MITIGATING CREDIT RISK THROUGH RECEIVABLE PUT PROTECTION

* CONFIDENTIAL

March 18, 2025

UNCERTAINTY REMAINS

Credit Research Foundation

Retail Buzz
BIG LOTS:
Court Approves Gordon Brothers Retail Partners Sale

Retail Buzz
HUDSON'S BAY / SAKS:
Saks Global Acquires Neiman Marcus Group - Separates from Hudson's Bay Company

THE CONTAINER STORE:
Files Chapter 11

BARGAIN HUNT:
Files Chapter 11

How Tariffs Could Shock America's Power System

Retail Buzz
PARTY CITY:
Closing All Stores

Ascend Performance Faces Risky Outlook Amid Looming Maturities

Retail Buzz
TOYS "R" US CANADA:
Receives C$120mm financing from Gordon Brothers Along With Store Rationalization Support

Fed Minutes Reveal Little Appetite for Near-Term Rate Cut

PEAVEY MART:
Closing All Stores / Files CCAA

Southwest Airlines Cuts Workforce by 15% to Save Cash

JOANN, INC:
Files Chapter 11 Again

US ECONOMIC DATA POINTS

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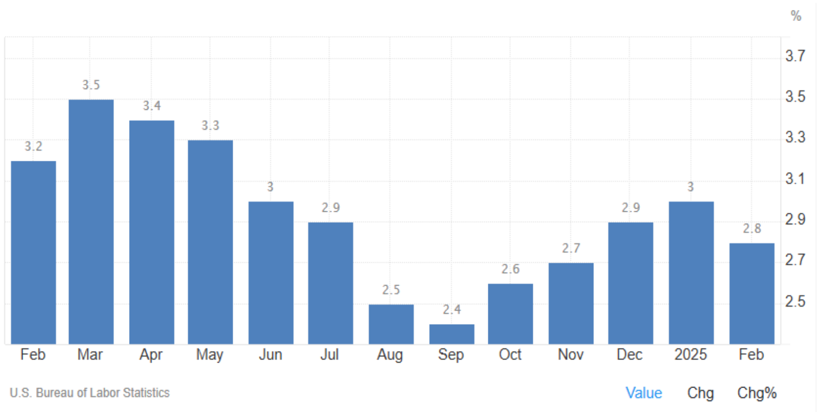
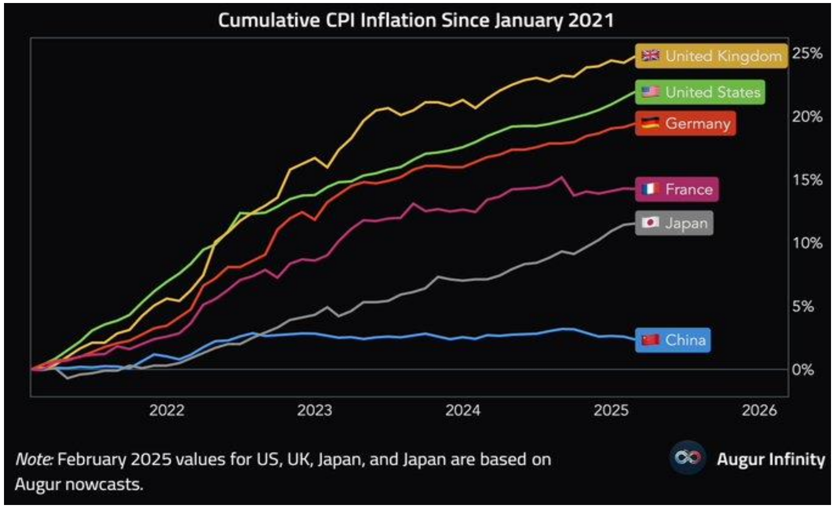
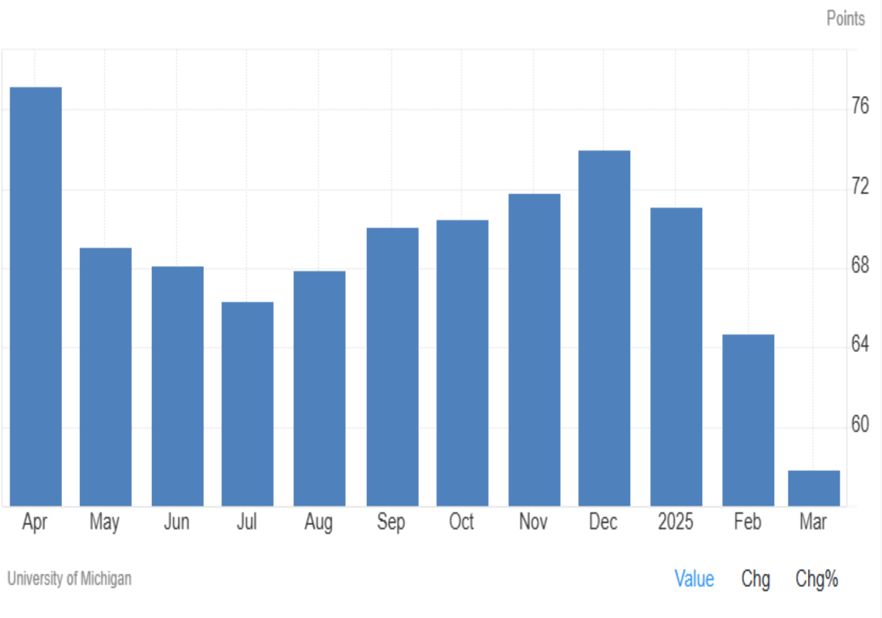
INFLATION





U. Michigan Consumer Confidence



DEFAULT RATES

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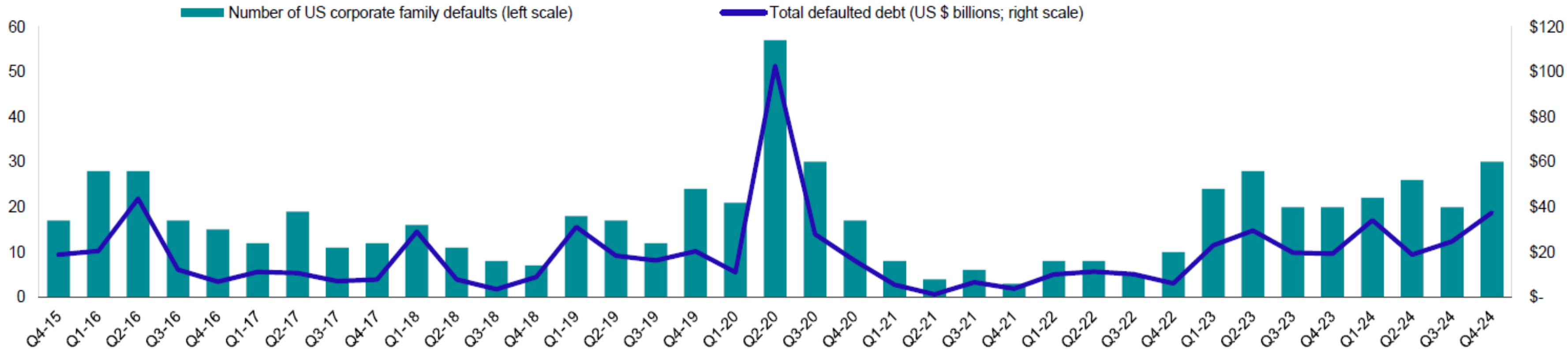
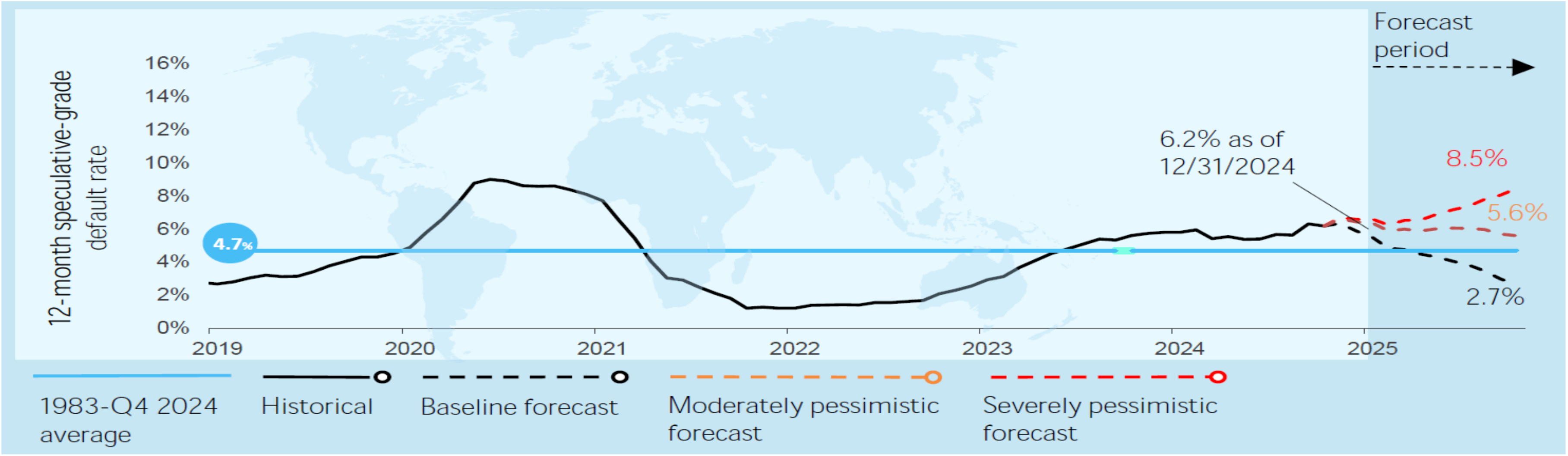
US corporate defaults for the quarter have not been this high since the 2020 pandemic



Financial defaults, REITs are outside of scope of this research, defaults counts are corporate family-level based

Source: Moody's Ratings

The spec-grade default rate remained elevated in 2024, but will subside this year



The US speculative-grade default rate is 12-month trailing and issuer-weighted

Source: Moody's Ratings

RISING CREDIT CARD BUBBLE

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Credit Card balances in the United States increased to $1.21 trillion in 4Q 2024. Another all time high!

10.75% of holders are only making minimum payments (highest level since 2012)

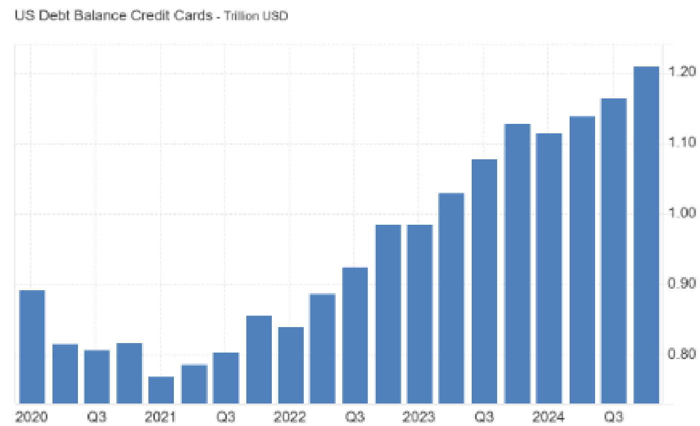
Annual credit card interest expense has risen by approximately $100 billion since 2019.

Credit Card lenders wrote off $46 billion in seriously delinquent loan balances in the first 9 months of 2024 according to the Financial Times.

Seriously delinquent balances increased by 7.1% compared to last year.

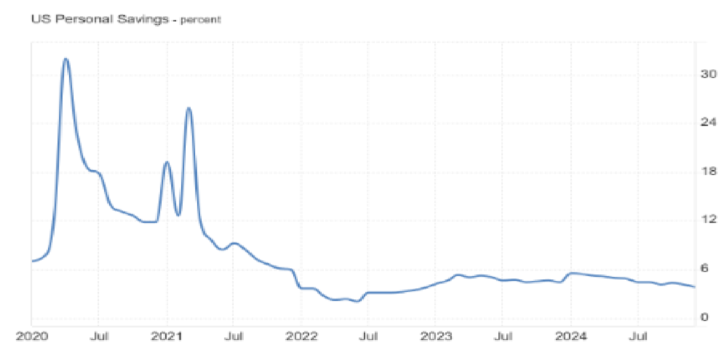
Will balances come down in the first quarter of 2025?

US CONSUMER CREDIT CARD BALANCES



Source: tradingeconomics.com | Federal Reserve Bank of New York

US PERSONAL SAVINGS RATE



Source: tradingeconomics.com | U.S. Bureau of Economic Analysis

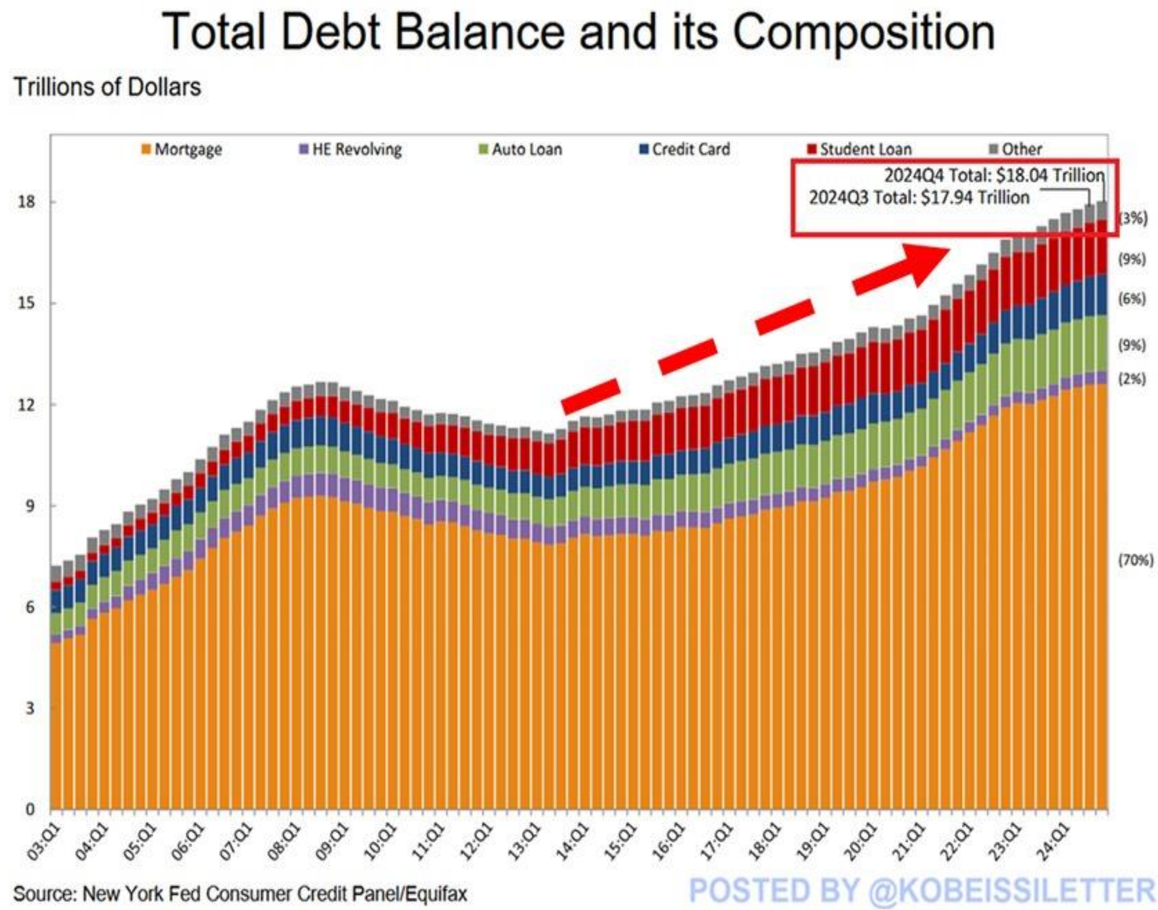
Total US household debt jumped +$93 billion in Q4 2024, to a record of $18.04 trillion, according to the NY Fed.

Household debt has risen by a whopping $3.90 trillion over the last 5 years.

Mortgage and auto debt both rose by $11 billion to a record $12.61 trillion and $1.66 trillion, respectively.

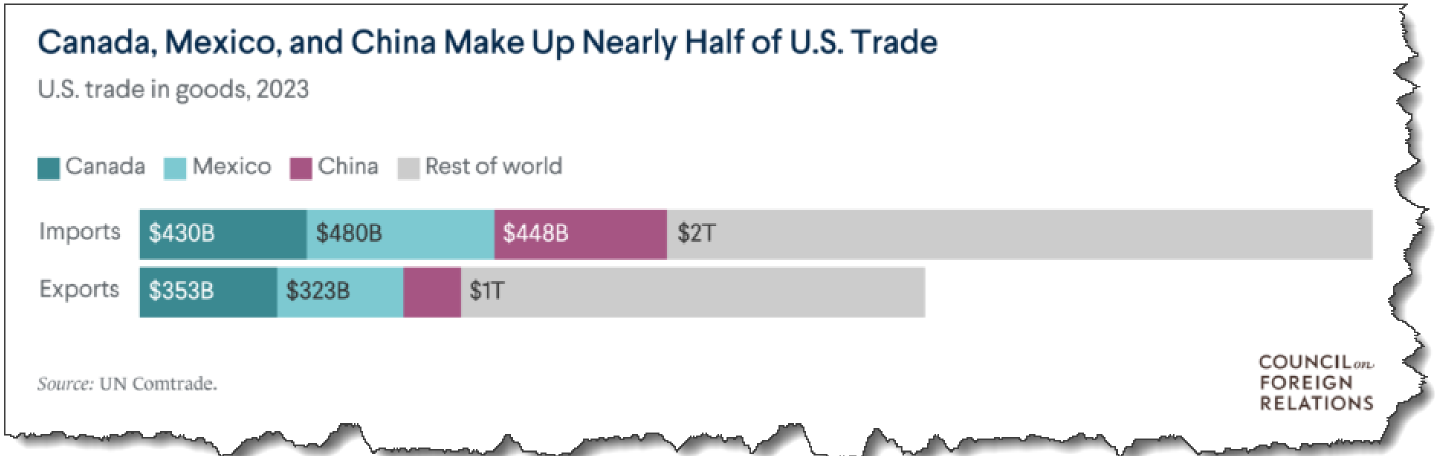
Furthermore, student loans jumped by $9 billion to an all-time high of $1.62 trillion.

Americans are still "fighting" inflation with debt.



POTENTIAL IMPACT OF TARIFFS

- *China = 10% Tariffs*
- *Canada = 25% Tariffs (postponed 1 month)*
- *Mexico = 25% Tariffs (postponed 1 month)*



PREPARED BY

TRADE PARTNERSHIP WORLDWIDE LLC

FOR

NRF National Retail Federation

Summary of Estimated Impacts of Proposed Tariffs on Consumers

	Scenario A: 10/70		Scenario B: 20/120	
	Increase in Consumer Price	Lost Consumer Spending Power	Increase in Consumer Price	Lost Consumer Spending Power
Apparel	+12.5%	$13.9 billion	+20.6%	$24.0 billion
Toys	+36.3%	$8.8 billion	+55.8%	$14.2 billion
Furniture	+6.4%	$8.5 billion	+9.5%	$13.1 billion
Household Appliances	+19.4%	$6.4 billion	+31.0%	$10.8 billion
Footwear	+18.1%	$6.4 billion	+28.8%	$10.7 billion
Travel Goods	+13.0%	$2.2 billion	+21.5%	$3.9 billion

- *Roughly $46 billion potential impact to consumers as a result of Tariffs on China products, according to the study.*
- *Does not consider retailers, manufacturers absorbing some of the costs.*
- *Does not consider manufacturing moving away from China*

RECENT RETAIL BANKRUPTCIES

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BIG LOTS!

- 2024 was a busy year!
- Little to no recoveries for unsecured creditors
- What are the lessons to be learned?

99¢ only stores

The Container Store

Party City

FRG FRANCHISE GROUP, INC.

JOANN

Conn's HomePlus

TGI FRIDAYS

Bargain Hunt

Peavey Mart

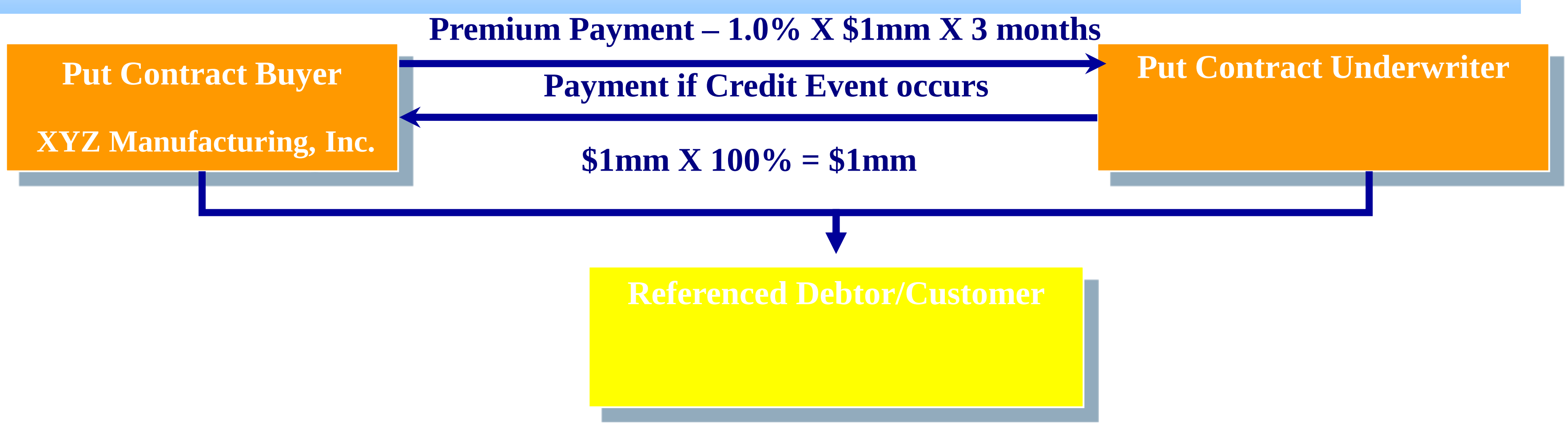
True Value

Dirt Cheap

RECEIVABLE PUT PROTECTION

- Put Contracts provide default protection against consequences of credit events
- It is an agreement between two parties whereby credit risk is shifted
  - The credit risk of a referenced debtor is shifted from the vendor to a secondary party, typically a financial institution
- The Put Contract protects the vendor from the consequences of a defined credit event
- The underwriter/obligor of the Put Contract, is effectively equivalent of being “long” unsecured debt of the referenced debtor

Basic Framework



RECEIVABLE PUT PROTECTION- STRUCTURE

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1. **Premium**	Up-front fee Creditor pays for credit protection on receivables	1.00%
2. **Strike Price**	The payment Creditor will receive for its receivables if the Event occurs (i.e., Strike Price x Coverage Amount = payment to Creditor)	100%
3. **Expiration Date**	The length of time Creditor is covered under contract	e.g. 12 months
4. **Coverage**	The face amount of the receivables Creditor protects under contract	May Vary
5. **Event**	The Event must occur in order for Creditor to exercise its option to sell the receivables to the obligor	Ch. 11, Ch. 7 or Announced Liquidating 11

PUTS VS. TRADITIONAL INSURANCE/FACTORING		
	Traditional Insurance	**Receivable Puts**
Coverage	Entire Portfolio Annual policies Coverage amount decided by the insurer	High risk single accounts 3 mos. - 1 year Coverage amount decided by the creditor
Termination	Cancelable at any time	No right of cancellation
Trigger Event	Bankruptcy or failure to pay	Bankruptcy
Availability	Pre-petition	Pre or post-petition
Pricing	Pricing based upon entire receivables outstanding	Pricing based only on amount creditor wants covered

BENEFITS

CREDIT	SALES
1. Allows continued shipments to customers facing financial distress.	1. Allows for increased volume
2. Risk Diversification	2. Positioning vs. competitors
3. Written on behalf of individual accounts rather than your entire portfolio	3. Let's Company reach sales budget
4. Transfers risk to stronger company	4. Improves Debtor relationship
5. Put Contracts can't be canceled	5. Geographical Product Placement
	6. Sales aren't interrupted in the event of a bankruptcy filing
	7. Keeps sales reps happy!

RECEIVABLE PUT PROTECTION- ECONOMICS

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SITUATION A: No Coverage – All is Well	
Sales ($1mm/mo for 3 mos.)	$3mm
Gross Margin	10%
Gross Profit	$300k

SITUATION B: No Coverage & Chapter 11 after 2 Months	
Receivables Outstanding	$1mm
PV recovery to GUC's	50%
Sales Prior to Ch. 11	$3mm
Gross Profit	$300k
Minus:	
Loss on $1mm Receivable	($500k)
Net Loss	($200k)

SITUATION C: Put Contract – All is Well	
Sales ($1mm/mo for 3 mos.)	$3mm
Gross Margin (10%)	$300k
Cost of Put ($1mm x 1.0% x 3 months)	$30k
Adjusted Gross Margin	9.0%
Adjusted Gross Profit	$270k

SITUATION D: Put Contract & Ch. 11 Takes Place after 2 Months	
Sales (Prior to Ch. 11)	$3mm
Gross Margin	10%
Gross Profit	$300k
Cost of Put	$30k
Adjusted Gross Profit	$270k
Loss on $1mm Receivables (5%...strike price)	($50k)
Net Profit (vs. $200k loss with no coverage)	$220,000

RECEIVABLE PUTS – KEY CONSIDERATIONS

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- Receivable Put Protection does not eliminate credit risk it shifts the risks to the underwriter?
  - Know the party you are dealing with
    - What is their track record
    - Ask for references
    - Will they provide financials
    - How much exposure do they have to the name in particular
    - Are they holding the paper or brokering it
- What is the "Trigger event"?
- What is the "Expiration Date"?
- What does the protection cover?
  - Pre-contract receivables?
  - Unsecured vs. 503(b)(9) claims
  - Disputed invoices
  - Late payments?

RECEIVABLE PUTS – KEY CONSIDERATIONS

- What are your obligations?
  - How and by when does the Put need to exercised?
  - What do you have to do in order to get paid?
  - How long will it take to in order to receive payment under the Put contract?

- What if your claim is objected to?
  - Who defends the claim?
  - Can this impact when you get paid?

- Can a Put be extended?

- What about Preferences?

RECEIVABLE PUTS – SUMMARY

- Receivable Put Protection is a unique credit risk mitigation tool when other options are limited!
- The cost of Receivable Put Protection is expensive relative to traditional receivable insurance so timing is key?
- Credit risk is not eliminated, it is shifted?
- Know the party you are dealing with?
- If a deal sounds too good to be true, it probably is.
- Retain legal counsel!

THANK YOU!!

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slido

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Of the following topics, which two (2) are most important to you for the next 6-9 months?

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