

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

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In re:	:	
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SHILOH INDUSTRIES, INC., ¹	:	Chapter 11
<i>et al.</i> ,	:	
	:	Case No. 20-12024 (____)
Debtors.	::	
	:	(Joint Administration Requested)
	:	
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**DECLARATION OF JEFFREY FICKS, FINANCIAL
ADVISOR OF SHILOH INDUSTRIES, INC., IN SUPPORT OF
DEBTORS' CHAPTER 11 PETITIONS AND FIRST-DAY PLEADINGS**

I, Jeffrey Ficks, declare as follows:

1. I am a partner in the Turnaround and Restructuring practice at Ernst & Young LLP ("EY LLP") and EY LLP Americas' Advanced Manufacturing and Central U.S. Restructuring Leader. I have over 20 years of experience in crisis management, turnaround consulting, transaction support, corporate finance as well as corporate and public accounting. I have assisted clients with restructurings both in and outside of court, assisted and advised on the design and evaluation of financing packages and presentations to various types of lenders and equity investors, and acted as financial advisor to boards of directors and/or principal shareholders in the purchase or sale of numerous businesses. I have advised companies, lenders,

¹ The Debtors are the following nineteen entities (the last four digits of their respective taxpayer identification numbers, if any, follow in parentheses): Shiloh Industries, Inc. (7683), Greenfield Die & Manufacturing Corp. (8114), Jefferson Blanking Inc. (7850), Shiloh Automotive, Inc. (1339), Shiloh Corporation (5101), Shiloh Industries, Inc. Dickson Manufacturing Division (5835), Shiloh Holdings International, Inc. (1446), C & H Design Company (9432), Liverpool Coil Processing, Incorporated (0571), Medina Blanking, Inc. (0707), The Sectional Die Company (3562), VCS Properties, LLC (1094), Shiloh Die Cast LLC (5814), Shiloh Manufacturing Holdings LLC (0853), FMS Magnum Holdings LLC (6471), Sectional Stamping, Inc. (8967), Albany-Chicago Company LLC (4687), Shiloh Die Cast Midwest LLC (4114), and Shiloh Manufacturing LLC (1628). The noticing address of each of the Debtors in these chapter 11 cases is 880 Steel Drive, Valley City, Ohio 44280.

and investors in a variety of industries and acted as financial advisor to numerous global industrial companies, tier 1 automotive companies, and aerospace original equipment manufacturers.

2. In 2016, Shiloh Industries, Inc. (the "Parent") and certain of its affiliates and subsidiaries (collectively, the "Company") retained EY LLP to provide certain financial advisory services. On March 30, 2020, the Company again engaged EY LLP to review and advise on matters related to the Company's cash forecast. On May 26, 2020, the Company further expanded EY LLP's engagement to provide financial and transaction advisory services in connection with the Debtors' (as defined below) evaluation and development of strategic alternatives to address its capital structure and restructure its operations.

3. On the date hereof (the "Petition Date"), I understand that each of the above captioned debtors (collectively, the "Debtors") (a) will have filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") before filing this Declaration and (b) will have filed or will fill certain motions and other pleadings (collectively, the "First Day Pleadings") with this Court on the Petition Date. Since the beginning of the Company's retention of EY LLP, I have worked extensively and closely with the Debtors on various aspects of their business and, as a result, have become knowledgeable and familiar with the Debtors' operations, business, and financial affairs and the circumstances leading to the commencement of the chapter 11 cases.

4. Except as otherwise indicated, all facts set forth in this Declaration are based upon the following: (a) my personal knowledge; (b) my review of relevant documents; (c) information provided to me by members of the Debtors' management team or professionals retained by the Debtors or my colleagues at EY LLP working directly with me or under my

supervision, direction, or control; and/or (d) my opinion based upon my experience. If I were called upon to testify, I could and would testify competently to the facts set forth herein. I am authorized to submit this Declaration on behalf of the Debtors.

5. In connection with the preparation for these chapter 11 cases, the Debtors instructed their advisors, including me, to identify relief that Debtors should seek at the outset of these cases that will enable the Debtors to operate effectively and efficiently within these chapter 11 cases, as well as avoid certain adverse consequences that might otherwise result from the commencement of such cases. I believe that the relief sought in the First Day Pleadings will achieve these objectives by, among other things, maintaining (a) the loyalty of the Debtors' customers and vendors; (b) the confidence of the Debtors' various stakeholders; and (c) the morale of the Debtors' employees. Gaining and retaining the support of these key constituencies is critical to the Debtors' efforts to successfully complete the proposed sale process.

6. Accordingly, I submit this Declaration in support of the Debtors' petitions for relief under chapter 11 of the Bankruptcy Code and the First Day Pleadings. I have reviewed the First Day Pleadings, and it is my opinion that the relief sought therein is necessary to (a) effectuate a smooth transition into chapter 11 bankruptcy; (b) avoid immediate and irreparable harm to, and ensure the uninterrupted operation of, the Debtors' businesses; and (c) preserve and maximize the value of the Debtors' chapter 11 estates.

7. Part I of this Declaration provides an overview of the Debtors' businesses. Part II provides a description of the Debtors' corporate and capital structures. Part III provides a discussion of the events that compelled the commencement of these chapter 11 cases. Part IV sets forth the Debtors' plan for these cases, including details regarding the Debtors' strategy to

market and sell substantially all of their assets pursuant to one or more transactions under section 363 of the Bankruptcy Code. Part V affirms and incorporates the facts that support the relief requested in the First Day Pleadings.

Part I

Overview of the Debtors' Business

8. The Debtors are a global innovative solutions provider focusing on lightweighting technologies that provide environmental and safety benefits to the mobility market. The Debtors have a global network of manufacturing operations and technical centers in Asia, Europe and North America. The Debtors' multi-material solutions consist of a variety of alloys in aluminum, magnesium and steel grades, along with proprietary lines of noise and vibration reducing acoustic laminate products. The Debtors' deliver these solutions in body structure, chassis, and propulsion systems to original equipment manufacturers ("OEMs") and "Tier 1" suppliers in the automotive and commercial vehicle markets. For the twelve months ending October 31, 2019, the Debtors generated approximately \$1.05 billion in revenue, approximately \$812 million of which was generated in North America.

A. The Debtors' Products

9. The Debtors produce components primarily for body structure, chassis, and propulsion systems of vehicles, with solution materials including aluminum, magnesium, steel, high-strength steel alloys, and ShilohCore® acoustic laminates. More specifically, the Debtors' produce:

- Body structure components, including shock towers, instrument panel/cross car beams, torque boxes, tunnel supports, seat supports, seat back frames, hinge pillars, liftgates, door inner, roof supports/roof panels, dashpanels, and body sides;
- Chassis systems components including cross members, frame rails, axle carriers, bearing caps, axle covers, PTU covers, axle tubes, rack and

pinion housings, steering column housings, knuckles, links, wheel hubs, steering pumps, brake components, wheel blanks, and flanges; and

- Propulsion systems components including battery boxes and closures, beam axle housings, planetary carriers, clutch housings, transmission gear housings, engine valve covers, valve bodies, rocker arm spacers, heat shields, exhaust manifolds, cones, baffles, muffler shells, engine oil pans, transmission fluid pans, front covers, and transmission covers.

Additionally, the Debtors produce structural products for electric vehicles, such as charger boxes, control boxes, motor housings, battery covers, battery box trays, and battery box rails.

B. The Debtors' Customers

10. The Debtors' customers are primarily in the automotive and commercial vehicle markets. The Debtors work closely with the world's leading OEM and Tier 1 suppliers and have over 200 customers globally, including Bayerische Motoren Werke AG, Daimler, Faurecia, Fiat Chrysler Automobiles, Ford Motor Company, General Motors Company, Hendrickson International, Honda Motor Company, Jaguar Land Rover, SAIC Motor, Scania, Tesla Inc., Volvo AB, Volvo Car Corporation, and ZF Friedrichshafen AG. Of the Debtors' customers, General Motors and Fiat Chrysler Automobiles each account for more than 10% of the Debtors' gross revenues in the last three fiscal years and in the current year.

11. To acquire business from customers, the Debtors must successfully bid on, and win, the production and supply of parts for new or refreshed models that will be newly introduced to the market by the OEMs or winning takeover business on existing programs. Such a process results in immense competition for the Debtors, specifically in the laser welding, stamping, die casting, and close-tolerance machining industries. The Debtors' success in light of such competition results from their ability to produce innovative technologies by designing, engineering and developing state-of-the-art solutions that incorporate the Debtors' strategies of "Lightweighting Without Compromise®" and "Lightweighting With Benefits®." The Debtors'

ability to develop and design lightweight products allows customers to achieve vehicle weight, fuel economy, and/or ride and handling targets without compromising the integrity of the designed components, including such components' performance, safety, sound, and efficiency.

C. Manufacturing Facilities

12. The Debtors and certain of their non-debtor subsidiaries (collectively, excluding the Debtors, the "Foreign Subsidiaries") maintain twenty-four manufacturing facilities and seven technical and administrative facilities in Asia, Europe, and North America, encompassing a total of approximately 3.7 million square feet of space.² Of these thirty-one total facilities, twenty such facilities are subject to leases. Within North America, the Debtors operate twelve manufacturing facilities and two technical centers in the United States as well as two manufacturing facilities in Mexico, one of which—the Celaya Plant located in Celaya, Guanajuato, Mexico (the "Maquiladora Facility")—is owned and operated by Foreign Subsidiaries Radar Servicios Celaya S. de R.L. de C.V. and Radar Stamping Technologies S. de R.L. de C.V. (together, the "Maquiladora Subsidiaries"), pursuant to the Mexican government's Maquiladora Program, with Debtor Shiloh Manufacturing LLC as the United States partner.

D. The Debtors' Workforce

13. As of March 31, 2020, Shiloh Industries, Inc. and its Debtor and non-Debtor affiliates employed approximately 3,400 individuals throughout Asia, Europe and North America, approximately 1,920 of which were employed domestically by the Debtors.³ The

² This excludes one manufacturing facility and one technical and administrative facility in Italy related to the Brabant business, discussed further below.

³ On August 25, 2020, the Compensation Committee of the Board of Directors of Debtor Shiloh Industries, Inc. approved two key employee retention plans (the "KERPs"). On August 28, 2020, the Debtors, and certain of their non-debtor affiliates, paid approximately \$5.3 million of awards to sixty Debtor and non-Debtor employees. Recipients were paid by their specific employer (i.e., non-Debtor employee recipients were paid by non-Debtors). The recipients included the Debtors' three named executive officers and certain other senior employees. All awards under the KERPs are subject to the same repayment provisions. A

Debtors have agreements with two labor unions, whose members represent approximately 15% of the Debtors' domestic, hourly employees. Each of the unionized manufacturing facilities has its own labor agreement with its own expiration date.⁴

Part II

Corporate and Capital Structure of the Debtors

A. Corporate Structure

14. The Parent was incorporated in Delaware in 1993 and owns, directly or indirectly, each of the other Debtors. As of the date hereof, only three shareholders own more than 5% of the Parent's shares: Oak Tree Holdings LLC, which holds approximately 30% of the Parent's outstanding shares, Dimensional Fund Advisors, which holds approximately 6.3%, and Alan W. Weber (Investment Management), which holds approximately 5.7%, all as of shortly before the Petition Date.

15. The Parent holds directly or indirectly 100 % of the outstanding shares or interests of each of the remaining Debtors (such Debtors, excluding the Parent, the "Debtor-Subsidiaries"). In general, each of the Debtor-Subsidiaries directly or indirectly owns and/or operates the Debtor's domestic and foreign manufacturing facilities. A corporate organization chart depicting the ownership structure of the Debtors and their non-Debtor affiliates is attached as Exhibit A.

16. As to ownership of the Foreign Subsidiaries, Debtor Shiloh Manufacturing LLC owns 99% of the Maquiladora Subsidiaries. Shiloh Manufacturing LLC manages the

recipient must return the award to their current employer if the recipient voluntarily terminates his or her employment, or is fired for cause, prior to the earlier of the close of the Debtors' sale process or December 31, 2020.

⁴ The Debtors' Roseville, Michigan and Warren, Michigan manufacturing facilities are part of the same labor agreement.

operation of the Maquiladora Subsidiaries out of Warren, Michigan. An additional plant located in Ramos Arizpe, Coahuila, Mexico, is owned and operated by Shiloh Internacional, S.A. de C.V. and Shiloh de Mexico S.A. de C.V., the former of which is owned 98% by the Parent and 2% by Shiloh de Mexico S.A. de C.V., and the latter of which is owned 99.99% by the Parent and 0.01% by Debtor Medina Blanking, Inc. Finally, the remaining Foreign Subsidiaries located in the Netherlands, Sweden, Hong Kong, Germany, the United Kingdom, Italy, China, and Poland are directly or indirectly owned by Magnum CV, which is a Dutch limited partnership 99.99% of which is owned by Debtor Shiloh Holdings International, Inc. and 0.01% of which is owned by Debtor FMS Magnum Holdings LLC.

B. Prepetition Capital Structure

17. As of the Petition Date, the Debtors' primary liabilities consisted of the following: (a) obligations under that certain Credit Agreement, dated October 25, 2013, with the Parent and Shiloh Holdings Netherlands B.V.,⁵ as borrowers; Bank of America, N.A., as administrative agent; and the lenders signatory thereto (as amended,⁶ the "Credit Agreement"), and certain of the Debtors as guarantors thereof; (b) pension obligations; (c) unsecured trade debt; and (d) lease obligations. These liabilities are described in more detail below.

C. Revolving Credit Facility

18. The Credit Agreement provides a secured revolving line of credit in the amount of \$350 million and matures on October 31, 2020 (the "Revolving Credit Facility").

19. As of the Petition Date, there were \$341.3 million of outstanding obligations on a consolidated basis under the Credit Agreement, which consists of \$268.5 million

⁵ Shiloh Holdings Netherlands B.V. is a non-Debtor, Foreign Subsidiary.

⁶ On June 11, 2020, the Debtors and lenders to the Credit Agreement executed the Tenth Amendment thereto, which is the final amendment to the Credit Agreement prior to the Petition Date.

outstanding under the U.S. revolving facility, \$68 million outstanding under the Dutch revolving credit facility and \$4.8 million in issued letters of credit and other obligations. On June 11, 2020, the parties to the Credit Agreement entered into the tenth amendment to the Credit Agreement, which, among other things, waived certain financial covenants, added certain additional financial covenants, amended the interest rate provisions, and implemented certain transactional milestones. The Debtor-Subsidiaries that are guarantors under the Credit Agreement are Shiloh Corporation, Greenfield Die & Manufacturing Corp., Jefferson Blanking Inc., Shiloh Automotive, Inc., Shiloh Industries, Inc. Dickson Manufacturing Division, Liverpool Coil Processing, Inc., Medina Blanking, Inc., The Sectional Die Co., Sectional Stamping, Inc., Shiloh Die Cast LLC, Albany-Chicago Company LLC, Shiloh Die Cast Midwest LLC, Shiloh Holdings International, Inc., FMS Magnum Holdings LLC, Shiloh Manufacturing LLC, and Shiloh Manufacturing Holdings LLC.⁷

20. The Debtors' borrowings under the Credit Agreement bear interest at London Interbank Offering Rate ("LIBOR") or the base rate, established from time to time by the administrative agent, in each case plus an applicable margin. Under the terms of the tenth amendment to the Credit Agreement, the margin on the LIBOR borrowing rate is 5.0% (subject to a LIBOR floor of 1.0%) and on the base rate is 4.0%, unless the Debtors achieve certain financial metrics, in which case the margin on the LIBOR borrowing would be between 1.5% and 4.0% and on the base rate between 0.5% and 3.0% (each depending upon the Debtors' applicable financial metrics at the time the interest rate is set).

⁷ Debtor-Subsidiaries that are not guarantors or parties to the Credit Agreement include C&H Design Company and VCS Properties, LLC.

D. Pension Obligations

21. As of October 31, 2019, the Debtors had listed in their books and records approximately \$22.6 million in obligations relating to the underfunding of the various pension plans maintained by the Debtors (collectively, the "Pension Plans"). Effective November 2006, the Debtors froze benefit accruals under the Pension Plans. The Debtors fund the Pension Plans in accordance with statutory funding requirements; as such, the timing of any future payments is subject to a number of factors and uncertainties and could change. For instance, the Debtors' required level of funding of the Pension Plan changes each year depending on the funded status of the pension plan, applicable interest rates, and actuarial factors applied by the Debtors' actuaries.

E. Unsecured Trade Debt

22. In the ordinary course of operating their businesses, the Debtors are required to acquire raw materials and other goods and services. Significant raw materials that the Debtors utilize in the ordinary course of their operations include hot-rolled and cold-rolled coated steel as well as aluminum and magnesium ingots and other raw materials. The Debtors' customers are highly involved with the sourcing of raw materials and other components used in the Debtors' products. In some instances, the Debtors may only obtain supplies from certain approved vendors. In other instances, if the Debtors wish to change suppliers, any replacement is subject to pre-approval (and significant testing) by the Debtors' customers.

23. Much of the steel purchased by the Debtors is at a price negotiated by the Debtors' customers with such customers' directed steel suppliers. In such instances, the Debtors' customers will source and purchase steel on their own, and then sell and deliver the steel to the Debtors, at which point the Debtors take ownership of the steel while the customers generally remain responsible for commodity price fluctuations. In other instances, a portion of the

Debtors' steel products and processing services are provided to customers on a "toll processing" basis, meaning the Debtors charge a specific fee for operations performed without acquiring ownership of the steel. Overall, the Debtors purchase steel from approximately 51 vendors, for which the Debtors estimate they owe approximately \$31.3 million as of the Petition Date. The Debtors purchase aluminum and magnesium from approximately 14 suppliers in the U.S., Canada, Europe and China, based on competitiveness and regional location. The Debtors estimate they owe approximately \$7.6 million to such suppliers as of the Petition Date.

24. The Debtors also require additional third-party goods, such as parts from "Tier-2"⁸ automotive suppliers, and utilize certain third-party services in the ordinary course of their businesses. Third-party services utilized by the Debtors generally include finishing services, whereby suppliers and vendors prepare certain of the Debtors' products for delivery to their customers, and miscellaneous services, such as maintenance, customer mandated laboratory testing, electrical engineering and other similar services. As of the Petition Date, the Debtors estimate that they owe approximately \$14.1 million for such third-party goods and services, for an aggregate amount of unsecured trade obligations totaling approximately \$53.0 million.

F. Lease Obligations

25. As noted above, the Debtors utilize approximately thirty-one facilities throughout the world in their operations as well as various other leases covering equipment. Domestically, the Debtors lease seven of these facilities and, as of the Petition Date, owe approximately \$13.4 million on account of such leases. In addition, as of the Petition Date,

⁸ As a majority of the Debtors' business is selling parts directly to the OEM's, the Debtors are generally considered to be a "Tier-1" auto-supplier. "Tier-2" auto suppliers generally supply "Tier-1" auto-suppliers. Among other things, the Debtors' "Tier-2" auto suppliers provide specially designed bolts, bushing, insulation, nuts, plugs, studs and other components ranging from the basic to the sophisticated.

the Debtors have approximately \$9.3 million of other lease obligations outstanding, relating primarily to equipment such as forklifts and machinery.

Part III

Events Leading to the Commencement of These Cases

26. Despite the Debtors' penchant for innovation, recent trends in the global automotive markets, coupled with escalating trade wars and the economic standstill precipitated by the COVID-19 Pandemic⁹ have stretched the Debtors beyond their financial limits. Notwithstanding numerous efforts and strategies by the Debtors to right-size their balance sheet and stabilize operations, those measures were unsuccessful due to the aforementioned forces.

A. Trends in the Global Automotive Market

27. The Debtors' business and operating results are directly affected by the relative strength of the North American, European, and Asian automotive industries—in particular the production of automobiles and light trucks in both Europe and North America. According to industry statistics, the production volumes in each of Asia, Europe, and North America declined approximately 12.2%, 4.3% and 3.4%, respectively, from October 31, 2018, to October 31, 2019 (i.e., prior to the impacts of the COVID-19 Pandemic). Such contractions resulted in nearly 5 million less vehicles being produced during this time period than in the prior year.

28. The initial headwinds to production volumes started in the Asian markets, which appears to have been precipitated by the trade dispute between China and the United States, as well as increasing emissions standards and tightening credit markets in China

⁹ As used herein, the term "COVID-19 Pandemic" refers to the spread of, and world-wide governmental response to, the novel coronavirus, known as "severe acute respiratory syndrome coronavirus 2" (SARS-CoV-2) (the "Coronavirus"), which is known to cause coronavirus disease ("COVID-19").

generally. Each of these trends has eroded consumer confidence and/or altered consumer decision-making related to the purchase of a vehicle.

29. Finally, in North America, several unions, including the International Union, United Automobile, and Aerospace and Agricultural Implement Workers of America, went on strike against the Debtors' largest customer. These strikes resulted in a reduction in production of all vehicles specific to the Debtors' largest customer further impacting the Debtors.

B. Strategic and Cash Preservation Initiatives

30. In response to these trends, the Debtors undertook several cost-saving measures in late-2018 and 2019, including realignment of manufacturing processes, headcount reductions, consolidation of administrative functions, and general process improvements. These measures were expected to result in a more profitable operation by increasing efficiency, which should have resulted in increased market share. Such measures resulted in a one-time cost of approximately \$17.0 million in 2019 and approximately \$6.6 million in 2018. However, the Debtors' have not realized the benefits anticipated to result from the cost-cutting measures, largely due to the emergence of the Coronavirus, as discussed further below.

C. Acquisition of Brabant Business

31. In March 2018, the Debtors acquired Brabant Alucast Italy Site Verres S.r.l. ("Verres"), a limited liability company organized under the laws of Italy, and Brabant Alucast The Netherlands Site Oss B.V., a limited liability company organized under the laws of the Netherlands (collectively "Brabant"). The acquisition of the distressed Brabant businesses was meant to complement the Debtors' global footprint, with the expansion of aluminum and magnesium casting capabilities, while providing capacity for growth. The final purchase price for the acquisitions, funded in cash from the Debtors' Revolving Credit Facility, was \$65.3 million.

32. For the past several quarters, the Verres plant has continued to incur negative cash flows, largely driven by key customer volume declines, loss making programs, and excess or unutilized capacity. Despite efforts to reduce costs and implement production improvements, as well as receive new business awards, Verres is projected to have a net loss of \$4.7 million in fiscal year 2020 and losses totaling \$10 million over the next three fiscal years. Further, accelerated by the COVID-19 Pandemic, the Debtors weighed several strategic alternatives, which ultimately led to the Debtors' obtaining a waiver from the Prepetition Lenders (defined below) permitting Verres to enter into a "Concordato Preventivo in Bianco", which I understand is a court supervised restructuring proceeding under Italian bankruptcy law.

D. Pierceton and Clarksville Launches

33. From March to September 2018, the Debtors launched new programs at their Pierceton, Indiana and Clarksville, Tennessee manufacturing facilities, which serve some of the Debtors' significant customers. The launches were projected to generate highly profitable and significant revenue generating programs, as well as to further the Company's future vision of its lightweight product offerings. Instead, each of these program launches was troubled from the outset, plagued by continuous delays and costly and time-consuming tooling redesigns. In the fiscal year following these major launches (fiscal year 2019), Pierceton and Clarksville suffered EBITDA losses of approximately \$8.5 million and \$4.8 million, respectively.

E. Impact of the COVID-19 Pandemic

34. Compounding the general downward trajectory of the economic trends in the Asian, European, and North American automotive markets, in late-2019, COVID-19 emerged and quickly began spreading across the world, resulting in travel restrictions, closing of borders and business slowdowns or shutdowns in affected areas. The impact of COVID-19 developments and uncertainty with respect to the economic effects of the pandemic has

introduced significant volatility in the financial markets and is having a widespread adverse effect on the automotive industry, including reductions in consumer demand and OEM automotive production.

35. In response to the COVID-19 Pandemic, I understand the Debtors instituted employee safety protocols to contain the spread, including domestic and international travel restrictions, work-from-home practices, extensive cleaning protocols, social distancing and various temporary closures of the Debtors' administrative offices and manufacturing facilities. Additionally, as a global manufacturer, I understand the Debtors have been required to adhere to stay-at-home and similar government orders in various locations around the world, including throughout the United States, Europe and Asia, resulting in the temporary closures of the Debtors' manufacturing and assembly facilities. The Debtors' operations were directly impacted by the COVID-19 Pandemic, with more than half of the Debtors' plants being entirely closed starting in early April 2020 and continuing into May 2020. In addition to the closures, from early April 2020 through May 2020, no open plant operated at above 50% utilization, and only three plants were operating at above 25% utilization. Nevertheless, as of the date hereof, the Debtors' operations have largely ramped up towards normal production levels.

36. The Debtors implemented a range of actions aimed at temporarily reducing costs and preserving liquidity in the face of business disruptions related to the COVID-19 Pandemic, including temporary salary reductions, temporary reduction in board fees, reduction of discretionary spending, mandatory vacations, headcount reduction and furloughs. Notwithstanding these cost-saving measures, costs and disruptions related to the COVID-19 Pandemic significantly impacted the Debtors' profitability during the second quarter of 2020,

during which period the Debtors experienced an adjusted Operating Income¹⁰ loss of approximately \$29 million compared to the same quarter in the prior year.

37. Due to these general market trends as exacerbated by the COVID-19 Pandemic, along with the challenges associated with the Brabant acquisition combined with the challenges associated with the aforementioned Pierceton and Clarksville launch challenges, I believe it was prudent for the Debtors to commence these cases to (a) address the Debtors' liquidity needs; (b) provide the opportunity to, among other things, right-size the Debtors' business through (i) structural improvements and (ii) the evaluation and elimination of liabilities that impair the sustainability of the Debtors' businesses; and (c) evaluate and consummate the sale of substantially all of the Debtors' assets. In accordance with these and other objectives, the Debtors engaged the professionals sought to be retained in these cases to, among other things, evaluate potential strategies to either reorganize the Debtors' businesses or to locate a purchaser (or purchasers) of the Debtors' assets.

Part IV

The Proposed Sale Process and DIP Credit Facility

A. Prepetition Negotiations, Restructuring, and Marketing Efforts

38. In the months leading up to the filing of these Cases, the Debtors, together with their advisors, began to explore strategic options, including a refinancing or sale of substantially all of their assets. In May 2020, with continued uncertainty in the operating environment and increasingly stressed liquidity, the Debtors engaged Houlihan Lokey Capital Inc. ("Houlihan") as their investment banker. Throughout May and June, I understand that

¹⁰ Adjusted Operating Income is based on reported operating income excluding asset impairments and restructuring.

Houlihan conducted an all-inclusive marketing process for both (a) financing proposals that would enable the Debtors to execute on their business plan and potentially pay down all or a portion of the Revolving Credit Facility and (b) bids for the sale of all or a portion of the Debtors' business. Houlihan regularly reported on the marketing process to the Debtors and their other professionals, including me. I understand that, while the Debtors received financing and sale proposals by June 29, 2020, the deadline for submitting non-binding indications of interest, the Debtors, after consultation with the Prepetition Lenders, determined that the sale proposals represented the only viable path to maximize value. As such, the Debtors instructed Houlihan to focus its marketing process exclusively on a sale of substantially all of the Debtors' assets, given the lack of feasibility in other proposals.

39. During July and August, the Debtors, together with their advisors, continued to engage with the parties that had submitted the strongest indications of interest as those parties conducted additional diligence and further developed their bids. Ultimately, three parties decided to move forward with the sale process and provided the Debtors with letters of intent and draft asset purchase agreements. The Debtors selected the bid submitted by MiddleGround Capital Partners ("MiddleGround" or the "Stalking Horse"), through its affiliate Grouper Holdings, LLC, as the stalking horse bid for the sale of the Debtors' assets in these chapter 11 cases. Importantly, MiddleGround intends to continue operation of the Debtors' business as a going-concern.

40. I understand that the stock and asset purchase agreement with the Stalking Horse (the "Stalking Horse APA") has been extensively negotiated between the parties at arm's length and in good faith and confers several substantial benefits on the Debtors' estates. The Stalking Horse APA allows the Debtors to continue pursuing a sale of substantially all of their

assets while at the same time locking in a gross purchase price of at least \$218 million, subject to certain purchase price adjustment mechanisms. Houlihan has informed me that both previously active and new bidders may rejoin the postpetition section 363 sale process, which could lead to an overbid resulting in higher total consideration. In addition, because MiddleGround has represented it will continue operation of the business as a going-concern, the Stalking Horse Bid will both preserve jobs and minimize unsecured claims from the Debtors' trade creditors, among others.

41. After a several month-long prepetition process, the Debtors determined that, to effectuate the aforementioned sale process, it became necessary to file for chapter 11 relief in order to conduct an auction for substantially all of their assets, with MiddleGround's bid as the stalking horse bid. I believe a sale transaction represents the best way to maximize the value of the Debtors' estates for the benefit of their creditors and stakeholders. Accordingly, I understand that the Debtors intend to file a motion (the "Sale Motion") no later than three days following the date hereof that will seek authority to conduct a postpetition marketing and sale process for substantially all the Debtors' assets, with an auction to be held on or about October 29, 2020 (if necessary) and closing of a sale transaction by December 15, 2020, all as set forth more fully therein.

B. The Debtors' Need for Postpetition Financing and Use of Cash Collateral¹¹

42. In connection with the Debtors' prepetition restructuring efforts, EY LLP, in consultation with the Debtors and their advisors, assessed the liquidity that the Debtors would require to implement the various restructuring alternatives that they were pursuing. EY LLP, in

¹¹ Capitalized terms not otherwise defined herein have the meanings given to them in the DIP Financing Motion or the DIP Credit Agreement, as applicable.

consultation with the Debtors, has reviewed and analyzed the Debtors' business projections and prepared a 13-Week budget (the "13-Week Budget") outlining the Debtors' postpetition cash needs in the initial 13 weeks of these cases. I believe that the 13-Week Budget appropriately reflects the Debtors' estimated funding requirements over the identified period, and it shows the Debtors being able to meet their obligations—including administrative expenses in these chapter 11 cases—and is reasonable and appropriate under the circumstances. Based upon the 13-Week Budget, the Debtors' longer term business projections and cash the Debtors currently have on hand, EY LLP, in consultation with the Debtors and their advisors, determined that the Debtors would require immediate access to a postpetition financing facility along with the ability to use the Prepetition Lenders' Cash Collateral to operate their businesses, preserve value, and pursue their restructuring goals in their chapter 11 cases.

43. After determining that they would likely commence these cases and pursue the Sale Motion, the Debtors, with the assistance of Houlihan, explored various options with respect to postpetition financing. I understand the Debtors instructed Houlihan to engage the market for alternative postpetition financing sources and, concurrently with these efforts, the Debtors engaged in negotiations with their existing lenders under the Revolving Credit Facility (the "Prepetition Lenders") regarding potential postpetition financing. Ultimately, after extensive negotiations, the Debtors entered into an agreement with the Prepetition Lenders (in their capacity as such, the "DIP Lenders") pursuant to the terms described in the *Motion of the Debtors, Pursuant to Sections 105, 361, 362, 363, 364 and 507 of the Bankruptcy Code, Bankruptcy Rule 4001, and Local Rule 4001-2, for Interim and Final Orders (I) Authorizing Debtors to (A) Obtain Postpetition Financing and (B) Use Cash Collateral, (II) Granting Adequate Protection to Prepetition Secured Parties, (III) Scheduling Final Hearing and (IV)*

Granting Related Relief (the "DIP Financing Motion") and the DIP Financing Declaration¹² to enter into the DIP Facility. In summary, the DIP Facility consists of a \$123.5 million senior secured superpriority credit facility, inclusive of a deemed repayment of \$100 million of prepetition obligations upon entry of a Final Order, secured by a first priority lien on substantially all of the Debtors' assets. The DIP Facility will provide the Debtors with the capital they need and the ability to use the cash collateral of the Prepetition Lenders. In addition, upon a sale of substantially all of the Debtors' assets that is approved by the Required Prepetition Lenders and the Required DIP Lenders, the Required Prepetition Lenders will fund \$14.1 million (the "Wind-Down Funds") for expenses anticipated to be incurred in winding down the Debtors' estates.

44. I believe that immediate and ongoing access to post-petition financing under the DIP Facility will demonstrate to customers, employees, vendors, suppliers, and other key constituencies that the Debtors have sufficient resources available to meet their obligations in the ordinary course during these cases. Absent funds available under the DIP Facility, access to Cash Collateral and the cooperation of key business partners at this critical early stage, the Debtors could (a) face a significant interruption in their businesses; (b) face diminished customer confidence in the Debtors' products and ability to fulfill customer requirements; and (c) undermine the support of important groups on whom the Debtors' businesses and restructuring depend, which, in turn, would hinder their ability to preserve the value of their estates.

¹² *The Declaration of Jeffrey Lewis in support of Motion of the Debtors, Pursuant to Sections 105, 361, 362, 363, 364 and 507 of the Bankruptcy Code, Bankruptcy Rule 4001, and Local Rule 4001-2, for Interim and Final Orders (I) Authorizing Debtors to (A) Obtain Postpetition Financing and (B) Use Cash Collateral, (II) Granting Adequate Protection to Prepetition Secured Parties, (III) Scheduling Final Hearing and (IV) Granting Related Relief (the "DIP Financing Declaration").*

45. In consultation with the Debtors and their other advisors, I concluded that, given the circumstances, the proposed financing from the DIP Lenders reflected in the DIP Credit Agreement and the Interim and Final Orders (a) is appropriate, (b) meets the Debtors' business and financing needs for these chapter 11 cases, (c) is necessary to finance the restructuring process and allow the Debtors to pursue their restructuring goals and preserve value in these chapter 11 cases; and (d) as I have been informed by Houlihan, provides the most cost effective and beneficial financing available to the Debtors. In addition, the Debtors anticipate that the Wind-Down Funds are sufficient to satisfy estimated administrative expenses that the Debtors believe will arise during the course of these cases.

46. I believe that it is essential for the Debtors to immediately obtain the financing contemplated by the DIP Facility to preserve and protect the value of their estates. Based on the Debtors' financial forecasts, I believe the funding contemplated by the DIP Facility will provide the Debtors with sufficient liquidity (a) to continue operating and (b) to pursue their restructuring goals. As such, in my opinion, it is prudent for the Debtors to enter into the DIP Facility and their decision to do so represents a reasonable exercise of their business judgment.

Part V

Facts Relevant to the First Day Pleadings

47. Concurrently with the filing of these chapter 11 cases, the Debtors filed the First Day Pleadings requesting various forms of relief. Generally, the relief requested in the First Day Pleadings will facilitate the Debtors' meeting of their goals of (a) continuing their operations in chapter 11 with as little disruption and loss of productivity as possible; (b) maintaining the confidence and support of their customers, employees, vendors, suppliers, and service providers during the Debtors' reorganization process; and (c) establishing procedures for the smooth and efficient administration of these chapter 11 cases.

48. I have reviewed each of the First Day Pleadings filed contemporaneously herewith (including the exhibits thereto and supporting memoranda) and incorporate by reference the factual statements set forth in the First Day Pleadings. It is my belief that the relief sought in each of the First Day Pleadings is tailored to meet the goals described above and, ultimately, will be critical to the Debtors' ability to achieve a successful reorganization.

49. It is my further belief that, with respect to those First-Day Pleadings requesting the authority to pay discrete prepetition claims or continue selected prepetition programs (e.g., those First-Day Pleadings seeking relief related to the Debtors' obligations to their vendors, employees, customers, shippers and other distribution network providers, foreign vendors taxing authorities, and insurers), the relief requested is essential to maintain the value of the Debtors' businesses as a going concern and necessary to avoid immediate and irreparable harm to the Debtors and their employees, customers, and affected vendors.

50. Impairment of the Debtors' business operations, or of their relationships with their employees, customers, or vendors—at the very time when the continuance of those operations and the dedication, confidence, and/or cooperation of those constituencies is most critical—would hamper the Debtors' chances of maximizing the value of its assets for the benefit of its stakeholders, whether via a sale transaction (or a series of such transactions) or a reorganization. The Debtors operate in a highly competitive sector of the domestic economy. Any impediment to the Debtors' ability to maintain their operations in the ordinary course will have an immediate and irreparable harmful impact upon the going concern value of the estates to the detriment of all of the Debtors' stakeholder constituencies. I believe that payment of those selected prepetition claims identified in the First Day Pleadings will forestall such irreparable harm and that all creditors of the Debtors will ultimately benefit from the relief requested therein.

51. The Debtors' ability to maximize the value of their estates depends in large part on maintaining vendor, customer and employee confidence and maintaining the operation of their businesses throughout the course of these proceedings. Accordingly, the Debtors have an immediate need to continue the orderly operation of their businesses by securing goods and paying employees in the normal course thereof. The Debtors' continued operations will enable the Debtors to preserve the going concern value of their estates and re-establish any lost vendor and customer confidence, thereby maximizing recoveries for the Debtors' stakeholders. Further, I believe that such relief will enable the Debtors to stabilize their operations and ultimately, in conjunction with either a sale (or a series thereof) or a reorganization, restore their profitability.

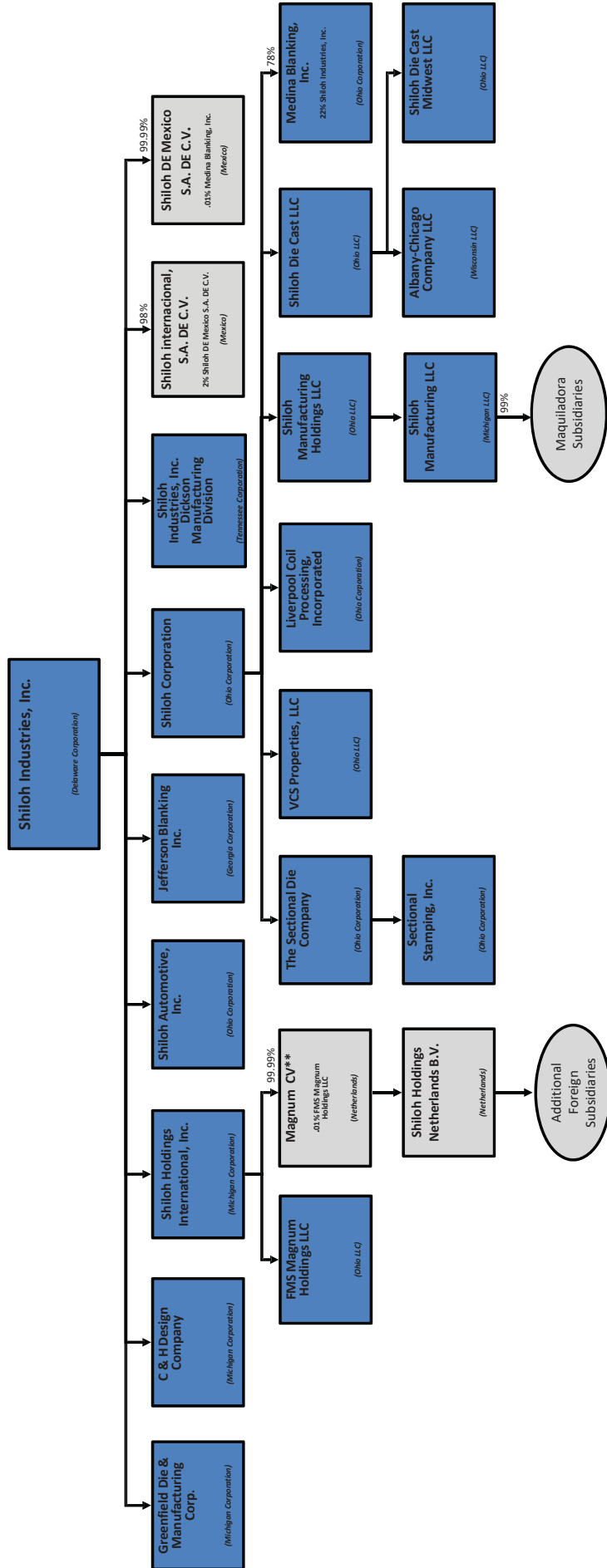
Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: August 30, 2020

/s/ Jeffrey Ficks
Jeffrey Ficks
On behalf of the Debtors and Debtors-In-Possession

EXHIBIT A

Organizational Chart



Key

DEBTOR

NON-DEBTOR