SPITZER PARTNERS

Team Fordham

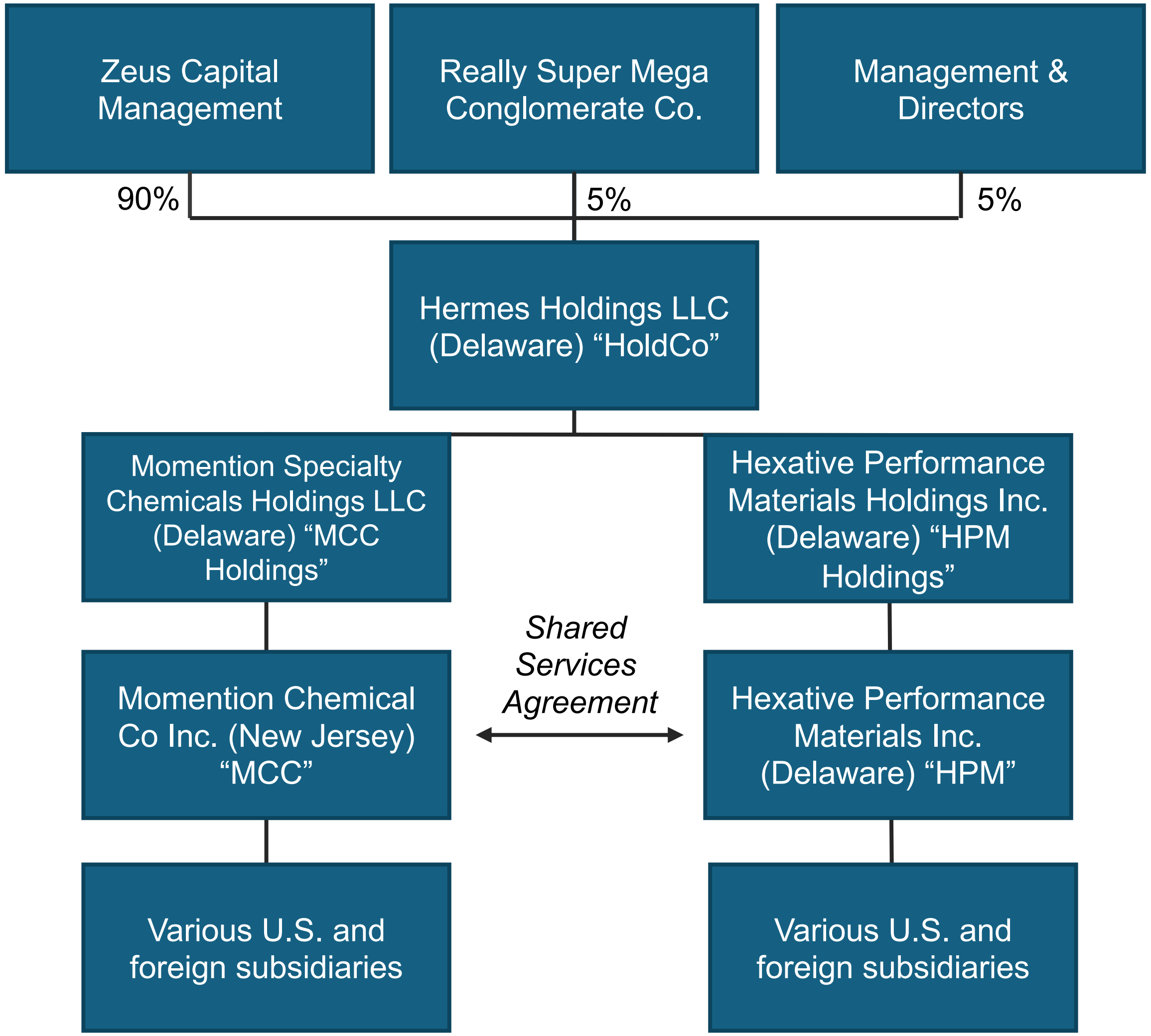
Restructuring Case Competition

November 2025

Company Overview

Hexative Performance Materials (HPM)

- One of the world's largest producers of silicone and silicone derivatives, and a global leader in quartz and specialty ceramics manufacturing
- 70 year history with parent company, Hermes Holdings, formed in October 2018 through merger with Momention Chemical Co. Inc. (MCC)
- Legal & debt capital structures of HPM & MCC remain completely <u>separate & in place</u> following the merger
  - No cross guarantees or credit support is provided between the two companies
  - Both companies report separately & file periodic reports with the SEC
- Shared Services agreement governs intercompany operations – total cost synergy of **$64.5MM** as of Dec 31, 2021



Operational and Industry Overview

HPM has 2 key product lines

- Silicone products → **~91.4%** of revenues
- Quartz & specialty ceramic products → **~8.6%** of revenues
- Maintains **22** production sites in NAM, EU and APAC
- **68%** of net sales generated outside of U.S.

Owns, licenses, or has rights to over 3,600 patents, 100 of which expire between 2022-2029

- Rights under such patents and rights are material assets of the company
- Also relies on unpatented proprietary manufacturing expertise

Industry/environmental regulatory matters

- Environmental compliance CapEx: **$18MM** in 2021; **$31MM** in 2022 due to toxic spill
- Compliance includes toxicity testing and adherence to chemical regulations
- Key regulatory jurisdictions: EU, U.S., and China
- Regulations cover prohibiting & adding chemicals

Silicone industry dynamics

- Management estimates global market at **$16BN**
- Overcapacity driving price erosion & margin compression
- Commoditization & loss of pricing lower reducing EBITDA
- Chinese oversupply sustaining structurally lower returns

Cyclicality and Secularity

- Highly cyclical, driven by industrial demand and capacity
- Steady long-term growth from electronics and construction

Quartz industry dynamics

- Management estimates global market at **$1.2BN**
- Monopolistic; driving sand prices up **3-5%** yearly
- Semiconductor demand linked to global GDP; U.S. share
- Near-term growth below historical rates despite new product-driven capacity additions

Cyclicality and Secularity

- Cyclical, driven by semiconductor expansion cycles
- Supported by long-term chip and mobile computing demand

Situation Overview

- In danger of missing operational covenants under revolving credit facility
- Creditors in different part of HPM's capital structure formed committees to represent their interests
- Payments to vendors are being stretched
- Significant upcoming interest and principal payments on outstanding indebtness
- Rumors that the Board directed company to hire bankruptcy counsel

- Severe industry headwinds – **20%** increase in siloxane capacity since 2019 driving price compression
- EBITDA down **51%** (FY2018-2021); margins compressed from **19%** → **10%**
- Leverage: **19.7x** gross debt/EBITDA, far above industry median of **3.4x**
- Liquidity strain: **$50MM** cash (only **$30MM** accessible); **$60MM** debt payment due April 2022
- Auditor will issue qualified opinion, triggering cross-defaults
- Credits fragmented; 2nd lien is the presumed fulcrum but divided between Zeus and hedge fund investors
- Shared service agreement with MCC under scrutiny – potential value leakage and governance risk
- Underinvestment in maintenance CapEx (**50%** of depreciation) – driving cost disadvantage

Current Liquidity Position

- [Insert liquidity position analysis here]

ABL Availability	(in $MM)
Full ABL Base	270
LCs	71
Locked up	34
On B/S	165
Borrowed	135
Available	**30**

RCF Availability	(in $MM)
Full RCF Base	75
Used up	40
Available	**35**

Static Liquidity (in $MM)	
Cash on B/S	167.5
Available ABL	30
Available RCF	35
Static Liquidity	**232.5**

Debt Schedule (in $MM)	Original Amt	Int Rate	Maturity	PMT M1	PMT M2
ABL Revolver	$165	4.250%	Apr 30 27		
Cash Flow Facility	$35	8.000%	Dec 31 27		
1L Senior Notes	$1,100	8.875%	Oct 31 28	$4	$10
Foreign Local Debt	$46	6.930%	Dec 31 27		
1.5L Senior Notes	$250	10.000%	Oct 31 28	$4	$10
2L Debt	$1,341	9.023%	Jan 31 29	$6	$12
Senior Subordinated Notes	$382	11.500%	Dec 31 27	$6	$12
PIK Note Due HoldCo	$854	11.000%	Jun 30 27		
Holdings Term Loan	$500	10.000%	Apr 30 27		

Free Cash Flow	(in $MM)
EBIT	62.35
Impairment	5.00
D&A	175.32
Adj. EBITDA	242.67
CapEx	-90.59
Adj. EBITDAX	152.08
Interest	-441.24
Tax	-
FCF b/f ΔWC	-289.16
ΔWC	3.93
FCF	**-285.23**

Cash Cycle	'20	'21
Inventory Days	89.02	99.38
Receivable Days	229.02	224.30
Payable Days	83.16	87.10
Cash Cycle	**234.87**	**236.58**

Ability to raise additional capital in debt and equity markets

- HPM's **~20x** gross leverage and deteriorating EBITDA effectively preclude access to traditional debt or equity markets
- Unsecured issuance is unviable, and even rescue capital would demand control economics
- Incremental liquidity must come from existing secured creditors via priming or roll-up DIP, supported by collateral coverage in working capital and assets

Trade support analysis

- Vendors experienced stretched payment terms, with HPM extending payables beyond standard cycles to preserve liquidity
- Critical single-source suppliers pose severe production risk if trade support deteriorates
- Trade tightening would worsen working capital needs

Capital Expenditure Management

- Historical underinvestment left HP with deferred maintenance CapEx and operational inefficiencies, suggesting that near-term spending should focus on maintenance and not growth
- Growth or expansionary projects should be paused or sequenced post-restructuring, as they are value-dilutive in the current liquidity-constrained environment

Other levers to improve liquidity

- Working Capital – tighten receivables, reduce excess inventory, extend payables to unlock **~$25-40MM** of cash
- Asset sales – sell non-core or underused assets (idle European sites, surplus R&D equipment) to raise quick liquidity)
- Cut overhead and renegotiate MCC Shared Services to stop cash leakage

Public Comps Valuation - Reformat

- (In $MM)
- MCC EV: **4,878.7**
- EBITDA: **440.6**
- Multiple = **11.07x**
- Median justification – there are a lot of outliers
  *HIGHLIGHT EV/EBITDA

	Market Data			Financial Data					Valuation			
(YE 2021)	**Market Cap**	**Net Debt (Yr-end)**	**EV**	**Sales**	**Adjusted EBITDA**	**Adjusted EBIT**	**Earnings**	**Interest**	**EV/Sales**	**EV/EBITDA**	**EV/EBIT**	**Interest Coverage**
Company Name	*($MM)*	*($MM)*	*($MM)*	*($MM)*	*($MM)*	*($MM)*	*($MM)*	*($MM)*	*x*	*x*	*x*	*x*
Huntsman Corporation	$ 7,600.00	$ 932.00	$ 8,532.00	$ 8,453.00	$ 1,103.00	$ 807.00	$ 1,104.00	$ 67.00	1.01x	7.74x	10.57x	12.04x
Avient Corporation	$ 5,110.00	$ 321.90	$ 5,431.90	$ 4,818.80	$ 525.40	$ 381.20	$ 230.60	$ 75.30	1.13x	10.34x	14.25x	5.06x
Ferro Corporation	$ 1,840.00	$ 330.75	$ 2,170.75	$ 1,126.26	$ 167.02	$ 126.81	$ 150.54	$ 27.33	1.93x	13.00x	17.12x	4.64x
H.B. Fuller Company	$ 3,120.00	$ 1,626.33	$ 4,746.33	$ 3,278.03	$ 428.64	$ 285.47	$ 161.39	$ 68.62	1.45x	11.07x	16.63x	4.16x
SIKA AG	$ 58,980.00	$ 2,629.28	$ 61,609.28	$ 8,456.54	$ 1,606.80	$ 1,271.73	$ 958.32	$ 41.50	7.29x	38.34x	48.45x	30.65x

	EV/Sales	EV/EBITDA	EV/EBIT	Interest Coverage
Average	**2.56x**	**16.10x**	**21.40x**	**11.31x**
Median	**1.29x**	**11.07x**	**16.63x**	**5.06x**

MCC Waterfall

Class	Claim ($MM)	Recovery ($MM)	Recovery %
ABL	180	180	**100%**
First Lien Debt	2,637.6	2,637.6	**100%**
1.5 Lien Notes	220.5	220.5	**100%**
HoldCo Term Loan	500	500	**100%**
Equity		**1,340.6 leftover**	

Instrument	Annual Interest ($MM)
ABL	8.7
1L $315MM Notes	31.5
1L $560mm Debt	58.1
1L $1,550mm Notes	102.7
Total First Lien Interest	**201.0**
1.5 Lien	30.9
Total MCC Interest	**232.0**

Free Cash Flow	
EBIT	327.43
D&A	113.19
Adj. EBITDA	440.62
CapEx	-86.08
Adj. EBITDAX	354.54
Interest	-5.71
Tax	-
FCF b/f ΔWC	348.83
ΔWC	-64.39
FCF	**284.45**

**See Appendix page x for full liquidity analysis*

Rationale

- HoldCo derives significant value from MCC – its most profitable silo – and therefore has the capacity and rationale to fund the DIP
- MCC generates sufficient free cash flow (FCF) to comfortably finance cash interest obligations

MCC Growth and Profitability

- Experienced team, lean cost structure, and disciplined capital use sustain margins
- Strong brand and differentiated products support higher pricing power
- Growing market position through strong relationships and loyal customer base
- Sector benefits from reshoring and demand for reliable U.S. production
- Peer group shows similar growth through operational efficiency and focus
- Investing in tech and new markets to drive long-term profitability