Cenveo.

Cenveo's Restructuring Case Study

Author:
Hernán Machado

Advisor:
Tyler Jensen, PhD

Executive Summary

Cenveo

Objective – Present an overview of the restructuring of Cenveo, Inc.

- Cenveo Inc. is a **leading global provider of print and related resources**, offering world-class solutions in the areas of envelopes, custom labels, commercial print, publisher solutions and business documents. The company was expected to secure around **$1.3 billion in revenue in 2017.**
  - The company operates in **three segments: Envelopes, Printing, and Labels.**
  - The company has a **wide geographical reach** with presence in the United States, London, and India.
  - The **decline of the paper industry** because of digitalization and **the rise of competition in the labels industry** have created industry headwinds that have exerted **extreme sales pressure on Cenveo.**
- Driven by a **burdensome capital structure** and a **lack of liquidity**, Cenveo filed for Chapter 11 on February 2, 2018.
  - Cenveo was represented by counsel Kirkland & Ellis and financial advisors Rothschild, Greenhill, and Zolfo Cooper.
  - Cenveo's First Lien creditors were represented by Ducera Partners and Stroock.
- In July 2018, **Cenveo's plan of reorganization was approved** by all voting classes.

Business Overview

Cenveo.

Cenveo's Business Overview

- Cenveo Inc. is a **diversified manufacturer** of print-related products offering solutions in the areas of envelopes, custom labels, and commercial print.
- Cenveo is based in Stamford, Connecticut and currently operates in the United States, India and London.
- Cenveo has established a broad geographic reach with over 30 operating plants that can service 90% of the US population within 2-3 business days.
- From 2006 to 2013, Cenveo completed 16 acquisitions of various companies and became **a leader in the envelope manufacturing, commercial printing and labeling for several niche products.**
- In 2013, Cenveo **stopped substantial M&A because of liquidity constraints.**

Cenveo's Geographical Overview

Cenveo's Business Segments

Envelope

- Offers: direct mailing, transactional mail, and wholesales
- **Largest manufacturer** in North America
- Cenveo is **6x larger** than its next competitor in this space
- In 2016:
  - Revenue: $735.1 million, 48% of total revenue
  - EBITDA: $64.4 million, 8.8% EBITDA margin

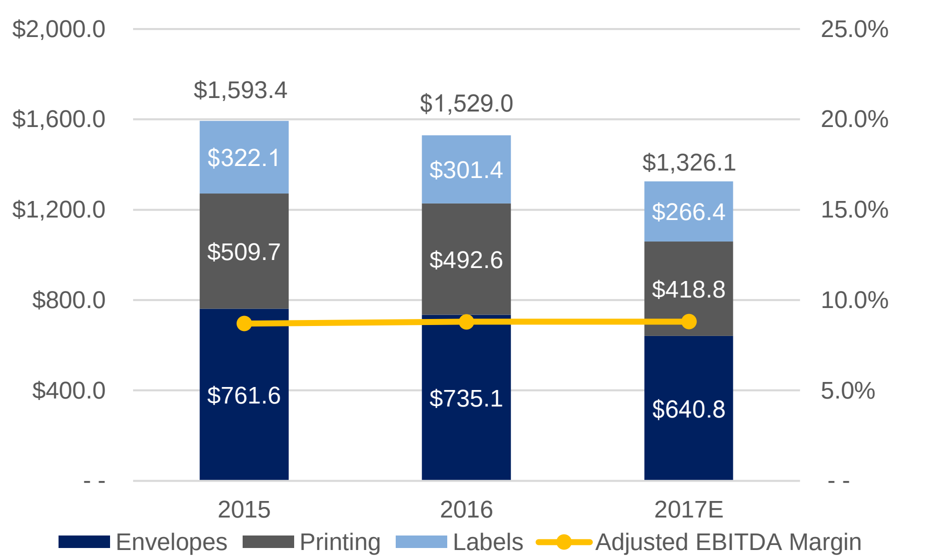
Printing

- Offers: commercial printing, publishing services, and content
- **Fourth largest commercial printer** firm in North America
- In 2016:
  - Revenue: $492.6 million, 32% of total revenue
  - EBITDA: $31.5 million, 6.4% EBITDA margin

Label

- Offers: design, manufacturing, and printing of labels
- **Leader in printing labels** for pharmaceutical, food, beverage, and consumer products
- In 2016:
  - Revenue: $301.4 million, 20% of total revenue
  - EBITDA: $38.7 million, 12.8% EBITDA margin

Cenveo's Revenue Per Segment (in millions) and EBITDA Margin[1]



[1]Figures Exclude Quality Park Contributions

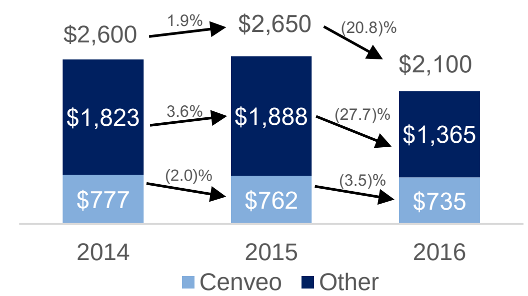
Sources: Reorg Coverage of Cenveo, Cenveo 10-Ks and 10-Qs, Rothschild Management Presentation for Restricted Creditors

Industry Overview

Cenveo.

Envelopes Industry

'17 Market Size	~ $2.1 billion
Cenveo '17 Market Share	~ 31%
Key Competitors	
Actual '07 – '16 CAGR	~(6.2)%



(1) Figures in millions
(2) Cenveo's sales exclude Quality Park business revenue

Commentary

- The market **contracted at a 6.2% CAGR** from 2007 – 2016.
- Despite direct mail advertising growth, the **industry is projected to decline** due to offsetting negative transactional volume growth.
- Cenveo's sales have contracted at a **lower rate than the industry.**

Printing Industry

'17 Market Size	~ $85 billion
Cenveo '17 Market Share	~ <1%
Key Competitors	
Actual '07 – '16 CAGR	~(2.3)%

Total Industry Revenue:
$85 billion

Sum of 400 Largest Companies' Revenue:
50% of Total Revenue

Sum of 4 Largest Companies' Revenue:
15%

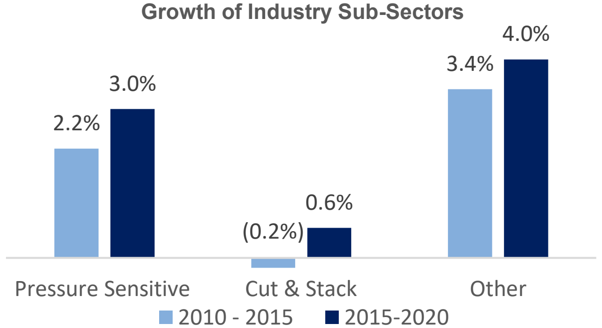
Commentary

- The market **contracted at a 2.3% CAGR** from 2007 – 2016.
- In addition to having **negative growth prospects**, the industry is **highly fragmented and competitive**.
- **Industry headwinds** include the creation of online content, mobile devices, and electronic marketing.

Labels Industry

'17 Market Size	~ $15 billion
Cenveo '17 Market Share	~ 2%
Key Competitors	
Expected 16'- 21' CAGR	~3.4%

Growth of Industry Sub-Sectors



Commentary

- The market will be **expanding at a 3.4% CAGR** until 2021, primarily driven by growth in the pressure sensitive label segment.
- The industry is **fragmented,** and **future consolidation and competition is expected** as participants look to broaden product offering and increase market share.

Sources: Rothschild Management Presentation for Restricted Creditors, Statista, and Freedonia 2017 Labels Report

Situational Overview

Cenveo.

Cenveo filed for Bankruptcy Chapter 11 on February 2, 2018. This was primarily driven by the combination of a burdensome capital structure and a lack of liquidity caused by the consistent contraction in Cenveo's demand and sales.

Timeline of Key Events

Date	Events
May 2016	❑ Cenveo announced an exchange offer for its outstanding 11.5% senior notes due 2017 for newly issued 6% senior notes due 2024 and common stock warrants representing 16.6% of outstanding shares. ❑ The company sought to reduce its ABL Facility by $50 million and extended its maturity date to 2021 from the original maturity date of 2017. It was contemplating a springing maturity of May 2019 ahead of the Company's existing 6% senior priority secured notes due August 2019. ❑ The firm entered into an agreement with three holders of the 11.5% notes to tender $145.8 million principal amount of outstanding 11.5% notes, representing 77% of all outstanding 11.5% notes.
May 2017	❑ Cenveo's Q1 earnings release reported a year-over-year 13.5% decline in sales and 10.9% decline in Adjusted EBITDA.
June 2017	❑ Cenveo's exchange offer expired, and $150 million aggregate principal of retired 11.5% notes were exchanged on the closing date, representing about 80% of all 11.5% notes outstanding. On the closing date, the company issued about $106 million aggregate principal of new notes warrants to purchase about 11 million shares of common stock. ❑ The company reduced the size of its ABL Facility and push its maturity to 2021, with a springing maturity of 2019 ahead of the 2019 secured notes. ❑ Moody's downgraded Cenveo to Caa2 from Caa1 and its probability of default rating (PDR) to Caa2-PD from Caa1-PD. Moody's action reflected doubt about the sustainability of Cenveo's capital structure, as shown by leverage increasing to 7.8x as EBITDA declines. Moody's stated that it is was not evident whether the firm can de-lever significantly ahead of the next maturity in August of 2019, when $540 million of senior secured notes are due.
August 2017	❑ Cenveo's Q2 earnings release reported a year-over-year 13.4% decline in sales and 19.5% decline in Adjusted EBITDA.
November 2017	❑ Cenveo's Q3 earnings release reported a year-over-year 14% decline in sales and 36% decline in Adjusted EBITDA. ❑ The company significantly lowered its 2017 revenue and adjusted EBITDA guidance to ranges of $1.315 billion – $1.330 billion and $110 million – $115 million, respectively. ❑ The firm announced the $39 million sale of its Quality Park office products business, which was projected to contribute $120 million in sales and $9 million in EBITDA by end of year.
February 2018	❑ **Cenveo filed for Bankruptcy Chapter 11 in the Southern District of New York.**

Bankruptcy Triggers

✓ Burdensome Capital Structure

✓ Liquidity Constraints

Sources: Moody's Downgrade of Cenveo, Reorg Coverage of Cenveo, Cenveo 10-Ks and 10-Qs, and Cenveo Press Releases

Restructuring Process Overview (1/3)

Cenveo

Cenveo's restructuring process included multiple roadblocks, including opposing motions from Brigade Capital Management and BOKF. After settlements and numerous hearings, Cenveo reached an agreement with all the relevant parties.

Timeline of Key Events

Date	Events
February 2018	❑ Cenveo filed with a 1L Noteholder RSA and $290 million DIP package ($190 million roll-up ABL and $100 million new money term facility) in place. ❑ Brigade Capital Management ("Brigade"), the largest holder of 2L notes with a more than 66.1% position in the 2Ls and a holder of 16.4% of the 1Ls, argued that because of (i) potential insider transactions, (ii) the firm's entry into the RSA, (iii) exorbitant, non-market compensation and benefits, and (iv) the independence of two "independent" directors of Cenveo, the court should appoint an examiner. ❑ Cenveo and the ad hoc 1L committee opposed Brigade's motion and argued that Brigade made "baseless and grave accusations" of misconduct. ❑ BOKF, as trustee for the 8.5% Second Lien Notes, argued in favor of the motion.
March 2018	❑ Judge Drain noted that an examination of potential claims and causes of action was warranted so he appointed a senior litigator to "look over the shoulder of the creditors committee and ensure that they are looking in the right places."
April 2018	❑ Judge Drain approved Cenveo's Plant Consolidation Compensation Program, which would allow Cenveo to save ~$6 million annually. ❑ Judge Drain approved Cenveo's plan to enter into new collective bargaining agreements that reflect lower salary costs.
May 2018	❑ Cenveo filed its CH 11 plan and accompanying DS. The plan documents largely align with the announced 1L RSA. ❑ The UCC argued that the DS cannot be confirmed because it is biased in favor of management and the Burton family (company family) at the expense of general unsecured claims holders. It cited the lack of recoveries and proper disclosure of unencumbered assets as red flags. ❑ BOKF argued that DS approval would not be adequate, as it was "missing necessary information and remains a work in progress." Furthermore, it argued that holders of 2L claims "have no way of discerning the distributable value available to them," since the DS does not include recoveries and is missing a valuation analysis, liquidation analysis, and financial projections.
June 2018	❑ Cenveo reached a "global agreement" with parties including the UCC, FILO holders, and the ad hoc 1L committee. The agreement included, among other stipulations, the (i) assumption of the obligations in connection with the pension plans and assumption of unexpired collective bargaining agreements, (ii) establishment of a $7 million general unsecured claims cash pool for general unsecured creditors, increased from $1.5 million in the initial plan, and (iii) the UCC's support of the plan and encouragement of creditors to vote to accept the plan. ❑ BOKF argued that the court should continue the DS hearing or require modification of the DS to address various issues. Additionally, BOKF argued that the debtors decided "to ambush BOKF (and Brigade) rather than engage them in a good faith process." ❑ Cenveo decided to settle with Brigade and BOKF. The settlement with Brigade would involve the payment of $1.25 million for Brigade's professional fees through the plan's effective date and the payment to BOKF would involve up to $400,000. Brigade agreed to sign the debtors' RSA and join the ad hoc committee of 1L noteholders. ❑ Judge Drain approved the DS.
July 2018	❑ **The Cenveo plan of reorganization was accepted by all voting classes.**
August 2018	❑ Cenveo obtained commitment letters for a $175 million exit ABL facility and a $236 million exit term facility.
September 2018	❑ **Reorganization went into effect.**

Source: Reorg Coverage of Cenveo

Restructuring Process Overview (2/3)

Cenveo's "global agreement" reduced debt from ~$1.1 billion to ~$360 million, providing the firm with the flexibility needed to reposition itself.

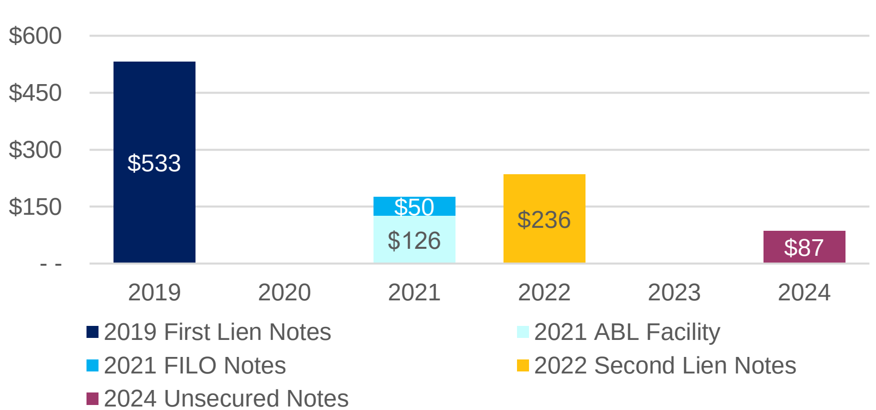
Pre-Petition and Emergence Capital Structure

$ in millions	Pre-Petition	Emergence	Rate	Maturity	Springing Maturity
2019 First Lien Notes	$533	- -	6.00%	8/1/2019	
2021 ABL Facility	126	- -	L + 200-250 bps	6/10/2021	5/2/2019[4]
2021 FILO Notes	50	- -	4.00%	12/10/2021	
2022 Second Lien Notes	236	- -	8.50%	9/15/2022	
2023 Exit ABL Facility	- -	67	L + 225-275 bps	3/7/2023	
2023 Exit Term Facility	- -	213	L + 900 bps	6/7/2023	
Total Secured Debt	**$944**	**$280**			
2024 Unsecured Notes	$87	- -	6.00%	5/15/2024	
Retirement Liabilities[1]	93	84			
Total Debt	**$1,124**	**$364**			
Total Equity	**8**[2]	**249**[3]			
(-) Cash & Cash Equivalents	(5)	(20)			
Total Enterprise Value	**$1,127**	**$593**			

Notes:
(1) Retirement Liabilities consist of underfunding amounts of pension plans.
(2) Pre-Petition Equity Value is the product of the opening share price as of 1/3/2018 (i.e. $0.959) and the Q3 weighted average diluted shares outstanding (i.e. 8,578).
(3) Emergence Equity Value is the sum of equity value from Rothschild's DS valuation (i.e. $149 million) and $100 million because of the elimination of new 2L debt that is included in the Rothschild valuation.
(4) If more than $10 million of the 6.00% 2019 First Lien Secured Notes remained outstanding by May 2, 2019, the 2021 ABL maturity date would have sprung to May 2, 2019.

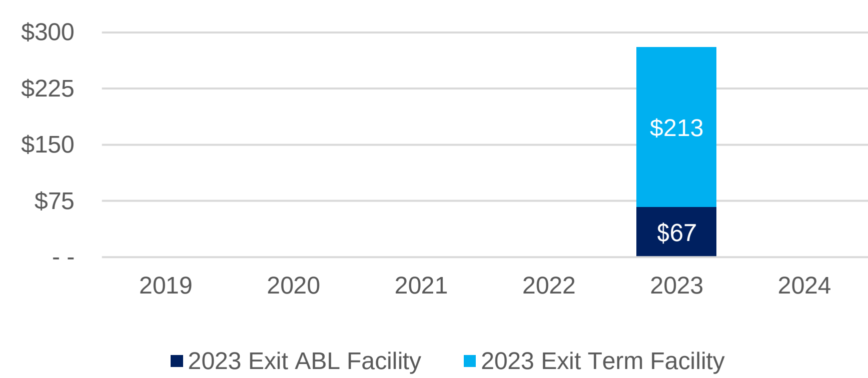
Pre-Petition Debt Maturity Schedule

$ in millions



Emergence Debt Maturity Schedule

$ in millions



Sources: Reorg Coverage of Cenveo, First Day Motion, Cenveo 10-Ks and 10-Qs, and Cenveo Press Releases

Restructuring Process Overview (3/3)

Cenveo

In July of 2018, Cenveo's plan of reorganization was approved by all voting classes. The impact on each of the classes is detailed below:

Effects on the Constituents

Claim	Estimated Recovery
Class 1 Other priority claims	**100.0%**
Class 2 Other secured claims	**100.0%**
Class 3 First lien notes secured claims	**44.1%**
Class 4 FILO notes claims	**100.0%**
Class 5A General unsecured claims (non-second lien note claims)	**1.5%**
Class 5B General unsecured claims (second lien notes claims)	**1.5%**
Class 6 Section 510(b) claims	**0.0%**
Class 7 Intercompany claims	**100.0%**
Class 8 Intercompany interests	**0.0%**
Class 9 Cenveo interests:	**0.0%**

Equitization

- Class 3 Claims (i.e. 1L claims) received 100% of the equity in Cenveo post-reorganization, subject to dilution from the Management Incentive Program.

Source: Reorg Coverage of Cenveo