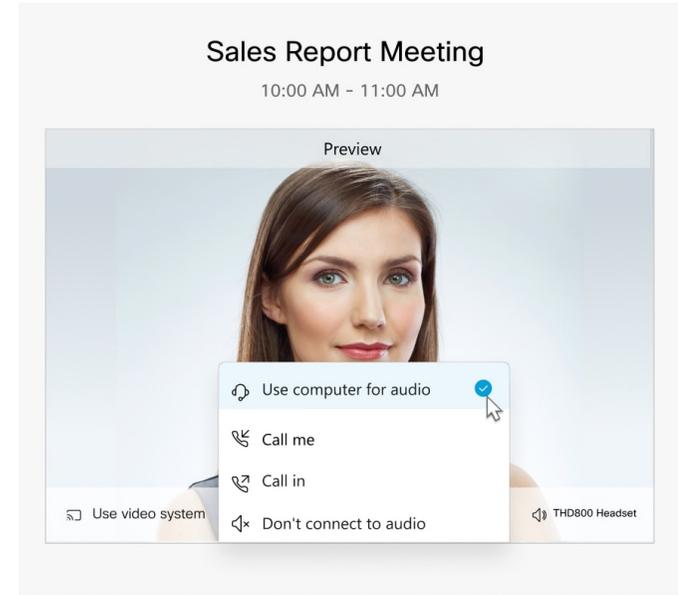
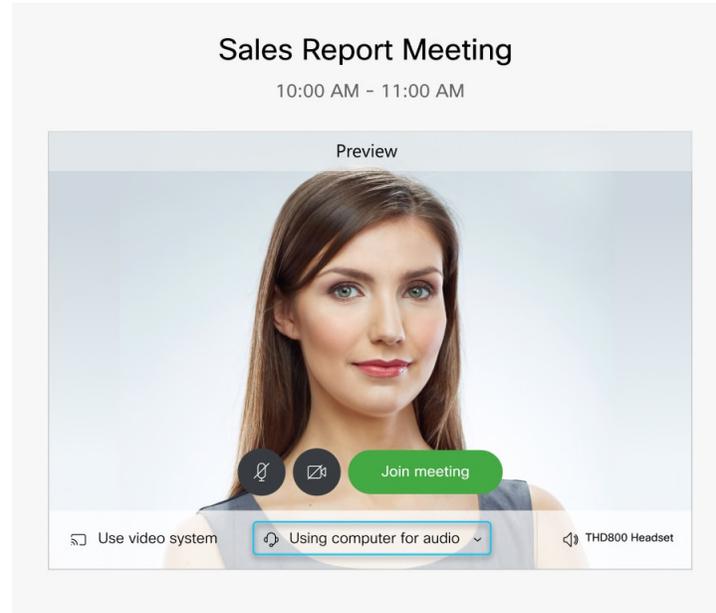


Welcome and thank you for joining us for today's presentation. Our topic is **“Manufacturing Success: Managing Financial Challenges & Bankruptcy Risks.”**

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Manufacturing Success: Managing Financial Challenges & Bankruptcy Risks

Gordon Gouveia

Mette Kurth

Unique Challenges Facing Manufacturers in COVID-19 Pandemic

1. Workforce health and safety measures
2. Supply chain disruptions
3. Travel limitations
4. Data security risks



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Four Stages of Business Distress

Stage 1: Early Warning Signs

- Early financial indicators of distress include liquidity issues, overdrafts, out-of-formula borrowings, and unscheduled stretches in payables.
- Other operational signs include excessive/unplanned overtime, expedited or missed shipments, loss of a key customer, increased employee turnover and taking shortcuts on the manufacturing floor that migrate into downstream quality issues.
- This is the time to reassess strategic positions and business plans, including the capital structure. At such a time, stakeholders are much more likely to support leadership and the proposed actions to preserve and drive value.
- If you have not secured Payment Protection Program (PPP) there is still time. Congress recently extended the availability of these potentially forgivable loans until August 8, 2020. These funds must be used within 24 weeks of loan disbursement and no later than December 31, 2020 and primarily for payroll, rent, mortgage interest and utilities.



Four Stages of Business Distress (Cont'd.)

Stage 2: Loan Covenant Defaults/Forbearance

- Typically, when EBITDA, cash flow and fixed-charge covenants are tripped, the underlying causes are deeper than surface-level. The business is entering into crisis management territory, and leadership should begin to focus on preservation of cash and enterprise value.
- Viability planning (for the short term) and turnaround planning (for the mid-term) is needed to ensure near-term liquidity and longer-term enterprise value that support the capital needed to restructure.
- In the absence of a convincing viability and turnaround plan, the secured lender may take actions to mitigate its exposure. These include borrowing-base blocks, reserves, reduced caps or other actions that tend to accelerate the spiral into a deeper liquidity crisis. The lender may also require retention of crisis management professionals.



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Four Stages of Business Distress (Cont'd.)

Stage 3: Liquidity Crisis

- The business is in a full-blown liquidity crisis when the daily focus is on funding payroll, getting a “stop-ship” vendor back in action, or skipping tax payments to preserve the cash.
- Leadership must create a strategy to restructure, whether through an out-of-court reorganization, a quick sale process, or a chapter 11 bankruptcy filing.
- Short-term cash planning is critical for survival and often requires difficult negotiations with lenders, suppliers and shareholders.
- Constant and clear communication is critical for bringing along stakeholders and employees in a time of crisis.



Four Stages of Business Distress (Cont'd.)

Stage 4: Bankruptcy/Liquidation

- Bankruptcy and liquidation come in a variety of forms ranging from formal bankruptcy filing to an assignment for the benefit of creditors, a UCC sale, receivership or out-of-court liquidation.
- Each process raises complex financial and legal issues and requires advice of counsel and financial consultants in most instances.
- Current equity holders tend to lose control once a business reaches this stage. The secured lender exerts significant control with oversight by the Official Committee of Unsecured Creditors and the Office of the United States Trustee.
- Most large bankruptcies lead to a quick sale rather than a reorganization with current equity.



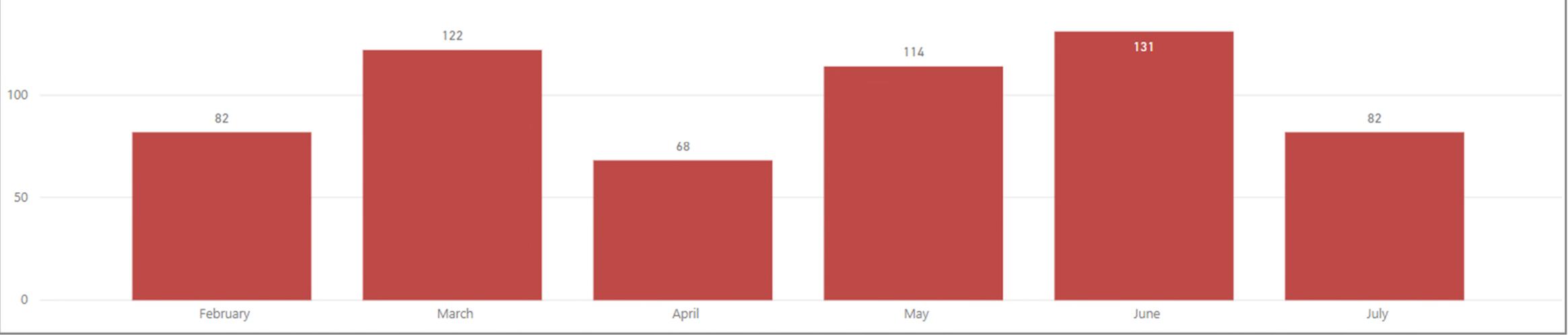
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Small Business Reorganization Act and Subchapter V

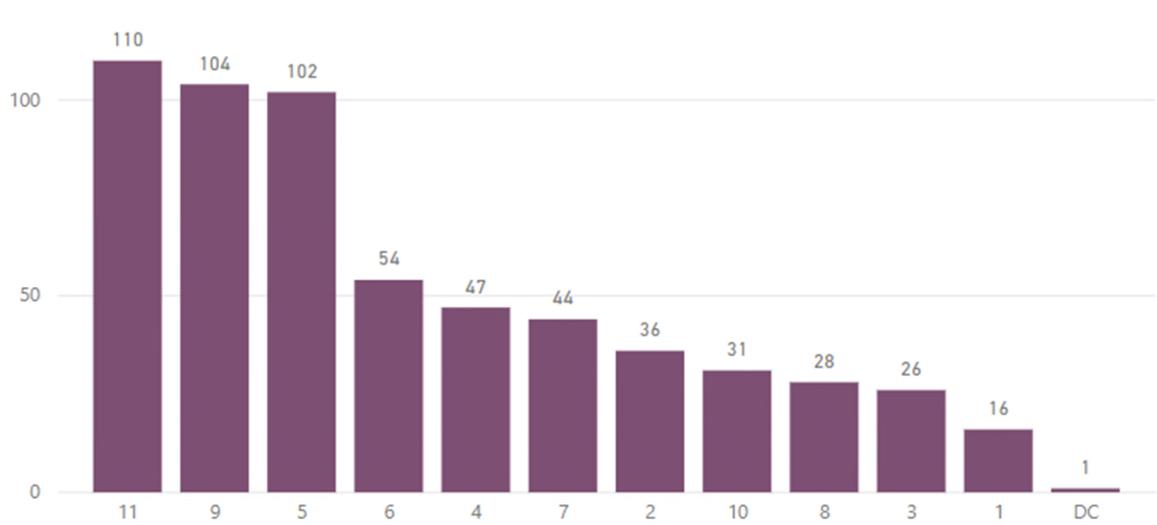
- In August 2019, Congress passed the Small Business Reorganization Act (SBRA), creating new Subchapter V of the Bankruptcy Code, which became effective on February 19, 2020, just as the COVID-19 pandemic began to take hold.
- Primary objective of SBRA is to enable small businesses to successfully emerge from bankruptcy with a court-approved plan of reorganization that must be filed not later than 90 days of a bankruptcy filing absent circumstances beyond a debtor's control.
- Under the CARES Act, Congress increased the debt limit from \$2.725 million to \$7.5 million to provide small business owners with greater access to Subchapter V's streamlined reorganization process during the COVID-19 pandemic. The debt limit increase is set to expire in February 2021.
- Since February 2020, approximately 600 Subchapter V cases have been filed and the filings appear to be on the rise.
- See Statistical Bar Graph on next page.



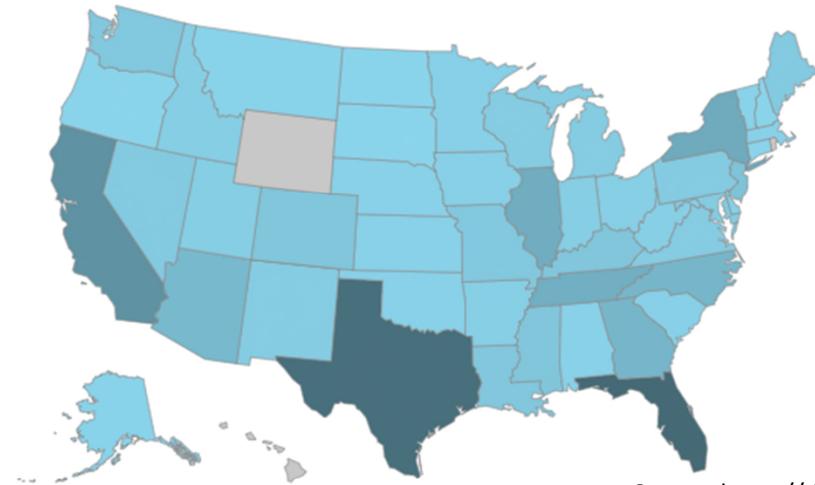
Subchapter V Cases by MONTH



Subchapter V Cases by CIRCUIT



Subchapter V Cases by STATE



Source: <https://tinyurl.com/y63v4a4m>



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Benefits of Subchapter V Include:

- Small business owner retains equity in company
- Short process to file and confirm plan of reorganization
- Pay unsecured creditors from disposable income over 3-5 years
- Appointment of trustee to facilitate consensual plan with creditors
- No creditors' committee and no United States Trustee fees
- Reject or renegotiate burdensome contracts and leases
- Sell assets free and clear to reduce debt



Getting — and Keeping! Payments from a Faltering Customer



- “Claw Back Actions” & Collections
 - Dunning Letters
 - “Ordinary Course” payments
 - Settlement agreements
 - Deposits
 - COD
 - CIA
 - Providing new goods and services
 - Applying payments



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You Received a Demand to Return a “Preference Payment.” Now What?



- If you don't have in-house expertise, engage counsel
- The vast majority of preference claims settle
- Evaluate new value, ordinary course & other defenses
- Settling pre-discovery can curtail legal fees
- Be mindful of details



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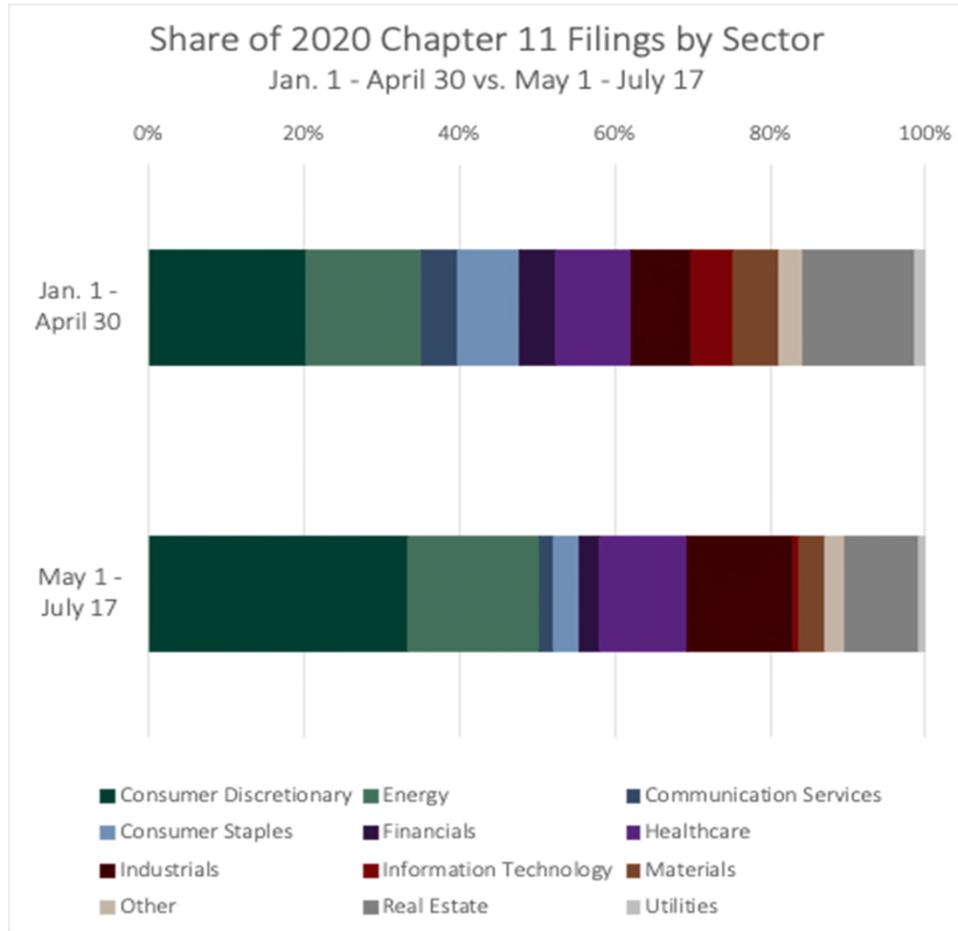
Strategies for Maximizing Your Recovery When a Customer Files for Bankruptcy

- Chapter 7 v. Chapter 11
- Filing your proof of claim
 - General prepetition claims
 - “503(b)(9)” 20-day claims
- Preserving administrative claims
- Monitor the cases
- Participate on the creditors committee



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Bankruptcy Trends and Expectations for the Remainder of 2020 and 2021



- According to the Congressional Budget Office (CBO), the labor market is expected to improve after the third quarter, with a rebound in hiring and a significant reduction in furloughs as the degree of social distancing diminishes.
- Unemployment rate was approximately 11% in June 2020, but a 4.8 million gain in jobs showing some signs of recovery.
- According to CBO, the unemployment rate is projected to decline to 9.5% by the end of 2021.
- Interest rates on Treasury securities are expected to remain quite low through 2021.
- Businesses will continue to face significant challenges, particularly with reduced consumer spending with social distancing and other restrictions if COVID-19 cases continue to increase heading into fall of 2020.

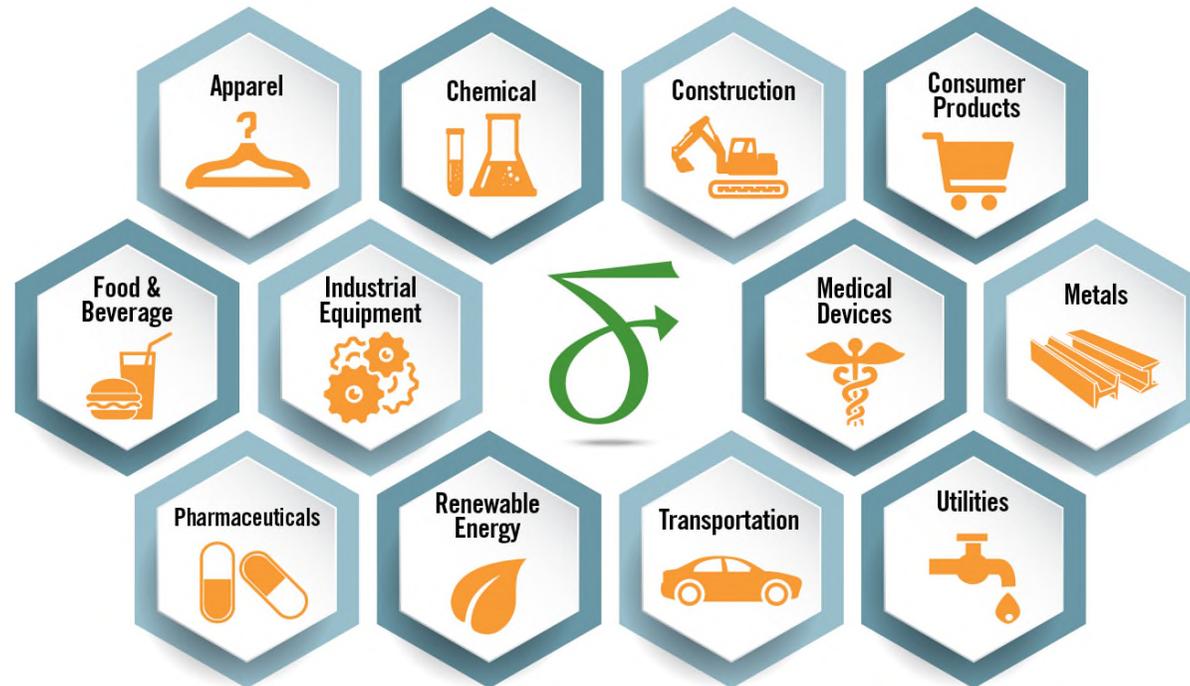
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