Confidential

Introduction to Liability Management

June 2025

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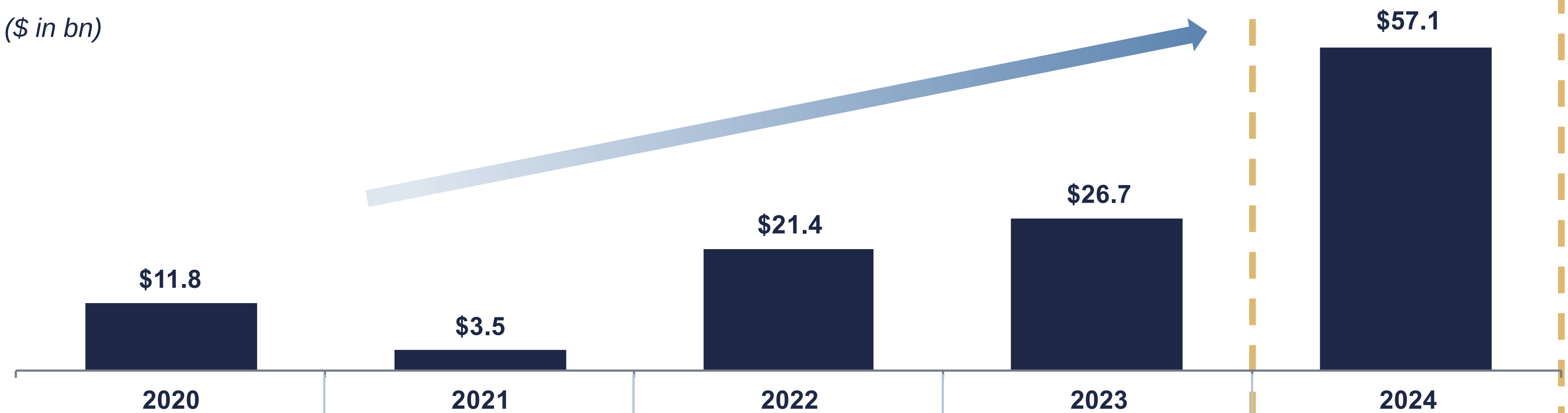
The Rise of Non-Formal Restructuring

Significant growth of distressed exchanges over the past five years



2020

- **Pandemic-induced economic disruptions** led to a spike in distressed exchanges

2021

- Decline due to **market recovery** and **low interest rates,** promoting regular-way refinancings

2022

- **Rising inflation** and interest rates **increased borrowing costs**, leading to financial stress

2023

- **Persistent inflation** and **supply chain disruptions** strained corporate finances

2024

- Distressed exchanges reach all-time high, resulting from **persistently high interest rates** and **tighter credit conditions**
- Increased prevalence and **acceptance of liability management** among distressed companies, lenders and sponsors

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Source: JPMorgan Investment Bank
Note: Data reflects distressed debt exchanges only

Use of Liability Management Today…

Liability management is used by a wide variety of companies to creatively address capital structure concerns outside of formal insolvency proceedings

Liability management transactions typically seek to accomplish one or more of the following objectives:

- Reduce or alter cost of capital (take advantage of price differentials, typically in bonds)
- Address near-term debt maturities
- Increase liquidity
- Increase financial / operating flexibility
- Delever the balance sheet and/or "capture discount" in the trading prices of debt securities

The most common liability management transactions today typically involve one, or a combination of the following:

- "Uptier" transactions
- "Drop-down" transactions
- "Asset disposition" transactions

Liability management provides additional tools for Companies to address capital structure objectives outside of traditional capital markets

…Avoiding Costly Insolvency Proceedings

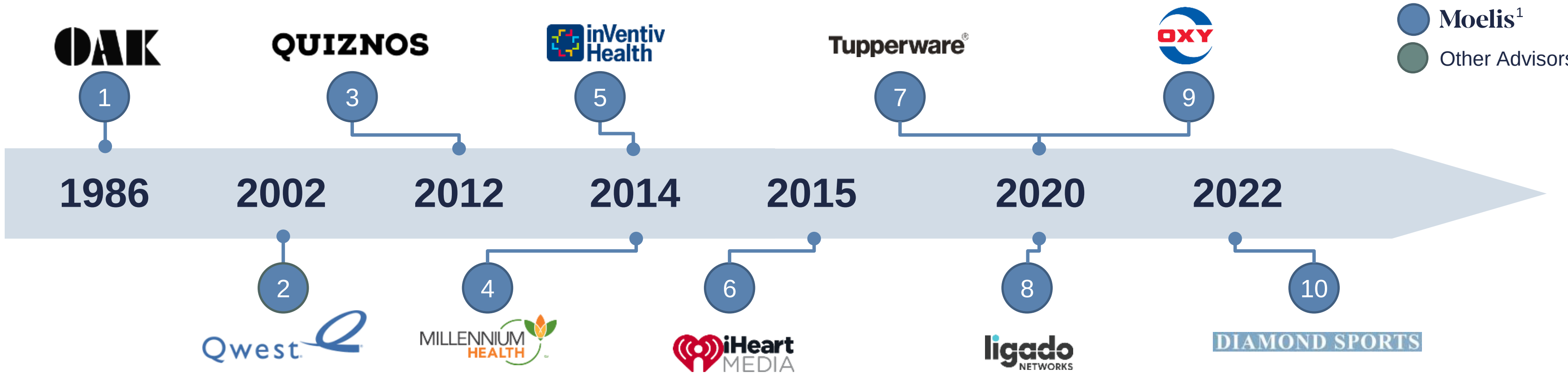
Insolvency proceedings, especially U.S. Chapter 11 Filings, can often result in:

1. **Extremely high burden of administrative and professional fees**
2. **Loss of corporate control to creditors and court processes**
3. **Shortening of time to “make the turnaround”**
4. **Untimely impairment for equity owners**

History of liability management

Over the last 25 years, liability management has evolved to include comprehensive capital structure solutions

History of Liability Management Transactions



1. ***First*** time courts endorsed exit consents
2. ***Discounted*** exchange offer for **$12.9bn** of existing debt to exchange into up to $4bn of new secured notes
3. ***First*** fully consensual (100%) combined deleveraging Loan and Notes exchange
4. ***First*** attempt to split 1L Term Loan
5. ***First*** simultaneous Unsecured Notes Exchange and 1L Term Loan amendment and extension
6. ***First*** use of an Unrestricted Subsidiary asset drop down for liability management
7. ***First*** dual overlapping cash tender offers
8. ***Largest in dollar*** ($12bn) ***and tranche number*** (8) fully consensual (100%) out of court restructuring
9. ***First*** issuance of bonds using investment grade covenant package for sub-investment grade issuer
10. ***First*** dual 1L Term Loan and 1L Bond lien bifurcation

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1. Represents transactions by Moelis bankers while at Moelis and at prior Firms

Public companies have pursued liability management exchanges for decades…

Year	Company	Amount	Type
2023	Carvana	$5.7bn	Exchange Offer
2023	Lumen	$1.5bn	Exchange Offer
2022	Bausch Health	$5.6bn	Exchange Offer
2020	AMC	$2.3bn	Exchange Offer
2019	OXY	$11.5bn	Exchange Offer
2015	Reynolds	$3.1bn	Exchange Offer
2015	Petrobras	$127.0bn	Global Covenant Amendment to Avoid Default
2004	Qwest	$12.9bn	Exchange Offer

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…With Household Sponsor Names Pursuing LM Today

ARES
Apax
APOLLO
Blackstone
CARLYLE
Centerbridge
CVC

EQT
H&F
KKR
Platinum Equity
NMC New Mountain Capital
OAKTREE
Stonepeak
TPG

Understanding a Typical Liability Management Situation

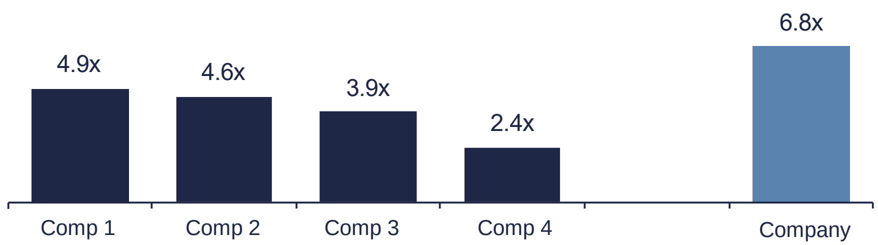
Company with high leverage levels and unsustainable interest costs at market rates

Net Debt / EBITDA

Peer set median: 4.3x

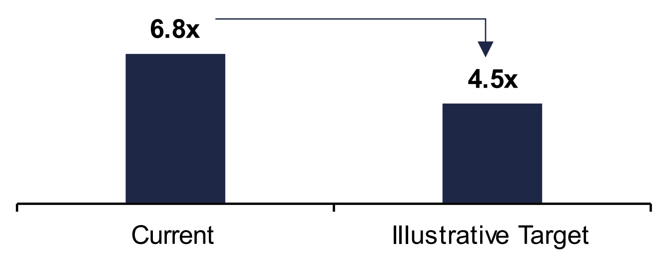
Peers all levered below 5.0x

Company debt levels above peer group



Taxi De-Leveraging Target

Significant deleveraging required to achieve target leverage ratio in line with competitors

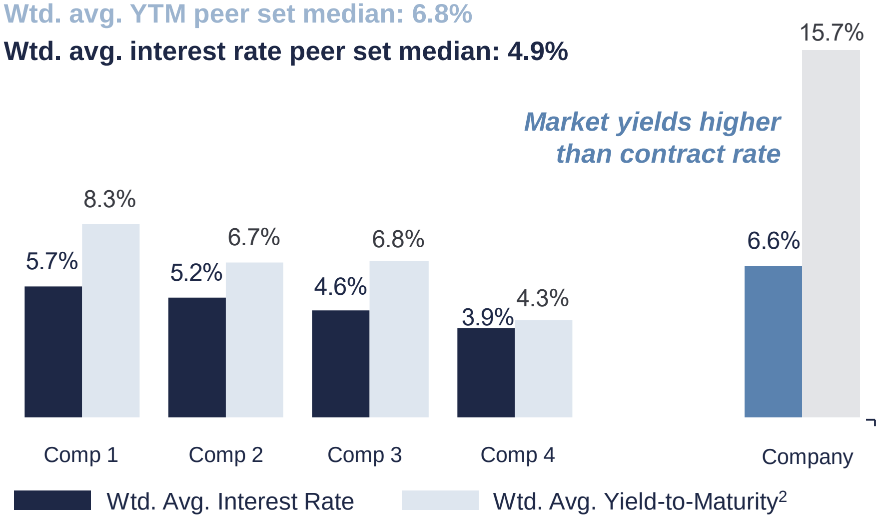


Cost of Capital

Wtd. avg. YTM peer set median: 6.8%

Wtd. avg. interest rate peer set median: 4.9%

Market yields higher than contract rate



Refinancing Implications

Annual interest expense unsustainable at current market yields

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Source: Bloomberg, S&P CapitalIQ (as of 04/26/2024)
1. Assumes fixed consolidated net debt balance of $23,028
2. Reflects weighted average YTM of publicly traded debt

What are the most common tools used today?

1. Amend covenants to enhance flexibility
2. Exchange / tender offers to extend maturities and/or capture debt discounts
3. Reduce go-forward cash interest via conversion to non-cash interest (“PIK”)
4. Exchanges into structurally or contractually senior debt

A Company’s credit documents play a major role in determining what tools are available

Covenant flexibility will dictate which types of liability management transactions can be pursued and to what extent

Key Credit Agreement and Indenture covenants:

- **Debt Baskets**: allow a company to incur incremental debt
- **Lien Baskets**: allow a company to incur incremental liens on assets (both collateral and non-collateral)
- **Asset Sale Provisions**: dictate what types of asset sales are permitted and what the proceeds must be used for (e.g., to repay existing debt at par)
- **Restricted Payments Baskets**: allow a company to distribute value to shareholders (dividends, share repurchases, other distributions) or make investments in businesses or entities outside of the “credit group”
- **Investment Baskets**: allow a company to make investments or contribute assets to businesses or entities outside of the “credit group”

Careful legal and financial analysis determines options available to a Borrower

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