructuring/rights-offering

In the end, the entire Chapter 11 process revolves around getting to a POR that will be accepted by a sufficient number of creditors (e.g., 2/3 in amount and 1/2 in number of creditors in each impaired class).

Note: As alluded to earlier, if there is an impaired class that's playing hardball, they can be crammed down by the court if the Plan is deemed to satisfy all the confirmation requirements, is accepted by at least one impaired class, does not discrimination unfairly to each dissenting impaired class, and is fair and equitable to each dissenting impaired class.

The primary difference between a pre-pack and a freefall Chapter 11 is the length of time it takes to complete, and this is largely due to how long it'll take in many freefall cases to come to a viable POR. In a freefall Chapter 11 the Plan must be submitted in 120 days (unless the court grants delays, as is common) and the period to gain acceptances is 180 days. So, you can see why it's not uncommon for a freefall to last well over a year.

There are two real valuation tests done: a liquidation analysis and a going concern enterprise value (EV) analysis. The liquidation analysis is done to see what the company would be worth (hypothetically) if you just sold off all their assets as you would in a Chapter 7. If the value of liquidation is greater than the going concern EV then it would be in the best interests of creditors to just have the company liquidated (this is technically called "the best interests test"). The going concern EV analysis is also done to determine who the actual impaired classes are, because that is an essential element of the POR (as it determines who can vote for it). Further, it's essential to determine the going-concern EV as that – in conjunction with how much debt the company will have post-reorg – will determine the equity value, which in turn will inform the value given to those getting the post-reorg equity.

The POR must contain the following five things:

1. The Plan must designate classes of claims and classes of interest (e.g., must show who the classes are and how all creditors are being bucketed).
2. The Plan must specify any class of claims or interest that are not impaired under the Plan (e.g., classes that have full asset coverage and thus will not get to vote).
3. The Plan must specify the treatment of any class of claims or interest that are impaired under the Plan (e.g., describe what you are offering them in the re-organized company upon emergence from bankruptcy if they are impaired).

4. The Plan must provide the same treatment for each claim or interest of a particular class unless by requisite vote holders agree to a less favorable treatment (e.g., everyone in a class needs to be treated the same, unless they consent to worse treatment for some reason).
5. The Plan must provide the adequate means for the implementation of the Plan (meaning, the Plan must be feasible!).

To be clear, because this is the most important thing to remember about PORs: it's the document that lays out who the classes are and what they'll be getting (recovering).

And, as already discussed, those who are made whole do not get to vote, because they are deemed to accept the Plan, and those who get nothing do not get to vote, because they are deemed to reject the Plan.

The theory behind this being that those residing at the top of the capital structure who are made whole in the Plan don't *really* have anything to complain about. Conversely, those at the bottom of the capital structure – who are determined to have a claim worth nothing – also don't get the right vote as it's pre-ordained as to how they would vote.

By way of example, here's a snapshot of the classes from Lumileds, along with who is impaired (or not) and who gets to vote (or not)…

Summary of Classification and Treatment of Classified Claims and Interests

Class	Claim/Interest	Status	Voting Rights
1.	Other Secured Claims	Unimpaired	Deemed to Accept
2.	Other Priority Claims	Unimpaired	Deemed to Accept
3.	First Lien Loan Claims	Impaired	Entitled to Vote
4.	General Unsecured Claims	Unimpaired	Deemed to Accept
5.	Intercompany Claims	Unimpaired or Impaired	Deemed to Accept or Deemed to Reject
6.	Intercompany Interests	Unimpaired or Impaired	Deemed to Accept or Deemed to Reject
7.	Existing Interests in Luminescence Coöperatief U.A.	Impaired	Deemed to Reject
8.	Existing Co-Investment Interests in Aegletes B.V.	Impaired	Deemed to Reject
9.	Subordinated Claims	Impaired	Deemed to Reject

In Article III of the POR, the full breakdown of who is part of each class and what they're getting in recovery is discussed. For example, here's the overview of how the 1Ls will be treated…

3. Class 3 – First Lien Loan Claims

(a) *Classification:* Class 3 consists of the First Lien Loan Claims.

(b) *Treatment:* Except to the extent that a holder of a First Lien Loan Claim agrees to less favorable treatment, in full and final satisfaction, settlement, release, and discharge and in exchange for each Allowed First Lien Loan Claim, on the Plan Effective Date, each holder of an Allowed First Lien Loan Claim shall receive its Pro Rata share of (i) 100% of the New Common Equity, subject to dilution by the MIP, the Participation Fee, the Exit Commitment Fee, and the Backstop Fee, and (ii) the Exit First Lien Takeback Term Loans.

(c) *Voting:* Class 3 is Impaired, and Holders of Claims in Class 3 are entitled to vote to accept or reject this Plan.

Note: If you're curious, you can poke around the combined DS and POR here: https://document.epiq11.com/document/getdocumentbycode/?docId=4099934&projectCode=LLD (the POR begins on page 130 of the PDF, with Article III beginning on page 153. You can also find the liquidation analysis – done to ensure compliance with the best interests test – beginning on page 331 of the PDF.

It's important to note that there are (not shockingly!) commonly valuation fights over how much the debtor is *really* worth in Chapter 11. This is because if the debtor is deemed to be worth $100m then perhaps that means the Senior Notes are an impaired class and will get fifty cents on the dollar recovery, but if the company is deemed to be worth $150m maybe that means the Senior Notes are made whole.

So, obviously the Senior Notes will try to fight aggressively for a higher valuation – as any bump in valuation will be to their direct benefit (whereas those made whole at the lower valuation will see no additional value from the company being deemed to be worth more).

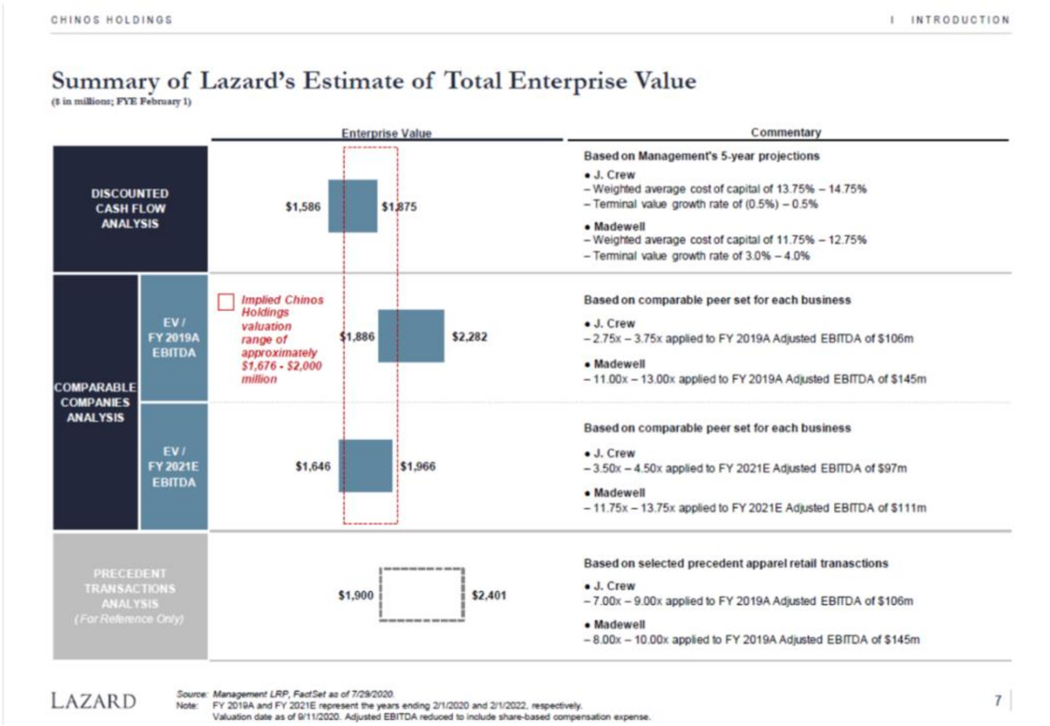
Since it's hard enough to value a healthy company with stable cashflows, it's even more difficult to circle around what value should be assigned to a company upon emergence from Chapter 11. This is a point that some get conceptually caught up on – thinking that there must be some mechanical way to determine the post-reorg value of the debtor.

But there's no getting around the fact that valuing *any* company is more of an art than a science and something that can be debated breathlessly forever. In the end, valuing a post-reorg debtor is an exercise in trying to come up with a reasonable valuation of the debtor using a mix of valuation methodologies no different than in M&A.

For example, here's an excerpt from a declaration made in support of J. Crew's POR – in their Chapter 11 case of 2020 – from an MD at Lazard…

Valuation Analysis: Overview

9. The estimated TEV of the Reorganized Debtors is approximately $1.68 billion to $2.00 billion with a midpoint of $1.84 billion as of the assumed Plan effective date, September 11, 2020 (the "**Effective Date**").[4]



Note: In case you're curious, I've attached to the end of this guide the full valuation analysis done by Lazard. Typically, you don't get such a fulsome one published as part of a Chapter 11 case – normally the valuation declaration coming from a restructuring banker is all text with a few screenshots of a deck. However, there was a bit of contention in the J. Crew case, so the full deck from Lazard was included and walks through exactly how the DCF, comps, etc. analysis was done, what assumptions were utilized, etc. So, it's a great refresher and will illustrate there's nothing too different about doing an analysis on a post-reorg debtor – there's just a few nuances like having to make sure you're using a cost of debt based on the post-reorg capital structure of the company, etc.

Note: Keep in mind that it's common for *outside* valuation experts to be brought in as well when there's a valuation fight (e.g., in the J. Crew case you had expert reports on valuation filed from the Michel-Shaked Group and Province).

Anyway, assuming fights over valuation do not occur or have completed, impaired classes then must vote on the POR. And, as already mentioned, for the Plan to be accepted, each impaired class must have 2/3 in amount and 1/2 in number of holders vote for the Plan (e.g., if you have one holder owning 70% of the debt within a certain impaired class who votes for the Plan, but everyone else in the class votes against it, then the class will have been deemed to have rejected the Plan).

Given this, what you'll sometimes see are distressed funds taking a "blocking position" by buying up 33.4% of what they believe will be an impaired class. This gives them some negotiating leverage because they can stall out the whole process. Keeping in mind that there's always the danger of a judge, fed up with the obstinance of a minority of creditors within an impaired class, doing a cramdown of the Plan (in other words, approving the Plan over the objections of the dissenting class and forcing them to take what the Plan gives them whether they like it or not).

Before a Plan is approved by the Court, the Plan must pass the "feasibility test" which basically asks, "does this POR involve a restructuring of the capital structure sufficient to ensure the company won't have to file Chapter 11 again shortly?"

When it comes to how the capital structure is transformed in a Chapter 11, the results can be wildly divergent. But in almost all cases what you'll see is the post-reorg debtor emerge from Chapter 11 with a *significantly* slimmed down capital structure and the post-reorg equity being given (at least partly) as consideration (compensation) to the lowest impaired class.

One thing to keep in mind about the Chapter 11 process – from the perspective of a RX banker – is that you aren't intimately involved in every step along the way (or even most of them!).

There's a lot of formality in a Chapter 11 process, and there are certain things that can only be done by people with certain credentials. So, for example, while restructuring bankers will have input on the overall direction of the case, lawyers and restructuring consultants will play a large role and have distinct responsibilities.

This stands in contrast – in most ways – to what we see in an out-of-court restructuring where restructuring bankers have their hands in everything (with, obviously, legal counsel playing a role in formalizing everything).

In an in-court case, restructuring bankers on the debtor-side will still be involved in everything – but there are quite a few more chefs in the kitchen (e.g., the court, lawyers on every side, restructuring consultants, valuation experts, the debtor's management themselves, etc.). If you happen to be advising creditors on an in-court case, it's a bit more analogous to what you'd be doing out-of-court in terms of having less counterparties to deal with and you'll be focusing primarily on how any proposed Plan will impact the group you're advising, etc.

So, it's important to be mindful of the fact that a Chapter 11 case is a bit more mechanical with certain steps that need to be followed – all culminating in getting a POR approved and the company emerging with a right-sized capital structure that will preclude them from (hopefully!) having to file again.

The result of how mechanical the process is – at an abstract level – means that there's more formality and that restructuring bankers can drive the process but won't be necessarily spearheading every aspect of it (e.g., the actual hearings in-court!).

A Note on Doing a Pre-Pack vs. an Out-of-Court Solution…

Something you may be wondering is that if a pre-pack is typified by creditors agreeing to some kind of restructuring pre-filing, then why doesn't the company just do a comprehensive out-of-court restructuring. In other words, why bother filing at all if you already have your creditors agreeing to a detailed plan pre-filing?

The answer is that doing a pre-pack solves the holdout problem. Remember that a Plan that has been accepted by half in number and two-thirds in principal amount of each impaired class will be binding on everyone (regardless of if they voted for the Plan or not).

In other words, by going through the Chapter 11 process the majority get to dictate the outcome not only for themselves, but also for the minority whether they like it or not. Whereas out-of-court you can have the majority being willing to do a comprehensive restructuring, but still end up with some slugs of pre-existing debt outstanding from those that didn't participate.

Some Additional Notes on the Chapter 11 Process…

An important to thing to understand is that many (mistakenly) believe that companies are almost always forced into *involuntarily* filing Chapter 11 by their creditors. This certainly can be the case and there were some high-profile cases years ago of hedge funds holding CDS on companies and then forcing them into filing (involuntarily) because they breeched certain covenants in their credit docs (you'd refer to this as a technical default leading to an involuntary bankruptcy under Section 301).

But the vast, vast majority of time, the company will file Chapter 11 voluntarily and strategically. They'll put together a game plan for filing and then draw down their revolver, stop paying certain contracts and vendors, and generally hoard as much cash as possible prior to going in.

In fact, sometimes companies that could pursue a plausible out-of-court restructuring solution will just bite the bullet and file Chapter 11 anyway. There are three major reasons for this and we've already obliquely discussed two of them.

First, the company (debtor) will get access to some special remedies once they've filed that may be helpful (e.g., being able to reject certain contracts and leases under Section 365). Second, the company (debtor) will be able to get around any potential holdout problems that can exist with out-of-court solutions by filing.

The other major reason – among a smattering of smaller reasons we could discuss – surrounds the ability to access additional liquidity after filing through DIP financing. Because it's usually the case (as you'd expect) that a company filing has very limited liquidity and may not be able to fund itself through the entire Chapter 11 process unless it's wrapped up very quickly.

Note: DIP stands for Debtor in Possession which, it's worth noting, is what we refer to a company after they've filed a petition for bankruptcy.

DIP financing is a special type of financing, only available to those who have filed, that has super-priority over all existing elements of the capital structure. While you may think that lending new money to a company that has filed is risky – for obvious reasons! – the super-priority status makes them remarkably safe. In fact, it's *exceedingly* rare that a DIP loan ever becomes impaired.

DIP financing can be secured a number of different ways – either by having a first lien on any unencumbered property or by having a junior, pari, or priming (higher priority) lien on already encumbered property.

Typically, you'll see a DIP loan be negotiated prior to filing, but it must be approved by the Court. Further, it's very common to see DIP financing come from existing lenders – partly due to the very attractive fees that come along with DIP financing (despite how secure they are, it's usually quite lucrative to extend DIP financing).

Talking About an In-Court Deal

In every interview you're going to be asked to walk through a deal. Walking through an in-court deal can seem overwhelming as dockets can have thousands of items, but you can spend an afternoon getting your hands around an in-court deal quite easily if you know where to look and what to look for.

When trying to get up-to-speed on a deal, it's easiest to just go through the disclosure statement as that more-or-less provides an in-depth summary of who the company is, how they got into trouble, what (if anything) they did to try to restructure prior to filing, what their pre-reorg capital structure was, what the restructuring involved (e.g., the classes of debt and how they were treated, which can also be found in Article III of the Plan of Reorganization), and what their post-reorg capital structure now looks like.

For example, PJT was creditor-side on Lumileds, which was a pre-pack done in late 2022 with EVR being debtor-side. Here's the combined disclosure statement and POR: https://document.epiq11.com/document/getdocumentbycode/?docId=4099934&projectCode=LLD (note that the DS table of contents is on page seven of the PDF).

When walking through any restructuring deal, you kind of want there to be a linear flow from who they are, how they got into trouble, if they attempted any little restructuring transactions out-of-court before filing, what (roughly) their pre-reorg cap structure looked like, how the largest classes of debt were treated (e.g., roughly what their recovery value was and in what form), and then (roughly) what their post-reorg cap structure looks like.

Regardless of if the deal is a pre-pack or not, the DS will usually cover more than you'd ever need to know for interview purposes (as your answer shouldn't be more than 3-5 minutes).

Further, the disclosure statement is always written in a bit more of a conversational tone, so it’s quite easy to read the first 30-40 pages and get a fulsome understanding of the company and what they did through their time in court.

With that said, an area of the POR you can read for more information (if needed) is Article III (classification and treatment of claims) regarding what exactly every class is getting, along with how each class is defined. Not every DS is structured the same way, so sometimes you need to venture into the POR to get a bit finer level of detail.

But keep in mind that no one expects you to be an expert and if you're talking about a deal with a sprawling capital structure, then you don't need to go through every small class and how exactly they were treated, etc. You should just aim to give a reasonable overview of the situation from a restructuring perspective (e.g., don't spend too much time talking about what exactly the company does, as that's less important than what their capital structure was, what caused them to file, how creditors were treated, and what the debtor's capital structure looks like post-reorg).

Many struggle with talking about a deal correctly – often focusing more on how the company got into distress as opposed to going through the pre- and post-reorg cap structure, which is really what matters in restructuring. But if you follow the little outline above you can put together a great answer.

Just keep in mind there’s much more depth within a disclosure statement – and certainly within a POR – than you’d *ever* be expected to memorize and regurgitate in an interview. Half of what your interviewer will be paying attention to is how you’re structuring your answer, and whether your answer conveys you get what restructuring is all about (e.g., that you’re discussing who was impaired or not, what impaired classes got, how the post-reorg capital structure looks like relative to the pre-reorg capital structure, etc.).

Note: Just to put this all into context, following the approach above will put you in the top percentile of interviewees. It’s definitely not the norm to get well-structured answers regarding in-court deals that reference having read a POR or DS.

CONCLUSION

What RX 101 has hopefully given you is a general understanding of how we think about capital structures and the broad types of restructuring transactions that can be done.

The question-and-answer guides dive into the nitty gritty details a bit more as I didn't want this report to be too long or overwhelming. So, they'll hopefully help cement your understanding further and cover the little nuances that you need to know.

In the next chapter we'll be diving into the actual deliverables you'll be completing on the job. This will help you better understand what it is you'll be doing day-to-day, along with hopefully tying together some of the concepts introduced so far in this guide.

Note: You can have distressed M&A in two forms: out-of-court and in-court. Out-of-court just means selling a company that's not doing well and sometimes this is handled exclusively by M&A groups and sometimes the RX group will get tangentially involved. For in-court M&A, it's a 363-asset sale where a buyer purchases the asset from the distressed company free of all liens and claims. It's worthwhile knowing what a 363-asset sale is, but it's rare enough that knowing the definition I just gave you is entirely sufficient.

Screens

Chapter 4

Remember earlier that I mentioned there are just four things that will take up the majority of your time on the job:

1. Screens
2. Profiles
3. Pitches
4. Live Deals

Indeed, it's likely the case that one of the first tasks you'll be given, and that you'll have to repeat many times during your analyst or associate stint, is creating or updating a screen.

Most restructuring shops will have a folder with screens already done for certain industries (industrials, healthcare, etc.). These screens will normally have anywhere between 10 and 20 companies listed in them that are worth "keeping on the radar" due to being likely restructuring targets in the relatively near future.

So, among of the first things an analyst or associate will invariably be asked to do is "refresh" or perhaps create a fresh screen – because it'll get you some reps analyzing financial and credit docs, while also being a task you can do relatively autonomously.

Therefore, it's important you have a general idea of what an MD – who will be receiving and using the screen – actually wants to see included.

For a screen, the "deliverable" is just a deck (made in PowerPoint, of course, with all the analysis done in Excel) with the following sections:

1. The Cover Page

2. The Summary Page

3. The Company Screen Slides

It's probably easiest to just show you an example of a completed screen, so below I've inserted a five-page screen that shows you what each of the sections of a finalized screen in restructuring will look like. But let's also quickly cover each section…

- **The Cover Page**

The cover page itself is self-explanatory. However, now is as good a time as any to say that if you get an offer, the first thing you should do on the job is look in the "shared drive".

The shared drive is just a shared folder that'll house all the current and past screens, profiles, pitches, and deals that the group has worked on. As soon as you get access to the shared drive – hopefully on your first day – start poking around a bit and take note of how things are being formatted.

Because, especially as a summer analyst or associate, how you're being judged will largely be on your attention to detail. This attention to detail will be most judged when it comes to formatting whatever you're working on. In other words, if you're asked to do a screen or profile it's perfectly fine (and expected!) that you'll miss some details when putting together a cap table. But if you're formatting things wrong (e.g., not in the bank's specific format) then that'll be noted.

So, it's a great idea to pop open some past screens, that'll be contained in the shared drive, and look at how the cover page is formatted. Then just take the cover for a certain screen (e.g., the old industrials screen) and use it for the screen you're doing (e.g., the new healthcare screen).

Note: The biggest thing to keep in mind when you're poking around the shared drive is that you *don't* want to open up the latest version of anything – *especially* a model. Because this raises the risk you may break something, accidently save over it, and then the analyst or associate working on it will have to go back to the prior version (e.g., v29 not v30) and retrace their steps. Every summer someone saves over something important by mistake, so don't make that mistake yourself.

The Summary Page

The Summary Page will just list all the companies that are profiled and give key metrics that illustrate why they were included. As the name implies, the Summary Page is almost like a little table of contents of what's included in the screen.

What you'll need to include, at a minimum, are:

- The company name
- The public ticker or owner (if private say what sponsor, if relevant, owns it)
- The total debt
- The total leverage (Debt/EBITDA)
- The price of the lowest trading tranche
- The lowest credit rating any piece of debt has (e.g., not the overall corporate rating, but the lowest credit rating a singular piece of debt has – which will almost invariably be the lowest priority piece of debt in the capital structure)

- Some commentary (recent news that makes it a restructuring target. such as recent downgrades, financial ratio issues, rumors, other covenant issues, etc.)

The Company Screen Slides

Each Company Screen slide will just be a one-pager. Contained on this one page will be a "cap table" along with their LTM Adjusted EBITDA (if available) and their total liquidity (that we'll discuss how to calculate shortly).

A cap table is created by going through the financials of the company and creating the cap table from scratch. Listing cash first and then going through the elements of debt the company has in order of priority (e.g., secured debt then unsecured debt).

For a public company, it's not too difficult to figure this out as you can go to BamSEC and search their most recent filing. You can quickly navigate to wherever they discuss their capital structure by searching for keywords like "secured debt" or "notes".

For a private company, you can use a combination of MarkIt (to see what debt is trading), Moody's reports, Reorg, and Debtwire to flesh out their capital structure.

In fact, nowadays Debtwire and Reorg will have done full cap tables for many of the companies you'll find through a screen. However, you always want to double check their work to make sure nothing is omitted (something that's potentially difficult if the company is private).

After looking at the cap table examples in the illustrative screen below, it should be quite self-explanatory what each column is referring to. But let's briefly run through each element below…

Face Value refers to the book value (or in the case of a revolver, the amount "drawn down" at the time of the 10-Q or 10-K or whatever being published).

Market Price for loans and bonds can be found via MarkIt, Bloomberg, or TRACE (MarkIt is generally better for loans, you can use TRACE for bonds). Then Market Value is simply: Market Value = (Market Price / 100) * (Face Value)

So, for example, in the first screen you'll see the 4.5% Secured 1L Notes due 2022 have a Face Value of $380mm, Market Price of 71, and thus a Market Value of $270mm.

Coupon is simply the coupon associated with the debt (make sure to put "L +" or "S +" if you're dealing with a loan priced off of LIBOR or SOFR as obviously both fluctuate). Then Cash Interest just takes the amount of the loan/bond outstanding times the coupon rate.

Then you may want a column showing the YTM (if the debt is trading below par, then the YTM will obviously be higher than the coupon rate). You'll also want to include the maturity date of each piece of debt and its credit ratings from both S&P and Moody's (if available).

Finally, you'll want to calculate the interest coverage (LTM Adjusted EBITDA / Cash Interest) and leverage (Debt / LTM Adjusted EBITDA) ratios throughout the capital structure.

Like everything in restructuring, the devil is in the details. Here are some additional things to keep in mind:

- Many loans have grid pricing depending on how well or poorly the company is doing. For instance, in the first screen example, if the revolver is drawn on significantly then the interest rate associated with it goes up. So, make sure if grid pricing does exist that you put the correct amount in the "Coupon" and "Cash Interest" sections and footnote it.

- Springing maturities will likely exist for some pieces of debt as well. This means that if a certain tranche of loans or bonds aren't sufficiently refinanced (paid back) by a certain date, then another tranche of loans or bonds will spring forward and mature before them (which can create a potential default scenario if the piece of debt that's sprung forward can't be refinanced!).

- If you're dealing with a company with lots of capital leases (anything in the low millions or more, in my view) you should include them in an "Other" basket as I've illustrated in the first screen example.

The longer a company has been non-investment grade, the more terms and conditions are going to be attached to all of its loans and bonds (as credit docs will become more restrictive). It's important that you read the notes of the financial statements carefully to ensure you're using the right interest rates and footnoting any nuances (you can also dive into the credit docs, if available, but the major items you'll be footnoting will be found in the financial docs as you aren't diving too deep with a screen).

The final little section that must be included on each Company Screen Slide is "Total Liquidity". This will normally just be a little box in the lower right-hand side of the slide.

But breaking down current liquidity – as we define it in restructuring – is important to give a sense of the company's cash runway and if they'll be heading towards a liquidity crunch (remember: the vast majority of restructuring activity occurs either because there's a maturity wall coming due, or a liquidity crunch is happening).

Another way to think about why MDs want total liquidity included is that the number basically says, "if we assume there's negative FCF moving forward, how long can this company still meet its obligations by using their existing cash or revolver capacity?"

Creating the little liquidity table is really quite easy:

- If the company has a revolver, you include it as the top line item (e.g., “Revolver Capacity”).
- You then take away the amount they’ve drawn (meaning used) of that revolver (e.g., “Less: Amount Outstanding).
- You then take away any letters of credit outstanding, as these are cash obligations (e.g., “Less: Letters of Credit”).
- You then have a total that you can refer to as “Revolver Availability”
- You then add back any cash or cash equivalents (the latter meaning things that can be very easily and predictably turned into cash). So, you’d title this something like “Plus: Cash and Cash Equivalents”.
- You then take off any restricted cash, as this is cash that has been designated for a specific purpose and can’t be used for anything else (e.g., “Less: Restricted Cash).
- You then have a “Total Liquidity” value.

In totality, the screen you end up creating for your MD will normally include around ten or so of these one-pagers. While the end result doesn’t look overly complicated, it can take quite a bit of digging and reading to put a screen together because every company – especially if they’re a bit stressed or distressed – will have individual nuances. Some will have letters of credit (LoC) outstanding, some won’t. Some will have capital leases, some won’t. Some will have public filings that make it relatively easy to get all the details, some will not.

And sometimes it’ll be impossible to get perfect clarity on a company (for example, if they’re private/private meaning a previously private company bought out by a PE fund). If that’s the case, just include what you can and make sure to check Reorg and Debtwire.

After you’ve completed the screen, your MD will take a look, maybe make some calls, and perhaps then ask you to create profiles on one or two of the ten companies you created screens for. Profiles are slightly more in-depth, giving a bit more market commentary, etc. but are generally not too much more work as you’ve already created the cap table (which is the hardest part).

Below is a five page screen (with three full examples) that will give you an idea of how they should look and what will be most commonly footnoted. Keep in mind that the expectation isn’t that you’re going to be digging into the credit docs and footnoting every covenant or anything like that – screens are meant to just be a high-level overview…

Example Screen Capitalization Tables

March 2020

Summary

$ in millions

Company	Ticker / Owner	Total Debt	Total Leverage	Lowest Trading Tranche	Lowest Rating	Commentary
Example Company	EX	1,134	7.3x	58	Caa3/ CCC-	• Liquidity tight and has narrowed in (~$20mm, down from ~$75mm in '18); could become even tighter due to springer on RCF and term loan, which is likely to trigger • Springer on RCF and term loan likely to trigger in Q3 2020 without restructuring • $800mm of debt needs to be rolled within the next 12 months
ABC Company	ABC	965	7.7x	81	Caa1 / CCC+	• Recently downgraded by Moody's on the back of lower-than-expected EBITDA growth and overall flat FCF; still reasonable liquidity levels • Sprining 6.5x senior secured covenenant if 45% of revolver is drawn; company has drawn 43% now
123 Company	OneTwo	781	9.8x	54	Caa3 / CCC-	• Has not drawn down any of revolver ($200mm), but has springer to 90 days before TL maturity (Aug-21) • Company will need to roll $681 (inclusive of revolver) over next 18 months. Already levered 6.0x through secured with falling EBITDA
DD Company	Private (BX)	1,128	7.5x	76	Caa1 / CCC+	• Private/private, but much more clarity as they tried to issue some senior secured notes unsuccessfully in Q2 '19 • Leverage has gone from 6.1x to 7.5x through the capital structure and has been recently downgraded (Q2 '19) with bonds trading down from low-90s to mid-70s
123 Company	Private (TPG)	1,873	4.3x	92	Caa1 / CCC+	• Company is private/private, which makes it hard to know exactly where the EBITDA is (relying on reports now from credit rating agencies) • May be something to do here given the ratings, but there is limited price action that is (obviously) quite near par

Example Company (NYSE: EX)

$ in millions

Current Capitalization

	Face Value 01-01-20	Market Price 01-01-20	Market Value 01-01-20	Coupon	Cash Interest	Maturity	Credit Ratings	Debt / LTM Adj. EBITDA Face	Debt / LTM Adj. EBITDA Market
Cash and Cash Equivalents	$5		$5						
$200mm Revolving ABL due 2021 [1 2]	$180	NA	$180	L+150	$5	Jun-21	NR / NR		
4.5% Secured 1L Notes due 2022 [2]	380	71	270	4.5%	17	Apr-22	NR / NR		
6.0 Sr. Secured 1L Notes due 2020	240	69	166	6.0%	14	Nov-20	B3 / B-		
1st Lien Secured Debt	**$800**		**$615**		**$36**			**5.2**	**4.0**
7.5% 2L Secured Notes due 2022	219	63	138	7.5%	16	Sep-22	Caa2 / CCC-		
Total Secured Debt	**$1,019**		**$753**		**$53**			**6.6**	**4.9**
6.0% Senior Unsecured Notes due 2025	105	58	61	6.0%	6	Feb-25	Caa3 / CCC-		
Other[3]	10	NA	10	NA	NA	NA	NA / NA		
Total Debt	**$1,134**		**$824**		**$59**			**7.3**	**5.3**
Net Debt	*1129*		*819*					7.3	5.3
Equity Value	59	$4.12							
Total Enterprise Value	**$1,188**								
Memo:									
LTM Adjusted EBITDA	$155								
Interest Coverage Ratio	2.6								

Total Liquidity	
ABL Borrowing Capacity	$200
Less: Amount Outstanding	(180)
Less: Letters of Credit Outstanding	(5)
Revolver Availability	**$15**
Plus: Cash and Cash Equivalents	5
Total Liquidity	**$20**

Source: Public filings, FactSet, MarkIt, Moody's, S&P, Capital IQ
1. Grid pricing of L +100-150 based on % drawn
2. Springing maturity to Sept 2020 in the event that $20+ million of the 6.0% senior secured notes remain outstanding at such time
3. Includes capital leases

ABC Company (NYSE: ABC)

$ in millions

Current Capitalization

	Face Value 01-01-20	Market Price 01-01-20	Market Value 01-01-20	Coupon	Cash Interest	Maturity	Credit Ratings	Debt / LTM Adj. EBITDA Face	Debt / LTM Adj. EBITDA Market
Cash and Cash Equivalents	$5		$5						
$70mm RCF[1 3]	$30	NA	$30	L + 350	$1	Jun-20	B1 / B+		
1L Term Loan B[2 3]	525	88	462	L + 450	30	Jun-21	B1 / B+		
Total Secured Debt	**$555**		**$492**		**$32**			**4.4**	**3.9**
6.0% Senior Unsecured Notes due 2022	300	81	243	6.0	18	Jul-22	Caa1 / CCC+		
10.5% Junior Subordinated due 2023	110	NA	110	10.5	12	Sep-23	NA / NA		
Total Debt	**$965**		**$845**		**$61**			**7.7**	**6.8**
Net Debt	*960*		*840*					7.7	6.7

Total Liquidity	
ABL Borrowing Capacity	$70
Less: Amount Outstanding	(30)
Less: Letters of Credit Outstanding	(6)
Revolver Availability	**$34**
Plus: Cash and Cash Equivalents	$5
Total Liquidity	**$39**

Memo:

LTM Adjusted EBITDA	$125
Interest Coverage Ratio	2.0

Source: Company filings, FactSet, MarkIt, Moody's, S&P, Capital IQ
1. Grid pricing of L + 300-350 based on senior secured leverage ratio.
2. Grid pricing of L + 425-450 based on total leverage ratio. 1% annual amortization. 1% LIBOR floor.
3. Springing 6.5x senior secured leverage covenant if 45+% of total revolver commitment is drawn (as of 1/1/20, Company had drawn 43% of its revolver commitment)

123 Company (NYSE: OneTwo)

$ in millions

Current Capitalization

	Face Value 01-01-20	Market Price 01-01-20	Market Value 01-01-20	Coupon	Cash Interest	Maturity	Credit Ratings	Debt / LTM Adj. EBITDA Face	Debt / LTM Adj. EBITDA Market
Cash and Cash Equivalents[1]	$40		$5						
$200mm Revolving ABL due 2022 [2 3]	$0	NA	$0	L+175	$0	Jun-22	NR / NR		
Term Loan B [4 5]	481	78	375	L + 425	26	Aug-21	B3 / B-		
Total Secured Debt	**$481**		**$375**		**$26**			**6.0**	**4.7**
Senior Notes due 2023	300	54	162	8.25	25	Feb-25	Caa3 / CCC-		
Total Debt	**$781**		**$537**		**$51**			**9.8**	**6.7**
Net Debt	*741*		*532*					9.3	6.7

Memo:

LTM Adjusted EBITDA	$80
Interest Coverage Ratio	1.6

Total Liquidity	
ABL Borrowing Capacity	$200
Less: Amount Outstanding	0
Less: Letters of Credit Outstanding	(5)
Revolver Availability	**$195**
Plus: Cash and Cash Equivalents	5
Less: Restricted Cash	(10)
Total Liquidity	**$190**

Source: Public filings, FactSet, MarkIt, Moody's, S&P, Capital IQ
1. $10mm of cash is restricted
2. Maturity springs to 90 days before Term Loan maturity if the Term Loan has not been repaid
3. Grid pricing whereby rate is L+175-225 based on utilization
4. Term Loan originated at $540mm. Rate based on grid pricing whereby L+425 if total leverage exceeds 6.5x (L+375 otherwise)
5. LIBOR floor of 1.00%

Profiles

Chapter 5

During your summer analyst or associate stint, you'll definitely be making some screens and profiles – and, obviously, it won't stop once you begin full-time.

Just like screens, it can take a bit of time to get a handle on creating profiles, but they have a pretty standardized format. So, having an understanding of what profiles are, what their point is, and how they should look prior to beginning will really make you stand out during the summer. Plus, knowing that profiles are something you'll have to make is a great way to stand out in interviews if you ever have the chance to casually bring it up.

To use a bit of a tortured analogy, putting together industry screens can be thought of as updating your MDs restructuring radar and profiles can be thought of as zooming in on one of the curious radar blips that occurred.

All a profile really amounts to is a (slightly) more granular look at a company that could need to restructure sometime in the future that you'll put together for your MD. While a screen of a company is just a one-pager showing the cap table, liquidity table, and a few footnotes, a profile will be a two-to-three pager that provides a bit more depth.

And since a profile actually tells you much of what you need to know to be prepared to answer contextual questions in an interview, I've attached below an actual example of exactly what a fully fleshed out three page profile will look like.

But before showing that example, let's quickly go over what the profile will include:

- The Cover page
- The Overview page
- The Price Action Page

Note: Sometimes you won't include the Price Action Page for profiles – but it's always easy to add and would be impressive to do so if you've been asked to put together a profile but not been given overly specific guidance on formatting. In other words, you can't go wrong putting this little slide on the end.

The Cover Page

The Cover Page is self-explanatory and can be seen in the example below. Just keep in mind what I wrote about when discussing the Cover Page of the screen (e.g., be sure to look at past profiles to make sure you've formatted and titled it correctly).

The Overview Page

The Overview Page is the meat of the profile, and it can be broken down into roughly three section…

<table>
<tr>
<td>

Overview & Recent News

Bullet #1: What the company does.

Bullet #2: Recent news from Debtwire or Reorg on why the company is in distress.

Bullet #3: More recent news, maybe on S&P / Moody's downgrading their bonds, etc.

</td>
<td>

Maturity Schedule

Here you'll paste in the maturity walls graphic you made in Excel.

It'll show when the debt of the company comes due (e.g., where the maturity walls are). It's never a bad idea to show any mandatory amortization here for extra points.

</td>
</tr>
<tr>
<td colspan="2">

Cap Table

Here you'll paste the cap table you made in Excel, just as you did for the screen. It'll show the cash on hand, secured debt, unsecured debt, LTM EBITDA, and all the key terms and ratios.

If you have room, you should also include a liquidity table following the format that we discussed in the prior section.

</td>
</tr>
</table>

In the upper-left we'll include five or six bullet points. One or two will just provide a general overview of what the company does which can be taken directly from the company's website or a recent investor presentation.

The next four or five bullet points will make the case for why the company is entering into distressed territory. These don't need to be your views, they can simply be the latest news from Reorg, Debtwire, or S&P Global reports that you'll have access to. If you can't find anything, then you can just discuss upcoming maturity walls, draining liquidity, etc.

Note: When you're asked to do a profile on a given company it's because the company has come onto your MD's radar somehow as a potential restructuring candidate (likely due to it being part of a screen, but also perhaps because the MD talked to someone who brought it up). With that said, profiles are usually created before a company is really ready to restructure. So, the purpose of a profile is to do a bit of homework on a company that's likely going to need to restructure well before you'd ever thinking about pitching any restructuring solutions to them. For this reason, you'll see profiles stashed away on the shared drives and you'll be routinely asked to update old ones that may have been created many quarters ago.

For example, every restructuring shop would have had profiles on names like iHeartRadio and Hertz that they were updating years before they eventually needed to restructure (in fact, Hertz was a name that always came up on screens *years* before the pandemic and their eventual freefall Chapter 11 – everyone was just waiting for them to need to restructure and the pandemic was the final nail in the coffin).

Anyway, in the upper-right hand part of the Overview Page you'll simply paste in the maturity walls graphic you made in Excel. These are pretty simple to make and on the y-axis will be millions – denominated in dollars or whatever the relevant currency is – and on the x-axis you'll have years (normally you'll look out around 6-8 years, whatever makes sense in the context of the company).

What this graphic is meant to do is quickly show your MD – or whoever is looking at your profile – when a potential impetus for the company to need to restructure will occur. Because, as discussed many times in this guide, every company will want to hold off having to do any kind of restructuring – whether in- or out-of-court – as long as possible. But maturity walls are a forcing function: if you have debt coming due, you need to either refi it or figure out a restructuring solution.

Moving to the bottom half of the Overview Page, we have the cap table. We already went over this quite a bit in the prior chapter when discussing screens, but let's go over it quickly again.

Your cap table will start with the most liquid element then descend in order of absolute priority (seniority). So, at the top you'll have cash and cash equivalents, then secured debt, and then unsecured debt in all its permutations.

Finally, at the bottom of the cap table you'll include LTM EBITDA (if available) and the liquidity table. As broken down in the prior chapter, the liquidity table refers to cash on hand and what can still be drawn on a revolver, less letters of credit outstanding and restricted cash.

For example, if you have $50m in cash on hand and have a $200m revolver, but that revolver has $50mln drawn on it then your total liquidity available is $200mln (cash + total revolver – used revolver).

Regarding structuring the actual cap table itself, use the following columns (with the rows corresponding to the various pieces of debt that makes up the capital structure).

- Face Value.
- Price (if it was syndicated, you can use MarkIt for loans, Bloomberg for loans or bonds, and TRACE for bonds).

- Market Value (which is just Face Value * Price / 100).
- Coupon (for a loan, it will be "L +" or "S +" some amount of basis points).
- Cash Interest (the Coupon multiplied by the Face Value).
- Maturity Date (e.g., Jan-25).
- YTM (sometimes included, sometimes not – keep in mind that if the debt is trading below par then the YTM will be higher than the coupon).
- Ratings (e.g., from Moody's and S&P).
- The book (Face Value) leverage and market leverage (Market Value / EBITDA). If it's a private company, and you can't find EBITDA from Moody's reports or Reorg or any other resource, then leave this blank.

Note: As noted when discussing screens, make sure to include any relevant footnotes around grid pricing, springers, etc. as shown in the cap table examples in this guide and in the Cap Table Q&A Guide.

The Price Action Page

This page is easy to create and provides a nice reprieve from actually having to think when creating the cap table, figuring out what to include for qualitative bullet points, etc.

The Price Action Page will just be a big graph, taking up the whole slide, showing where a few pieces of debt have been trading at over the past six or twelve months. Sometimes, if there have been major events that have caused the prices to suddenly fall, you'll flag that on the graph.

While this page isn't always asked for, given how quick it is to complete there's really no reason not to include it (unless you're explicitly told not to worry about it).

Before getting into how to create this page, it's worth taking a minute just to mention that the debt of most large stressed or distressed companies – in other words, those we're interested in from a restructuring banking perspective – will be traded on the secondary market.

So, as you can imagine, debt trading prices and how they've evolved over time is something an MD is interested in seeing. If a company has maturity walls coming up, with bonds or loans that have recently collapsed in price, this likely signals that debt holders don't think the company will have the ability to refi whatever debt is coming due.

Note: It's important to keep in mind that debt trading levels don't tell you everything. For example, throughout the latter half of 2022 there were plenty of companies that had notes go from trading around par to well into the 80s or below. However, that doesn't mean that these companies were invariably falling into distressed territory. Rather, the sharp (downward) price action was due to the rates environment – since notes have fixed, not floating, coupons if they were issued during an ultra-low yield environment, but now Fed Funds is at 4.5%, then that necessitates the yield of these notes to go up and, conversely, for the price of these notes to fall. So, when you have a volatile rates environment that can obfuscate the distress signal being thrown by where fixed-rate debt is trading.

Now if you've never worked in investment banking before, here's an important thing to be aware of that won't creep up in your interviews: every investment bank has a ludicrous color scheme whereby lines in graphs, fonts, etc. need to be color coded a certain way.

So, on your very first day you'll be given a color chart that shows what should be colored what. This is meant to ensure that all your deliverables look "standardized" and will result in your associate, VP, or MD frequently saying to you, "are you sure this is the PJT color scheme?" when you, of course, have steadfastly followed the color scheme.

Anyway, this is a long way of saying when you go to MarkIt and TRACE to find the debt trading levels they'll provide you lovely graphs of where the company's loans and bonds, respectively, have traded over time. But these are useless. Instead, you must click the "download" button and download the last six or 12 months of day-to-day price movement in the bonds or loans of interest.

With the data (prices and dates) in Excel, you'll then create a graph showing where all the debt is trading using the bank's color scheme. It's a pain (obviously).

If you're looking at a company with a sprawling capital structure, there may be a dozen or more pieces of debt that are actively traded. I normally included no more than four pieces of debt in a graph because if you have more than four lines it becomes a bit cluttered.

When it comes to picking what pieces of debt to show on the graph, it's a bit more of an art than a science. The reality is that if the company is facing distress, there will be a similar pattern in the price action (e.g., it'll all be going down!).

But you should always – especially in a volatile rates environment – reflect some senior secured debt, as that'll be floating rate, so it gets around the issue of perhaps notes trading down purely due to a yield dynamic.

However, what you'll often find with stressed companies is that the secured part of the capital structure is trading quite well (e.g., above 90) but then, as you go down the capital structure, you begin to have pieces of debt that are precipitously falling. This is because folks are thinking i) the company is going to have to restructure and ii) the secured parts of the capital structure will be made whole, even if the company files, but that more junior parts are going to be impaired.

So, if this is the case, then it's great to show one or two pieces of secured debt and one or two pieces of lower priority debt that have seen sharp price declines. This helps whoever is reviewing your profile to quickly see where the market thinks the value of the company is breaking (in other words, what ,pre junior debt is going to be impaired).

Anyway, once you have created your nice graph in Excel, using all the appropriate colors, then you can paste that into PowerPoint on your third slide, put a nice title and sub-title, and you're done.

So, with a Cover Page, Overview Page, and Price Action Page now created, your profile is complete.

Note: If this is all a bit jargony for you, it might be best to take a few minutes to read the actual profile I've created for you. From an interview perspective, it's just important that you know what a profile is, why these are created, and what you generally include in them. I've tried to thread the needle here between giving you what you actually do on the job, while also not defining every term and creating a 200-page report.

XYZ Company Profile

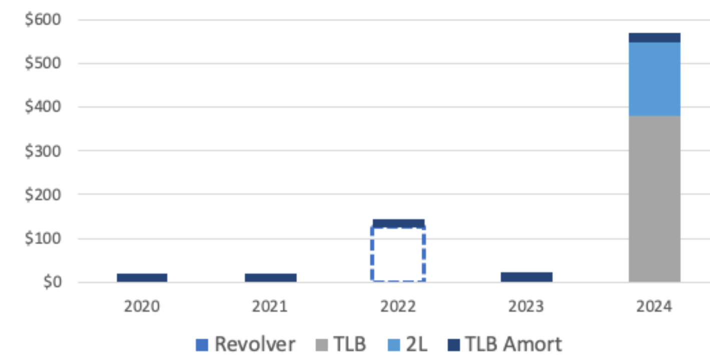
March 2020

XYZ Company

Overview

- XYZ Company manufactures and distributes industrial chemicals for use by large manufacturers
  - Operates in Canada, Europe, The United Kingdom, and The United States
- Has drawn limited amounts on its $125mm revolver, but has large maturity walls in 2024
- Recently downgraded by Moody's to Caa1 after 2019 FY EBITDA fell by $20mm YoY with flat FCF
- Leverage ratios nearing covenants, which has been reflected in downgrades to the L+925 2L issued in 2018
- Limited further information from DebtWire, infrequent price action on MarkIt, and limited holding lists on Bloomberg (throughout the capital structure)

Maturity Schedule



Cap Table

	Face Value 01-01-20	Market Price 01-01-20	Market Value 01-01-20	Coupon	Cash Interest	Maturity	Credit Ratings	Debt / LTM Adj. EBITDA Face	Debt / LTM Adj. EBITDA Market
Cash and Cash Equivalents	$15		$15						
$125mm Revolver	$20	NA	$20	L+250	$1	Jan-22	NR / NR		
Term Loan B	380	91	346	L+550	26	Jan-24	B3 / B-		
1st Lien Secured Debt	**$400**		**$366**		**$27**			**6.2**	**5.6**
2L Term Loan	167	85	142	L+925	18	Jan-24	Caa2 / CCC-		
Total Secured Debt	**$567**		**$508**		**$44**			**8.7**	**7.8**
Total Debt	**$567**		**$508**		**$44**			**8.7**	**7.8**
Net Debt	*552*		*493*					8.5	7.6

Liquidity	
ABL Borrowing Base	$125
Less: Amount Oustanding	(20)
ABL Availability	**$105**
Plus: Cash	15
Total Liquidity	**$120**

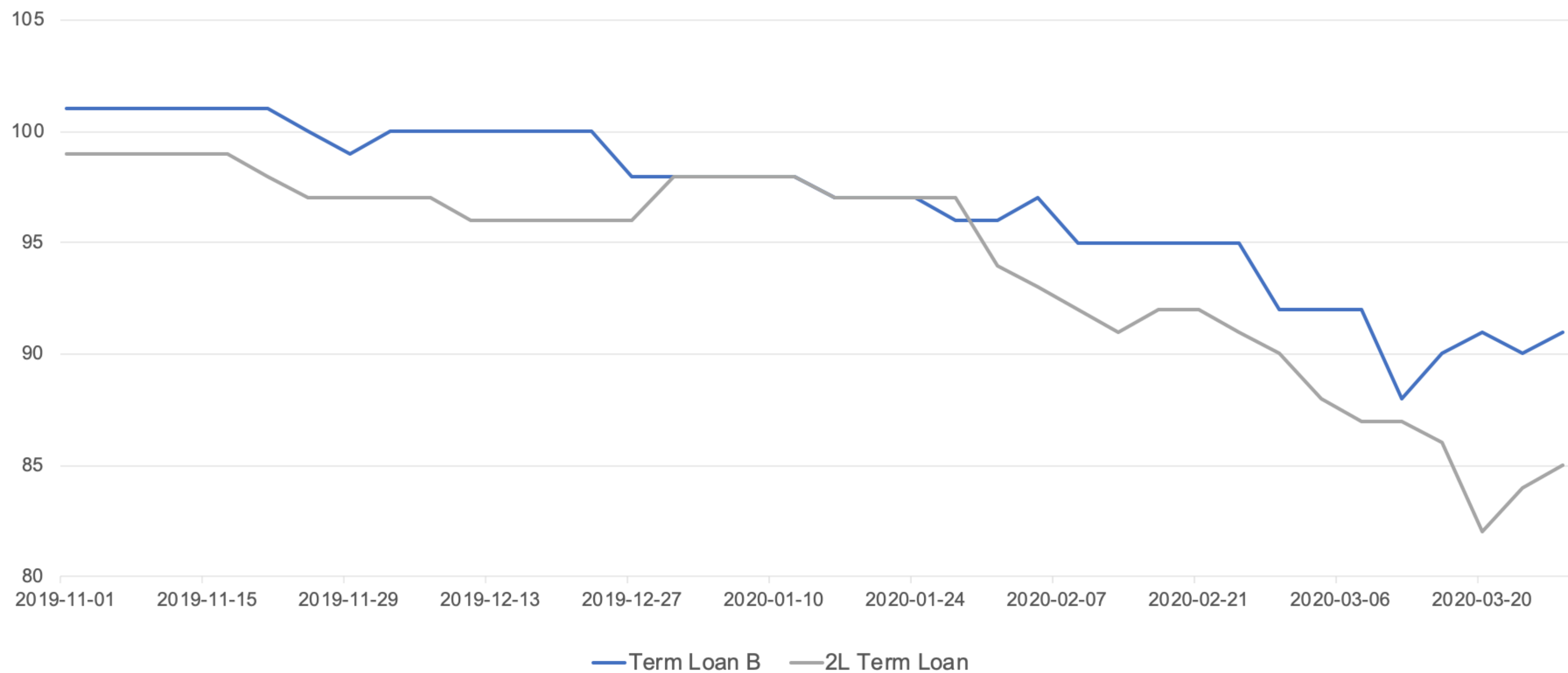
Corporate Rating	
S&P	B-
Moody's	Caa1

Memo:	
LTM Adj. EBITDA	**$65**
Interest Coverage Ratio	1.5

Source: Public filings, FactSet, MarkIt, Moody's, S&P, Capital IQ

Trading History

After trading near par there has been significant downward price action



Source: Marketit (03/28/20)

Pitches

Chapter 6

Alright, let's recap what we've done so far, hypothetically:

- We've created a screen for a certain industry, finding 10-20 companies that are likely going to need to restructure at some point in the next few years.

- We've given this deck to our MD, who has then highlighted a few companies he would like a profile done of, which we then dutifully do.

- The MD may then either reach out to the company or simply wait for them to become even more distressed (the latter will require the profile to be periodically updated to keep it current).

- Eventually, it'll be time to move. We've got ourselves a meeting with the company and now need to create a pitch. With a profile done we have some familiarity with the company, but now we need to figure out what we should recommend they do.

In the end a pitch is really just a robust sales letter. It's basically a long way of trying to say: "We know where you are now, where you are going in the future, and here's how we think we can make things better. Also, we're very good at our jobs and have done lots of transactions for similarly troubled companies."

Because every company is unique and that uniqueness will drive the restructuring solutions pitched, I can't give you a step-by-step guide for creating a pitch in the same way I did for a screen or profile.

However, I'll try my best to give a broad overview of the pitch process and what will be contained in a pitch (as there will always be somewhat similar components). But first let's talk about the "deal team" that'll be assembled for a pitch.

THE DEAL TEAM

For a pitch there will still be a quasi-deal team. Generally, there will be an analyst, associate, VP, and MD on the pitch. But, depending on how busy things are, sometimes there will just be an analyst, VP, and MD or an analyst, associate, and MD.

The MD will give the broad outlines for what kind of restructuring solutions should be pitched along with a general sketch of what he or she thinks the deck should include. The VP or associate will then provide a bit more granularity to the analyst, who will be responsible for putting the initial deck together.

Then the initial deck will be iterated back up the chain. For some MDs, these iterations are going to be a way for them to think about what really are the best solutions to pitch. So, it's not uncommon for you to put together a few slides and a pro-forma cap table reflecting a certain kind of exchange and then have your MD come back and say that they want to try something different.

Usually, pitches come together in a few weeks, so there's a bit of a leisurely pace to them and you'll be staffed on other things at the same time. However, in a bind, a pitch can certainly be whipped up in a few days if needed.

THE STRUCTURE

Like I said, every pitch is going to be relatively unique as the specific solutions pitched are going to be contingent on the company, what's causing the distress, the underlying credit docs, etc. But, while I can't per se run through what every slide in a pitch will be, I can tell you the general layout that'll be followed.

In terms of length, you want the pitch to have some meat to it – even if it's a lot of boilerplate appendix items – to show you've put work in, but at the same time you want it to be approachable. Generally, a pitch deck will have between thirty and fifty slides – but if you're dealing with a sophisticated party (e.g., a sponsor) then you may slim it down as they aren't going to be impressed just because you sent over a lengthy pitch.

Anyway, here's the general flow of a pitch…

1. Executive Summary

2. Situation Assessment of Industry and Company

3. Potential Restructuring Alternatives

4. Appendix
    a. Additional Analysis
    b. Case Studies
    c. Qualifications

1. Executive Summary…

The executive summary will just describe who the restructuring shop is, what big-name deals they've done in the past, and then provide industry specific qualifications. For instance, if you're dealing with a restructuring in the healthcare space then you'll have a slide about transaction types done in the healthcare space.

2. Situation Assessment of Industry and Company…

In this section you'll talk about the broader restructurings happening in the industry then include several slides dedicated to:

- Key metrics of the company over time (graphs of revenue declines, margin compression, same store sales declines if they're a retail company, etc.). The reason for including this, despite the fact that the company already knows their own financials, is just to show you've put work into understanding the company's unique position and aren't giving boiler plate solutions.

- Full cap table with a maturity wall graphic and liquidity table.

- Debt pricing chart, along with some commentary if there was a sudden drop in the trading of some piece of debt.

- Comparable companies chart (e.g., showing the EBITDA, leverage ratio, interest coverage, and equity price change, if public, of comparable companies).

This section is meant to show the company that we understand where they are not only internally, but also in the broader sector in which they operate. Once again, the aim here isn't really to tell the company anything they don't already know – but rather to show that we've done our homework on them.

3. Potential Restructuring Alternatives…

This section is the meat of the pitch and will normally detail several different restructuring scenarios and provide commentary on each one.

So, the layout will be something like this:

- A slide or two covering key issues around the company's current covenants, liquidity position, and capital structure.

- A slide or two providing an overview of two or three potential restrictions solutions (you'll normally have distinct sections for each solution where you'll provide a general description of the solution, the benefits of the solution, and key considerations for doing the solution).

- A slide or two discussing the timing, strategy, and key parties involved for each of the potential restricting solutions that are being pitched.

- An overview slide of the first restructuring solution (included sections: a brief description, sources and uses, and a pro-forma cap table reflecting what the cap structure looks like if this solution is done).

- An overview slide of the second restructuring solution (included sections: a brief description, sources and uses, and a pro-forma cap table reflecting what the cap structure looks like if this solution is done).

- An overview slide of the third restructuring solution (included sections: a brief description, sources and uses, and a pro-forma cap table reflecting what the cap structure looks like if this solution is done).

As a junior analyst or associate, much of the actual wording for the overview sections won't come from you directly. You'll be given a run down, so you'll know more or less what to say, and then the VP/MD will mark it up to get their exact wording in there.

But writing down the terms of the restructuring solution (e.g., exchanging Senior Notes for new 2L Notes, assuming a 90% participation rate and 70% exchange rate) and putting together the pro-forma cap table will all be done by you.

The final page of this section will discuss "next steps" meaning what the restructuring group will do once engaged (e.g., further due diligence, evaluating alternatives, negotiating and executing the solution, etc.)

Note: You can also have more detailed slides going over nuances in the credit docs (e.g., tallying up incremental debt capacity based on the company's current position), along with slides diving deeper into a given solution that's being pitched if warranted (e.g., explaining the steps involved in doing an unsub transfer, etc.).

4. Appendix…

Every good pitch deck needs an appendix. This is where you'll stash some analysis that doesn't otherwise fit in the deck, some mini case studies of past transactions you've done, and the biographies of those that are doing the pitch.

Much of what will be stuffed in the appendix will be pre-done (e.g., in the shared drive there will be a folder with the mini case studies, the bio slides, etc. that you just need to insert into the deck).

There aren't really any specific things that *have* to go in the appendix (beyond that bios, those are always included). But some of the things you could need to create to put in the appendix would be a little liquidity roll forward, a more granular FCF projection, a nice corporate structure chart, a debt holders list, etc. In other words, nothing too exciting or important. But having a big appendix helps convey to the person you're pitching that you have put quite a bit of time and effort into it.

Liquidity Roll Forward

For pitches it's quite common to put together a one-page slide showing a liquidity roll forward, which is just a projection for where FCF (adjusted for cash interest expense) will be in the next year or two.

To put together a liquidity roll forward, we'll need to make some assumptions about revenue growth or decline, EBITDA margin expansion or contraction, and capex spend.

So, a liquidity roll forward is basically just saying, "here's how much cash runway you have left after paying cash interest over the next year or two".

Assumptions Pre-Reorg	
Adj. EBITDA	$60.0
Excess Cash	20.0
Capex	20.0
EBITDA Growth	(5.0%)

Illustrative Liquidity Roll-Forward	2023E	2024E
Adj. EBITDA	$60.0	$57.0
Less: Capex	(20.0)	(20.0)
Less: Mandatory Amortization	-	-
Less: Cash Interest Expense	(50.0)	(50.0)
Free Cash Flow	**(10.0)**	**(13.0)**
Plus: Excess Cash Available	20.0	10.0
Ending Excess Cash Available	**$10.0**	**(3.0)**

For companies in need of restructuring, it'll often be the case that liquidity gets dangerously low after a year or two of continued poor performance. So, a liquidity roll forward is a way of softly illustrating to the company that something needs to happen sooner than later, as often management is a bit delusional about just how much runway they have left.

Debt Holders List

Normally you'll try to find out who the debt holders are for key tranches of debt and what percent of the debt they hold. For example, if you're proposing an out-of-court solution that involves an exchange of the Senior Notes, then you'll want to create a slide showing the ten or twenty largest holders of the Senior Notes to see who they are and how much they're currently holding.

The reason why this is important is that (obviously!) if you have a few holders that hold a significant amount of some key piece of debt, then you're going to need to deal with them. In fact, they may have been accumulating a larger position in a given piece of debt over time specifically because they want to have a say in the restructuring process (in- or out-of-court).

For example, in the case of Incora I talked about the arms race that broke out as two competing groups tried to gain a blocking position within a certain tranche of Unsecured Notes (causing the price of these Notes to skyrocket from distressed levels to above par!). This is because the lynchpin of the transaction involved participating noteholders having a super-majority, so that they could vote to strip the liens and exchange their holdings into new (higher priority) debt. See the post on Incora here for more:

https://restructuringinterviews.com/blogs/restructuring/incora-restructuring-uptier-exchange-transaction

Creating a list of the major holders is quite straightforward. Just go on the Bloomberg terminal (your group will have a shared one), find the tranche of debt that's of interest, and type HDS and you'll be given a holders list. Then you'll just export it (or take a screenshot) and recreate it in PowerPoint using your bank's formatting.

- **Corporate Structure**

If the company has a complicated corporate structure, you'll often see a slide in the appendix that just shows the corporate structure using the bank's color formatting, etc.

While it's a bit beyond the scope of this guide, you'll often see corporate structure slides being included when one of the restructuring solutions being pitched involves taking advantage of the corporate structure in some way.

For example, you'll normally include it when pitching a restructuring solution that uses unrestricted subsidiaries, so you'll design the corporate structure slide in such a way as to clearly denote what entities are or are not restricted subsidiaries and what entities are guaranteeing the debt of other entities.

- **Case Studies**

Most restructuring groups will have created several case studies showing interesting and novel transactions they've worked on in the past. These will normally be three-to-ten pages and will show what the bank proposed as a restructuring solution, what ultimately happened, and what the timeline was.

These case studies are a great way to elongate an otherwise short pitch. But there are two (kind of) good reasons for including them. First, it shows that the group has worked on some interesting, high-profile, and/or novel transactions in the past – in other words, the case studies provide some social proof. Second, the case studies can help educate management implicitly on how restructuring transactions work by providing a description, timeline, etc. of a past transaction.

Note: Just to be clear, these will be case studies that are pre-done. So, you'll just go and insert the slides into your pitch deck. It'll take literally a few second. But during your time as an analyst or associate you may get tasked with doing a little case study of a recent deal that will then be used in future pitches.

- **Biographies / Qualifications**

Here we have true filler. At the end of every pitch book there will be a series of slides (pre-done, you just need to insert them) showing the awards the group has won, clients that have been dealt with, and short bios of the MDs that have contributed to the pitch.

CONCLUSION

As mentioned at the outset, pitches are always going to be relatively unique as you're presenting a series of potential restructuring solutions that are going to be predicated on the company's current position, what their credit docs make possible, and what your MD thinks is feasible.

Importantly, when I say feasible, I don't just mean tolerable to the company, but also tolerable to the creditors. It's easy to dream up scenarios that are tolerable to the company, it's a different story to dream up scenarios that are tolerable to the company and to its creditors.

Live Deals

Chapter 7

We were able to discuss screens and profiles in-depth because they are almost always going to look the same. So, I was able to give you what every slide should look like and what you need to be mindful of.

And, while I can't tell you what every slide of a pitch is going to look like as there's naturally quite a bit of variation, there is a generalized format that they follow, so you now know what to expect.

With live deals it's hard to say too much with any specificity, as they'll vary wildly depending on what kind of in-court or out-of-court deal we're talking about. Further, there's a great deal of variation in what your workflow will look like if you have a creditor-side, as opposed to debtor-side, mandate.

In the end, these guides are meant to try to make sure you knock your interview out of the park and are well-prepared during your first few months on the job. So, taking thirty or forty pages to begin to barely scratch the surface on live deals – which would be talking a lot about more process-oriented things – is liable to confuse more than elucidate.

For example, if you're working on an out-of-court deal the day-to-day work can swing wildly as, after you've got a mandate, it's not as if there's a preordained path toward getting a deal between debtors and creditors together.

The reality is your group will get a mandate because you've presented good ideas, but those ideas are going to come into conflict with realty once you begin trying to hash out a solution with creditors.

So, there's a significant amount of pivoting that will occur as you try to figure out a solution for the company – or, conversely, if you're advising an ad hoc creditor group, you'll be readjusting to the proposals coming from the company and assessing them.

Because, in the end, restructuring is based on achieving some level of compromise. That compromise can involve a bit of coercion by the company, but there's no getting around the fact you're going to need at least a majority of creditors holding key parts of the capital structure to agree to do something. And this is all doubly true when the solution you're trying to achieve is contingent on there being some new money investment (e.g., you're doing an exchange, but also trying to raise additional debt at the same time).

Anyway, if we try to boil down the out-of-court live deal process in the most general way possible, below isn't a bad description of the flow:

- Your pitch – in which you highlighted roughly three different kinds of restructuring solutions – was successful and you got the mandate.

- Your MD then thinks more seriously about the best path forward and maybe pivots his or her thinking on what restructuring solution is most viable, so presents the company with a more in-depth deck (similar to a pitch book) on this solution.

- The company agrees or disagrees to pursue this solution and see what traction can be gained (this doesn't mean it'll necessarily get done!).

- Your MD then enters into high-level discussions with a few large creditors to see if they'd generally agree with the proposal (e.g., if it's something like an exchange, extension, etc. where you need their consent) and assesses any pushback.

- If a general structure for a potential transaction emerges, then you (as an analyst or associate) will create a little sheet showing what debt holders have been contacted, how much they hold, and if they're showing initial interest in the transaction (here we're referring to the holders of the debt that we need the consent of to effectuate the transaction).

- Once contact has been made then initial term sheets will be sent out, if we're dealing with new financing:
    - Step 1: Teaser Sent (describing the transaction structure broadly)
    - Step 2: NDA Sent and Executed
    - Step 3: Financials Sent (more detailed financials and terms of transaction sent to the counterparty)
    - Step 4: Term Sheet Received (which will have a summary of the funding amount, duration, interest rate, and covenants)

- You'll keep the company in question up-to-date on how many holders have gone through steps one to four and what kind of feedback is being obtained. And, of course, you may need to switch up the terms along the way.

- The deal will "close" when you've had sufficient consent or new-money to actually do the deal (this can, of course, take some time and junior bankers become less involved in the process as the deal gets closer to being closed – a lot of the work will be more process oriented around keeping updated lists, etc.)

Note: Just to be clear here, much of the work of a junior analyst or associate will largely be creating decks to send to the company (assuming this is a debtor-side mandate) updating them on how the transaction is progressing, keeping track of feedback obtained on calls, updating the recap model to reflect any changes to the terms of the restructuring (e.g., higher coupon being offered, lower participation rate, etc.), etc. Much of the fun is in the pitch and early post-pitch stage where you're helping to flesh out the contours of the restructuring solution, once a solution has largely been settled on your work will become lesser and more process-oriented (e.g., keeping track of how things are progressing, circling dial-ins, etc.).

Note: In terms of in-court deals, when discussing in-court solutions I did up little timelines and milestones that kind of give you a feel for the process these deals follow. Since this guide is already abutting 100 pages, I won't elaborate any further on the live deal process as you're largely just marching through those milestones – and, as an analyst or associate, will be creating update decks, tracking progress, etc.

CONCLUSION

Hopefully this has set the context around live deals reasonably well. For interview purposes, it's important to remember that you're definitely going to be asked to discuss a past deal but aren't going to be asked process-oriented questions around how live deals are done. Because, as you realize now, it would be a bit nonsensical and would require needing to walk through creditor-side vs. debtor-side and in-court vs. out-of-court work.

When it comes to interview questions that touch on the actual work you'll be doing on the job, a question like the following is more common: if you're making a short summary on a potential restructuring target, what would you include?

You should immediately realize this is *really* just asking you to describe a profile! So, you would say something like, "You would definitely want to include a cap table, showing the cap structure of the company along with market prices, cash interest, and then leverage and coverage ratios. You would also want to include credit ratings on all the pieces of debt (if available) along with a little liquidity table. You then should include some qualitative elements covering recent news – that you can pull from Reorg, Debtwire, Moody's, etc. – and a maturity wall graph showing when a restructuring event is likely to take place. You may want to, on a separate page, also create a graph showing where key pieces of debt have been trading over the past six-to-twelve months that you can take from MarkIt, TRACE, and/or Bloomberg."

This would be a comprehensive, excellent answer.

Other Things You Need to Know

Chapter 8

THE TASKS OF A SUMMER ANALYST OR ASSOCIATE

Some of what you'll be asked about in interviews will circle around (indirectly) tasks that you'll be doing as a summer analyst or associate. So, let's cover what you'll primarily be doing during your summer stint.

However, it should be kept in mind that the expectations for incoming summer analysts and associates are quite low. The general expectation is usually that summers aren't *that* familiar with what restructuring even is, never mind that they know what properly structured screens and profiles look like.

So, don't get too ahead of yourself thinking you need to be practicing putting together cap tables prior to interviews or prior to your summer stint if you get an offer. That's entirely overkill and more-or-less a waste of time.

I just want to broader your contextual understanding by sharing what you'll be primarily tasked with doing during your summer, so that you have a better idea of what to expect and aren't caught offsides by anything.

Anyway, for the summer or your first few months full-time, you'll be spending almost all your time doing some of the following:

- Refreshing Screens
    - If a screen was last updated a year ago then debt pricing is going to be out-of-date, along with the LTM EBITDA, credit ratings, etc. Refreshing just means updating and it's very simple to do given that the cap table is already done – you're just making sure it reflects the current reality.
- Creating New Screens
    - As previously discussed, you may be asked to create a new screen. So, what you create should look more-or-less identical to what I shared above.
- Creating Profiles
    - Profiles are always being created and are a great task to give to junior people since they can be wrong without it being the end of the world (since they're only for internal use). Again, if you aren't given any guidance then you should look in the shared drive for past profiles to look for any formatting nuances or just create something in-line with my example.
- Joining an Ongoing Pitch
    - You may get slotted into a pitch that's currently ongoing. Since the pitch will already be active, much of the Excel and PowerPoint will likely be done. So, you'll be given ad hoc tasks based on how your MD wants to change things

around (e.g., adding a new scenario to the pitch which will require a new pro-forma cap table, etc.). Further, you could be asked to do some more generic stuff like refreshing the deck to reflect current pricing, adding some new slides, etc.

It's quite unlikely over the summer – or your first few months full-time – that you'll be starting a pitch from scratch or getting slotted into a live deal. However, if the group is very busy you may get roped in to help out – but rest assured that there will be either an analyst or an associate actively engaged on it.

Your first few months on the job – whether full-time or as a summer – will be composed of increasingly more engaging tasks to get your feet wet. After having gone through all these guides, you're going to be well ahead of the curve, so take this time when things are a bit quieter to go into the shared drive and look at ongoing pitches and deals to see how things are formatted and structured.

This will help immeasurably once you're fully staffed, as part of why first-year analysts and associates are so slow is they're often stumbling over annoying formatting nuances, trying to find slides, looking for precedents to follow, etc.

TOOLS OF THE TRADE

In restructuring there are a certain set of tools and resources that are used; some that are also used in other areas of banking, and some that are entirely unique to restructuring.

While not something that'll come up directly in an interview context, it's worth knowing what these tools are. This way if you ever get a prickly interviewer who says something absurd like, "Well, how would you figure out where loans are even trading?" you can just reply that MarkIt or Bloomberg could be used.

- **CapIQ**

CapIQ is used as a quick way to access financial statements (although when digging into financials, BamSEC is used), find credit rating info, and run screen criteria.

CapIQ can be used to set screen criteria (e.g., industry, debt size, pricing, etc.) to find companies that are most likely to be at or near distressed levels.

- **FactSet**

Similar to CapIQ, FactSet allows you to run screens to get a list of companies that you'll include in your screen. FactSet is likely familiar to you if you've worked in M&A, although it's used in a much more limited setting in restructuring.

MarkIt

MarkIt will be one of your most utilized resources. It's used primarily to find loan pricing. The group's Bloomberg terminal can also be used for loan pricing, but it isn't generally as reliable.

BamSEC

BamSEC allows you to access financial statements and easily highlight, copy and paste, etc. It's incredibly useful for quickly drawing out what you need from financial statements.

You'll spend a lot of hours CTRL+F'ing to find covenants in financial statements and highlighting certain elements for screens, profiles, and pitches.

Trace

Occasionally you'll be asked to find the trading volume of a certain tranche of notes by your MD. Maybe because they want to show the company that outside funds (e.g., maybe activist distressed funds) appear to be taking an interest as volumes have shot up.

Anyway, to find volume data, use TRACE. TRACE is also used for bond pricing although you could use Bloomberg as well.

Reorg

Reorg is the singular most important resource for anyone in restructuring. Think of them as kind of being like Bloomberg, but for restructuring. They cover nearly every large company that could potentially need to restructure or that's currently going through a restructuring process.

For each of these companies, they not only report on what they're planning to do but also often provide cap tables, analyze credit docs, and provide expert commentary on the options the company could be or is exploring. Further, for in-court processes they provide fantastic commentary on day-to-day court proceedings along with a great set of tools for parsing dockets.

Reorg has grown tremendously over the years, so it's tough to summarize just how extensive their offering is now. But suffice to say Reorg will be your best friend as an analyst and you'll be reading articles on there every day.

Additionally, whenever you're doing a screen or profile, you'll turn to Reorg to see if they've done a cap table and read some articles on the company (assuming the company is stressed enough for them to have initiated coverage on them). You can get a taste for the kinds of stories they write here and here.

Debtwire

Debtwire is very similar to Reorg in that it's a platform dedicated to reporting and research on potential or ongoing restructuring situations. For example, we talked before about the case of Incora and in the lawsuit filed by non-participating noteholders – which I linked to in the blog post – they cited that they found out about the restructuring potentially occurring from reading a Debtwire article.

So, just like Reorg, Debtwire provides both commentaries on current restructurings like this and provides fact sheets that have helpful cap tables as well as you can see here. On the job you'll have access to both Reorg and Debtwire and will be reading both regularly (both are incredibly expensive – even more than a Bloomberg terminal!).

PACER

For all your Chapter 11 legal filings needs. See here. For large cases, see the note on claims agents below regarding docket access.

Claims Agents

As previously discussed, claims agents (e.g., Kroll, Epiq, Stretto, etc.) provide a freely accessible and reasonably well-organized docket you can navigate. For example, here are all the past cases that Kroll has been used for: https://www.kroll.com/en/restructuring-administration-cases

In practice, you'll often use tools within Reorg for navigating dockets and flagging items of interest. But, before you begin, you can freely learn about cases through dockets from Kroll, Epiq, etc. as we've previously discussed.

Conclusion

So, these are the tools you'll be using day-to-day, some of which are likely new to you. Although, just to be clear, you'll be spending the vast majority of your time everyday working in Excel and PowerPoint – this is banking after all!

BOOKS WORTH READING SOMETIME

Restructuring in practice requires a lot of dense reading: from credit docs, to financial statements, to court docket items.

As you'd expect, there haven't been that many (practical) books written on restructuring, especially when it comes to out-of-court work. But, in my view, there are three books that can give you good insight: two written about distressed debt, and one written about leveraged finance more broadly.

Note: There are plenty of more academic books focusing just on Chapter 11 from a legal perspective. But these are totally overkill and are completely unnecessary to read. With that said, funnily enough I've always thought the best academic book written on Chapter 11 – that is practical and not too theoretical – is *Chapter 11: Essentials* by Elizabeth Warren (yes, the senator – but this was written while she was a professor at Harvard Law so it's largely devoid of politics).

Anyway, as you likely know, in the members area I've synthesized the three books that I think are worth reading into a series of questions-and-answers that you can go through. These aren't absolutely essential to go through prior to your interviews, but they'll help solidify your understanding of key terms, etc.

Further, while putting together these questions-and-answers has made it unnecessary for you to read these three books cover-to-cover, they still are very much worth your time to read eventually. In fact, if you read them after going through all the guides in the members area, you may find that they make quite a bit more sense, as you won't get drowned in terminology.

- **Distressed Debt Analysis: Strategies for Speculative Investors – Moyer**

Published in the early aughts, Moyer's book has long been the Bible of distressed debt. This is partly because it's a really well-done book, and partly because distressed debt is such a niche space that no one else has really published any comparable book since (with the possible exception of Whitman, but his is less intensive).

With that said, many read Moyer and think that it's a comprehensive primer on restructuring. But a lot has changed in the two decades since it was published, and its emphasis on Chapter 11 perhaps clouds how important out-of-court work has become.

Further, the practicalities of restructuring – along with the more creative types of transactions that have occurred over the past few years – aren't covered.

With that said, if you have the time to read just one book outside of these guides, I'd still recommend reading Moyer's book. It'll help solidify and reinforce some of the concepts discussed in the guides.

- **Distress Investing: Principles and Technique – Whitman**

Whitman is a legend in the world of restructuring and someone who helped define the modern era of distressed investing. Like Moyer's book, this one is getting a bit dated now as it was published in 2009 and talks extensively (as you'd expect) about the great financial crisis.

While Moyer's book is a bit more theoretical (e.g., really digging into certain aspects of the in-court process), Whitman's book is quite a bit more practical. Throughout the book he discusses cases that he was assessing in the wake of the Great Financial Crisis and also talks about things that will be more familiar to you after reading this guide (e.g., out-of-court vs. in-court situations and how he looks at cap tables).

I've recently re-read Whitman's book – for the first time since I was a summer analyst – and it's striking that it does somehow seem more dated than Moyer's. Further, it just doesn't have the depth of Moyer's book. But it's still a great book and when it comes to books on distressed debt investing, beggars can't be choosers (as there's not too many books to choose from!).

- **A Pragmatist's Guide to Leveraged Finance: Credit Analysis for Bonds and Bank Debt – Kricheff**

Robert was an MD over at Credit Suisse focusing on high yield strategy. And, in this book, he's written a short, fast-paced overview of credit analysis.

I've been asked by a few people why I've included Robert's book as something worth reading and done up an extensive Q&A for it since LevFin is in the title. The reason is that an essential pre-requisite to being a restructuring banker is understanding how debt works – and, as briefly touched on when discussing negative covenants, it can get complicated very fast.

To my mind, Robert has written the best book on credit that discusses the practical realities, not some academic hypotheticals. Which isn't surprising given his background.

While the first edition of his book was put out years ago, a new and expanded edition came out just in 2021. So, if you have the chance, it'd be worth your time to read it. However, it's not essential to read prior to interviews or anything like that. It's just something, if you get an offer, that'd be a bit helpful to read prior to your summer stint or beginning full-time to help reinforce some terminology, concepts, and conventions regarding debt across the capital structure.

OTHER BOOKS (MAYBE?) WORTH READING SOMETIME

If you find yourself graduating a term early or otherwise have some time to kill before beginning full-time, then the following are some books worth poking around.

- **The Caesars Palace Coup – Indap and Frumes**

When I heard that Indap and Frumes were writing a book on Caesars freefall Chapter 11, my initial reaction was excitement with a heavy dose of apprehension.

Excitement because Caesars was one of the most sprawling, contentious, and litigious freefall cases of the past decade (not surprising, given that Caesars was owned by Apollo!).

But apprehension because surely Indap and Frumes wouldn't be allowed by their publisher to really delve into Chapter 11 and tell the whole in-court story as that'd be deemed too arcane or boring for a general audience.

However, the book exceeded my wildest expectations. It's an exceptionally well-written account of Caesars case – bringing you inside the court room, walking through all of Apollo's maneuvers in- and out-of-court, and how the chips ended up falling.

This is a book you absolutely should read. And, after going through these guides, you'll understand everything going on in the book. However, for interview purposes, you need to focus on what will come up in interviews. So, that's why I'm putting this book in this section. You should read it eventually, but only if it doesn't cut into your interview prep.

- **High Yield Debt – Bagaria and Bunchman**

This is a similar book to Kricheff's: short, practical, and worth reading. However, I'm putting it in this section purely because, as you'd expect, there is lots of overlap with Kricheff's book, and Kricheff's is slightly more comprehensive.

- **Quantitative Analytics in Debt Valuation & Management – Guthner**

Much more buy-side focused as it deals with hedging and whatnot. However, there's some interesting insight here. This is a book you should treat more like a reference resource. It provides quite wide coverage, so it's worth someday down the road poking through the table of contents and reading a chapter here or there.

- **Leveraged Finance: Concepts, Methods, and Trading of High-Yield Bonds, Loans, and Derivatives – Fabozzi**

Finance books written by academics are almost invariably off-the-mark, as they tend to focus too much on covering the academic literature and not enough on practical realities.

Fabozzi is the exception. He's a prolific writer and all his books are fantastic (despite their often-intimidating length). *Leveraged Finance* is one of his most underrated books. Like all his books, it's incredibly comprehensive and is a good reference resource.

- **The Art of Distressed M&A – Nesvold, Anapolsky, and Lajoux**

This is a fantastic book if you're looking to compound your knowledge of the Chapter 11 process; learn more about 363 sales; and understand how lawyers, valuation experts, and bankers intersect throughout the bankruptcy process.

For interview purposes, reading this book isn't going to add much. However, if you have time prior to starting on the job, this is a book worth poking through. It's a very well-done book and the only one that provides practical and in-depth distressed M&A coverage.

- **Corporate Financial Distress, Restructuring, and Bankruptcy – Altman, Hotchkiss, Wang**

Altman is the leading academic when it comes to restructuring and has been for decades. However, he is an academic and that bleeds through in this book – lots of data and generalizations, not many practical insights for a junior restructuring banker.

Like *The Art of Distressed M&A* this is worth reading in your first few years on the job (assuming you have any spare time and the inclination to read more on restructuring!) but not before you begin.

Note: Altman created the quasi-famous z-score that's meant to tell you, based on a series of quantitative factors, how likely a company is to restructure in the future.

- **Conclusion**

As I've stressed repeatedly, there's absolutely no need to read the books listed above (although *The Caesars Palace Coup* is a fun read if you're looking for a late-night book to read, not study!).

However, before beginning as a summer or full-time it's worth your time to at least read through Moyer's book if possible. You'll (hopefully!) find that it's actually quite quick to get through after reading all of the guides as none of the concepts will be foreign to you.

WHERE TO NOW

The aim of this guide has been to pull back the curtain and explain what restructuring is *really* all about and what restructuring is *really* like day-to-day, while also not getting so into the weeds that you end up more confused than you began. (Hopefully you think I've been successful in this!)

Your next step, especially if you feel a bit overwhelmed, is to move onto the Q&A Guides and start drilling questions. As you move through the questions-and-answers, pieces will begin to fall into place, and you'll have a much sounder understanding of what we've covered in this guide and why it's been presented in this format.

Remember: Just knowing how to look at a cap table, what profiles generally include, etc. puts you far ahead of the curve. For many interviewees restructuring is a total black box and it shows when they interview. So, now you (hopefully!) have a much better idea of what restructuring is *really* all about and will be able to not only memorize the interview questions but have an intuitive understanding of them.

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re	:	**Chapter 11**
CHINOS HOLDINGS, INC., *et al.*,	:	**Case No. 20–32181 (KLP)**
Debtors.[1]	:	**(Jointly Administered)**

DECLARATION OF JASON WOOTEN IN SUPPORT OF CONFIRMATION OF THE DEBTORS' CHAPTER 11 PLAN

I, Jason Wooten, pursuant to section 1746 of title 28 of the United States Code, hereby declare that the following is true and correct to the best of my knowledge, information, and belief:

1. I am a Managing Director and Co-Head of the Consumer & Retail Group at Lazard Frères & Co. ("**Lazard**"), an investment banking and financial advisory firm. Lazard maintains its principal offices at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Lazard has been retained as the financial advisor of Chinos Holdings, Inc. and its direct and indirect subsidiaries and affiliates that are debtors and debtors-in-possession in the above-captioned chapter 11 cases (collectively, the "**Debtors**" or the "**Company**").

2. I submit this declaration (the "**Declaration**") in support of confirmation of the *Second Amended Joint Prearranged Chapter 11 Plan of Reorganization of Chinos Holdings,*

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, as applicable, are Chinos Holdings, Inc. (3834); Chinos Intermediate Holdings A, Inc. (3301); Chinos Intermediate, Inc. (3871); Chinos Intermediate Holdings B, Inc. (3244); J. Crew Group, Inc. (4486); J. Crew Operating Corp. (0930); Grace Holmes, Inc. (1409); H.F.D. No. 55, Inc. (9438); J. Crew Inc. (6360); J. Crew International, Inc. (2712); J. Crew Virginia, Inc. (5626); Madewell Inc. (8609); J. Crew Brand Holdings, LLC (7625); J. Crew Brand Intermediate, LLC (3860); J. Crew Brand, LLC (1647); J. Crew Brand Corp. (1616); J. Crew Domestic Brand, LLC (8962); and J. Crew International Brand, LLC (7471). The Debtors' corporate headquarters and service address is 225 Liberty St., New York, NY 10281.

Inc. and Its Affiliated Debtors [ECF No. 838], dated August 21, 2020 (as may be further modified, amended, or supplemented, the "**Plan**").[2] With the Debtors' authorization, I make this Declaration as testimony in lieu of the live direct testimony I would give, pursuant to Rule 702 of the Federal Rules of Evidence, regarding the valuation analysis I performed to estimate the total enterprise value ("**TEV**") of the Company for the transaction contemplated by the Plan (the "**Valuation Analysis**"). More specifically, the Valuation Analysis I performed estimated the TEV for the Company, using a sum-of-the-parts valuation.

3. I am not being compensated specifically for this testimony, and neither Lazard nor I will be compensated for services in these cases other than through Court-approved payments to Lazard as a professional retained by the Debtors in these chapter 11 cases.

4. All statements in this Declaration are based upon my personal knowledge gleaned during the course of my engagement in these chapter 11 cases; my review of relevant documents; information provided to me by Lazard employees working under my supervision, members of the Debtors' management team or their other advisors; and my views or opinions based upon my experience as a professional who has advised on transactions with aggregate value in excess of $300 billion and performed hundreds of corporate valuation analyses. If called to testify, I could and would testify to each of the facts set forth herein.

5. The Valuation Analysis, my views concerning the Valuation Analysis, and the bases for those views are fully set forth, subject to certain important disclosures, assumptions, and qualifications described therein, in my expert report titled the *Expert Valuation Report: Chinos Holdings*, dated July 31, 2020 (the "**Valuation Report**"), which I prepared, with the assistance of

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2 Capitalized terms not otherwise defined in this Declaration shall have the respective meanings ascribed to such terms in the Plan.

others at Lazard working under my direction and supervision, in accordance with Rule 26(a)(2)(B) of the Federal Rules of Civil Procedure. A true and correct copy of the Valuation Report is attached hereto as **Exhibit A** and fully incorporated by reference herein.

Experience and Qualifications[3]

6. I have worked at Lazard since 2005, and became a permanent employee after receiving an M.B.A. from Columbia Business School in 2006 and a B.A. from Columbia College in 2001. Since joining Lazard, I have provided investment banking services to debtors and creditors through in-court and out-of-court restructurings across a number of industries. These matters have included notable corporate finance transactions, mergers and acquisitions, and restructuring transactions. I have also provided expert testimony in bankruptcy proceedings involving consumer and retail reorganizations.

7. Selected notable mergers and acquisitions and financing transactions have involved companies such as Albertson's LLC, Barnes & Noble, Best Buy, Bloomin' Brands, The Bon-Ton, British Petroleum, Buffalo Wild Wings, Burger King, Buy.com, CVS Corp., C&S Wholesale Grocers, Demoulas Super Markets, Dollar General, Fast Retailing, Fiesta Mart, FreshDirect, Gilt Groupe, Golfsmith, The Grocers Supply Company, Hudson's Bay, Macy's, NBTY, Rakuten, Restaurant Brands International, Royal Ahold Delhaize, SUPERVALU, Tim Horton's, United Natural Foods, Walgreens Boots Alliance, and 99 Cents Only Stores, among others.

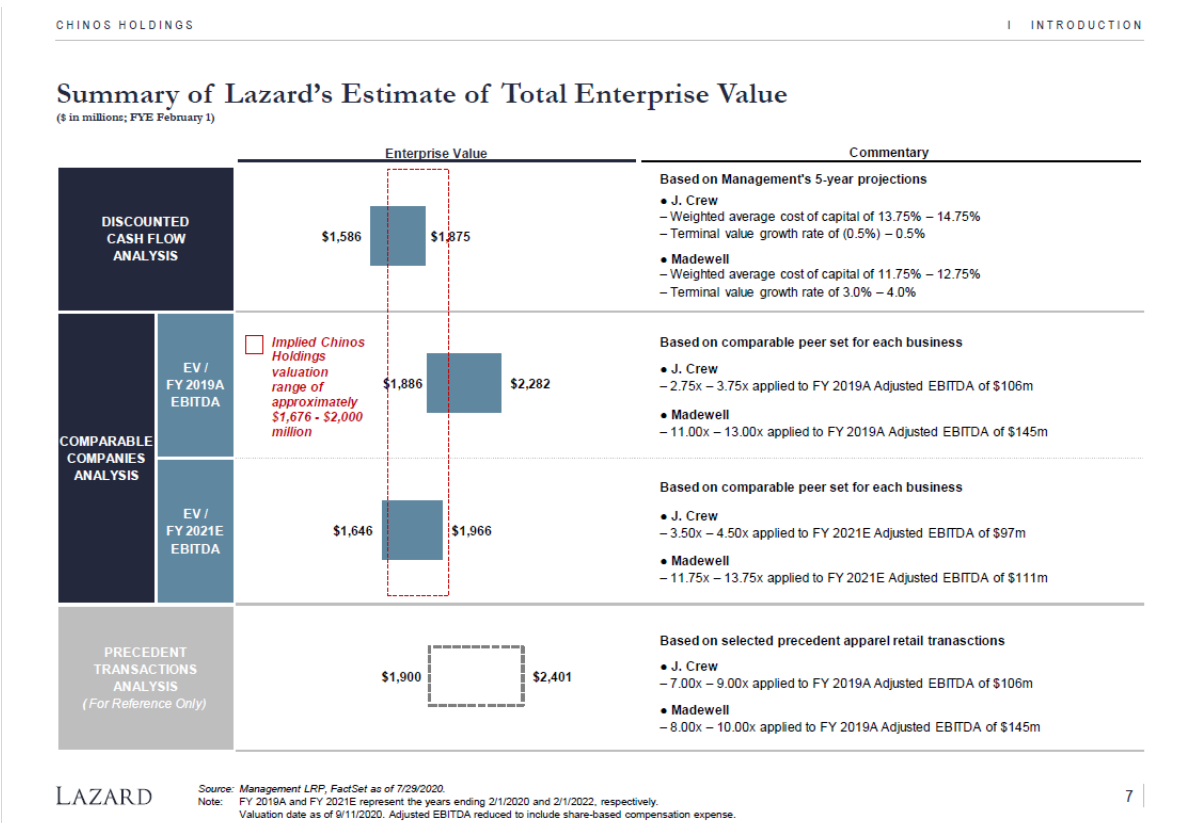
8. Selected notable restructuring transactions have involved companies such as Associated Wholesalers Inc., Barney's New York, Claire's Stores, Empresas La Polar,

[3] A more comprehensive listing of experience and qualifications can be found in my biography, which is attached hereto as **Exhibit B** and fully incorporated by reference herein.

Forever 21, The Great Atlantic & Pacific Tea Company, Gymboree, J. Crew, JCPenney, Libbey Glass, Metaldyne, Neiman Marcus, Nine West, Pyxus International, Quiznos, Sears, Six Flags, Spectrum Brands, Target Canada and Toys 'R' Us, among others.

Valuation Analysis: Overview

9. The estimated TEV of the Reorganized Debtors is approximately $1.68 billion to $2.00 billion with a midpoint of $1.84 billion as of the assumed Plan effective date, September 11, 2020 (the "**Effective Date**").[4]



10. In estimating the TEV of the Debtors, I and employees of Lazard working under my supervision met with the Debtors' senior management team to discuss the Debtors'

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4 Changes in valuation ranges between the Disclosure Statement and this Declaration are the result of updated market inputs.

assets, operations, and future prospects; reviewed the Debtors' historical financial information; reviewed certain of the Debtors' internal financial and operating data; reviewed the Debtors' financial projections for the Reorganized Debtors provided in Exhibit B to the Disclosure Statement (the "**Projections**"); reviewed publicly-available third-party information; and conducted such other studies, analyses, and inquiries Lazard deemed appropriate.

Valuation Assumptions

11. For purposes of the Valuation Analysis, I have assumed the Reorganized Debtors would continue operating the businesses and assets of the Debtors, after giving effect to the Plan, based on the application of standard valuation techniques. The estimated values set forth in this Declaration: (a) do not purport to constitute an appraisal of the assets of the Reorganized Debtors; (b) do not constitute an opinion on the terms and provisions or fairness from a financial point of view to any Holder of the consideration to be received by such Holder under the Plan; (c) do not constitute a recommendation to any Holder of Claims or Equity Interests as to how such Holder should vote or otherwise act with respect to the Plan; and (d) do not necessarily reflect the actual market value that might be realized through a sale or liquidation of the Reorganized Debtors.

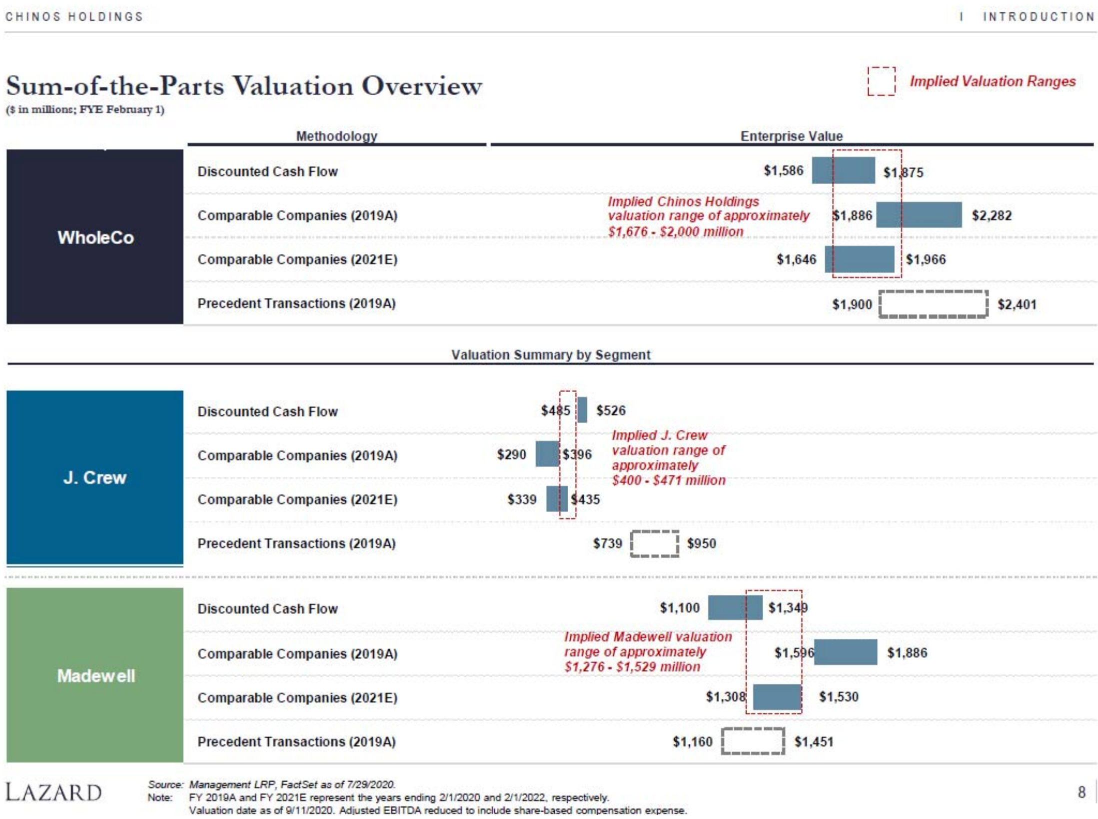
12. In preparing the estimates set forth below, I have relied upon the accuracy, completeness, and fairness of financial, reserve, and other information furnished by the Debtors. I did not attempt to independently audit or verify such information, nor did I perform an independent appraisal of the assets or liabilities of the Reorganized Debtors.

13. The estimated values set forth in this Declaration and the Valuation Report assume that the Reorganized Debtors will achieve their Projections in all material respects. I have relied on the Debtors' representation and warranty that the Projections: (a) have been prepared in good faith; (b) are based on fully disclosed assumptions, which, in light of the circumstances under

which they were made, are reasonable; (c) reflect the Debtors' best currently-available estimates; and (d) reflect the good-faith judgment of the Debtors. I am not offering an opinion as to the attainability of the Projections. As disclosed in the Disclosure Statement, the future results of the Reorganized Debtors are dependent upon various factors, many of which are beyond the control or knowledge of the Debtors, Lazard, or myself, and consequently are inherently difficult to project.

14. This Declaration and the Valuation Report contemplate facts and conditions known and existing as of July 29, 2020. Events and conditions subsequent to this date, including updated projections, as well as other factors, could have a substantial effect upon the Debtors' TEV. Among other things, failure to consummate the Plan in a timely manner may have a materially negative effect on the TEV. For purposes of the Valuation Analysis, I have assumed that no material changes that would affect value will occur between July 29, 2020, and the assumed Effective Date.

Valuation Methodology

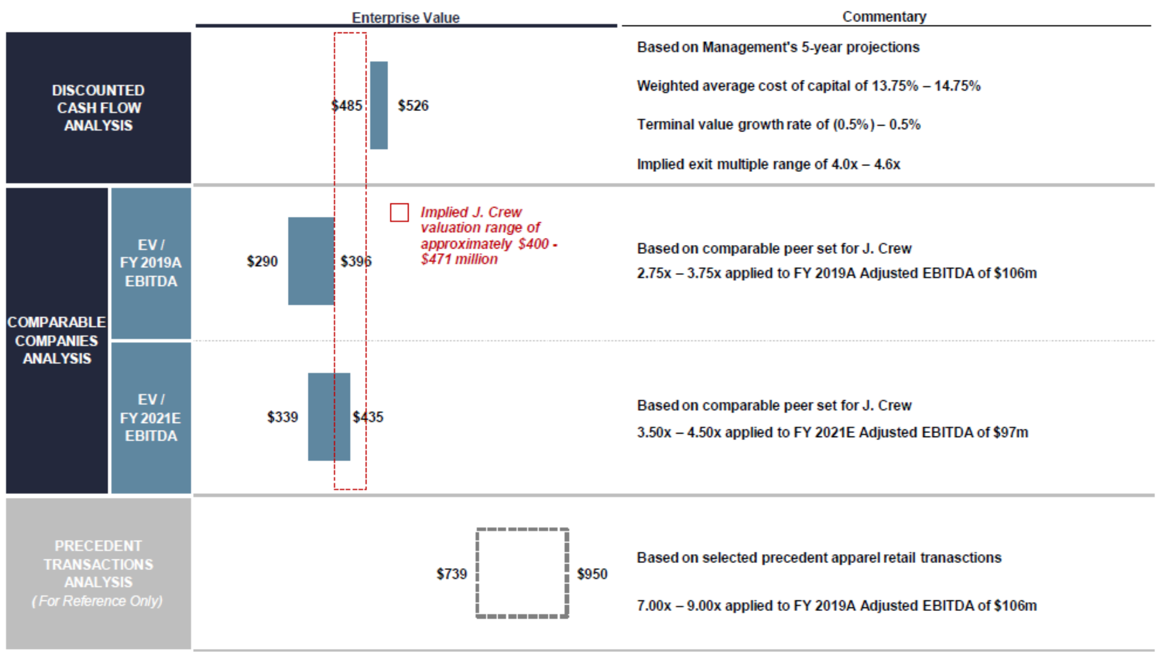


15. As shown above, I conducted the Valuation Analysis by performing a sum-of-the-parts valuation, whereby I separately estimated the value of the J. Crew and Madewell businesses in order to arrive at a consolidated estimated TEV. I used two traditional methodologies: (a) discounted cash flow ("**DCF**") analysis; and (b) comparable publicly-traded companies analysis. I carefully considered, but ultimately did not apply any weight to, a precedent transactions analysis to estimate the TEV of the Reorganized Debtors. The value range is based on applying a 50/50 weighting of each to the DCF and comparable company analysis.

16. The separate J. Crew and Madewell conclusions of value are shown below:

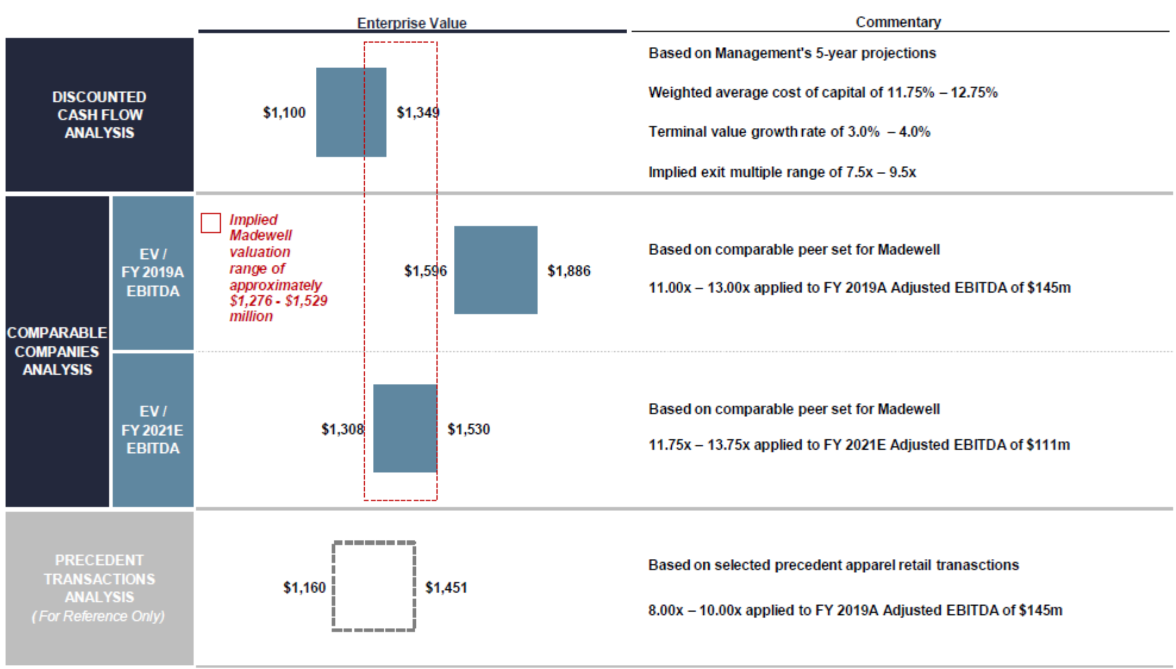
Lazard Valuation Summary – J. Crew

($ in millions; FYE February 1)



Lazard Valuation Summary – Madewell

($ in millions; FYE February 1)



Discounted Cash Flow Analysis

17. As reflected below, in the DCF analysis, I valued the Debtors based on the projected unlevered free cash flow reflected in the business plan developed by the Debtors' management ("**Management**").

Discounted Cash Flow Analysis – J. Crew

($ in millions; FYE February 1)

	Historical		Management Projections						'19A – '24E
	2019A	2020E	5M 2020E	2021E	2022E	2023E	2024E	TY	CAGR
Total Revenue	$1,812	$1,216	$660	$1,505	$1,518	$1,496	$1,503	$1,503	*(3.7%)*
% Growth	–	*(32.9%)*	--	*23.8%*	*0.9%*	*(1.5%)*	*0.5%*		
Adjusted EBITDA	$106	($66)	$54	$97	$101	$89	$88	$88	*(3.5%)*
% Margin	*5.8%*	*(5.4%)*	*8.2%*	*6.4%*	*6.6%*	*5.9%*	*5.9%*	*5.9%*	
Less: Depreciation & Amortization			(17)	(44)	(44)	(43)	(42)	(21)	
Less: Taxes			7	(19)	(96)	(15)	(15)	(17)	
% Tax Rate			*19%*	*(35.7%)*	*(170.0%)*	*(32.0%)*	*(33.3%)*	*(25.2%)*	
Unlevered Net Income			$44	$34	($40)	$31	$31	$50	
Plus: Depreciation & Amortization			17	44	44	43	42	21	
Less: Share-Based Compensation			(0)	(0)	(0)	(0)	(0)	(0)	
Less: Change in Net Working Capital			106	41	17	3	2	0	
Less: Capital Expenditures			(3)	(17)	(18)	(20)	(21)	(21)	
Unlevered FCF			$164	$102	$2	$57	$54	$50	

		PV of Terminal Value at TVGR of			Enterprise Value at TVGR of			Implied TV EBITDA Multiple at TVGR of		
WACC	PV of FCF's '20E – '24E[1]	(0.5%)	0.0%	0.5%	(0.5%)	0.0%	0.5%	(0.5%)	0.0%	0.5%
13.75%	$311	$198	$206	$215	$509	$517	$526	4.2x	4.4x	4.6x
14.25%	309	188	195	203	497	504	512	4.1	4.2	4.4
14.75%	307	178	185	193	485	492	500	4.0	4.1	4.3

	Terminal Value as % of EV at TVGR of			Implied 2019A EBITDA Multiple at TVGR of			Implied 2021E EBITDA Multiple at TVGR of		
WACC	(0.5%)	0.0%	0.5%	(0.5%)	0.0%	0.5%	(0.5%)	0.0%	0.5%
13.75%	39%	40%	41%	4.8x	4.9x	5.0x	5.3x	5.3x	5.4x
14.25%	38%	39%	40%	4.7	4.8	4.9	5.1	5.2	5.3
14.75%	37%	38%	39%	4.6	4.7	4.7	5.0	5.1	5.2

Discounted Cash Flow Analysis – Madewell

($ in millions; FYE February 1)

	Historical		Management Projections						'19A – '24E
	2019A	2020E	5M 2020E	2021E	2022E	2023E	2024E	TY	CAGR
Total Revenue	$728	$539	$300	$771	$839	$912	$993	$993	*6.4%*
% Growth	–	*(25.9%)*	--	*42.9%*	*8.9%*	*8.7%*	*8.9%*		
Adjusted EBITDA	$145	$13	$40	$111	$138	$156	$180	$180	*4.4%*
% Margin	*19.9%*	*2.4%*	*13.4%*	*14.4%*	*16.5%*	*17.0%*	*18.1%*	*18.1%*	
Less: Depreciation & Amortization			(9)	(21)	(22)	(23)	(24)	(16)	
Less: Taxes			–	(26)	(32)	(37)	(43)	(41)	
% Tax Rate			--	*(29.3%)*	*(27.8%)*	*(27.7%)*	*(27.5%)*	*(25.2%)*	
Unlevered Net Income			$32	$64	$84	$96	$113	$123	
Plus: Depreciation & Amortization			9	21	22	23	24	16	
Less: Share-Based Compensation			(0)	(0)	(0)	(0)	(0)	(0)	
Less: Change in Net Working Capital			37	7	1	(5)	(5)	(2)	
Less: Capital Expenditures			(2)	(6)	(17)	(15)	(16)	(16)	
Unlevered FCF			$76	$86	$90	$99	$116	$121	

		PV of Terminal Value at TVGR of			Enterprise Value at TVGR of			Implied TV EBITDA Multiple at TVGR of		
WACC	PV of FCF's '20E – '24E[1]	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%
11.75%	$355	$872	$930	$995	$1,227	$1,285	$1,349	8.3x	8.9x	9.5x
12.25%	351	809	860	916	1,160	1,211	1,267	7.9	8.4	9.0
12.75%	347	753	797	847	1,100	1,145	1,194	7.5	8.0	8.5

	Terminal Value as % of EV at TVGR of			Implied 2019A EBITDA Multiple at TVGR of			Implied 2021E EBITDA Multiple at TVGR of		
WACC	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%
11.75%	71%	72%	74%	8.5x	8.9x	9.3x	11.0x	11.5x	12.1x
12.25%	70%	71%	72%	8.0	8.3	8.7	10.4	10.9	11.4
12.75%	68%	70%	71%	7.6	7.9	8.2	9.9	10.3	10.7

18. A DCF analysis calculates the value of a business as the present value of its expected future cash flows. The analysis takes into account the value of unlevered free cash flows over the forecast period, plus a terminal value to account for the value of the business beyond the forecast, discounted to the present. Unlevered free cash flow—for purposes of a DCF analysis—represents the difference between the cash inflows and outflows from operating activities reduced by taxes paid, net working capital investments, capital expenditures, and other applicable cash income and expenses. The projected unlevered free cash flows in the DCF analysis are derived from the Company's projections for the year ending February 2021 (Fiscal Year 2020) through February 2025 (Fiscal Year 2024). The projected cash flows are discounted by the theoretical weighted average cost of capital ("**WACC**") of the J. Crew and Madewell businesses to derive a present value. The WACC represents the estimated weighted average rate of return required by debt and equity investors. Terminal value is typically estimated either by applying an assumed rate of growth in perpetuity to a company's expected free cash flow in the terminal year, or by applying a multiple to expected terminal year financial results. I estimated the terminal value of Debtors using expected terminal year free cash flow and growth rates for each of J. Crew and Madewell. The present value of the terminal value was then calculated by discounting the terminal value to the present using the WACC.

19. Based on the assumptions described below, I derived a WACC range for use in calculating the going-concern value of the operations utilizing a DCF analysis. The risk free rate is 1.2%, and is based on the 30-year U.S. Treasury bond rate as of July 29, 2020. The beta, as measured by the covariance between a security's return and the return on the market portfolio, is an estimate of systematic, or market-related, risk. In calculating this risk, I considered the effects the COVID-19 Pandemic would have on betas. Ultimately, I determined that ignoring

or discounting COVID-19's effect on betas would artificially depress WACC and disregard the meaningful and potentially lasting impact that COVID-19 has had on the J .Crew and Madewell businesses.

20. The unlevered beta for J. Crew is 1.80 based on peer averages. The peers used for the J. Crew beta are Abercrombie & Fitch, American Eagle Outfitters, Gap, Chico's, Children's Place, Oxford Industries, and Urban Outfitters. The unlevered beta for Madewell is 1.51 based on peer averages. The peers used for the Madewell beta are Aritzia, Canada Goose, Carter's, Levi's, Lululemon, and VF Corporation. The equity risk premium, which represents the expected return on equity securities in excess of the risk-free rate, is 7.2% based on the historical long-term equity risk premium from the 2020 Duff & Phelps report. The pre-tax cost of debt is 7.25%, and is based on the estimated cost of debt at emergence. The net debt-to-capitalization ratio is 15%, and is based on the Company's post-emergence capital structure. The tax rate used is 25.2%, and is based on Management guidance.

Comparable Company Analysis

CHINOS HOLDINGS B COMPARABLE COMPANIES ANALYSIS

Screening of Comparable Companies – Summary of Analysis

	Company	Size (2019 Revenue / # Stores)	Operating Model	Financial Performance	Commentary
J. Crew Peers	Abercrombie & Fitch	$3.6bn / 854 stores	●	●	Retained on the basis of business and financial characteristics aligned with J. Crew
	American Eagle	$4.3bn / 1,312 stores	●	◑	
	Chico's	$2.0bn / 1,341 stores	●	●	
	Children's Place	$1.9bn / 924 stores	●	●	
	Gap	$16.4bn / 3,919 stores	●	●	
	Oxford	$1.1bn / 224 stores	●	●	
	Urban Outfitters	$4.0bn / 641 stores	●	●	
Madewell Peers	Aritzia	$0.7bn / 91 stores	●	●	Retained on the basis of business and financial characteristics aligned with Madewell
	Canada Goose	$0.7bn / 20 stores	◑	●	
	Carter's	$3.5bn / 1,109 stores	◑	●	
	Fast Retailing	$22.4bn / 3,589 stores	◑	●	
	H&M	$27.0bn / 5,076 stores	◑	●	
	Inditex	$33.3bn / 7,469 stores	◑	●	
	Levi's	$5.8bn / 3,000 stores	◑	●	
	Lululemon	$4.0bn / 491 stores	◑	●	
	VF Corporation	$10.7bn / 4,379 stores	◑	◑	
Considered But Excluded	Ascena***	$5.5bn / 3,445 stores	● ●	● ○	Excluded on the basis of key differences in size, operating model, and financial performance, among other factors
	Buckle	$0.9bn / 448 stores	◑ ◑	● ○	
	Express***	$2.0bn / 595 stores	● ●	● ○	
	G-III	$3.2bn / 338 stores	○ ○	○ ◑	
	Gildan Activewear	$2.8bn / 0 stores	○ ○	● ○	
	Guess?	$2.7bn / 2,123 stores	◑ ◑	○ ◑	
	Hanesbrands	$7.0bn / 998 stores	○ ○	○ ◑	
	Kontoor Brands	$2.5bn / 129 stores	○ ◑	● ○	
	L Brands	$12.9bn / 2,920 stores	◑ ◑	● ○	
	PVH	$9.9bn / 3,330 stores	○ ◑	◑ ○	
	Ralph Lauren	$6.3bn / 1,184 stores	◑ ◑	◑ ○	
	Tailored Brands***	$2.9bn / 1,450 stores	◑ ◑	● ○	
	Zumiez	$1.0bn / 718 stores	○ ○	○ ◑	

21. For the comparable publicly-traded companies analysis in the Valuation Report, I selected a group of comparable public companies in order to derive an appropriate range of valuation multiples to estimate the going-concern value of the Debtors. Comparable publicly-traded companies analysis establishes a benchmark for asset valuation based upon the value of similar companies as a multiple of common variables, such as revenue, earnings, and cash flow, among other metrics. After analyzing the subject company, a universe of possible peers is compiled from various sources including database research, industry reviews, discussions with Management, and Lazard's knowledge of the apparel retail sector. A key element of this approach is the selection of companies with comparable business and financial characteristics. Selected criteria for evaluating comparable companies include: (a) lines of business; (b) customers and end

markets; (c) business risks; (d) growth prospects; (e) maturity; and (f) size and scale, among other factors. A company's exposure to the secular changes affecting the retail channel is a key factor affecting multiples today, as investors weigh the impact of mall traffic declines, online conversion, changes in consumer spending, and other disruptive forces on business and financial risk.

22. I analyzed the selected comparable companies, which included a review of each company's financial statements, as well as an assessment of each company's business mix, operating performance, profitability, leverage, and business trends, among other factors. Based on my judgment, as informed by discussions with my team at Lazard, and the facts and circumstances, I selected comparable companies on the basis of business and financial characteristics most closely aligned with those of J. Crew and Madewell, respectively. The peers used for the J. Crew comparable companies analysis are Abercrombie & Fitch, American Eagle Outfitters, Gap, Chico's, Children's Place, Oxford Industries, and Urban Outfitters. The unlevered beta for Madewell is 1.51 based on peer averages. The peers used for the Madewell comparable companies analysis are Aritzia, Canada Goose, Carter's, Fast Retailing, H&M, Inditex, Levi's, and VF Corporation. The selection of comparable companies is a matter of judgment and subject to limitations due to sample size and the availability of meaningful market-based information. In formulating my view, I made certain qualitative judgments with respect to differences between J. Crew and Madewell. I believe that TEV as a multiple of EBITDA is the most appropriate valuation benchmark for purposes of determining the going-concern value of J. Crew and Madewell, respectively.

<u>Precedent Transactions Analysis</u>

23. The Valuation Report used a similar approach to that used in the comparable publicly-traded companies' analyses to arrive at a relevant set of precedent transactions. Precedent

transactions analysis estimates the value of a company by examining merger and acquisition ("**M&A**") transactions for comparable companies and analyzing the purchase price (including debt) as a multiple of EBITDA. I used only publicly-available information related to the transactions. Potential synergies identified by the acquirer were not considered when computing transaction multiples.

24. I reviewed relevant apparel retail M&A transactions since 2010 for which financial details regarding the transactions are publicly available. This method also requires qualitative judgment, as each M&A transaction occurs under unique circumstances. While my team and I reviewed precedent transactions since 2010, many of these transactions occurred in different market conditions from those currently prevailing in the marketplace and, therefore, may not be reliable for purposes of estimating the going-concern value of the Debtors. The majority of transactions involving targets in the apparel retail category resulted in some measure of financial distress post-transaction, calling into question the valuation multiples paid by the acquirers. At the time most transactions were effected, the targets were perceived to be insulated from long-term secular changes (principally from spending shifts within the retail channel, foot traffic declines, and digital disintermediation) that are now affecting the industry. As a result, I believe that the precedent transactions analysis is of limited relevance for estimating the going-concern value of Debtors. It should be noted that many other limitations apply to the precedent transactions analysis due to changes in the economy, retail sector disruption, the financial markets, and the capital markets that may make historical multiples and transactions less reliable.

Conclusion

25. As indicated above, based on the DCF and comparable publicly-traded companies analyses, the Valuation Report estimates the TEV of the Reorganized Debtors to be

approximately $1.68 billion to $2.00 billion with a midpoint of $1.84 billion, as of the assumed Effective Date.

26. For the reasons set forth herein, I believe that the Valuation Report of the Reorganized Debtors on a reorganized, going-concern basis is based upon relevant sources of information and appropriate valuation assumptions and consistently applied methodologies.

Dated: August 24, 2020
Bronxville, New York

/s/ Jason Wooten
Jason Wooten

EXPERT VALUATION REPORT

Chinos Holdings

LAZARD

Important Information

This report was prepared pursuant to the terms of engagement of Lazard Frères & Co. LLC (herein referred to as "Lazard") by Chinos Holdings, Inc. and its controlled subsidiaries (hereinafter collectively referred to as "Chinos Holdings", the "Debtors" or the "Company"). The purpose of this report is to summarize Lazard's views as to the valuation of Chinos Holdings in connection with the Debtors' proposed plan of reorganization in their chapter 11 cases.

The information in this report has been prepared by Lazard based on information supplied by the Company and its advisors or publicly available information, and portions of the information herein may be based on certain statements, estimates and forecasts provided by the Company with respect to the anticipated future performance of the Company. In preparing its analysis, Lazard has relied upon the accuracy and completeness of the underlying financial and other information furnished by the Company and its advisors. Lazard did not attempt to independently audit or verify such information, nor did it make an independent appraisal of the assets or liabilities of the Company. Lazard also did not conduct an independent investigation into any of the legal, tax, or accounting matters affecting the Company and, therefore, makes no representation as to their impact on the Company from a financial point of view. While the Company provided underlying information that Lazard relied upon, the Company did not provide Lazard with a valuation of the Company or otherwise instruct Lazard on what conclusions to reach herein.

Lazard assumes, and has relied on the Company's representation and warranty, that any financial forecasts provided by the Company to Lazard (i) were prepared in good faith, (ii) are based on fully disclosed assumptions which, in light of the circumstances under which they were made, are reasonable, (iii) reflect the best currently available estimates as to the future financial performance of the Company, and (iv) reflect the good faith judgments of management of the Company. Lazard assumes no responsibility for the Company's forecasts or the assumptions on which they are based. Lazard's valuation analysis assumes that the actual performance of the Company will correspond to its financial forecasts.

This report contemplates facts and conditions known to Lazard and existing as of the date of this report, unless indicated otherwise. Notably, Lazard's valuation analysis relied on Company management's April 2020 business plan updated as of April 21, 2020, assuming an effective date of September 11, 2020. Events and conditions subsequent to the date hereof, including but not limited to updated financial forecasts, as well as other factors, could have a material impact on the Company's valuation and the analysis contained herein. In addition, Lazard's analysis assumes that there will be no material change in economic, monetary, market, and other conditions as in effect on, and the information made available to Lazard, as of the date of this report.

Important Information (cont'd)

Although subsequent developments may have affect the conclusions set forth herein, Lazard does not have any obligation to update, revise, or reaffirm its valuation analysis and does not intend to do so. Lazard is not making any assessment regarding impact or the economic effects of the COVID-19 virus, including with respect to the potential impact or effects on the future financial performance of the reorganized Debtors. Subsequent developments, including, without limitation, in relation to COVID-19, may affect the projections and other information that Lazard utilized in the valuation analysis. Lazard assumes no responsibility for updating or revising the valuation analysis based on circumstances or events after the date hereof.

In preparing this report, Lazard performed a variety of analyses, considered a variety of factors and made a number of assumptions and judgments with respect to the Company, industry and market trends and other matters, which are summarized herein.

Lazard was initially engaged by the Debtors in August 2016 in connection with the Debtors' two-step liability management transaction that was completed in 2017, and was subsequently engaged by the Debtors in April 2019 to provide restructuring advice, as described in Lazard's engagement letter dated as of April 1, 2019 (the "Prior Engagement Letter"), and the amended engagement letter dated as of April 19, 2020 (the "Engagement Letter").

This report has been provided pursuant to Lazard's engagement by the Company. The compensation to Lazard for all services provided to the Company pursuant to its engagement, including the report, is described in the Engagement Letter and includes a monthly fee of $150,000 and a restructuring fee equal to $9,000,000 (against which one-half of all monthly fees and financing fees payable will be credited). Lazard is not being paid additional fees for testimony or this expert report. In addition, Lazard and certain related persons and entities are entitled to indemnification, contribution and reimbursement in connection with claims, actions, proceedings and investigations related to, arising out of or in connection with Lazard's engagement.

I, Jason Wooten, hereby certify that this is my expert report with respect to the Company and that the following statements are true and correct to the best of my knowledge and belief. The views and conclusions contained herein are mine and are based upon analyses and information available to me as of July 29, 2020 (or such earlier date as specified herein), including work performed by Lazard professionals working with me on this engagement operating under my direction and supervision. The analysis assumes that no material changes that would affect value have occurred from July 29, 2020 or the earlier relevant dates specified herein. To the extent that additional information or documents become available, I reserve the right (but have no obligation) to revise the analyses, views and conclusions contained herein. This report and the accompanying appendices are intended solely for use in connection with certain litigation and may contain confidential information. Any unauthorized use or distribution of this report is strictly prohibited.

Jason Wooten
Managing Director
Lazard Frères & Co.

Table of Contents

I Introduction

Overview of Lazard Valuation Analysis

The materials contained herein summarize Lazard's analysis regarding the Total Enterprise Value of Reorganized Chinos Holdings, which is composed of the J. Crew and Madewell businesses, as of September 11, 2020

- **Lazard's analysis relied on information with respect to J. Crew, Madewell, and the industry available to Lazard as of July 29, 2020 and is based on Management's business plan updated as of April 21, 2020**
  - Lazard's analysis is subject to material change as additional information becomes available and certain facts change, in particular with respect to the COVID-19 pandemic
- **Lazard performed a sum-of-the parts valuation whereby Lazard separately estimated the value of the J. Crew and Madewell businesses, based on the valuation methodologies described below, in order to arrive at a consolidated estimated Total Enterprise Value of Reorganized Chinos Holdings**
- **Lazard used two traditional methodologies to estimate the Total Enterprise Value of Reorganized Chinos Holdings, namely Discounted Cash Flow Analysis and Comparable Companies Analysis**
  - Discounted Cash Flow Analysis: Estimates the value of a company based on the net present value of (i) its projected unlevered free cash flows over a given forecast period and (ii) the terminal value of the business at the end of the forecast period
  - Comparable Companies Analysis: Estimates the value of a company based on the implied valuation multiples of other publicly traded companies with similar business and financial characteristics to the subject company
  - Notably, Lazard carefully considered, but ultimately did not apply any weight to a Precedent Transactions Analysis to estimate the Total Enterprise Value of Reorganized Chinos Holdings
- **Lazard then assigned a weighting to each methodology in order to arrive at a valuation that reflects the reliability of each methodology**

Scope of Lazard's Analysis

Lazard developed its estimate of the Total Enterprise Value of Chinos Holdings based on financial information available by July 29, 2020, and market data as of July 29, 2020, having reviewed financial and other information regarding the Company including, among other things:

- **Reviewing the recent and historical operating and financial performance of Chinos Holdings**
- **Reviewing various documents and pleadings prepared by the Company and/or its professionals in connection with the chapter 11 cases**
- **Reviewing Management's projections prepared in April 2020, including various supporting schedules and other related financial information, as well as prior business plans and projections prepared since the middle of 2019, and interim period financial results since April 2020**
- **Having discussions and meetings with Vincent Zanna (Chief Financial Officer), Jeremy Brooks (Chief Accounting Officer) and Chris Chiang (Senior Vice President, Financial Planning & Analysis), with respect to the Company's historical and projected business operations and financial performance**
- **Analyzing the apparel and retail industry and trends affecting J. Crew and Madewell**
- **Analyzing the financial and operating performance and market position of J. Crew and Madewell relative to comparable publicly traded companies**
- **Analyzing precedent transactions in the industry to determine prices paid for assets or companies**
- **In addition, Lazard considered the economic environment in the United States and other regions in which the Company has operations and end markets**

Summary of Opinions and Conclusions

Lazard's estimate of the Total Enterprise Value of Reorganized Chinos Holdings as of September 11, 2020 is \$1.68 billion – \$2.00 billion, with a midpoint of \$1.84 billion

- **Lazard relied on its Discounted Cash Flow Analysis and Comparable Companies Analysis in arriving at its estimate of Total Enterprise Value**
  - Lazard's valuation range is based on applying a 50% / 50% weighting of each methodology
  - Changes in valuation ranges between the disclosure statement and this document are the result of updated market inputs
- **Many of the precedent transactions reviewed by Lazard occurred in different market conditions from those currently prevailing, and therefore are of limited relevance for estimating going-concern value**

Summary of Lazard's Estimate of Total Enterprise Value

($ in millions; FYE February 1)

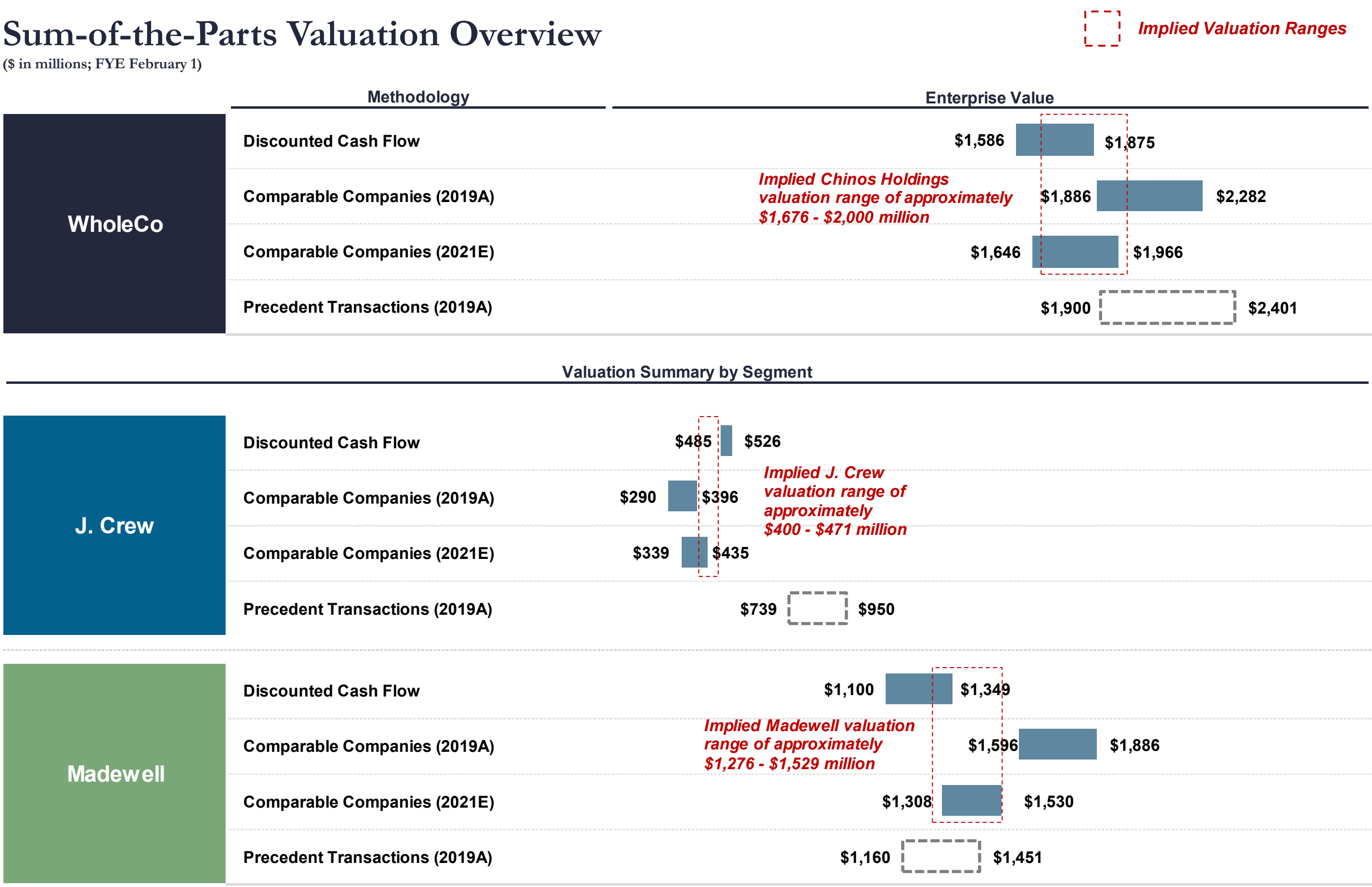
		Enterprise Value		Commentary
DISCOUNTED CASH FLOW ANALYSIS		$1,586	$1,875	**Based on Management's 5-year projections** ● **J. Crew** – Weighted average cost of capital of 13.75% – 14.75% – Terminal value growth rate of (0.5%) – 0.5% ● **Madewell** – Weighted average cost of capital of 11.75% – 12.75% – Terminal value growth rate of 3.0% – 4.0%
COMPARABLE COMPANIES ANALYSIS	EV / FY 2019A EBITDA	$1,886	$2,282	**Based on comparable peer set for each business** ● **J. Crew** – 2.75x – 3.75x applied to FY 2019A Adjusted EBITDA of $106m ● **Madewell** – 11.00x – 13.00x applied to FY 2019A Adjusted EBITDA of $145m
	EV / FY 2021E EBITDA	$1,646	$1,966	**Based on comparable peer set for each business** ● **J. Crew** – 3.50x – 4.50x applied to FY 2021E Adjusted EBITDA of $97m ● **Madewell** – 11.75x – 13.75x applied to FY 2021E Adjusted EBITDA of $111m
PRECEDENT TRANSACTIONS ANALYSIS *(For Reference Only)*		$1,900	$2,401	**Based on selected precedent apparel retail transactions** ● **J. Crew** – 7.00x – 9.00x applied to FY 2019A Adjusted EBITDA of $106m ● **Madewell** – 8.00x – 10.00x applied to FY 2019A Adjusted EBITDA of $145m

Implied Chinos Holdings valuation range of approximately $1,676 - $2,000 million

Source: Management LRP, FactSet as of 7/29/2020.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
Valuation date as of 9/11/2020. Adjusted EBITDA reduced to include share-based compensation expense.

Sum-of-the-Parts Valuation Overview

($ in millions; FYE February 1)



Source: Management LRP, FactSet as of 7/29/2020.

Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
Valuation date as of 9/11/2020. Adjusted EBITDA reduced to include share-based compensation expense.

II Business Overview

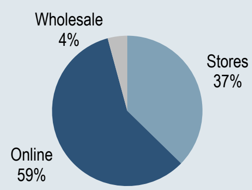
Chinos Holdings Snapshot

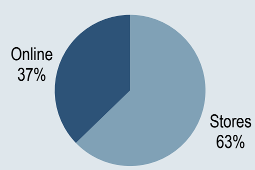
($ in millions; FYE February 1)

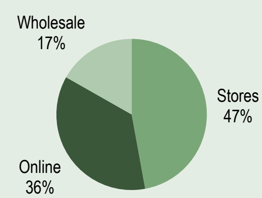
Chinos Holdings is a vertically integrated omni-channel apparel and accessories retailer that operates under the distinct J.Crew and Madewell brands

	J.Crew	J.Crew Factory	Madewell
Brand Description	*The J.Crew brand represents signature "classic with a twist" apparel and accessories, featuring the highest quality, style, design and fabrics with consistent fits and authentic details*		*Denim is at the core of everything Madewell does; from jeans to the pieces that are worn with them, effortless tees, keep-forever bags, cool jewelry and compliment-worthy shoes*
Store Count	**184**	**171**	**139**
FY 2019A Revenue	**$1,812m** *71% of Total*		**$728m** *29% of Total*
FY 2019A Adj. EBITDA	**$106m** *42% of Total*		**$145m** *58% of Total*

FY 2019A Brand Revenue by Channel





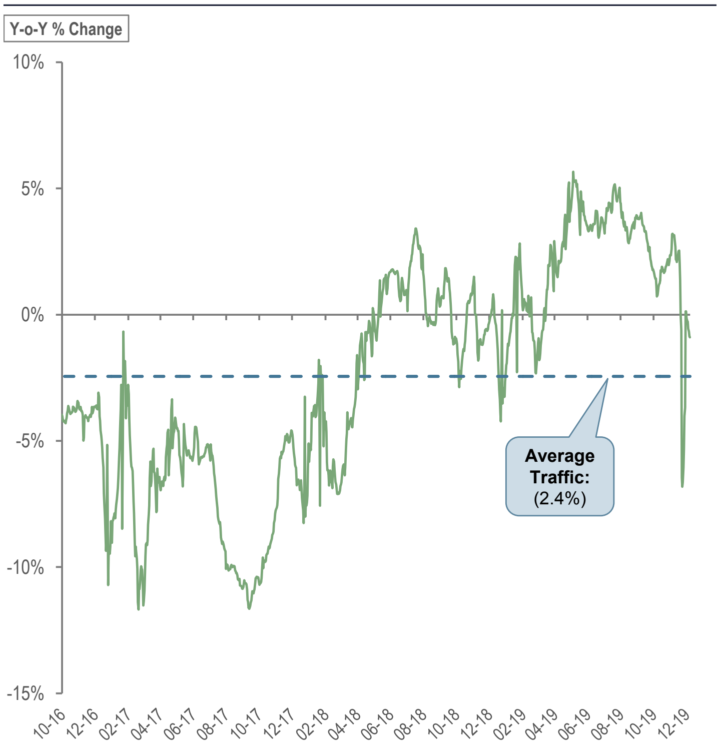


Source: Company financials.

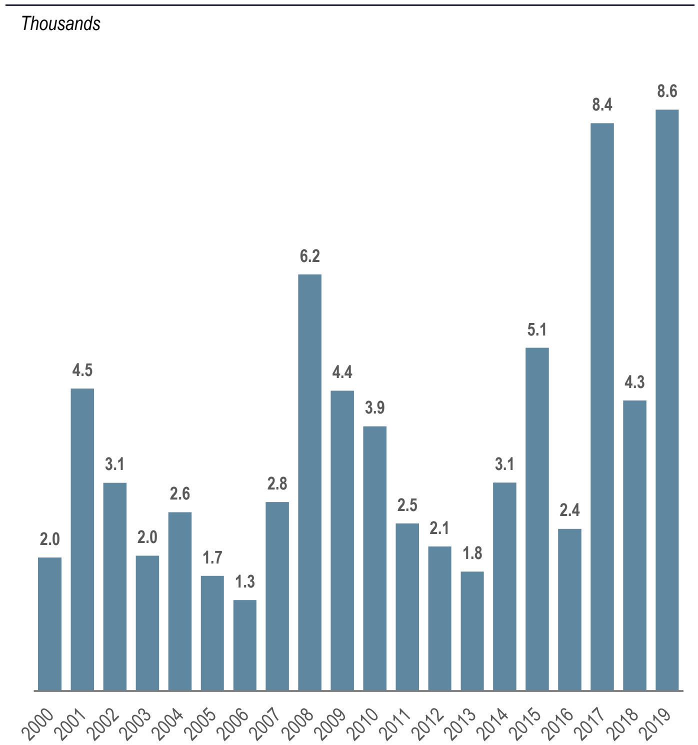
Declining Foot Traffic is Pressuring U.S. Retailers…

Declining foot traffic in the legacy bricks and mortar retail channel has challenged traffic-dependent retailers and caused acceleration in U.S. store closures

U.S. Mall Foot Traffic



U.S. Store Closures



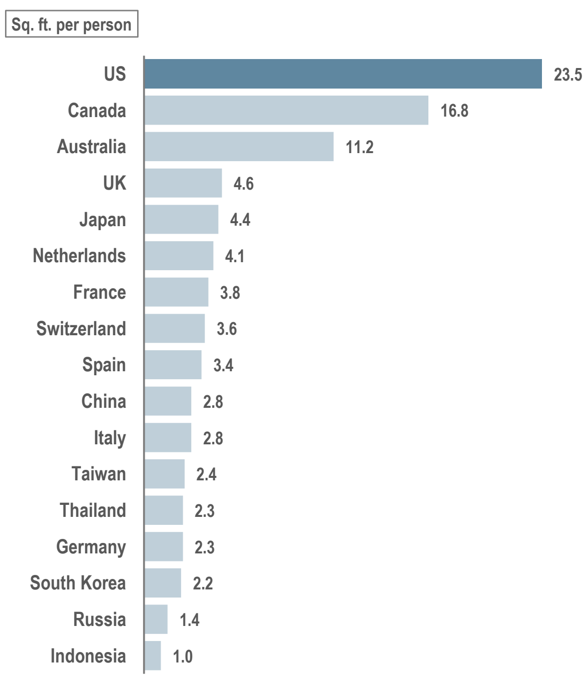
Source: Thasos, Credit Suisse U.S Store Closure Index.

…Driven in Part by an Overstored U.S. Market and a Shift to E-Commerce

Investment in U.S. shopping centers enabled the creation of nationally recognized brands like J. Crew, but as retail has shifted away from bricks-and-mortar and toward direct-to-consumer and digital commerce models, large, established brands have struggled to adapt

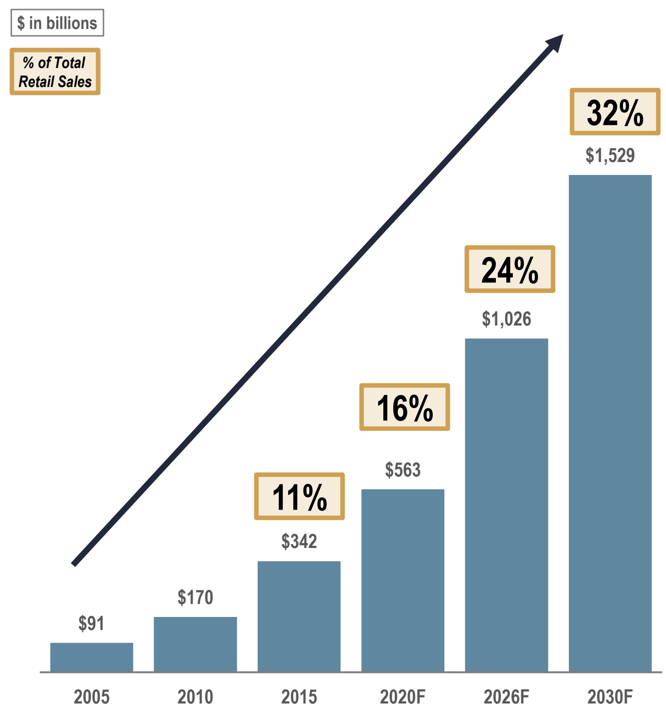
Retail Square Feet per Person

The U.S. is overstored compared to other countries, with growth in the number of shopping centers outpacing population growth by ~3x between 1970 and 2009



U.S. E-Commerce Sales

E-commerce is projected to account for a third of US retail sales by 2030



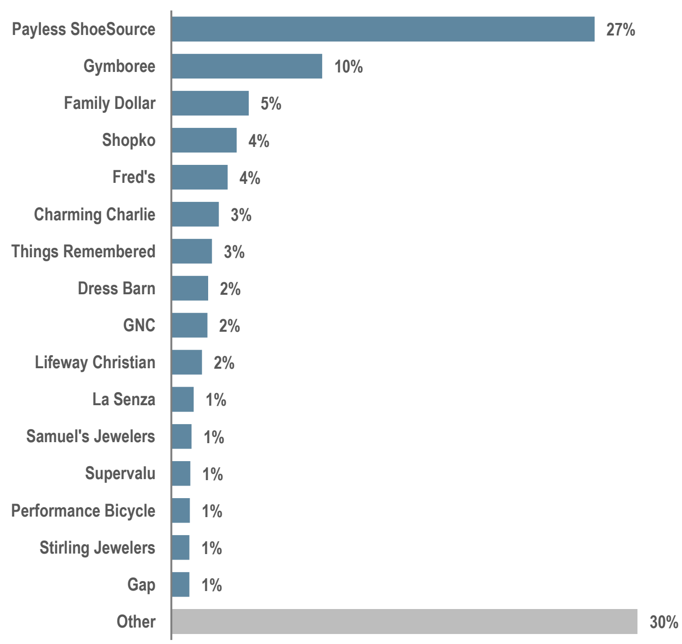
Source: US Census, ICSC, Kearney.

As Struggling Retailers Close Stores, Healthier Concepts are Partially Filling the Void

Retailers with high levels of financial debt and lease obligations have been forced to restructure around smaller footprints, while mature, stable retailers have taken advantage of the opportunity for footprint optimization, and newer concepts are pursuing growth

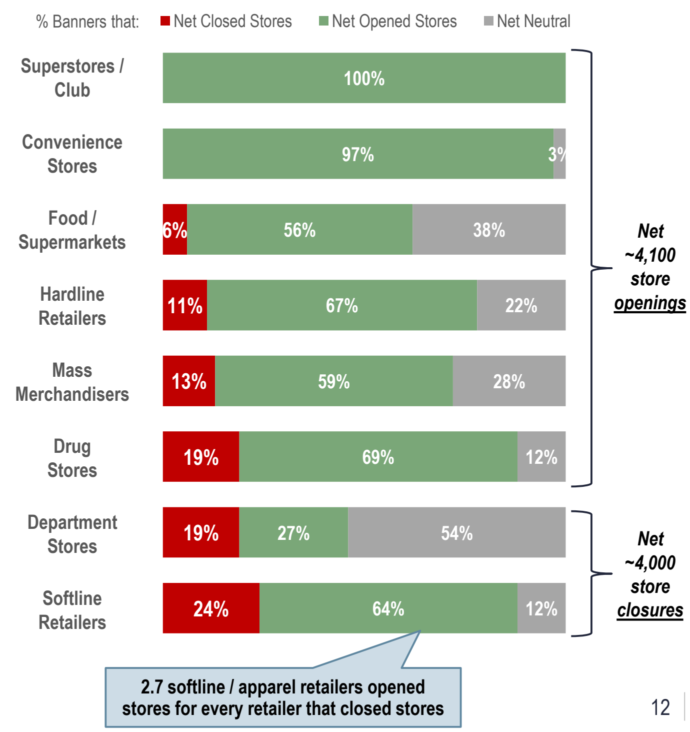
2019 Store Closures by Retailer

~70% of closure were driven by just 16 retailers



2019 Net Store Openings vs. Closures

Represents the percentage of banners that closed stores vs opened stores (on a net basis)



Source: IHL "Retail's Renaissance: The True Story of Store Openings/Closings".

The Pandemic Has Exacerbated Some Pre-COVID-19 Trends and Moderated Others

The COVID-19 pandemic is putting increased pressure on the apparel retail sector, which was already experiencing structural challenges from secular trends such as the consumer's focus on value and channel shift away from bricks-and-mortar

SHORT-TERM COVID-19 IMPACT	Declining growth	Moderate growth	High growth
Rapid acceleration	Retail electronics	Mass retail Pharmacy Grocery Paper products Personal care Packaged foods and beverages	Amazon Online grocery OTC health care Pet food and care Organic and fresh foods
Moderate impact	Tobacco	Home and DIY retail Hobby retail Alcohol	Health, fitness and beauty
Rapid deceleration	**Apparel and accessories Department stores**	Restaurants Away-from-home entertainment	Travel Public transportation and rideshare

LONG-TERM GROWTH BEFORE OUTBREAK

Source: BCG, "COVID-19 Consumer Sentiment Snapshot" (May 19, 2020). BCG Gamma and BCG Henderson Institute analysis.
Note: Based on credit card and IRI data from the US for March 2020 vs. compound annual growth rate from January 2016 to January 2020 in same categories.

Chinos Holdings Positioning Vis-à-Vis Post-COVID Apparel Retail Trends

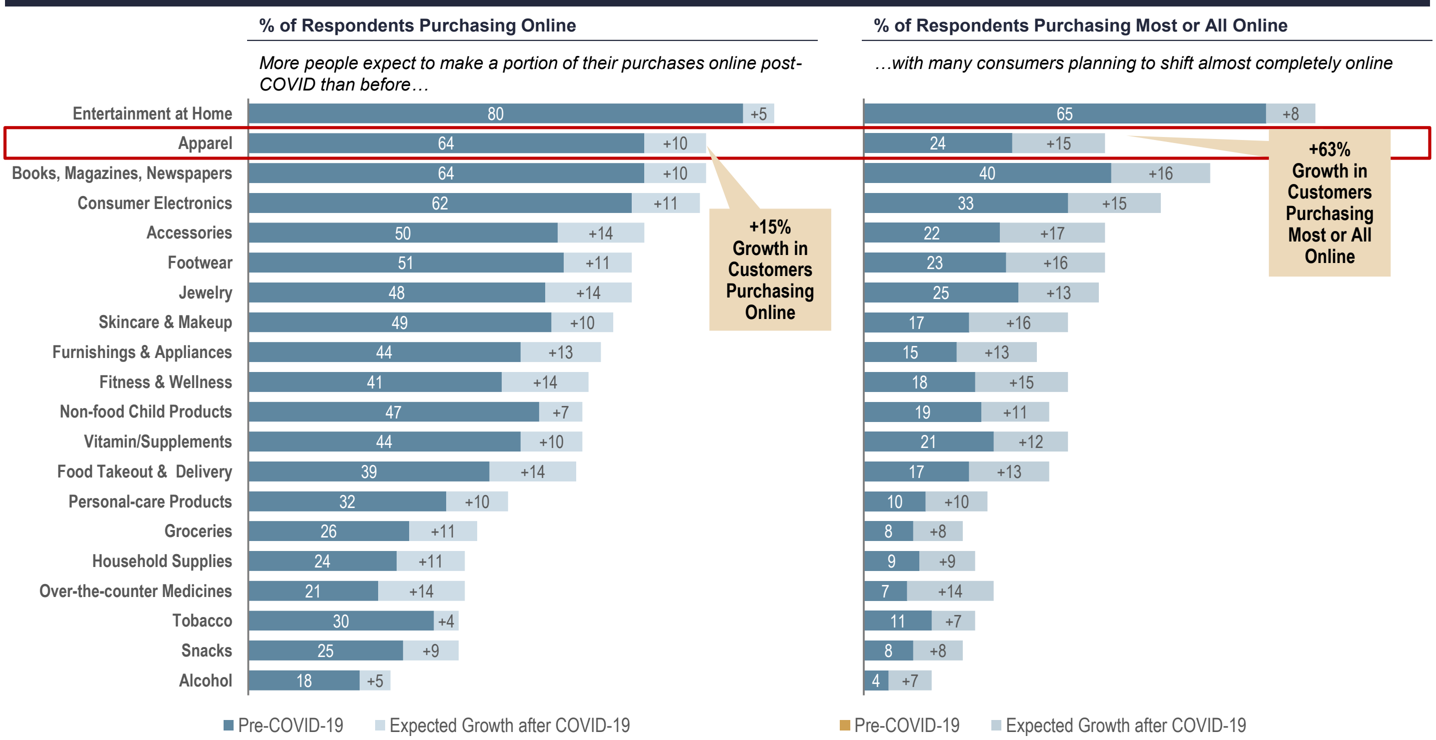
	Key Post-COVID Macro Trends in the Fashion and Branded Apparel Industry	Chinos Holdings Positioning
Global Economy	• Recovery from the pandemic will coincide with a recessionary market, compelling fashion players to ramp up resilience planning and adapt their operating models • Companies surviving the immediate crisis will have made bold and rapid interventions to stabilize their core business before seeking out new markets, strategic opportunities and future pockets of growth in a global fashion industry undergoing dramatic transformation	? Chinos Holdings would be impacted by an extended economic downturn or dampened foot traffic driven by consumer health concerns ? Intermediate and longer-term impact on discretionary consumer spending unclear
Discount Mindset	• As deep discounting plagues retailers for the remainder of 2020, a decade-long build-up of bargain shopping culture will be exacerbated by a rise in anti-consumerism, a glut in inventory and cash-strapped consumers looking to trade down or turn to off-price channels • To reach increasingly frugal and disillusioned consumers, brands must find inventive ways to regain value and rethink their broader business mission	× Continued discounting beyond 2020 could pressure Chinos Holdings margins going forward × Consumer frugality and the strength of U.S. off-price players may continue to be a threat
Digital Escalation	• Social distancing has highlighted the importance of digital channels more than ever and lockdowns have elevated digital as an urgent priority across the entire value chain but, unless companies scale up and strengthen their digital capabilities in the recovery phase of the crisis, they will suffer in the longer term • Consumers will continue to demand more in this space and brands must act fast to deliver	✓ Established digital capabilities ? The longer-term impact of a heightened industry-wide focus on digital marketing and direct-to-consumer fulfillment, including on the cost to acquire and retain customers, remains unclear
Darwinian Shakeout	• The crisis will shake out the weak, embolden the strong and accelerate the decline of companies that were already struggling before the pandemic, leading to massive waves of consolidation, M&A activity and insolvencies • To secure their future, companies must adapt to the new market environment by evaluating divestment and acquisition opportunities to strengthen their core and capture whitespaces that emerge from the reshuffle	? The J. Crew brand is at a critical juncture and will require substantial investment in order to re-position in the market ✓ While not completely insulated from the volatile external environment, relative performance of Madewell is expected to be durable
Innovation Imperative	• To cope with new restrictions, mitigate the damaging impact of the pandemic and adapt to economic and consumer shifts, companies must introduce new tools and strategies across the value chain to future-proof their business models • Fashion players must harness these innovations and scale up those that work in order to make radical and enduring changes to their organizations — and to the wider industry — after the dust settles	✓ Chinos Holdings has made important strides in innovation around sustainability, in line with developing consumer preferences ? Trends toward regionalization and reduction of reliance on sourcing from China and certain other low-cost manufacturing regions may require Chinos Holdings to continue efforts to reconfigure its global supply chain

Source: *McKinsey & Company "The State of Fashion 2020: Coronavirus Update".*

The Lockdown Has Likely Accelerated Adoption of Online Shopping

The lockdown put in place to enforce social distancing and the resulting closure of retail stores caused many consumers to turn to e-commerce, likely accelerating the on-going shift toward digital

Consumers' Use of Online Channel Before and Expected Use After COVID-19

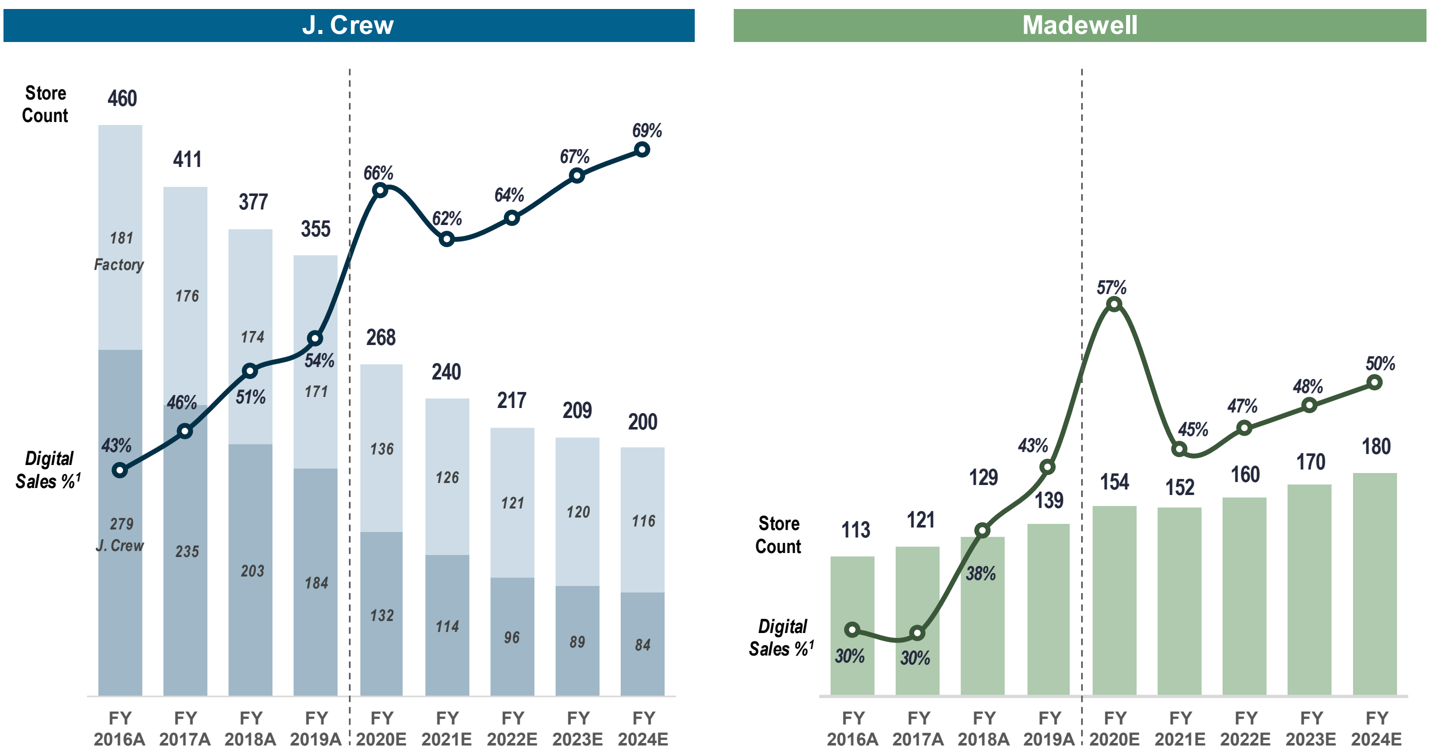


Source: McKinsey "US Consumer Sentiment During the Coronavirus Crisis" (July 18, 2020).

Summary of Management Financial Projections – Key Drivers

($ in millions; FYE February 1)

Management's business plan shows an acceleration in digital penetration coupled with a right-sizing of J. Crew's store footprint and moderate Madewell store growth

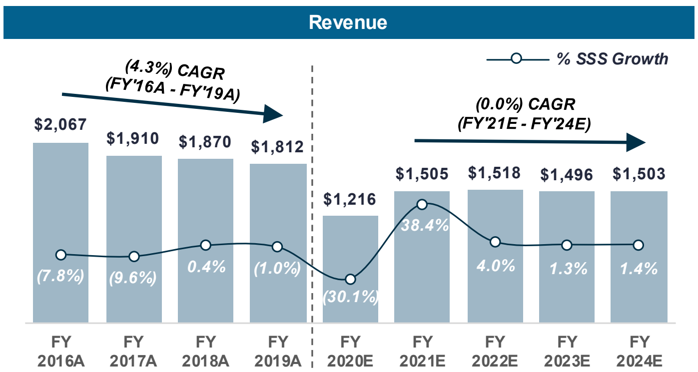


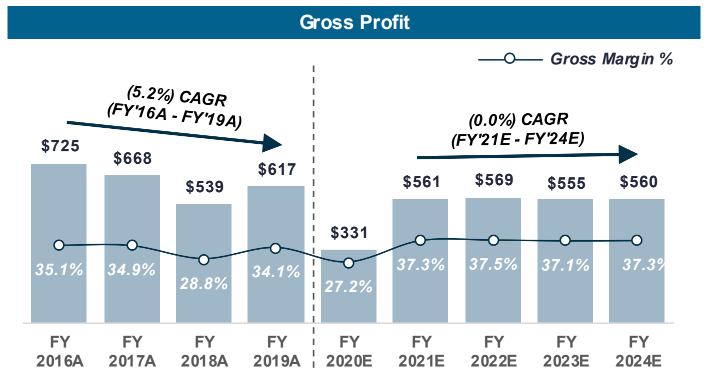
Source: Company financials, Management LRP.

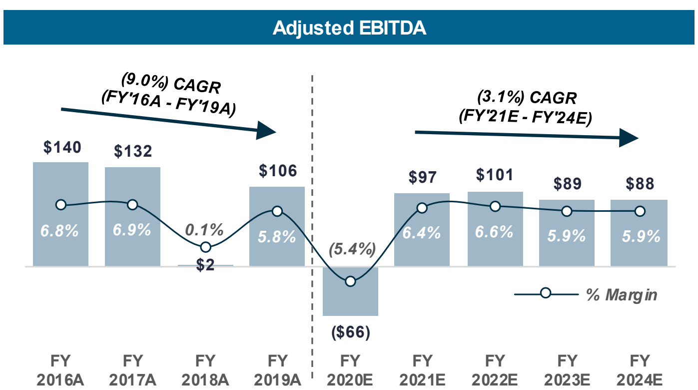
1 As percentage of total store and online sales (excluding wholesale).

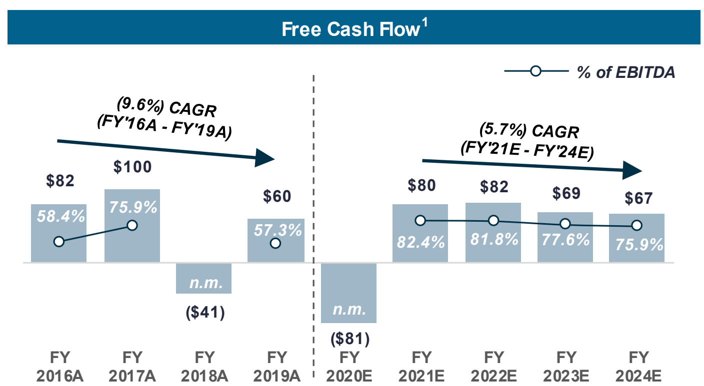
Summary of Management Financial Projections – J. Crew

($ in millions; FYE February 1)









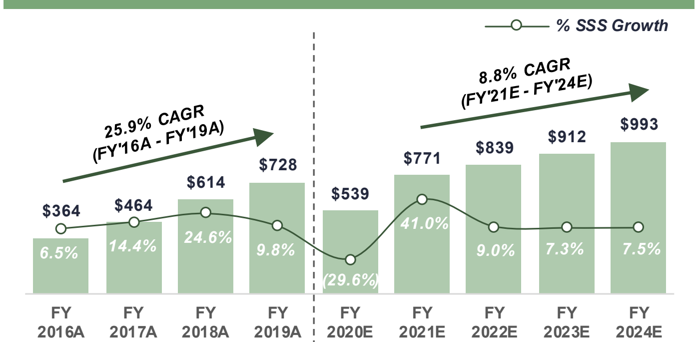
Source: Company financials, Management LRP.

1 Defined as Adjusted EBITDA less Capital Expenditures.

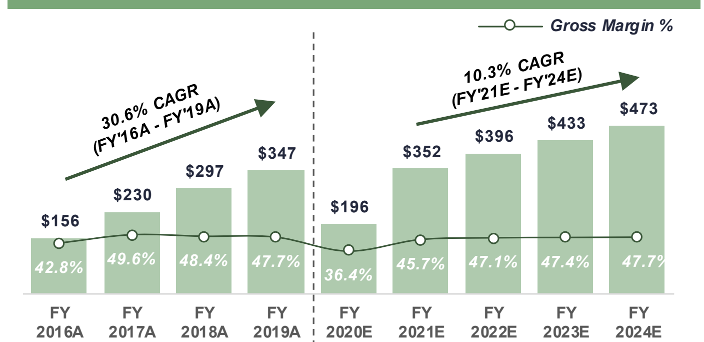
Summary of Management Financial Projections – Madewell

($ in millions; FYE February 1)

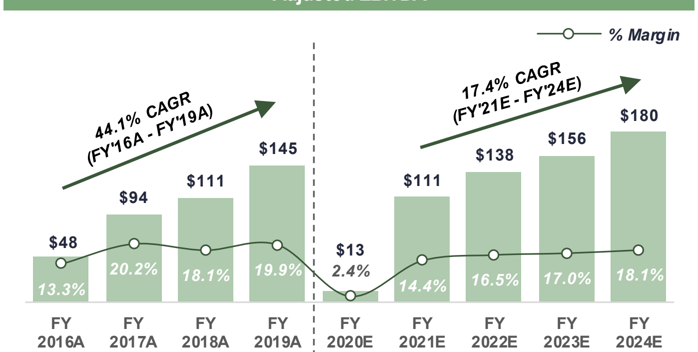
Revenue



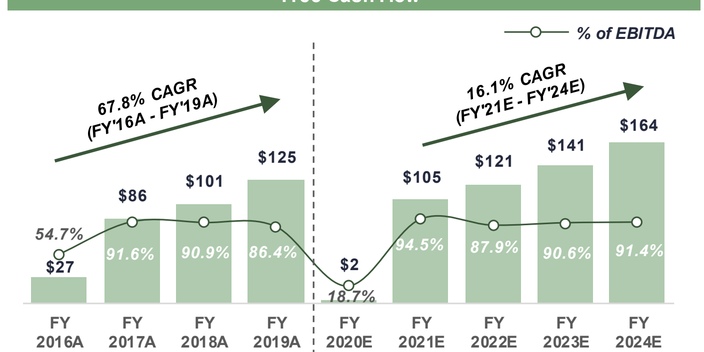
Gross Profit



Adjusted EBITDA



Free Cash Flow[1]



Source: *Company financials, Management LRP.*
1 Defined as Adjusted EBITDA less Capital Expenditures.

III Valuation Analysis

Lazard Valuation Summary

($ in millions; FYE February 1)

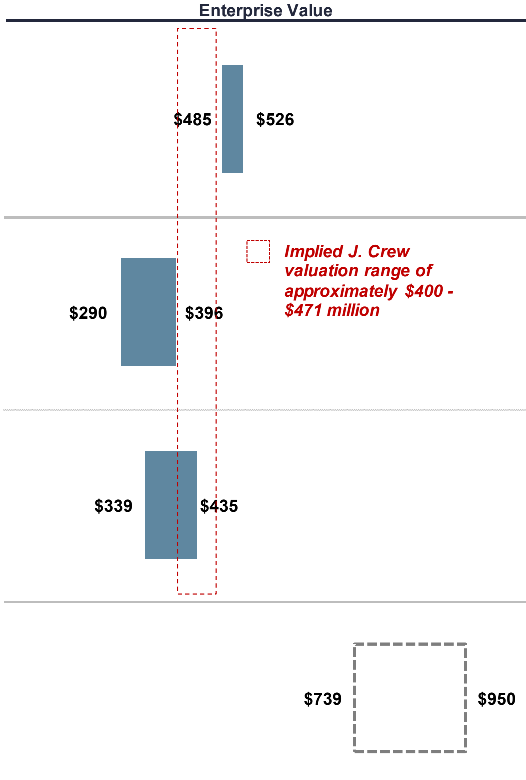
			WholeCo Low	WholeCo High	J. Crew Low	J. Crew High	Madewell Low	Madewell High
DISCOUNTED CASH FLOW ANALYSIS		**Enterprise Value**	**$1,586**	**$1,875**	**$485**	**$526**	**$1,100**	**$1,349**
		WACC			*13.75%*	*14.75%*	*11.75%*	*12.75%*
		Terminal Value Growth Rate			*(0.5%)*	*0.5%*	*3.0%*	*4.0%*
		Implied FY 2019A EBITDA Multiple	**6.3x**	**7.5x**	**4.6x**	**5.0x**	**7.6x**	**9.3x**
		Implied FY 2021E EBITDA Multiple	**7.6x**	**9.0x**	**5.0x**	**5.4x**	**9.9x**	**12.1x**
COMPARABLE COMPANIES ANALYSIS	EV / FY 2019A EBITDA	**Enterprise Value**	**$1,886**	**$2,282**	**$290**	**$396**	**$1,596**	**$1,886**
		FY 2019A Multiple Range	**7.5x**	**9.1x**	**2.75x**	**3.75x**	**11.00x**	**13.00x**
	EV / FY 2021E EBITDA	**Enterprise Value**	**$1,646**	**$1,966**	**$339**	**$435**	**$1,308**	**$1,530**
		FY 2021E Multiple Range	**7.9x**	**9.4x**	**3.50x**	**4.50x**	**11.75x**	**13.75x**
PRECEDENT TRANSACTIONS ANALYSIS *(For Reference Only)*		**Enterprise Value**	**$1,900**	**$2,401**	**$739**	**$950**	**$1,160**	**$1,451**
		FY 2019A Multiple Range	**7.6x**	**9.6x**	**7.0x**	**9.0x**	**8.0x**	**10.0x**

WholeCo = J. Crew + Madewell

Source: Management LRP, FactSet as of 7/29/2020.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
Valuation date as of 9/11/2020. Adjusted EBITDA reduced to include share-based compensation expense.

Lazard Valuation Summary – J. Crew

($ in millions; FYE February 1)



		Enterprise Value	Commentary
DISCOUNTED CASH FLOW ANALYSIS		$485 – $526	Based on Management's 5-year projections Weighted average cost of capital of 13.75% – 14.75% Terminal value growth rate of (0.5%) – 0.5% Implied exit multiple range of 4.0x – 4.6x
COMPARABLE COMPANIES ANALYSIS	EV / FY 2019A EBITDA	$290 – $396	Based on comparable peer set for J. Crew 2.75x – 3.75x applied to FY 2019A Adjusted EBITDA of $106m
	EV / FY 2021E EBITDA	$339 – $435	Based on comparable peer set for J. Crew 3.50x – 4.50x applied to FY 2021E Adjusted EBITDA of $97m
PRECEDENT TRANSACTIONS ANALYSIS (For Reference Only)		$739 – $950	Based on selected precedent apparel retail transactions 7.00x – 9.00x applied to FY 2019A Adjusted EBITDA of $106m

LAZARD

Source: Management LRP, FactSet as of 7/29/2020.

Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
Valuation date as of 9/11/2020. Adjusted EBITDA reduced to include share-based compensation expense.

Lazard Valuation Summary – Madewell

($ in millions; FYE February 1)

		Enterprise Value	Commentary
DISCOUNTED CASH FLOW ANALYSIS		$1,100 – $1,349	Based on Management's 5-year projections Weighted average cost of capital of 11.75% – 12.75% Terminal value growth rate of 3.0% – 4.0% Implied exit multiple range of 7.5x – 9.5x
COMPARABLE COMPANIES ANALYSIS	EV / FY 2019A EBITDA	$1,596 – $1,886	Based on comparable peer set for Madewell 11.00x – 13.00x applied to FY 2019A Adjusted EBITDA of $145m
COMPARABLE COMPANIES ANALYSIS	EV / FY 2021E EBITDA	$1,308 – $1,530	Based on comparable peer set for Madewell 11.75x – 13.75x applied to FY 2021E Adjusted EBITDA of $111m
PRECEDENT TRANSACTIONS ANALYSIS *(For Reference Only)*		$1,160 – $1,451	Based on selected precedent apparel retail transactions 8.00x – 10.00x applied to FY 2019A Adjusted EBITDA of $145m

Implied Madewell valuation range of approximately $1,276 - $1,529 million

LAZARD

Source: Management LRP, FactSet as of 7/29/2020.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
Valuation date as of 9/11/2020. Adjusted EBITDA reduced to include share-based compensation expense.

A Discounted Cash Flow Analysis

Discounted Cash Flow Analysis — Methodology Overview

In its Discounted Cash Flow Analysis, Lazard valued Chinos Holdings based on the projected unlevered free cash flow reflected in Management's business plan

- **A Discounted Cash Flow Analysis calculates the value of a business as the present value of its expected future cash flows**
- **The analysis takes into account the value of the unlevered free cash flows over the forecast period, plus a terminal value to account for the value of the business beyond the forecast period, discounted to the present**
- **Unlevered free cash flow, for purposes of a Discounted Cash Flow Analysis, represents the difference between the cash inflows and outflows from operating activities reduced by taxes paid, net working capital investments, capital expenditures, and other applicable cash income and expenses**
  - The projected unlevered free cash flows in Lazard's Discounted Cash Flow Analysis are derived from the Company's projections for the year ending February 2021 (Fiscal Year 2020) through February 2025 (Fiscal Year 2024)
  - The projected cash flows are discounted by the theoretical weighted average cost of capital ("WACC") of the J. Crew and Madewell businesses to derive a present value
  - The WACC represents the estimated weighted average rate of return required by debt and equity investors
- **Terminal value is typically estimated either by applying an assumed rate of growth in perpetuity to company's expected free cash flow in the terminal year, or by applying a multiple to expected terminal year financial results**
  - Lazard has estimated the terminal value of Chinos Holdings using expected terminal year free cash flow and growth rates for each of J. Crew and Madewell
  - The present value of the terminal value is then calculated by discounting the terminal value to the present using the WACC

Discounted Cash Flow Analysis – J. Crew

($ in millions; FYE February 1)

	Historical	Management Projections							'19A – '24E
	2019A	2020E	5M 2020E	2021E	2022E	2023E	2024E	TY	CAGR
Total Revenue	**$1,812**	**$1,216**	**$660**	**$1,505**	**$1,518**	**$1,496**	**$1,503**	**$1,503**	*(3.7%)*
% Growth	*--*	*(32.9%)*	*--*	*23.8%*	*0.9%*	*(1.5%)*	*0.5%*		
Adjusted EBITDA	**$106**	**($66)**	**$54**	**$97**	**$101**	**$89**	**$88**	**$88**	*(3.5%)*
% Margin	*5.8%*	*(5.4%)*	*8.2%*	*6.4%*	*6.6%*	*5.9%*	*5.9%*	*5.9%*	
Less: Depreciation & Amortization			(17)	(44)	(44)	(43)	(42)	(21)	
Less: Taxes			7	(19)	(96)	(15)	(15)	(17)	
% Tax Rate			*19%*	*(35.7%)*	*(170.0%)*	*(32.0%)*	*(33.3%)*	*(25.2%)*	
Unlevered Net Income			**$44**	**$34**	**($40)**	**$31**	**$31**	**$50**	
Plus: Depreciation & Amortization			17	44	44	43	42	21	
Less: Share-Based Compensation			(0)	(0)	(0)	(0)	(0)	(0)	
Less: Change in Net Working Capital			106	41	17	3	2	0	
Less: Capital Expenditures			(3)	(17)	(18)	(20)	(21)	(21)	
Unlevered FCF			**$164**	**$102**	**$2**	**$57**	**$54**	**$50**	

WACC	PV of FCF's '20E – '24E[1]	PV of Terminal Value at TVGR of (0.5%)	0.0%	0.5%	Enterprise Value at TVGR of (0.5%)	0.0%	0.5%	Implied TV EBITDA Multiple at TVGR of (0.5%)	0.0%	0.5%
13.75%	**$311**	$198	$206	$215	$509	$517	$526	4.2x	4.4x	4.6x
14.25%	**309**	188	195	203	497	504	512	4.1	4.2	4.4
14.75%	**307**	178	185	193	485	492	500	4.0	4.1	4.3

WACC	Terminal Value as % of EV at TVGR of (0.5%)	0.0%	0.5%	Implied 2019A EBITDA Multiple at TVGR of (0.5%)	0.0%	0.5%	Implied 2021E EBITDA Multiple at TVGR of (0.5%)	0.0%	0.5%
13.75%	39%	40%	41%	4.8x	4.9x	5.0x	5.3x	5.3x	5.4x
14.25%	38%	39%	40%	4.7	4.8	4.9	5.1	5.2	5.3
14.75%	37%	38%	39%	4.6	4.7	4.7	5.0	5.1	5.2

Source: Management LRP.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively. Valuation date as of 9/11/2020.
The Debtors are currently exploring an alternative transaction structure that would constitute a taxable transfer of the Debtors' assets. The tax consequences of this alternative transaction remain subject to ongoing analysis. The above tax projections assume that the Debtors will not engage in this alternative transaction.
1 Represents cash flows from 9/11/2020 through the end of 2024E.

Discounted Cash Flow Analysis – Madewell

($ in millions; FYE February 1)

	Historical	Management Projections								'19A – '24E
	2019A	2020E	5M 2020E	2021E	2022E	2023E	2024E	TY		CAGR
Total Revenue	**$728**	**$539**	**$300**	**$771**	**$839**	**$912**	**$993**	**$993**		***6.4%***
% Growth	--	*(25.9%)*	--	*42.9%*	*8.9%*	*8.7%*	*8.9%*			
Adjusted EBITDA	**$145**	**$13**	**$40**	**$111**	**$138**	**$156**	**$180**	**$180**		***4.4%***
% Margin	*19.9%*	*2.4%*	*13.4%*	*14.4%*	*16.5%*	*17.0%*	*18.1%*	*18.1%*		
Less: Depreciation & Amortization			(9)	(21)	(22)	(23)	(24)	(16)		
Less: Taxes			--	(26)	(32)	(37)	(43)	(41)		
% Tax Rate			--	*(29.3%)*	*(27.8%)*	*(27.7%)*	*(27.5%)*	*(25.2%)*		
Unlevered Net Income			**$32**	**$64**	**$84**	**$96**	**$113**	**$123**		
Plus: Depreciation & Amortization			9	21	22	23	24	16		
Less: Share-Based Compensation			(0)	(0)	(0)	(0)	(0)	(0)		
Less: Change in Net Working Capital			37	7	1	(5)	(5)	(2)		
Less: Capital Expenditures			(2)	(6)	(17)	(15)	(16)	(16)		
Unlevered FCF			**$76**	**$86**	**$90**	**$99**	**$116**	**$121**		

		PV of Terminal Value at TVGR of			Enterprise Value at TVGR of			Implied TV EBITDA Multiple at TVGR of		
WACC	**PV of FCF's '20E – '24E[1]**	**3.0%**	**3.5%**	**4.0%**	**3.0%**	**3.5%**	**4.0%**	**3.0%**	**3.5%**	**4.0%**
11.75%	**$355**	$872	$930	$995	$1,227	$1,285	$1,349	8.3x	8.9x	9.5x
12.25%	**351**	809	860	916	1,160	1,211	1,267	7.9	8.4	9.0
12.75%	**347**	753	797	847	1,100	1,145	1,194	7.5	8.0	8.5

	Terminal Value as % of EV at TVGR of			Implied 2019A EBITDA Multiple at TVGR of			Implied 2021E EBITDA Multiple at TVGR of		
WACC	**3.0%**	**3.5%**	**4.0%**	**3.0%**	**3.5%**	**4.0%**	**3.0%**	**3.5%**	**4.0%**
11.75%	71%	72%	74%	8.5x	8.9x	9.3x	11.0x	11.5x	12.1x
12.25%	70%	71%	72%	8.0	8.3	8.7	10.4	10.9	11.4
12.75%	68%	70%	71%	7.6	7.9	8.2	9.9	10.3	10.7

Source: Management LRP.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively. Valuation date as of 9/11/2020.
The Debtors are currently exploring an alternative transaction structure that would constitute a taxable transfer of the Debtors' assets. The tax consequences of this alternative transaction remain subject to ongoing analysis. The above tax projections assume that the Debtors will not engage in this alternative transaction.
1 Represents cash flows from 9/11/2020 through the end of 2024E.

Weighted Average Cost of Capital

Based on the assumptions shown below, Lazard derived a WACC range for use in calculating the going-concern value of the operations utilizing a Discounted Cash Flow Analysis

Risk Free Rate	• Represents the risk-free borrowing rate, as reflected in the 30-year U.S. Treasury bond rate of 1.2% as of July 29, 2020
Beta	• Beta, as measured by the covariance between a security's return and the return on the market portfolio, is an estimate of systematic, or market-related, risk • Unlevered beta of 1.80 for J. Crew based on peer averages • Unlevered beta of 1.51 for Madewell based on peer averages
Equity Risk Premium	• Represents the expected return on equity securities in excess of the risk-free rate • 7.2% (Duff & Phelps, 2020)
Pre-Tax Cost of Debt	• 7.25% based on the estimated cost of debt at emergence
Net Debt-to-Capitalization Ratio	• 15.0% based on the Company's post-emergence capital structure
Tax Rate	• 25.2% per Management guidance

Source: FactSet as of 7/29/2020, Bloomberg, Barra, Duff & Phelps.

WACC Analysis – J. Crew

Lazard's concluded WACC range for J. Crew is 13.75% – 14.75% (midpoint of 14.25%), represented by the WACC calculated below +/- 50 bps

Assumptions		Sensitivity Range		Implied Cost of Equity		Implied WACC	
		Low	High	Low	High	Low	High
Unlevered Beta	1.80	1.64	1.96	*14.5%*	*17.1%*	*13.1%*	*15.3%*
Target Debt / Capitalization	*15.0%*	*0.0%*	*30.0%*	*14.1%*	*18.2%*	*14.1%*	*14.4%*
Target Debt / Equity	*17.6%*						
Levering Factor[1]	1.13						
Levered Beta[2]	2.03	1.86	2.21				
Marginal Tax Rate	*25.2%*						
Risk-Free Rate of Return	*1.2%*						
Equity Risk Premium	*7.2%*						
Cost of Equity[3]	***15.8%***						
Pre-Tax Cost of Debt	*7.25%*	*5.5%*	*9.0%*	*15.8%*	*15.8%*	*14.0%*	*14.4%*
Post-Tax Cost of Debt	***5.4%***						
WACC[4]	***14.2%***						

LAZARD

Source: Company financials, Management LRP, FactSet as of 7/29/2020, Bloomberg, Barra, Duff & Phelps.
1 Levering Factor = [1+ (1 – Tax Rate) x (Net Debt / Equity)].
2 Levered Beta = Unlevered Beta x Levering Factor.
3 Calculated using CAPM. Cost of Equity = (Risk Free Rate of Return) + (Levered Beta) x (Equity Risk Premium).
4 Weighted Average Cost of Capital = (Post-Tax Cost of Debt) x (Debt / Cap.) + (Cost of Equity) x (Equity / Cap.).

WACC Analysis – Madewell

Lazard's concluded WACC range for Madewell is 11.75% – 12.75% (midpoint of 12.25%), represented by the WACC calculated below +/- 50 bps

		Sensitivity Range		Implied Cost of Equity		Implied WACC	
Assumptions		**Low**	**High**	**Low**	**High**	**Low**	**High**
Unlevered Beta	1.51	1.36	1.66	*12.2%*	*14.7%*	*11.2%*	*13.3%*
Target Debt / Capitalization	*15.0%*	*0.0%*	*30.0%*	*12.0%*	*15.5%*	*12.0%*	*12.5%*
Target Debt / Equity	*17.6%*						
Levering Factor[1]	1.13						
Levered Beta[2]	1.71	1.53	1.88				
Marginal Tax Rate	*25.2%*						
Risk-Free Rate of Return	*1.2%*						
Equity Risk Premium	*7.2%*						
Cost of Equity[3]	***13.5%***						
Pre-Tax Cost of Debt	*7.25%*	*5.5%*	*9.0%*	*13.5%*	*13.5%*	*12.1%*	*12.4%*
Post-Tax Cost of Debt	***5.4%***						
WACC[4]	***12.2%***						

LAZARD

Source: Company financials, Management LRP, FactSet as of 7/29/2020, Bloomberg, Barra, Duff & Phelps.
1 Levering Factor = [1+ (1 – Tax Rate) x (Net Debt / Equity)].
2 Levered Beta = Unlevered Beta x Levering Factor.
3 Calculated using CAPM. Cost of Equity = (Risk Free Rate of Return) + (Levered Beta) x (Equity Risk Premium).
4 Weighted Average Cost of Capital = (Post-Tax Cost of Debt) x (Debt / Cap.) + (Cost of Equity) x (Equity / Cap.).

Beta Summary – Retained Peers

($ in billions)

					Barra Local		Barra Global		Bloomberg Local Raw		Bloomberg Global Raw	
	Company	Market Value of Equity	Net Debt / Total Cap.	Net Debt / Equity	Levered	Unlevered	Levered	Unlevered	Levered	Unlevered	Levered	Unlevered
J. Crew Peers	Gap	$5.4	*11.1%*	*12.5%*	1.928	1.774	2.254	2.074	2.026	1.864	2.173	1.999
	American Eagle	1.8	*(15.3%)*	*(13.3%)*	1.712	1.712	1.994	1.994	1.444	1.444	1.544	1.544
	Urban Outfitters	1.7	*(33.3%)*	*(25.0%)*	1.616	1.616	1.878	1.878	1.343	1.343	1.443	1.443
	Oxford	0.8	*3.2%*	*3.4%*	1.661	1.621	1.934	1.887	1.575	1.536	1.701	1.660
	Abercrombie & Fitch	0.7	*(63.0%)*	*(38.7%)*	1.706	1.706	1.978	1.978	1.731	1.731	1.736	1.736
	Children's Place	0.4	*28.4%*	*39.7%*	2.114	1.592	2.473	1.862	2.628	1.978	2.697	2.030
	Chico's	0.2	*14.9%*	*17.5%*	1.961	1.719	2.297	2.014	1.801	1.579	2.109	1.849
	Median	**$0.8**	***3.2%***	***3.4%***	**1.712**	**1.706**	**1.994**	**1.978**	**1.731**	**1.579**	**1.736**	**1.736**
	Mean	**$1.6**	***(7.7%)***	***(0.6%)***	**1.814**	**1.677**	**2.115**	**1.955**	**1.792**	**1.639**	**1.915**	**1.752**
Madewell Peers	Lululemon	$42.8	*(0.8%)*	*(0.8%)*	1.161	1.161	1.321	1.321	1.264	1.264	1.340	1.340
	VF Corporation	24.2	*10.7%*	*11.9%*	1.378	1.258	1.599	1.460	1.282	1.171	1.379	1.259
	Levi's	5.2	*5.2%*	*5.5%*	1.635	1.569	1.909	1.832	1.861	1.786	1.907	1.831
	Carter's	3.7	*5.9%*	*6.3%*	1.318	1.256	1.523	1.451	1.193	1.137	1.252	1.193
	Canada Goose	2.5	*7.3%*	*7.8%*	1.629	1.531	2.168	2.038	1.856	1.744	2.085	1.959
	Aritzia	1.5	*(2.5%)*	*(2.4%)*	1.425	1.425	1.876	1.876	1.898	1.898	1.718	1.718
	Median	**$4.4**	***5.5%***	***5.9%***	**1.378**	**1.258**	**1.737**	**1.646**	**1.282**	**1.264**	**1.548**	**1.529**
	Mean	**$13.3**	***4.3%***	***4.7%***	**1.424**	**1.355**	**1.733**	**1.663**	**1.491**	**1.420**	**1.613**	**1.550**
	Consolidated Median	**$1.8**	***5.2%***	***5.5%***	**1.648**	**1.604**	**1.934**	**1.878**	**1.653**	**1.558**	**1.718**	**1.718**
	Consolidated Mean	**$7.0**	***(2.2%)***	***1.9%***	**1.652**	**1.543**	**1.939**	**1.820**	**1.667**	**1.548**	**1.776**	**1.658**
Excluded	Inditex	$86.4	*(8.5%)*	*(7.8%)*	1.014	1.014	1.109	1.109	1.023	1.023	0.950	0.950
	Fast Retailing	56.8	*(7.8%)*	*(7.2%)*	1.117	1.117	0.906	0.906	0.885	0.885	1.023	1.023
	H&M	26.2	*5.2%*	*5.4%*	1.239	1.188	1.516	1.454	1.318	1.264	1.385	1.328

LAZARD

Source: Company filings, FactSet as of 7/29/2020, Barra as of 6/30/2020, Bloomberg as of 7/24/2020.
Note: Local beta medians and means exclude Aritzia.

Exit Capital Structure and Financing Proposals

($ in millions; FY February 1)

Pro Forma Capitalization Summary

	Pre- Emergence	Δ	Post-Emergence
Existing ABL Facility[1]	$310	($310)	$--
Exisiting Term Loans	1,337	(1,337)	--
IPCo Notes	348	(348)	--
Series A Preferred Stock	210	(210)	--
Series B Preferred Stock	132	(132)	--
Exit ABL Facility[1]	--	146	146
Exit Term Loans	--	400	400
Total Debt & Preferred Stock	**$2,337**	**($1,791)**	**$546**
Memo:			
Cash	$48	($23)	$25
Net Leverage (Incl. Pref)	9.1x	(7.1x)	2.1x
FY '19 Adj. EBITDA	$251	$251	$251

Pro Forma Weighted Average Cost of Debt

	At Exit	Rate	LIBOR Floor	Effective Rate
Exit ABL Facility[2]	146	*L + 2.00%*	*0.75%*	*2.75%*
Exit Term Loans[3]	400	*L + 8.00%*	*1.00%*	*9.00%*
Total	**$546**	***Weighted Average Cost of Debt at Emergence***		***7.33%***
Memo:				
BB High Yield Index[4] (7/29)				4.4%
B High Yield Index[4] (7/29)				6.2%
CCC High Yield Index[4] (7/29)				13.4%

Source: Company financials, Management LRP, FactSet as of 7/29/2020.
1 Excludes letters of credit.
2 Based on ≥50% average excess availability; rate flexes up to L + 2.50% at lower levels of excess availability.
3 In the first year, can elect to pay L+100bps of cash interest (100bps LIBOR floor) and 900bps of PIK interest.
4 Represents yield to maturity of the ICE BofA US BB High Yield Index, ICE BofA US B High Yield Index, and ICE BofA US CCC High Yield Index.

B Comparable Companies Analysis

Comparable Companies Analysis — Methodology Overview

In its Comparable Companies Analysis, Lazard selected a group of comparable public companies in order to derive an appropriate range of valuation multiples to estimate the going-concern value of Chinos Holdings

- **Comparable Companies Analysis establishes a benchmark for asset valuation based upon the value of similar companies as a multiple of common variables, such as revenue, earnings and cash flow, among other metrics**
  - After analyzing the subject company, a universe of companies is compiled from various sources including database research, industry reviews, discussions with Management and Lazard's knowledge of the apparel retail sector
  - A key element of this approach is the selection of companies with comparable business and financial characteristics
  - Selected criteria for evaluating comparable companies include: (i) lines of business, (ii) customers and end markets, (iii) business risks, (iv) growth prospects, (v) maturity and (vi) size and scale, among other factors
  - A company's exposure to the secular changes affecting the retail channel is a key factor affecting trading multiples today, as investors weigh the impact of mall traffic declines, online conversion, changes in consumer spending, and other disruptive forces on business and financial risk
- **Lazard's analysis of the selected comparable companies included a review of each company's financial statements, as well as an assessment of each company's business mix, operating performance, profitability, leverage and business trends, among other factors**
  - Based on our judgement and the facts and circumstances, Lazard selected comparable companies on the basis of business and financial characteristics most closely aligned with those of J. Crew and Madewell, respectively
  - The selection of comparable companies is a matter of judgment and subject to limitations due to sample size and the availability of meaningful market-based information
  - In formulating its view, Lazard made certain qualitative judgements with respect to differences between J. Crew and Madewell
  - Lazard believes that enterprise value as a multiple of EBITDA is the most appropriate valuation benchmark for purposes of determining the going-concern value of J. Crew and Madewell, respectively

Comparable Companies Analysis Valuation Worksheet

($ in millions; FYE February 1)

	J. Crew				Madewell			
	2019A		2021E		2019A		2021E	
	Low	High	Low	High	Low	High	Low	High
Adjusted EBITDA	$106	$106	$97	$97	$145	$145	$111	$111
Less: Share-Based Compensation	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Adjusted EBITDA (Less SBC)	**$106**	**$106**	**$97**	**$97**	**$145**	**$145**	**$111**	**$111**
(x) Multiple	2.75x	3.75x	3.50x	4.50x	11.00x	13.00x	11.75x	13.75x
Implied Enterprise Value	**$290**	**$396**	**$339**	**$435**	**$1,596**	**$1,886**	**$1,308**	**$1,530**

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Source: Company financials, Management LRP.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.

Selected Comparable Companies – J. Crew Peers

($ in billions, except per share data; FYE February 1)

	Company	Share Price	% of 52 Wk. High	MV	EV	EV / Revenue 2019A	EV / Revenue 2020E	EV / Revenue 2021E	Revenue CAGR '19A-'21E	EV / EBITDA 2019A	EV / EBITDA 2020E	EV / EBITDA 2021E	EBITDA Margin 2019A	LTM Net Lvg.	Financial Debt	Cash	Operating Leases
J. Crew Peers	Gap [1]	$14.15	*72.5%*	$5.4	$6.1	0.41x	0.46x	0.40x	*(4.1%)*	3.8x	n.m.	5.3x	*9.8%*	1.3x	$2.3	($1.6)	$6.2
	American Eagle	$10.65	*59.5%*	1.8	1.6	0.39x	0.43x	0.37x	*0.2%*	3.2x	14.1x	3.7x	*11.4%*	(0.8x)	0.6	(0.9)	1.6
	Urban Outfitters	$17.33	*55.8%*	1.7	1.3	0.36x	0.39x	0.34x	*(1.3%)*	3.5x	n.m.	4.1x	*9.4%*	(2.5x)	0.1	(0.6)	1.3
	Oxford	$45.41	*57.1%*	0.8	0.8	0.82x	0.97x	0.77x	*(4.0%)*	5.7x	n.m.	7.1x	*12.2%*	0.4x	0.2	(0.2)	0.3
	Children's Place	$26.77	*27.2%*	0.4	0.6	0.33x	0.36x	0.34x	*(5.0%)*	3.1x	5.7x	3.6x	*9.8%*	1.1x	0.2	(0.1)	0.4
	Abercrombie & Fitch [2]	$10.33	*54.6%*	0.7	0.4	0.13x	0.14x	0.12x	*(2.7%)*	1.7x	5.1x	1.7x	*6.9%*	(1.6x)	0.4	(0.6)	1.5
	Chico's	$1.43	*28.3%*	0.2	0.2	0.12x	0.13x	0.12x	*(5.9%)*	2.5x	n.m.	2.9x	*4.4%*	(0.6x)	0.1	(0.1)	0.7
				Median		**0.36x**	**0.39x**	**0.34x**	***(4.0%)***	**3.2x**	**5.7x**	**3.7x**	***9.8%***	**(0.6x)**	**$0.2**	**($0.6)**	**$1.3**
				Mean		**0.36x**	**0.41x**	**0.35x**	***(3.3%)***	**3.3x**	**8.3x**	**4.1x**	***9.1%***	**(0.4x)**	**$0.6**	**($0.6)**	**$1.7**

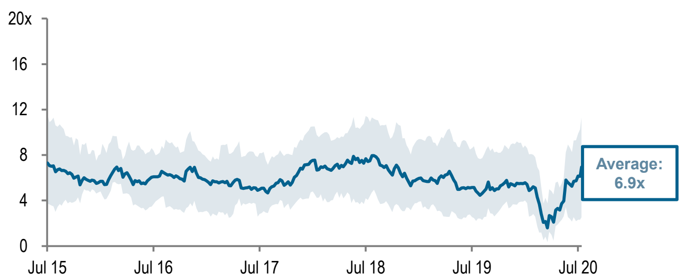
Source: Company filings, FactSet as of 7/29/2020.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
1 Includes the impact of the $2.25bn senior secured notes offering announced 5/07/2020. $1.25bn and $0.5bn of proceeds were utilized to redeem existing notes and repay the revolving credit facility, respectively.
2 Includes the impact of the $0.35bn senior secured notes offering announced 7/02/2020. The proceeds were used to repay the existing term loan and revolving credit facility.

Multiple Evolution Analysis – J. Crew Peers

(calendarized to FYE February 1)

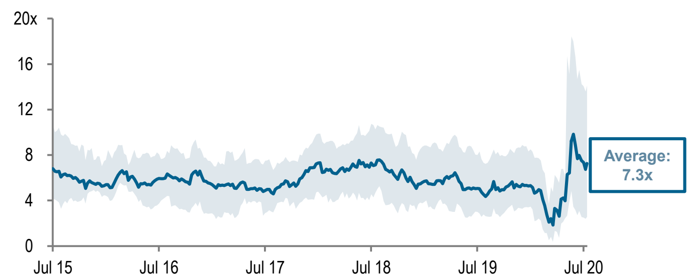
EV / LTM EBITDA

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained J. Crew Peers	4.7x	5.4x	5.8x	5.9x



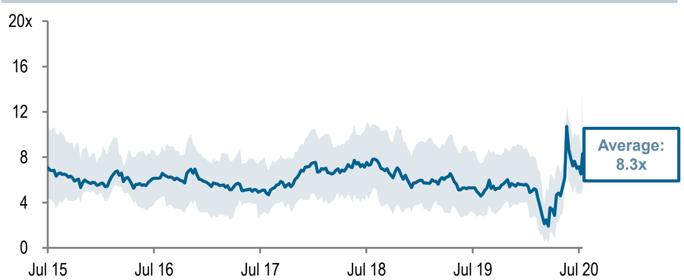
EV / NTM EBITDA

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained J. Crew Peers	5.2x	5.6x	5.8x	5.8x



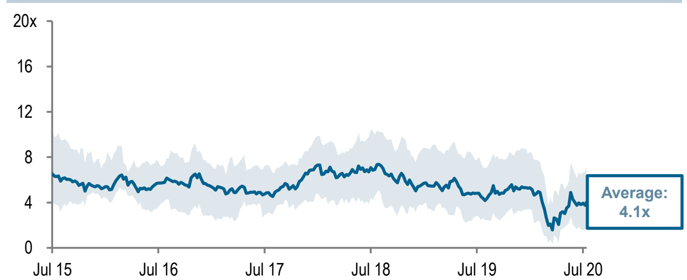
EV / (FY + 1 EBITDA)

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained J. Crew Peers	5.4x	5.8x	6.0x	6.0x



EV / (FY + 2 EBITDA)

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained J. Crew Peers	4.3x	5.0x	5.4x	5.5x



Source: FactSet as of 7/29/2020.
Note: Shaded area represents minimum and maximum of peer set. Retained J. Crew peers include Abercrombie & Fitch, American Eagle, Chico's, Children's Place, Gap, Oxford and Urban Outfitters.

Selected Comparable Companies – Madewell Peers

($ in billions, except per share data; FYE February 1)

	Company	Share Price	% of 52 Wk. High	MV	EV	EV / Revenue 2019A	EV / Revenue 2020E	EV / Revenue 2021E	Revenue CAGR '19A-'21E	EV / EBITDA 2019A	EV / EBITDA 2020E	EV / EBITDA 2021E	EBITDA Margin 2019A	LTM Net Lvg.	Financial Debt	Cash	Operating Leases
Madewell Peers	Inditex[1]	€23.57	*73.3%*	$86.4	$79.4	2.64x	2.98x	2.53x	*(2.9%)*	11.4x	20.3x	13.0x	*20.9%*	(0.9x)	$0.2	($7.0)	$8.1
	Fast Retailing [1]	¥58,330.00	*83.9%*	56.8	52.9	2.37x	2.61x	2.30x	*1.5%*	20.4x	30.0x	22.4x	*11.6%*	(1.5x)	5.9	(9.9)	4.2
	Lululemon [2]	$325.74	*98.2%*	42.8	42.4	10.69x	10.72x	8.47x	*12.2%*	40.4x	46.0x	32.6x	*26.4%*	(0.3x)	--	(0.3)	0.8
	H&M[1]	kr138.55	*65.5%*	26.2	27.6	1.02x	1.21x	1.07x	*(2.4%)*	8.1x	16.6x	9.2x	*12.6%*	0.5x	2.9	(1.5)	8.2
	VF Corporation [3]	$61.91	*61.8%*	24.2	27.1	2.53x	3.12x	2.55x	*(0.5%)*	16.0x	29.9x	16.9x	*15.7%*	2.1x	5.9	(3.0)	1.4
	Levi's	$12.32	*60.2%*	5.2	5.4	0.93x	1.26x	0.99x	*(2.8%)*	7.5x	25.5x	8.2x	*12.4%*	0.9x	1.5	(1.2)	1.1
	Carter's	$83.63	*75.0%*	3.7	3.9	1.19x	1.25x	1.15x	*(1.2%)*	7.9x	11.2x	8.5x	*14.0%*	0.6x	1.2	(1.0)	0.8
	Canada Goose [4]	$23.03	*49.2%*	2.5	2.7	3.77x	4.33x	3.41x	*5.1%*	13.1x	18.8x	12.9x	*28.8%*	1.1x	0.3	(0.1)	0.2
	Aritzia [1,4]	C$18.21	*69.7%*	1.5	1.5	2.18x	2.40x	1.81x	*6.4%*	12.2x	37.6x	10.9x	*16.8%*	(0.4x)	0.1	(0.2)	0.4
				Median		**2.27x**	**2.51x**	**2.05x**	***(0.9%)***	**11.8x**	**22.9x**	**11.9x**	***14.9%***	**0.5x**	**$1.4**	**($1.3)**	**$1.2**
				Mean		**2.08x**	**2.39x**	**1.98x**	***0.4%***	**12.1x**	**23.7x**	**12.8x**	***16.6%***	**0.3x**	**$2.2**	**($3.0)**	**$3.0**

Excludes Lululemon

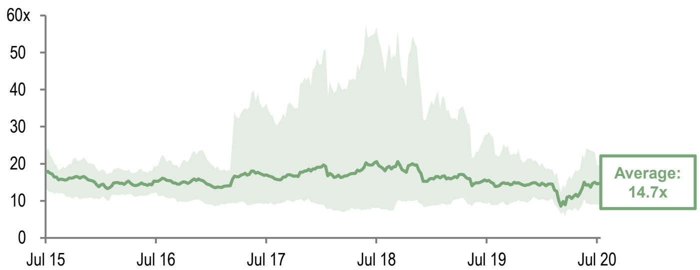
Source: Company filings, FactSet as of 7/29/2020.
Note: FY 2019A and FY 2021E represent the years ending 2/1/2020 and 2/1/2022, respectively.
1 Presented on a pre-IFRS 16 basis for comparability.
2 Includes the impact of acquisition of MIRROR for $0.5bn on 7/07/2020.
3 Includes the impact of the $3.0bn senior notes offering announced 4/23/2020. ~$1.0bn of proceeds were utilized to repay the revolving credit facility.
4 Adjusted EBITDA reduced to include share-based compensation expense.

Multiple Evolution Analysis – Madewell Peers

(calendarized to FYE February 1)

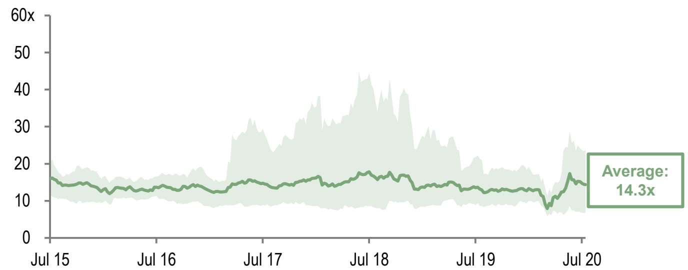
EV / LTM EBITDA

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained Madewell Peers	13.6x	15.4x	16.1x	15.8x



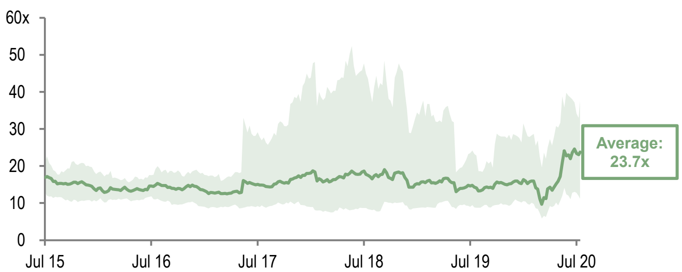
EV / NTM EBITDA

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained Madewell Peers	12.8x	13.8x	14.3x	14.1x



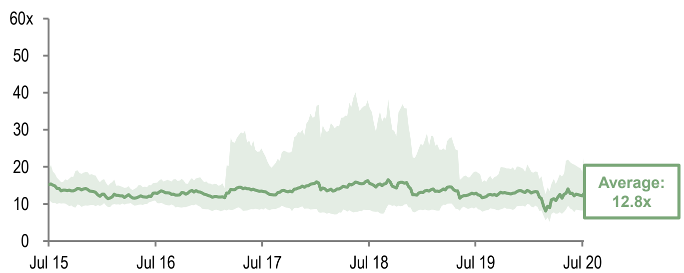
EV / (FY + 1 EBITDA)

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained Madewell Peers	16.1x	16.1x	16.3x	15.5x



EV / (FY + 2 EBITDA)

Average:	1-Yr	2-Yr	3-Yr	5-Yr
Retained Madewell Peers	12.3x	13.2x	13.5x	13.3x



Source: FactSet as of 7/29/2020.

Note: Shaded area represents minimum and maximum of peer set. Retained Madewell peers include Aritzia, Canada Goose, Carter's, Fast Retailing, H&M, Inditex, Levi's and VF Corporation. Lululemon excluded from evolution charts.

Screening of Comparable Companies

	J. Crew Peers	Madewell Peers	Considered But Excluded
In-Line Apparel Retail	Abercrombie & Fitch, American Eagle Outfitters, Chico's, The Children's Place, GAP, Oxford, URBN	Aritzia, carter's, lululemon	Buckle, L brands, zumiez, ascena retail group inc., Express, Tailored Brands
Branded Apparel		Canada Goose, Levi's, VF	G-III Apparel Group, Gildan, Guess, Kontoor, PVH, Hanes Brands Inc, Ralph Lauren
Fast Fashion		Fast Retailing, H&M, Inditex	

Screening of Comparable Companies – Summary of Analysis

	Company	Size (2019 Revenue / # Stores)	Operating Model	Financial Performance	Commentary
J. Crew Peers	Abercrombie & Fitch	$3.6bn / 854 stores	●	●	Retained on the basis of business and financial characteristics aligned with J. Crew
	American Eagle	$4.3bn / 1,312 stores	●	◐	
	Chico's	$2.0bn / 1,341 stores	●	●	
	Children's Place	$1.9bn / 924 stores	●	●	
	Gap	$16.4bn / 3,919 stores	●	●	
	Oxford	$1.1bn / 224 stores	●	●	
	Urban Outfitters	$4.0bn / 641 stores	●	●	
Madewell Peers	Aritzia	$0.7bn / 91 stores	●	●	Retained on the basis of business and financial characteristics aligned with Madewell
	Canada Goose	$0.7bn / 20 stores	◐	●	
	Carter's	$3.5bn / 1,109 stores	◐	●	
	Fast Retailing	$22.4bn / 3,589 stores	◐	●	
	H&M	$27.0bn / 5,076 stores	◐	●	
	Inditex	$33.3bn / 7,469 stores	◐	●	
	Levi's	$5.8bn / 3,000 stores	◐	●	
	Lululemon	$4.0bn / 491 stores	◐	●	
	VF Corporation	$10.7bn / 4,379 stores	◐	◐	
Considered But Excluded	Ascena***	$5.5bn / 3,445 stores	● ●	● ○	Excluded on the basis of key differences in size, operating model, and financial performance, among other factors
	Buckle	$0.9bn / 448 stores	◐ ◐	● ○	
	Express***	$2.0bn / 595 stores	● ●	● ○	
	G-III	$3.2bn / 338 stores	○ ○	○ ◐	
	Gildan Activewear	$2.8bn / 0 stores	○ ○	● ○	
	Guess?	$2.7bn / 2,123 stores	◐ ◐	○ ◐	
	Hanesbrands	$7.0bn / 998 stores	○ ○	○ ◐	
	Kontoor Brands	$2.5bn / 129 stores	○ ◐	● ○	
	L Brands	$12.9bn / 2,920 stores	◐ ◐	● ○	
	PVH	$9.9bn / 3,330 stores	○ ◐	◐ ○	
	Ralph Lauren	$6.3bn / 1,184 stores	◐ ◐	◐ ○	
	Tailored Brands***	$2.9bn / 1,450 stores	◐ ◐	● ○	
	Zumiez	$1.0bn / 718 stores	○ ○	○ ◐	

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Source: Company filings, FactSet as of 7/29/2020.
Note: See Appendix for additional detail.
*** Excluded due to on-going financial distress.

● More Comparable to J. Crew
○ Less Comparable to J. Crew
● More Comparable to Madewell
○ Less Comparable to Madewell

Screening of Comparable Companies – Financial Benchmarking

Group	'19A-'21E Revenue CAGR		'19A-'21E EBITDA CAGR		2019A Cash Flow Conversion[1]	
J. Crew Peers	American Eagle	0.2%	Abercrombie & Fitch	0.3%	J. Crew[2]	80.7%
	Urban Outfitters	(1.3%)	J. Crew	(4.2%)	Oxford	72.6%
	Abercrombie & Fitch	(2.7%)	American Eagle	(6.8%)	Children's Place	67.0%
	Oxford	(4.0%)	Children's Place	(6.9%)	Chico's	62.4%
	Gap	(4.1%)	Urban Outfitters	(8.1%)	American Eagle	57.4%
	Children's Place	(5.0%)	Oxford	(9.4%)	Gap	56.1%
	Chico's	(5.9%)	Chico's	(9.5%)	Urban Outfitters	42.1%
	J. Crew	(8.9%)	Gap	(15.5%)	Abercrombie & Fitch	18.6%
Madewell Peers	Lululemon	12.2%	Lululemon	11.4%	Carter's	87.5%
	Aritzia	6.4%	Aritzia[3,4]	5.9%	Madewell	86.4%
	Canada Goose	5.1%	Canada Goose[3]	0.6%	VF Corporation	84.0%
	Madewell	2.9%	VF Corporation	(2.6%)	Inditex[4]	80.5%
	Fast Retailing	1.5%	Carter's	(2.9%)	Canada Goose[3]	78.3%
	VF Corporation	(0.5%)	Levi's	(4.4%)	Fast Retailing[4]	75.2%
	Carter's	(1.2%)	Fast Retailing[4]	(4.6%)	Levi's	74.6%
	H&M	(2.4%)	Inditex[4]	(6.1%)	Lululemon	73.1%
	Levi's	(2.8%)	H&M[4]	(6.2%)	Aritzia[3,4]	71.0%
	Inditex	(2.9%)	Madewell	(12.4%)	H&M[4]	68.7%
Considered But Excluded	Zumiez	1.5%	Express	(0.9%)	Buckle	95.3%
	Buckle	1.2%	Zumiez	(1.2%)	Kontoor Brands	93.3%
	Ralph Lauren	(2.4%)	L Brands	(5.4%)	Hanesbrands	90.6%
	Hanesbrands	(4.4%)	Ralph Lauren	(5.6%)	G-III	86.6%
	Kontoor Brands	(4.5%)	Buckle	(8.3%)	Zumiez	83.1%
	L Brands	(5.2%)	Guess?	(8.8%)	Gildan Activewear	74.4%
	PVH	(5.9%)	Hanesbrands	(8.8%)	L Brands	73.7%
	Express	(6.7%)	Gildan Activewear	(9.7%)	Ralph Lauren	73.0%
	Guess?	(6.9%)	Kontoor Brands	(10.0%)	PVH	72.5%
	G-III	(8.0%)	G-III	(13.1%)	Guess?	72.0%
	Gildan Activewear	(9.1%)	PVH	(13.8%)	Tailored Brands	64.5%
	Ascena	n.a.	Ascena	n.a.	Express	50.1%
	Tailored Brands	n.a.	Tailored Brands	n.a.	Ascena	35.5%

Callouts: J. Crew revenue '19A-'24E: (3.7%); J. Crew EBITDA '19A-'24E: (3.5%); J. Crew cash flow conversion '24E: 75.9%; Madewell revenue '19A-'24E: 6.4%; Madewell EBITDA '19A-'24E: 4.4%; Madewell cash flow conversion '24E: 91.4%

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Source: Company filings, FactSet as of 7/29/2020.
1 Defined as (EBITDA - Capex) / EBITDA.
2 Excluding $25m for HQ relocation.
3 Adjusted EBITDA reduced to include share-based compensation expense.
4 Presented on a pre-IFRS 16 basis for comparability.

Screening of Comparable Companies – Financial Benchmarking (cont'd)

	'17-'19 SSS (Two Year Stack)		'17-'19A Revenue CAGR		'17-'19A EBITDA CAGR	
J. Crew Peers	American Eagle	11.0%	American Eagle	6.5%	American Eagle	0.0%
J. Crew Peers	Urban Outfitters	9.4%	Urban Outfitters	5.0%	Oxford	(0.5%)
J. Crew Peers	Oxford	8.0%	Abercrombie & Fitch	1.8%	Urban Outfitters	(3.9%)
J. Crew Peers	Abercrombie & Fitch	4.0%	Oxford	1.7%	Abercrombie & Fitch	(7.7%)
J. Crew Peers	Children's Place	1.9%	Gap	1.7%	Gap	(8.6%)
J. Crew Peers	J. Crew	0.5%	Children's Place	0.0%	J. Crew	(10.6%)
J. Crew Peers	Gap	(3.0%)	J. Crew	(2.6%)	Children's Place	(13.9%)
J. Crew Peers	Chico's	(8.3%)	Chico's	(5.5%)	Chico's	(38.8%)
Madewell Peers	Madewell	35.0%	Canada Goose	27.5%	Canada Goose [1]	39.0%
Madewell Peers	Lululemon	35.0%	Madewell	25.3%	Lululemon	31.1%
Madewell Peers	Aritzia	16.4%	Lululemon	22.6%	Madewell	24.4%
Madewell Peers	Inditex	10.5%	Aritzia	14.9%	Aritzia [1,2]	19.5%
Madewell Peers	Carter's	3.2%	Fast Retailing	9.1%	Levi's	8.1%
Madewell Peers	Fast Retailing	n.a.	H&M	8.3%	Inditex [2]	5.7%
Madewell Peers	H&M	n.a.	Levi's	7.7%	Fast Retailing [2]	5.7%
Madewell Peers	Canada Goose	n.a.	Inditex	5.7%	H&M [2]	2.5%
Madewell Peers	Levi's	n.a.	Carter's	1.7%	Carter's	(3.3%)
Madewell Peers	VF Corporation	n.a.	VF Corporation	(6.8%)	VF Corporation	(4.7%)
Considered But Excluded	Zumiez	10.5%	Guess?	6.4%	Guess?	22.0%
Considered But Excluded	Guess?	3.7%	G-III	6.1%	Zumiez	21.0%
Considered But Excluded	L Brands	2.0%	Zumiez	5.6%	G-III	19.2%
Considered But Excluded	Buckle	1.3%	PVH	5.4%	PVH	2.7%
Considered But Excluded	Ascena	0.0%	Hanesbrands	3.8%	Hanesbrands	1.8%
Considered But Excluded	Ralph Lauren	(1.0%)	Gildan Activewear	1.3%	Ralph Lauren	1.1%
Considered But Excluded	Tailored Brands	(1.8%)	Ralph Lauren	1.3%	Buckle	(2.9%)
Considered But Excluded	Express	(6.0%)	L Brands	1.1%	Gildan Activewear	(3.3%)
Considered But Excluded	G-III	n.a.	Buckle	(0.7%)	Kontoor Brands	(6.2%)
Considered But Excluded	Gildan Activewear	n.a.	Ascena	(1.2%)	L Brands	(10.2%)
Considered But Excluded	Hanesbrands	n.a.	Express	(2.8%)	Tailored Brands	(15.1%)
Considered But Excluded	Kontoor Brands	n.a.	Kontoor Brands	(5.6%)	Express	(28.1%)
Considered But Excluded	PVH	n.a.	Tailored Brands	(6.6%)	Ascena	(29.4%)

Source: Company filings, FactSet as of 7/29/2020.
1 Adjusted EBITDA reduced to include share-based compensation expense.
2 Presented on a pre-IFRS 16 basis for comparability.

C Precedent Transactions Analysis

Precedent Transactions Analysis — Methodology Overview

Lazard utilized a similar approach to that used in the Comparable Companies Analysis to arrive at a relevant set of precedent transactions

- **Precedent Transactions Analysis estimates the value of a company by examining merger and acquisition ("M&A") transactions for comparable companies and analyzing the purchase price (including debt) as a multiple of LTM EBITDA**
  - Only publicly available information related to the transaction was used
  - Potential synergies identified by the acquiror were not considered when computing transaction multiples
- **Lazard reviewed relevant apparel retail M&A transactions since 2010 for which financial details regarding the transactions are publicly available**
- **This method also requires qualitative judgments, as each M&A transaction occurs under unique circumstances**
- **While Lazard reviewed precedent transactions since 2010, many of these transactions occurred in different market conditions from those currently prevailing in the marketplace and therefore may not be reliable for purposes of estimating the going-concern value of Chinos Holdings**
  - The majority of transactions involving targets in the apparel retail category resulted in some measure of financial distress post-transaction, calling into question the valuation multiples paid by the acquirors
  - At the time most transactions were effected, the targets were perceived to be insulated from long term secular changes (principally from spending shifts within the retail channel, foot traffic declines, and digital disintermediation) that are now affecting the industry
  - As a result, Lazard believes that the Precedent Transactions Analysis is of limited relevance for estimating the going-concern value of Chinos Holdings
- **It should be noted that many other limitations apply to Precedent Transactions Analysis due to changes in the economy, retail sector disruption, the financial markets and the capital markets that may make historical multiples and transactions less reliable**

Precedent Transactions Analysis Valuation Worksheet

($ in millions; FYE February 1)

	J. Crew		Madewell	
	2019A		2019A	
	Low	High	Low	High
Adjusted EBITDA	$106	$106	$145	$145
Less: Share-Based Compensation	(0)	(0)	(0)	(0)
Adjusted EBITDA (Less SBC)	**$106**	**$106**	**$145**	**$145**
(x) Multiple	7.00x	9.00x	8.00x	10.00x
Implied Enterprise Value	**$739**	**$950**	**$1,160**	**$1,451**

Source: Company financials.
Note: FY 2019A represents the year ending 2/1/2020.

Selected Precedent Transactions

($ in billions)

Ann. Date	Target	Acquiror	Enterprise Value	EV / EBITDA
Feb-20	Victoria's Secret (55% Stake) - Terminated	Sycamore Partners	$1.1	2.3x
May-15	Ann	Ascena	2.0	8.6x
Mar-14	Jos A Bank Clothiers	The Men's Wearhouse	1.4	10.5x
Dec-13	Jones Group	Sycamore Partners	2.2	8.6x
Dec-13	Lucky Brand Dungarees	Leonard Green	0.2	7.8x
May-13	True Religion	TowerBrook	0.6	6.9x
Mar-13	Rue 21	Apax	1.0	9.7x
Mar-13	Hot Topic	Sycamore Partners	0.5	8.5x
May-12	Collective Brands	Wolverine, Blum Capital, Golden Gate	1.8	8.1x
May-12	Charming Shoppes	Ascena	0.8	9.8x
Nov-10	J Crew	TPG & Leonard Green	2.7	8.6x
Oct-10	Gymboree	Bain Capital	1.7	7.8x
		Median		**8.5x**
		Mean		**8.1x**

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Source: Company filings, MergerMarket.

Comparability of Precedent Transactions

Many of the transactions that have involved apparel retailers occurred in different market conditions from those currently prevailing in the marketplace and therefore may not be the best indication of value in the current market

Ann. Date	Target	Acquiror	Highly Synergystic Mergers	Experienced Subsequent Financial Distress	Target Perceived as Not Exposed to Secular Retail Channel Shift
Feb-20	Victoria's Secret (55% Stake) - Terminated	Sycamore Partners			
May-15	Ann	Ascena	✓	Filed Chapter 11	✓
Mar-14	Jos A Bank Clothiers	The Men's Wearhouse	✓	✓	✓
Dec-13	Jones Group	Sycamore Partners		Filed Chapter 11	
Dec-13	Lucky Brand Dungarees	Leonard Green		Filed Chapter 11	✓
May-13	True Religion	TowerBrook		Filed Chapter 11	✓
Mar-13	Rue 21	Apax		Filed Chapter 11	✓
Mar-13	Hot Topic	Sycamore Partners		✓	
May-12	Collective Brands	Wolverine, Blum Capital, Golden Gate	✓	Filed Chapter 11	✓
May-12	Charming Shoppes	Ascena	✓	Filed Chapter 11	✓
Nov-10	J Crew	TPG & Leonard Green		Filed Chapter 11	✓
Oct-10	Gymboree	Bain Capital		Filed Chapter 11	✓

Source: Company filings, MergerMarket.