2020 Financing Opportunities - Mexico

March 2020

TABLE OF CONTENTS

Restructuring; Distressed Financing

Distressed Financing

Financial Distress is a situation when a company is struggling to generate enough profits to meet its financial obligations.

Early warning signs of financial distress in business: Manage it before it is too late;

Distressed Financing

During the recent financial crisis 2008-2009, U.S. bankruptcy courts and the debt restructuring industry were faced with the largest wave of corporate defaults and bankruptcies in history.

At one point during the crisis, over $3.5 trillion of US corporate debt was distressed or in default.

Lehman Brothers fled for bankruptcy in September 2008, the company had over $600 billion of liabilities, tens of thousands of creditors and counterparties, and 7,000 subsidiaries and affiliates located in over 40 countries

In a relatively short time, much of the corporate debt that defaulted during the crisis has since been managed down, “mass liquidations” were averted, and corporate profits, balance sheets, and values have all rebounded with remarkable speed.

Despite longstanding criticism of Chapter 11 by economists and businessmen as too costly, slow, or inequitable, recent experience suggests that the legal process—including the people who advise, manage, and finance distressed companies—has evolved and adapted to deal with this brave new world of large, complex cases.

New legal strategies, new ways of financing distressed companies, and increases in the experience and sophistication of the participants have all helped make the U.S. restructuring process much more efficient than it was 20 years ago

ARODB Capital Advisors can help structure and source the type of financial strategy Cross Border or in Mexico.

Distressed Finance

Sings of distressed Company;

- Cash flow stays negative over a sustained period of time
- Business struggles to earn profits and there isn't a clear path to profitability, then it will not sustain itself from internal funds and will be forced to raise more expensive financing externally which opens up an entirely different world of risk.
- Lending gets more expensive, financial institutions widen the credit charge for new loans .
- Debt covenants bridged or at its limits (i.e. debt/EBITDA > 6). Lenders are constrained to provide or do not provide more liquidity or are flexibility to renegotiate the covenants.
- the relationship with the banks becomes significantly strained; asking for extra security, personal guarantees, withdrawing overdrafts and of course declined loans, it more often than not implies that the business creditworthiness has been adversely eroded.
- Local or international loan and bond's price are trading at a price or below 60%
- Inability to comply with the terms of loan agreement, or non-compliance with capital and other statutory requirements, suggest that raising additional funds can be a challenge. Legal or regulatory proceedings against the company arises.
- The debtor has defaulted obligations contracted with two or more creditors.
- The obligations of the debtor that have been due for at least 30 days represent or depend upon at least 35% or more of all the debtor's obligations (loans, taxes, suppliers, others)
- the debtor does not have any of the following assets in an amount sufficient to perform at least 80% of his or her or its obligations

Conceptual Overview of Restructuring

"Enterprise Value – Net Debt (Gross Debt – Cash) = Equity"

Book Value

Assets

US 1,000,000

Liabilities

US 600,000

Equity

Us 400,000

GAAP or Book Valuations does not reflect the market fluctuations.

Market

Assets

US 400,000

Liabilities

US 400,000

The financial health of the company can be valued with the market price of the debt, assets and equity value .

Bend

Assets
US 400,000

Neg Equity

Us 200,000

Liabilities

US 600,000

But since debt, unlike equity, is a contractual obligation that must be paid, a blend of the market and GAAP approach can show to what extend equity is still "positive" or in this case "negative".

Distressed Finance – definitions

The Mexican laws applicable to restructurings and insolvency proceedings in Mexico are mainly the Concurso Mercantil;

Early Stage of Financial Distress

Early stages where the company starts to be constrained with cash to face it's obligations, the relationship with the banks becomes significantly strained; asking for extra security, personal guarantees, withdrawing overdrafts and of course declined loans, it more often than not implies that the business creditworthiness has been adversely eroded.

Out of Court Restructuring

is a nonjudicial process through which a financially troubled company and its significant creditors reach an agreement for adjusting the company's obligations

In Court "Concurso Mercantil"

Concurso Mercantil forces all creditors and equity interest holders into a public, court-supervised forum that must proceed according to an intricate set of rules under the Mexican Bankruptcy Code.

International Process/ Cross Border

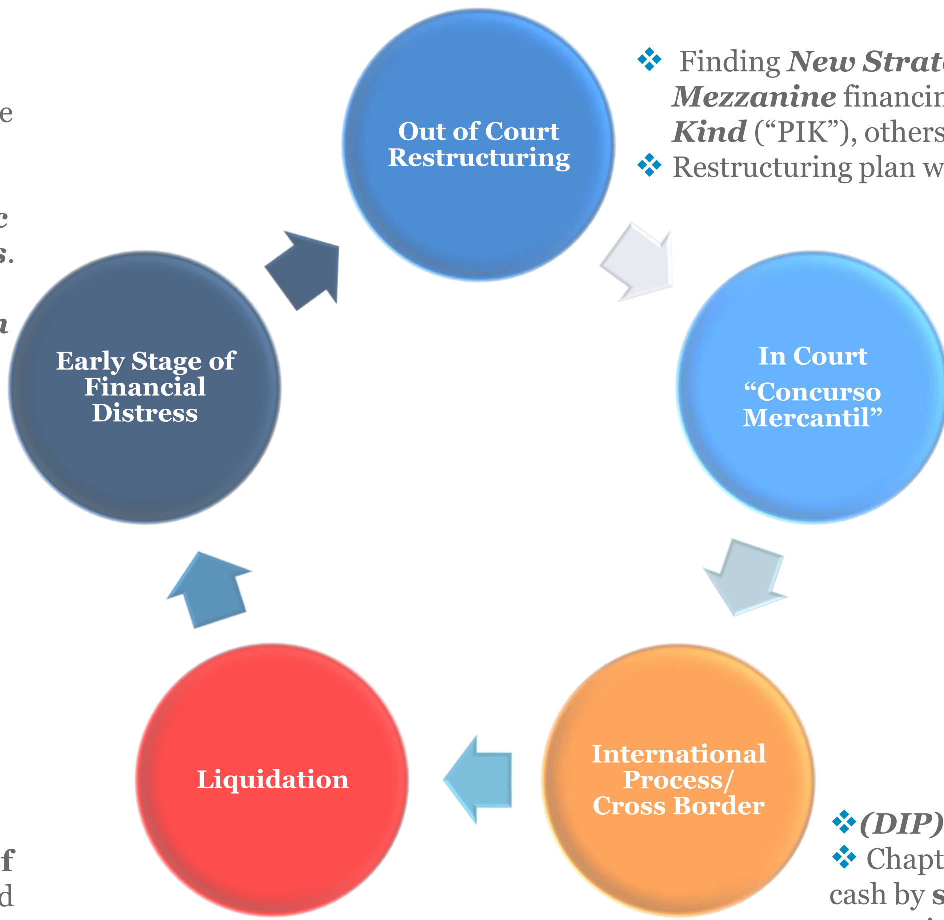
Any representative of a foreign bankruptcy procedure may request the presiding Mexican court for the recognition of the foreign bankruptcy procedure during a concurso procedure.

Liquidation

When there are secured creditors expecting 100% recovery they may prefer liquidation because it is faster to everyone else's detriment

Distressed Finance – financing options

- Financial Distress Prediction Models for the Early Warning Signs of Financial Distress
- Finding ***New Strategic*** or ***Financial Partners***. ***Mezzanine*** financing. Loans with ***Payment in Kind*** ("PIK").
- Equity Partner
- Sale certain assets to Private or Strategic Investors.



- Finding ***New Strategic*** or ***Financial Partners***. ***Mezzanine*** financing. Loans with ***Payment in Kind*** ("PIK"), others…
- Restructuring plan with current creditors

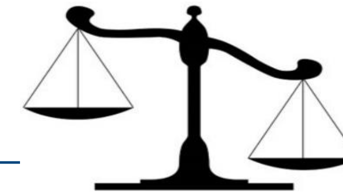
- ***Debtor in Possession*** *("DIP") Financing, loans with* **super-priority** status via **priming lien** status to incent FIs to lend (term loans /revolvers /others)
- Plan of Reorganization ("POR") to restructure the debtor's assets vs liabilities and equity upon exit from bankruptcy
- Acceleration of diligences

- ***(DIP) financing.***
- Chapter 11 also helps companies raise cash by **selling assets** in an open competitive auction overseen by the bankruptcy court;
- Find different **hedge funds** and private equity firms in the debt restructuring process by purchasing new debt or equity securities under the plan of reorganization (many times for a controlling stake).

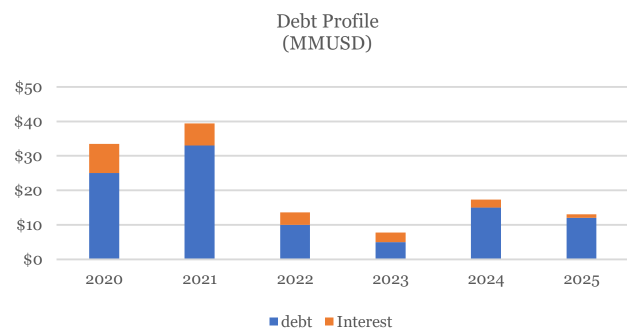
- **Sale & acquisition of distressed assets** and securities wit Strategic or Financial buyers.

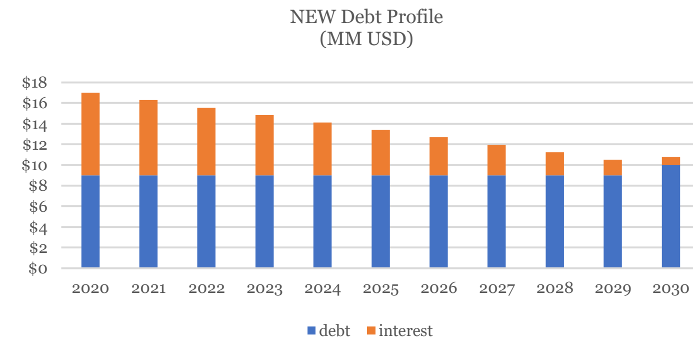
Refinancing

Refinancing



Corporate refinancing is a process through which a **company** can reorganize its financial obligations by replacing or restructuring existing debts. Some of the goals of **corporate refinancing** are to reduce monthly interest payments, find more favorable **loan** terms, reduce risk, and access more cash





Advantages

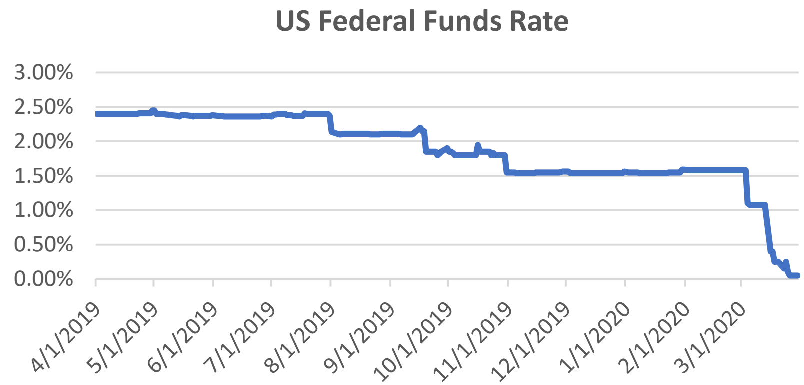
- Possibility to reduce your overall interest payments (NPV)
- Free up room in your budget for other financial goals
- Improves the company's credit quality.
  - A significant inflow can improve a company's credit rating and bring down in the future the cost of issuing more debt
- Reduce contains of meeting debt payments or a default scenario from a possible deterioration of the economy
- After the company refinances its debt, it generally reaps several benefits, including improved operational flexibility, more time and cash resources to execute a specific business strategy and, in most cases, a more attractive bottom line due to decreased interest expense.
- Open the opportunity to explore other type of FI like Insurance Comps, Venture Capital, Private Funds (etc.)

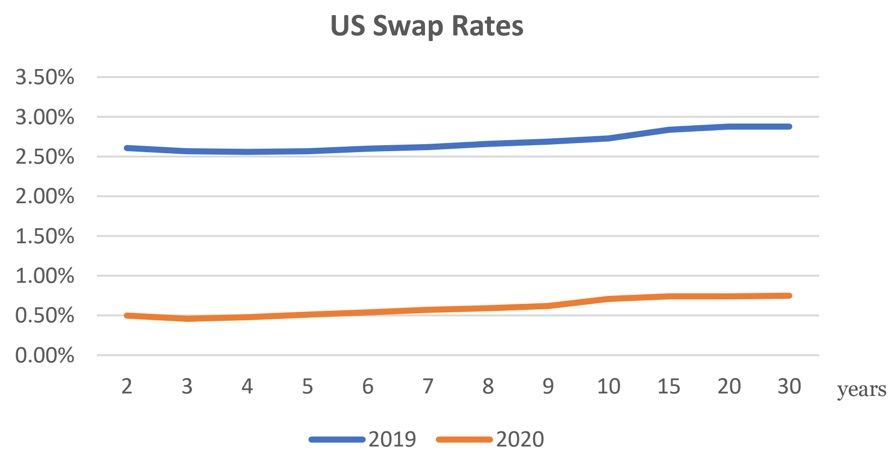
Refinancing questions

- *What are the company's real financing requirements?*
- *What are the special characteristics of that financing in terms of currencies, maturities, fixed versus floating rates, special takedown or prepayment provisions, ease of renegotiation, and the like?*
- *What segments of the capital markets will the company tap for each type of finance needed?*
- *Could the company comply with all loan covenants, as reflected in its pro forma financial statements, in good times and bad?*
- *Will the company's debt policy allow a flow of funds to all strategically important programs even during adversity?*
- *What are the implications of the new debt policy for existing bondholders and shareholders, the latter in terms of earnings per share, dividends per share, and market price*

Refinancing – Current Market Situation

- With the fast-spreading coronavirus posing a dire threat to economic growth, the Federal Reserve took the dramatic step of slashing interest rates to near-zero and unveiled a sweeping set of programs in an effort backstop the United States economy.
- In addition to cutting its benchmark interest rate by a full percentage point, returning it to a range of 0 to 0.25 percent, the Fed injected a huge sums into the economy by snapping up at least $500 billion of Treasury securities and at least $200 billion of mortgage-backed debt "over coming months.“
- US Interest Swap Rates are at minimum levels, 30 year US Swap Rate is at 0,78%.



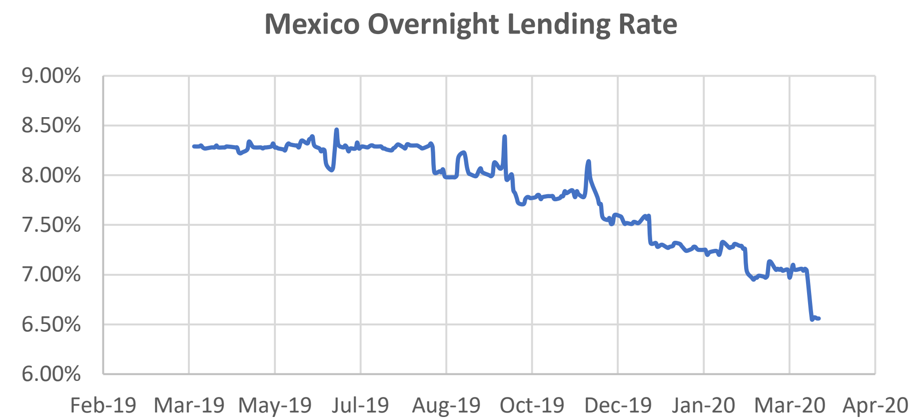


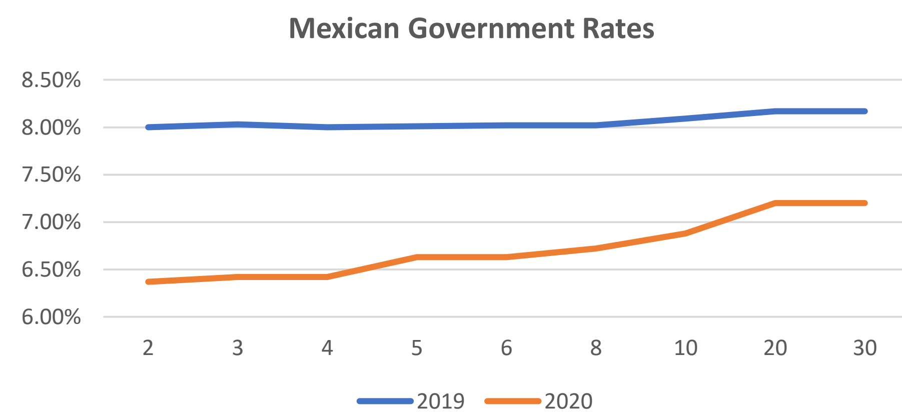
Year	2	3	4	5	6	7	8	9	10	15
2019	2.61%	2.57%	2.56%	2.57%	2.60%	2.62%	2.66%	2.69%	2.73%	2.84%
2020	**0.50%**	**0.46%**	**0.48%**	**0.51%**	**0.54%**	**0.57%**	**0.59%**	**0.62%**	**0.71%**	**0.74%**

Source Bloomberg

Refinancing – Current Market Situation

- In Mexico, inflation through the first two weeks of March would remain above the target, and economic activity data through January should point to slow growth prior to headwinds from the coronavirus outbreak. Data would support the central bank's decision to cut interest rates by 50 basis points at an emergency meeting on March 20.
- Mexico's GDP is expected to collapse 7% this year, exceeding the plunge seen during the 2008-09 global financial crisis and the Tequila Crisis in the mid-1990s, according to JPMorganMexico appears to be in the early stages of coronavirus contagion and a pickup in cases would eventually lead to social distancing measures, with a heavy toll on the informal sector
- It is expected that Banxico will cut its policy rate to 3% from 6.5% at present to "ameliorate the imminent recession



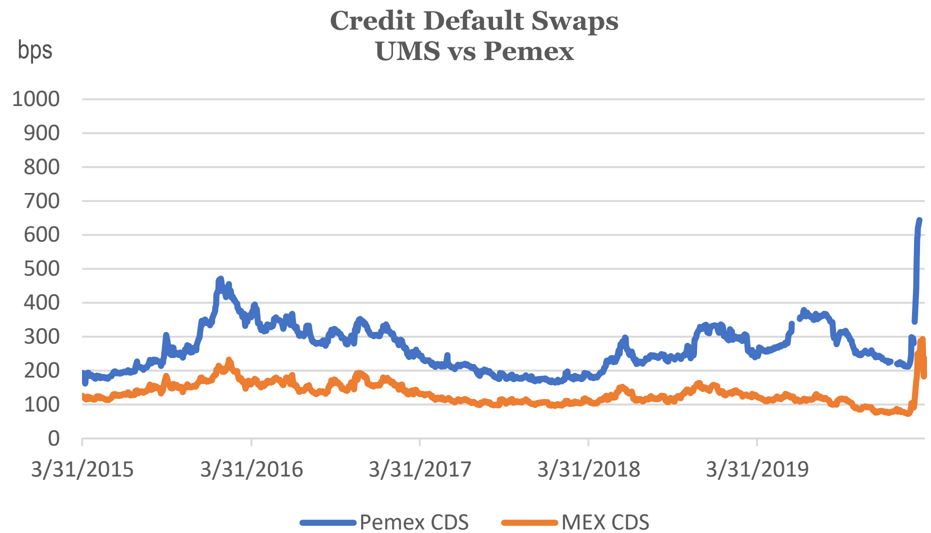


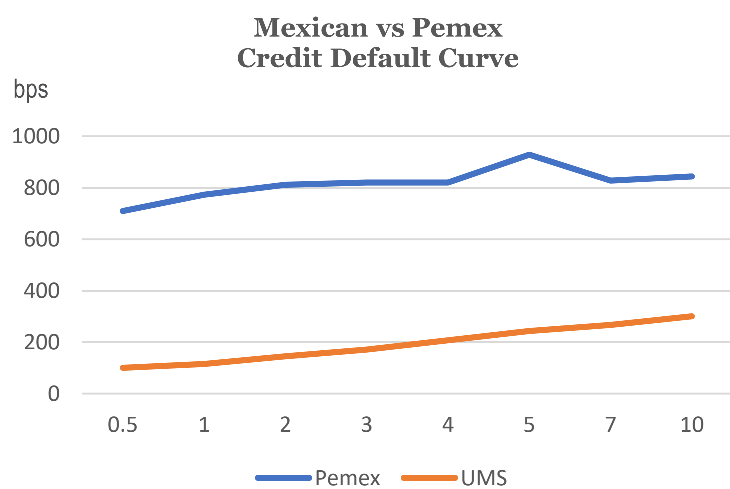
Year	2	3	4	5	6	8	10	20	30
2019	8.00%	8.03%	8.00%	8.01%	8.02%	8.02%	8.09%	8.17%	8.17%
2020	6.37%	6.42%	6.42%	6.63%	6.63%	6.72%	6.88%	7.20%	7.20%

Source Bloomberg

Refinancing – Credit Spreads

- Quoting "S&P" On March 26, 2020, we lowered our long-term foreign currency sovereign credit rating on Mexico to 'BBB' from 'BBB+' and the long-term local currency sovereign credit rating to 'BBB+' from 'A-'. The outlook on the long-term ratings remains negative.
- The downgrade was based on the expectation of a pronounced hit to the Mexican economy following the combined shocks of COVID-19--in Mexico itself and in the U.S., its main trading partner--and lower global oil prices. These shocks, while temporary, will worsen already the weak trend in GDP growth for 2020-2022 that reflect, in part, low private-sector confidence and poor investment dynamics.
- Uneven or ineffective policy execution; potential weakening in public finances, reflecting a difficult trade-off between sustaining GDP growth given Mexico's low non-oil tax base and spending rigidities; and rising pressure on PEMEX, a potential contingent liability for the sovereign.





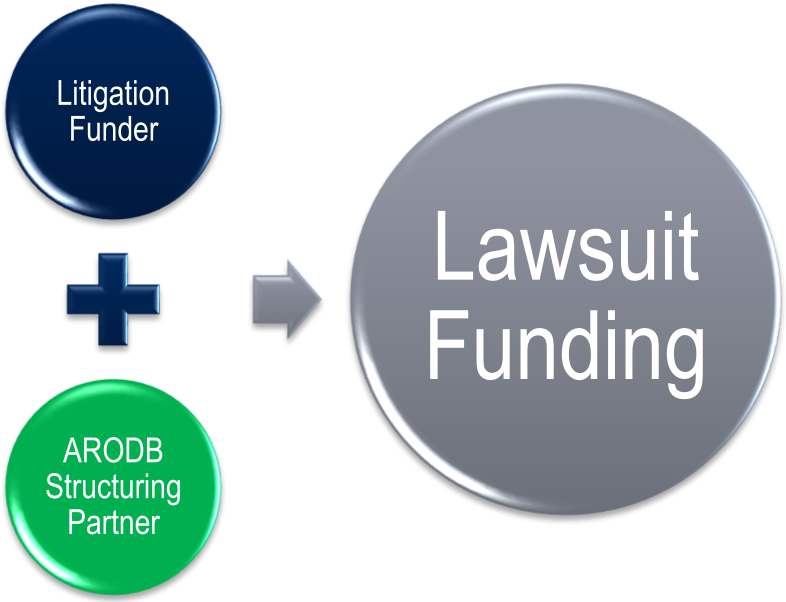
Years	Pemex BPS	UMS BPS
0.5	708.96	100.98
1	773.02	115.667
2	811.54	144.618
3	820.06	171.574
4	819.95	207.849
5	928.09	243.961
7	827.68	266.803
10	843.56	300.148

Source Bloomberg

Litigation Financing

Litigation Finance

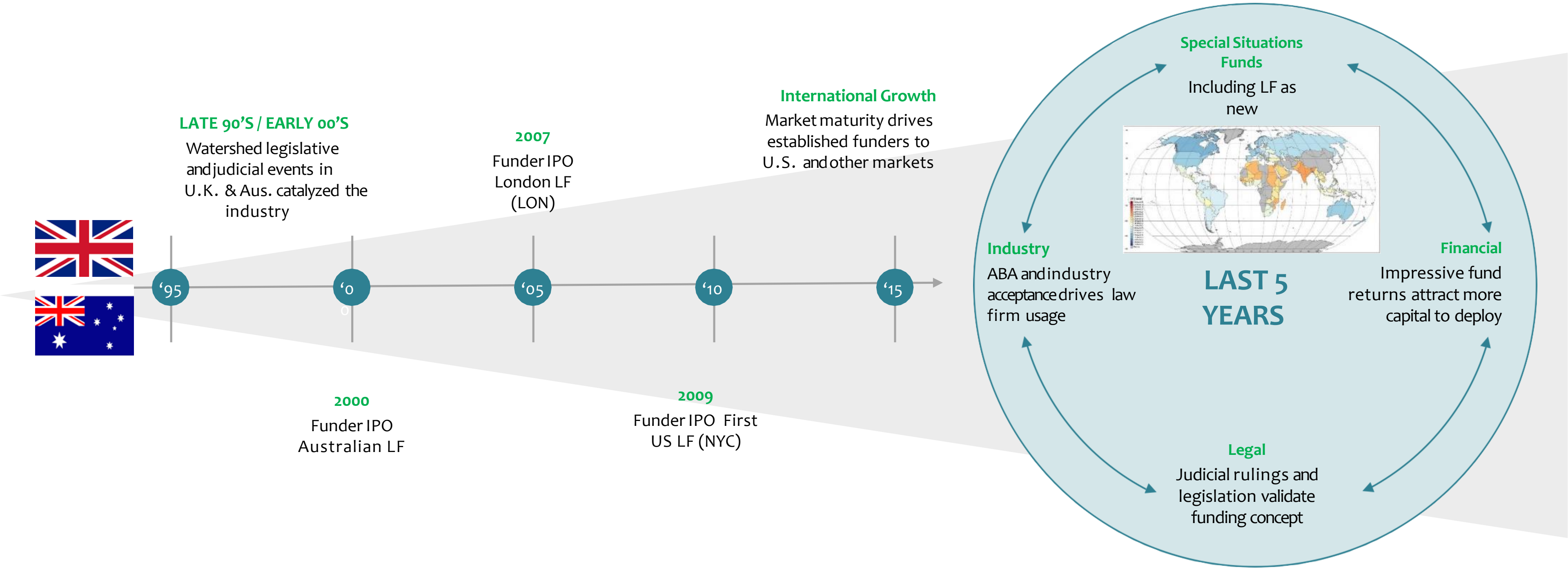
Litigation Finance -- the practice of a third party funding litigation in exchange for a cut of any proceeds that result from the lawsuit. Litigation finance typically refers specifically to commercial cases. (also known as legal financing, pre-judgment financing, legal finance). Litigation finance arrangements increase the value of the underlying asset.



The Opportunity

Market Evolution – Litigation Funds (LF) and Special Situations Funds (SSF)

Mainstream adoption in the U.K. & Australia has driven U.S. and other countries growth in past 5 years

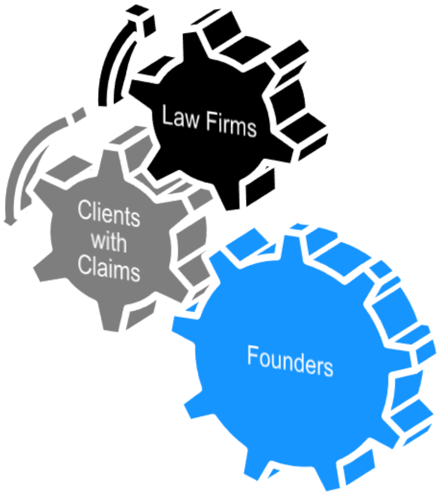


The Solution

Litigation Funds or Special Situations Funds finance or monetizes a Company's claim or portfolio of meritorious claims for a share of the recovery

Company with Claims

- Company unlocks the ability to monetize legal assets .
- Monetization gives companies the ability to control the timing and certainty of cash flows back to the business by accelerating a portion of a pending claim.
- Legal departments use legal finance to create certainty around litigation costs and to pursue affirmative recoveries without adding expense or risk to corporate balance sheets.
- Legal departments become value generation center.
- Client can pursue affirmative legal recovery programs without adding cost or risk – means that companies have the tools to earn risk-free returns on multi million-dollar assets.
- Legal financing assumes the entirety of the upfront cost and downside risk of litigation **(nonrecourse financing).**



Founders

Upon successful resolution, the LF or SSF receives a preferred return on its investment (multiple or IRR-based) and/or portion of damages recovered in trial or settlement

Law firm

ARODB/Torino Capital will quantifies LatAM meritorious claims in the region .

- Solution enhances relations with the clients and future business.
- Companies can leverage legal finance as a hybrid or synthetic contingency that bridges the gap between their needs and those of the Fund.

The Investment Criteria

Key Investment Atributes

- **Type of matter:** Patent and intellectual property, trade secret, commercial litigation at any stage, including antitrust, securities, fraud, contract and other business tort matters, as well as international arbitration and asset recovery.
- **Strong Merit;** The funds only receive returns when cases succeed, so will carefully assess the facts and legal merits of a claim, starting with an operative complain or written summary.
  - Legal & factual merit, supported by cogent evidence, establishing liability & damages
- **Counsel:** Cases are valued also if these are lead by experienced litigation counsel with successful track records and strategic approach. During the initial review, the LF and SSF will confirm that he right counsel has been retained and has performed and analysis of the factual background and legal issues of the case.
- **Strong Legal Team**. Resources & strategy to guide case through judgment, appeal, and execution
  - Realistic budget
- **Sophisticated & Liquid Defendant** with incentive to resolve lawsuit early
- **Damages:** Damages must be supported by solid evidence of loss and large enough to support the investment and return of the fund.
- **Strong Recovery Strategy**; clear business-legal path on how to settle a claim.
  - There is more than one viable legal theory that could lead to a recovery
- **Size of Claims & Damages**. Investments > $4 MM that typically exhibit 10:1 recovery-to-funding ratio

Two Phase Transaction Process

Preliminary Discussions

AROBD/Basham engages with claimant to explore investment need

NDA

1. Initial Diligence

1-8 Weeks

ARODB's underwriting team conducts initial diligence

NON-BINDING TERM SHEET

ARODB's finds an interest LF or SSF

2. Detailed Diligence & Legal Contracting

3-5 Weeks

ARODB's underwriting team, the LF or SSF conduct detailed diligence on key investment considerations

Binding legal contract is finalized

BINDING AGREEMENT

Funding & Monitoring

LF and SSFs after funding the operation, they receive electronic docket notices, review the pertinent filings, track court deadlines, draft monthly summaries etc. to insure a positive final outcome.

Employs a straightforward, accessible process to fund cases in as quickly as 8 weeks

Disclaimer

This presentation has been prepared by ARODB for the exclusive use of the party to whom ARODB delivers this presentation (together with its subsidiaries and affiliates, the “Company”) using information provided by the Company and other publicly available information. ARODB has not independently verified the information contained herein, nor does ARODB make any representation or warranty, either express or implied, as to the accuracy, completeness or reliability of the information contained in this presentation. Any estimates or projections as to events that may occur in the future (including projections of revenue, expense, net income and stock performance) are based upon the best judgment of ARODB from the information provided by the Company and other publicly available information as of the date of this presentation. There is no guarantee that any of these estimates or projections will be achieved. Actual results will vary from the projections and such variations may be material. Nothing contained herein is, or shall be relied upon as, a promise or representation as to the past or future. ARODB expressly disclaims any and all liability relating or resulting from the use of this presentation.

This presentation has been prepared solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The Company should not construe the contents of this presentation as legal, tax, accounting or investment advice or a recommendation. The Company should consult its own counsel, tax and financial advisors as to legal and related matters concerning any transaction described herein. This presentation does not purport to be all-inclusive or to contain all of the information that the Company may require. No investment, divestment or other financial decisions or actions should be based solely on the information in this presentation.

This presentation has been prepared on a confidential basis solely for the use and benefit of the Company; provided that the Company and any of its employees, representatives, or other agents may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to the Company relating to such tax treatment and tax structure. Distribution of this presentation to any person other than the Company and those persons retained to advise the Company, who agree to maintain the confidentiality of this material and be bound by the limitations outlined herein, is unauthorized. This material must not be copied, reproduced, distributed or passed to others at any time without the prior written consent of ARODB .