RESOLUTE INDEX

BANKRUPTCY | RECEIVERSHIP

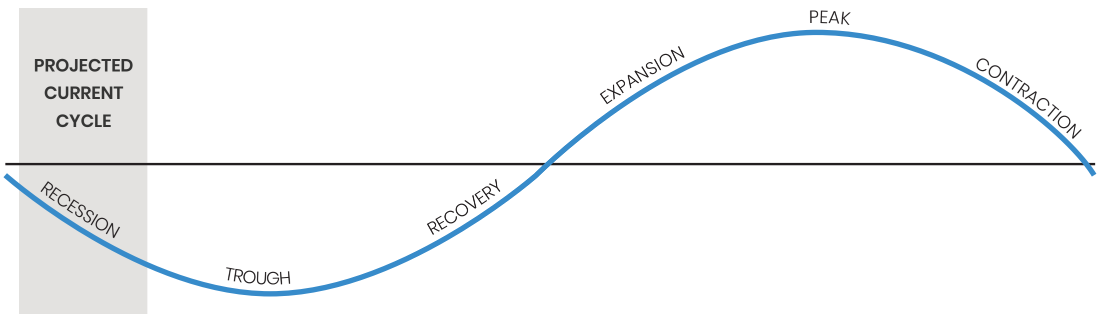
WINTER 2021

With 2020 behind us, we can now fully look back to understand the continued impact of the coronavirus pandemic on middle market ($10 MM to $200 MM) businesses in Arizona and the Rocky Mountain West region.

Keep reading for insights into Arizona Workout Filings, CMBS defaults, a recession timeline, and an in-depth look at Q4 bankruptcy trends and insights.

State of the Workout Environment

In business filings with $1MM+ in liabilities



WORKOUT TREND

ARIZONA MIDDLE MARKET
BANKRUPTCY

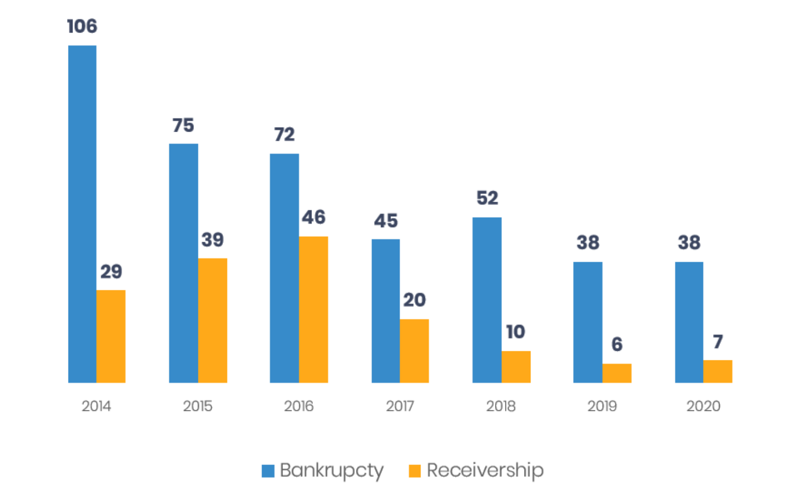
7	-6
Q4	Since Q3

ARIZONA MIDDLE MARKET
RECEIVERSHIP

5	+4
Q4	Since Q3

Arizona Middle Market Bankruptcy and Receivership Filings by Year: 2014 - 2020

In business filings with $1MM+ in liabilities



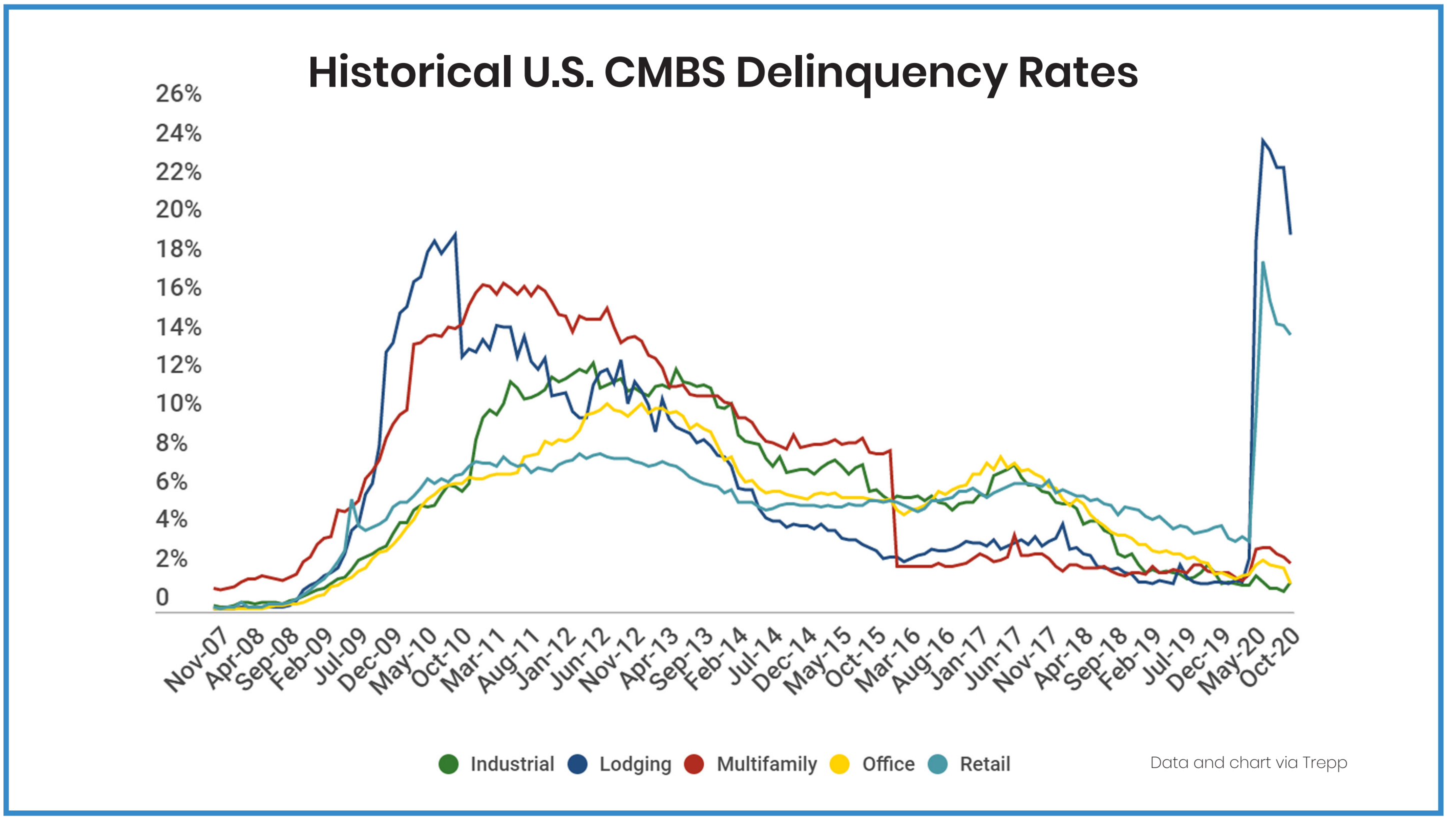
TAKEAWAYS

2020 and 2019 tied for number of middle market bankruptcies. Middle market receiverships ticked up slightly in Q4 to bring 2020 on par with 2019 as well.

On a national level, bankruptcies across all chapters were at a record low since 1968. This is almost certainly due to the injection of federal aid to assist businesses. We believe this trend will not last. Nearly all industry experts Resolute has spoken with in the turnaround and workout space expect the second half of 2021 to usher in new filings.

CMBS Delinquencies in a Post-Covid World

Examining commercial real estate market distress



TAKEAWAYS

The main difference between the Great Recession and current economic situation lies in the industries impacted. In 2009 and 2010, the industries hardest hit by CMBS delinquency were lodging and multi-family, with some pick-up in industrial and office toward the end of 2010. In 2020, the severe peaks of lodging and retail at 24% and 18% respectively in June, highlight the dire situation many businesses found themselves in.

In the world of commercial real estate, the new landscape holds unique possibilities and challenges.

The lodging sector finds itself in a holding pattern. There's a strong desire for travel and leisure spending that's intensifying as the pandemic continues to hinder society. Yet with many flights pared back or cancelled, along with phases of government-mandated shutdowns, travel is still in limbo for many consumers. Lodging will rebound, but only when: 1) the Covid-19 vaccine is widely distributed and utilized; and 2) when consumers trust that it is safe to travel again.

Retail was already in a difficult position before the pandemic began. And the "retail apocalypse" is severely impacting many brick and mortar retailers. Well-known enterprises like Neiman Marcus, J.C. Penney, GNC, Lucky Brand, Brooks Brothers, Pier 1, and Tuesday Morning all filed Chapter 11 bankruptcy in 2020.

With mall anchor retailers scaling back operations or closing stores altogether, the continually decreasing foot traffic throughout malls only adds pressure to smaller retailers. According to real- estate research firm, Cushman & Wakefield, mall visits declined 50% between 2010 and 2013 and have continued to decline each year since. *The Phoenix Business Journal* reported that U.S. retail-to-industrial property conversions rose from 24 to 59 over the first half of 2020.

Struggling retailers need to redefine themselves and embrace the trends in e-commerce and digital storefronts to keep up with industry and societal changes to the market.

A History of the Lesser-Known Recessions

As we look to examine the pandemic-induced recession currently facing the US Economy, it's important to remember that this is far from the first recession to face the nation. Many know and understand the impact of the Great Depression and The Great Recession, just a decade ago. However, the US has experienced several recessions in between that are worth examining. Below are some of the more noteworthy:

1973–75 (THE FIRST ENERGY CRISIS AND LEAVING THE GOLD STANDARD)

CAUSED BY

In 1973, Cold War tensions heated up when US and Soviet allies went to war in the Middle East. In retaliation against US involvement, OPEC imposed an embargo that ended petroleum exports to the US and slashed oil production. The price of oil quadrupled. At the same time, the Federal government introduced a variety of destabilizing economic policies from wage-price controls to the abolishment of the gold standard.

RESULTS OF RECESSION

Q3 1974 to Q1 1975 saw negative GDP growth. Unemployment reached its height of 9% in May 1975. Inflation was over 9% in 1975, the highest rate since 1947. The combination of stagnant economic growth, high unemployment, and high inflation coined a new term: Stagflation.

PATH FORWARD

Energy conservation and renewable energy technology gained significant interest and investment. While the oil embargo was lifted in 1974, the effects of this downturn and lingered throughout the rest of the decade, including a Second Oil Crisis in 1979 in the wake of the Iranian Revolution.

1980–82 (EARLY '80S RECESSION)

CAUSED BY

The Fed sought to stop the stagflation of the 1970s by enacting "Stop-Go" monetary policy in which the Fed alternated between fighting inflation by raising rates (stop periods) and fighting unemployment by lowering rates (go period). Stop-go didn't work, economic conditions reached a critical peak when inflation was as high as 13.5% . Stagflation relented when Federal Reserve Chair Paul Volcker raised interest rates to 20%, but doing so caused another severe recession.

RESULTS OF RECESSION

From Q1 1980 to Q4 1982, six of the 12 quarters saw negative GDP growth. Unemployment reached its height in December 1982 at nearly 11% which at that time was the highest unemployment rate since the U.S. started keeping records.

PATH FORWARD

The Federal government's economic policy reduced tax rates in a way that actually increased the amount of tax collected. Combined with a more stable global political environment, lower oil prices, and the first wave of the technology boom, the unemployment dropped, and inflation began a long downward trend. The result was a robust recovery.

1989–95 (SAVINGS AND LOAN CRISIS)

CAUSED BY

Stagflation and ultra-high interest rates crippled lending in the 1970s and early 80s. Legislation in the early 1980s removed significant amounts of restrictions and regulations for both Banks and Savings and Loans (S&Ls). Speculative real estate lending soared, with some financial institutions investing in junk bonds and calling them safe investments. Fraudulent real estate appraisals among S&L insiders were common and regulators willfully looked the other way.

RESULTS OF RECESSION

The Federal Savings and Loan Insurance Corporation (FSLIC) was established on the heels of the Great Depression to protect S&L lenders from failing. Many lenders used this protection as a crutch to avoid the results of their bad investments, leaving the FSLIC insolvent. More than 1,000 S&Ls had failed by 1989.

PATH FORWARD

It took the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to usher in a solution to the crisis. FIRREA introduced new regulations for both savings and loan institutions and real estate appraisal professionals, and absorbed FSLIC into the FDIC.

2000-2002 (DOTCOM BUBBLE)

CAUSED BY

The late 1990s saw an explosion of investment and interest in technology stock. As the year 2000 approached, some feared computer codes wouldn't be able to handle the millennium shift, leading to a flurry of software and technological rework . After these fears proved largely unfounded, it became increasingly obvious that many tech startup stocks had little to no value. The bubble started deflating.

RESULTS

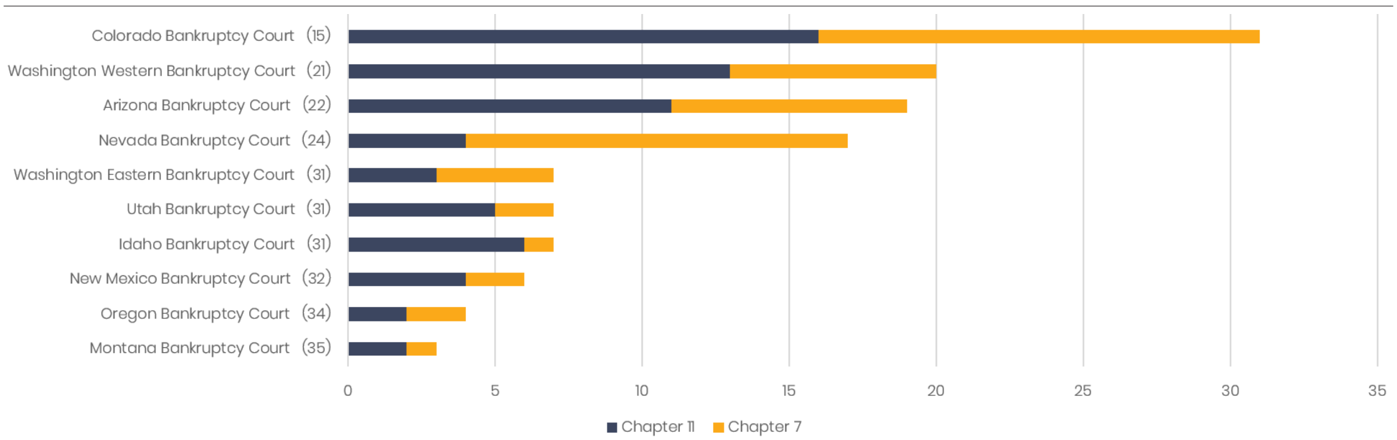
The Nasdaq index went from over 5,000 in March 2000, to just over 1,000 in October 2002. The terrorist attacks of 9/11 closed the New York Stock Exchange for a week, contributing to more uncertainty. Many of the dotcom stocks went bust.

PATH FORWARD

President George W. Bush cut income taxes and provided tax credits; and the Fed lowered interest rates as low as 1.8% in late 2001. Economic growth returned by Q4 2001. While the dotcom era ended, the market moved on.

Q4 2020 National Bankruptcy Analysis

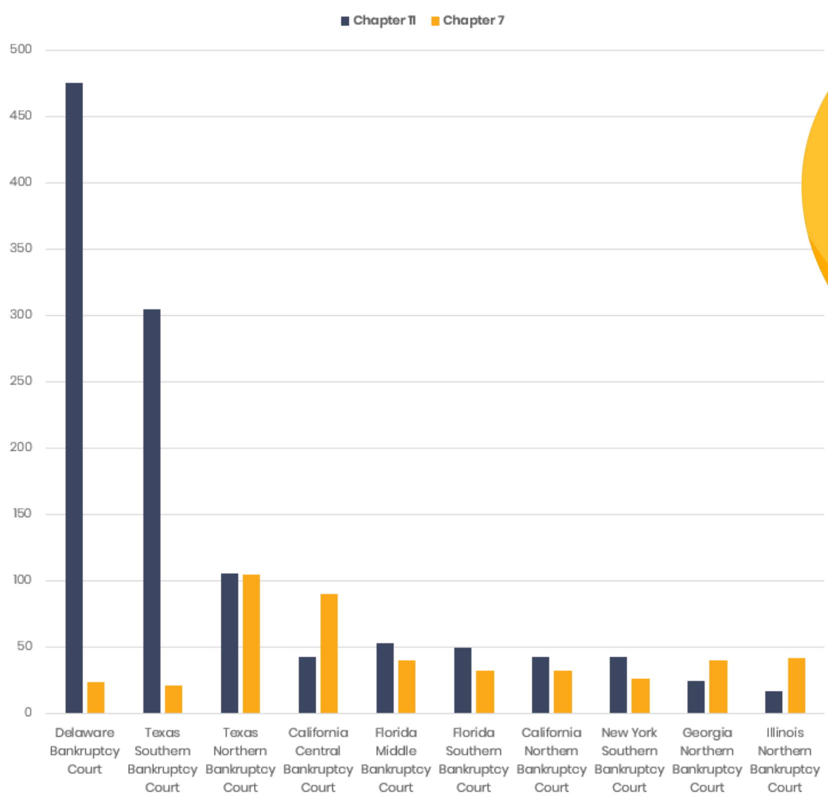
All Chapter 7 & 11 Bankruptcy Filings in the Rocky Mountain West



A Note on Rankings:

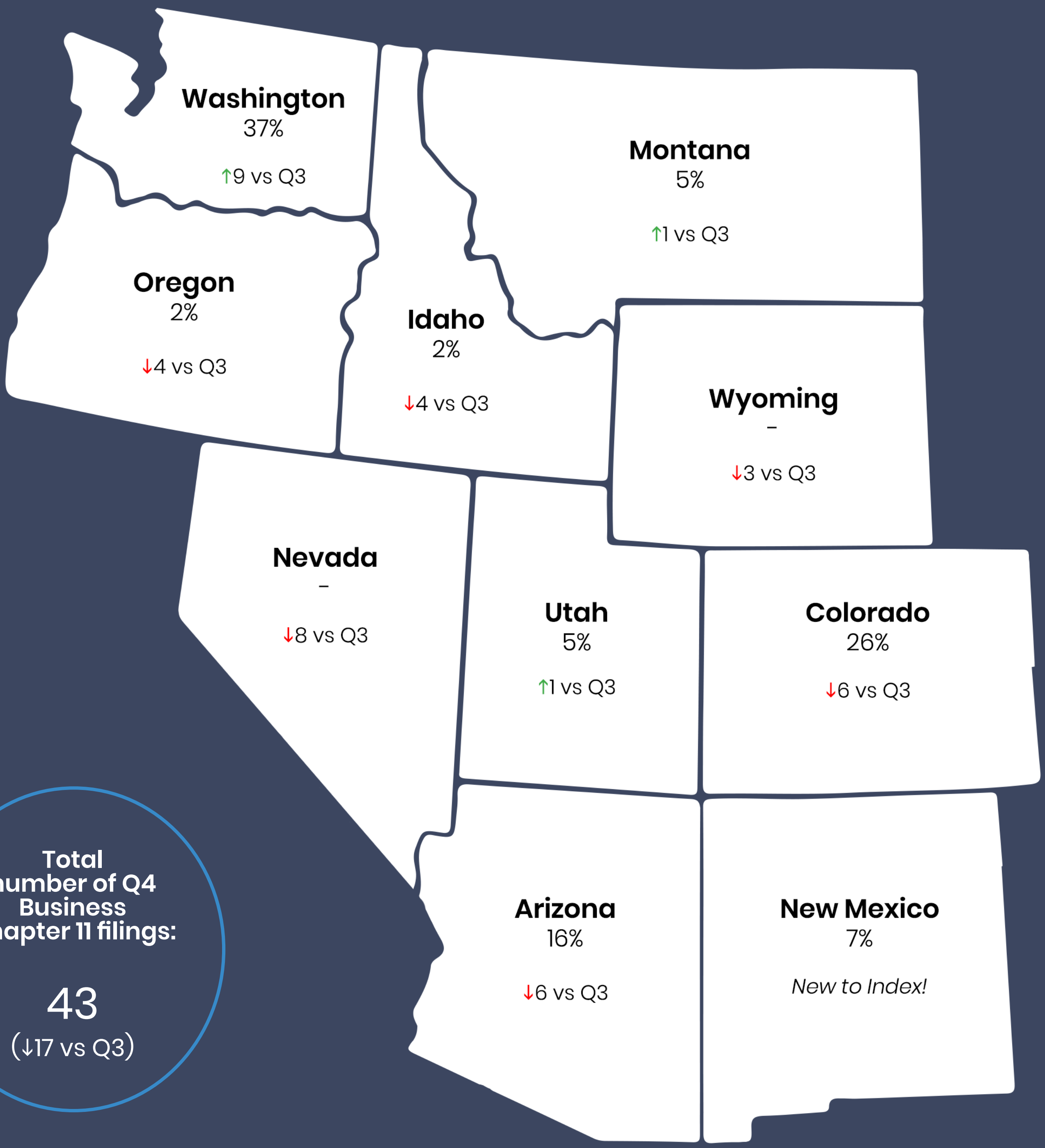
There are 90 bankruptcy courts in the Federal Judiciary. Our rankings of bankruptcies are calculated by total amount of Chapter 7 and 11 filings. In cases where states shared the same total amount of filings, the ranking is shared equally between all tied states.

Top 10 U.S. Bankruptcy Courts with Highest Filings



Middle Market Bankruptcy Analysis Across the Rocky Mountain West

Examining Q4 Chapter 11 Filings in Businesses with $1MM+ in liabilities

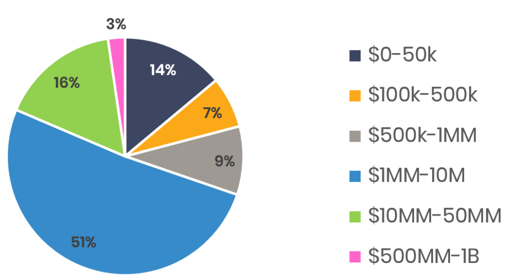


Total number of Q4 Business Chapter 11 filings:

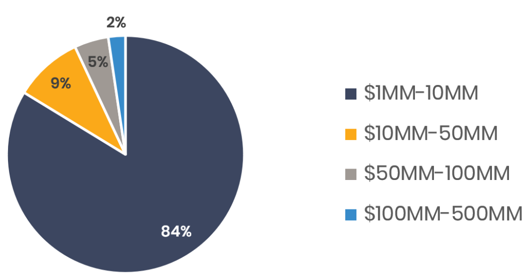
43

(↓17 vs Q3)

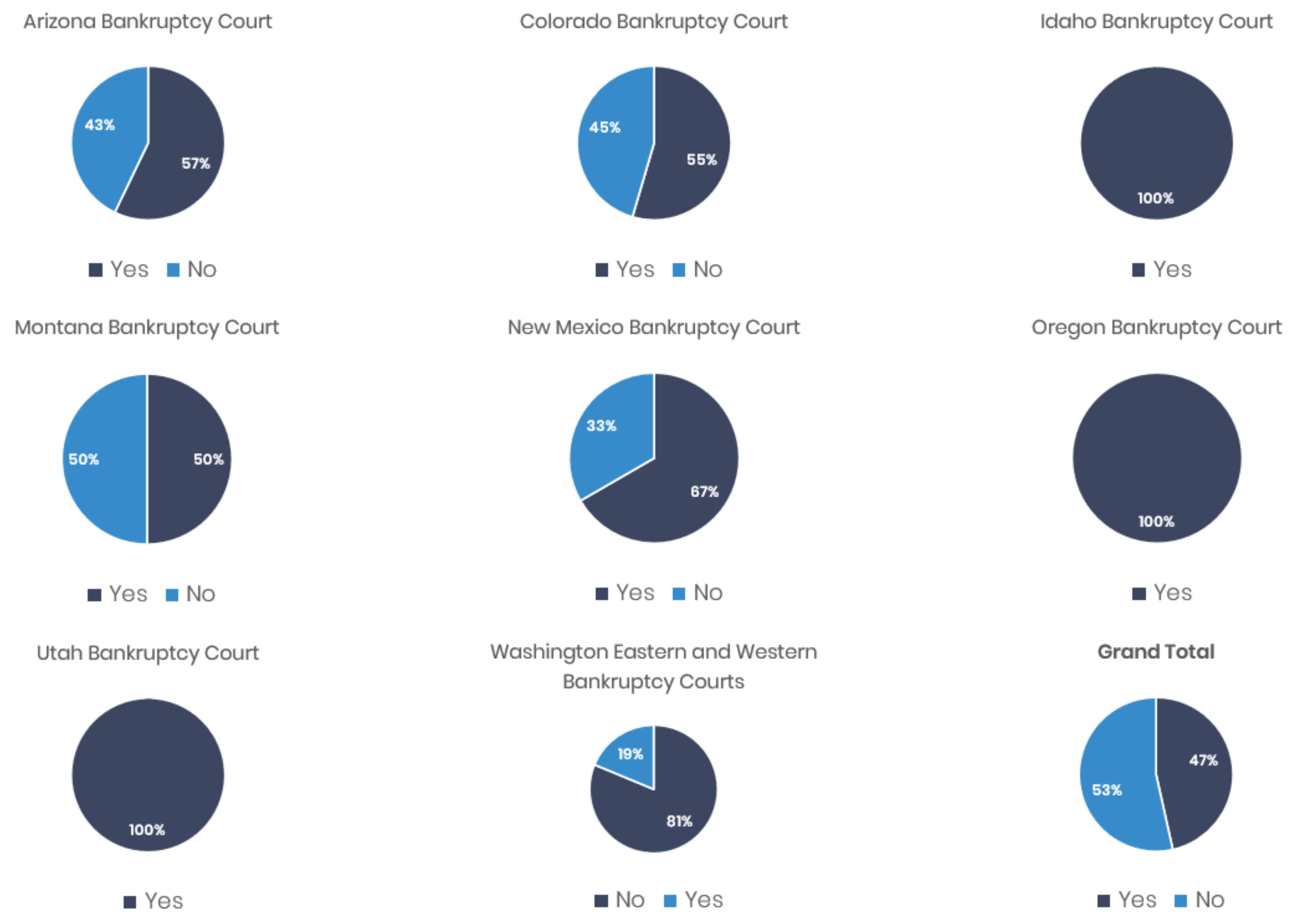
Rocky Mountain West
Middle Market Bankruptcy Assets



Rocky Mountain West
Middle Market Bankruptcy Liabilities



Subchapter V Breakdown in the Rocky Mountain West



REVIEW OF SUBCHAPTER V

Subchapter V has several distinct differences from traditional Chapter 11 filings, including:

- **Continued Ownership and Management for Equity Holders**
- **No Disclosure Statement Requirement**
- **No Competing Chapter 11 Plans**
- **Delayed Payment of Administrative Expense Claims and No U.S. Trustee Quarterly Fees**
- **90 Days to File a Plan**

The primary criteria to qualify for is that debts, secured and unsecured, must be less than $2,725,625 with half of this number stemming directly from business activity. The 2020 CARES Act increased this cap to $7,500,000 in aggregate secured and unsecured non-contingent and liquidated debt for at least one year.

WHY THIS MATTERS

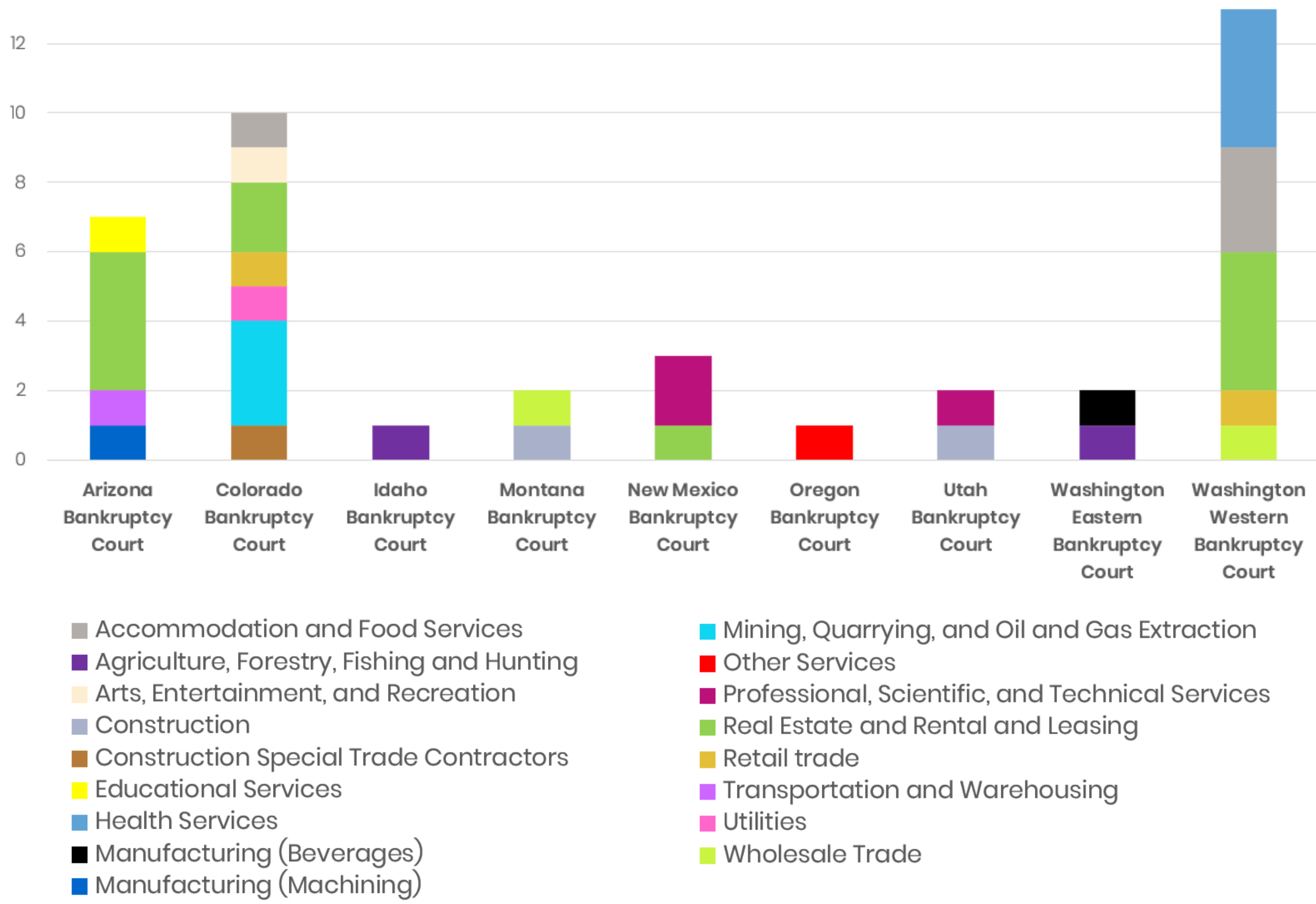
The flexibility of Subchapter V gives Middle Market companies the opportunity to expedite and simplify their Chapter 11 process, with greater potential to save a struggling business. The CARES Act cap increase makes this process more easily accessible to larger companies.

OVERALL Q4 TRENDS

The total number of Middle Market Chapter 11 filings is down slightly from Q3 to Q4. The total percentage of filings utilizing Subchapter V from Q3 to Q4 is down 10%. It's still a significant number for such a new process.

Industry Insights

Q4 Breakdown by Bankruptcy Court in the Rocky Mountain West



ABOUT THE RESOLUTE INDEX

The Resolute Index was created to provide an overall interpretation of Arizona's workout industry trends. This report analyzes the individual workout dynamics at play in the State of Arizona and its comparison with those same metrics on a national level. In addition, the Resolute Index measures noteworthy trends in bankruptcy filings and the overall business climate in the Rocky Mountain West region of the United States, which includes Washington, Oregon, Idaho, Montana, Wyoming, Nevada, Utah, Colorado and Arizona.

Our proprietary database of receivership and bankruptcy filings for entities with assets over $1MM creates a unique vantage point rarely measured. The Resolute Index shares our assessment of the overall workout environment as it relates to the data compiled in our research.

ABOUT RESOLUTE

Since 2008, Resolute has been providing solution-oriented financial advisory services including Corporate Renewal, Receivership, Forensic Accounting and Litigation Support services. Resolute has provided services in 33 states across the country and has been involved with more than 300 distressed engagements with assets totaling over $1 Billion. Resolute's ability to maximize value in entangled business situations has been utilized by financial institutions, corporations, law firms, and state and federal courts.