

Capital Structure, Hedge Funds and Bankruptcy Risk

Analysis
of
Tower Automotive, Inc.

June 7, 2005

FINC 925
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THESIS

Our group has undertaken the task of analyzing the Chapter 11 bankruptcy of Tower Automotive, Inc. (“Tower” or the “Company”) to determine what recovery rates the various classes of creditors should expect to receive upon emergence from Ch. 11. We first had to understand the state of the auto industry, the state of the Company, and the situation leading up to the bankruptcy filing. Then, the various creditors and their relevant priorities had to be assessed. Complicating matters are the fact that only the domestic subsidiaries filed for bankruptcy, while the international subsidiaries did not, and there are material inter-company debts that effect the resulting valuation.

Once we had an understanding of the Company’s creditors, we had to determine if the company should exist, post-bankruptcy, as a going concern or if it should be liquidated in a Chapter 7 process. We determined that the liquidation value was lower than any reasonable multiple of the Company’s operations, so we conclude that it should not be liquidated. Additionally, we had multiple conversations with industry experts who believe that it is in the best interest of the Original Equipment Manufacturers (the “OEMs”), such as Ford and General Motors, that Tower emerges and continues to operate as key supplier. Accordingly, we then proceeded with our estimate of the Company’s value. We used two methods: an EBITDA multiple analysis and a discounted cash flow (“DCF”) analysis. We used observable market data from various comparable companies to support our estimates, and calculated valuations between \$1.1 and \$1.4 billion for the Company. We then modeled the distribution of this value across the various creditors, focusing on the publicly traded bonds. By estimating the proceeds for the bondholders, we were able to compare the projected recovery rates to the current market values of the securities. Based on our analysis, we recommend the trading strategy of buying the 12.00% and 9.25% Senior Notes and selling the Convertibles.

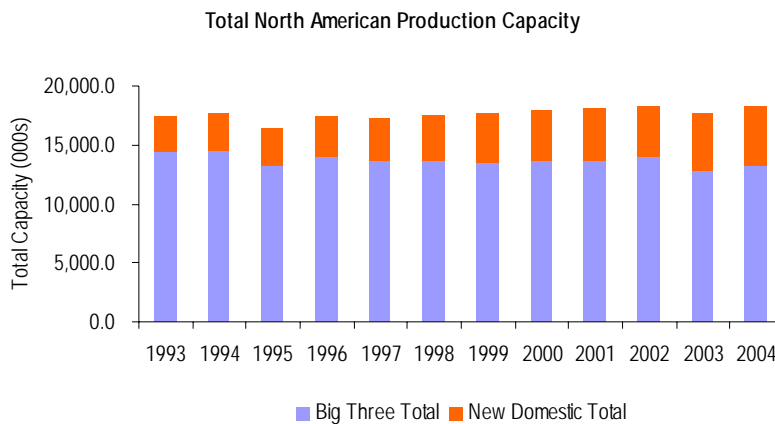
INDUSTRY OVERVIEW

The automotive production landscape in North America has undergone monumental change over the last decades. The key driver has been the rapid expansion of transplant capacity, as overseas manufacturers seek to build cars where they sell them to both minimize exchange rate risk and get closer to the local market.

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Up until the 1970's, every OEM sourced the majority of products internally or maintained significant "control" over supply process, essentially all engineering, product design work and assembly was performed by the OEMs. Suppliers were asked to bid on jobs based on blueprints provided by the OEMs. Supply contracts contained fixed prices and quantity for given period – usually no more than one year. OEMs undertook most of the required capital investment, owning molds, tool sets, stamping dies, etc.

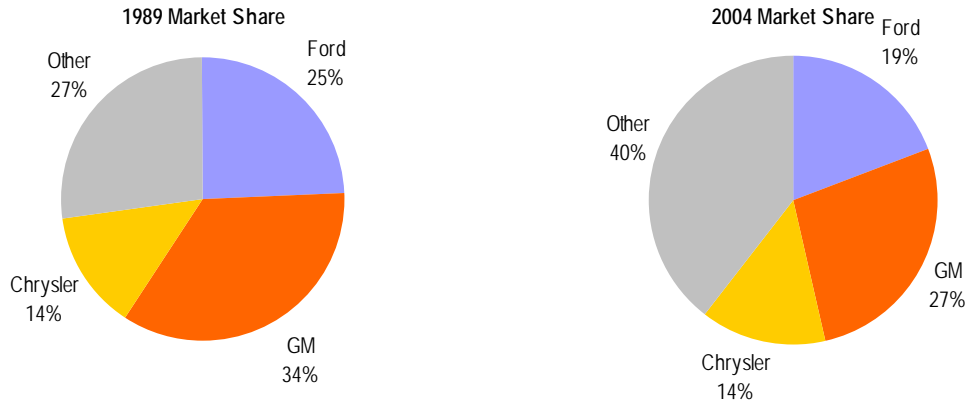
Overall capacity has increased in the last decade in North America. As shown in the chart below, between 1993 and 2004 total final assembly capacity grew from 17.4 million to 18.3 million, a compound annual growth rate ("CAGR") of only 0.4%. However, transplant capacity grew nearly 2 million units, more than offsetting the 1.1 million units of capacity cut by General Motors ("GM"), Ford and DaimlerChrysler (the "Big 3").



Source: Merrill Lynch research

On the other hand, production capacity trends have lagged changes in OEMs' market shares. Beginning in early-1980s, foreign competitors such as Volkswagen, Honda, Nissan and Toyota established large assembly operations in the United States. Domestic light vehicle share began to shift towards foreign players, and therefore Ford, GM and DaimlerChrysler have lost 12 percentage points in terms of market share in the last 15 years.

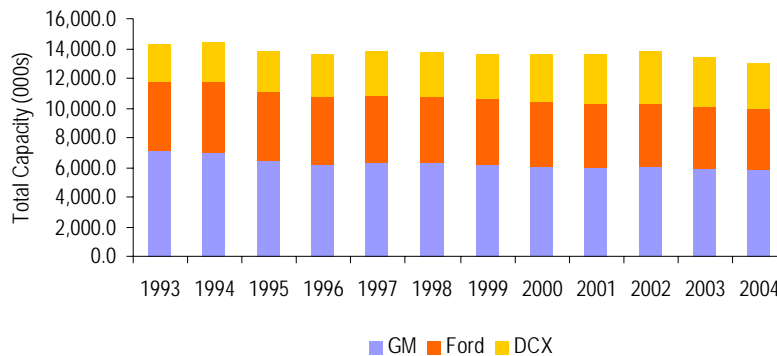
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Source: Wall Street research reports

In response to lower market share, Ford, GM and Chrysler have been closing plants in North America. By the end of 2004, Ford and GM reduced their assembly capacity by 13% and 20%, respectively, from 1993 levels. DaimlerChrysler has been the only company able to stabilize capacity along with its market share.

Big 3 North American Capacity



Source: UBS Investment research

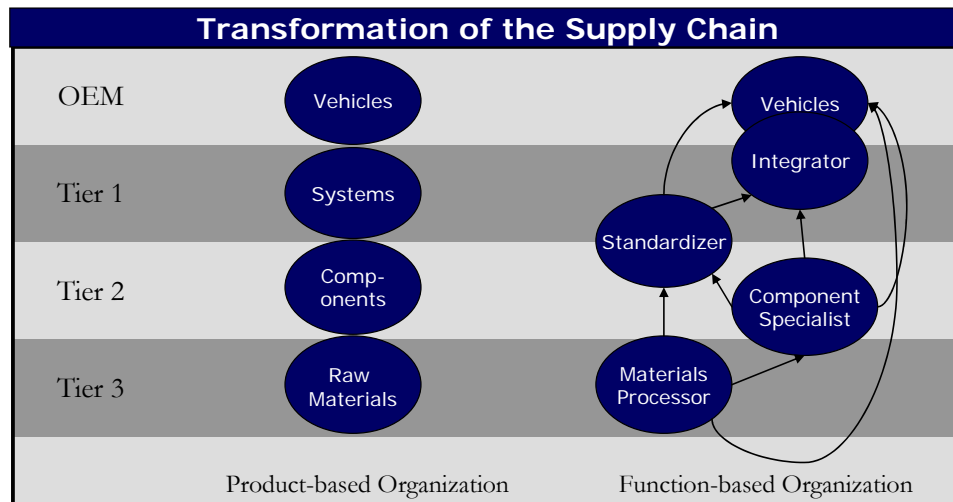
In addition, the foreign business model differed from that of their U.S. counterparts. One substantial change was the more collaborative relationship with their suppliers. This strategy helped companies gain efficiencies throughout the entire system, which allowed them to employ lean, flexible and Just in Time (“JIT”) assembly process.

After the highly successful strategy implementation by the foreign manufacturers in the U.S., the Big 3 also began to adopt the JIT process and collaborative approach with their suppliers. However, they have not reached the efficiency levels of foreign competitors and thus

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continue to seek price concessions from their suppliers. Additionally, they began to ask suppliers to assume more design and manufacturing capabilities, thus increasing costs for suppliers.

Many suppliers are moving towards becoming “integrators,” not just component suppliers, engineering and building complete modules and taking on product design and development responsibilities. Analysts predict that eventually OEMs will only interact with 50-60 integrators and 300 or so Tier 1 suppliers (down from thousands in 1970’s).



Source: NBF Bank

With high fixed costs, OEMs are forced to run plants near or at full capacity to be profitable. Market share losses combined with inflexible labor contracts have made it nearly impossible for the Big 3 to achieve acceptable utilization rates. The transplants, on the other hand, have been capacity constrained as demand has generally outstripped supply.

Finally, the growth rates of the auto suppliers, and to a lesser extent, the franchised dealers that are dependent on the Big 3, will likely remain constrained. Pressure is mounting every day on these companies to diversify their revenue streams because production capacity cuts will surely translate into market share declines.

COMPANY OVERVIEW

Tower is a leading global designer and producer of structural components and assemblies used by nearly every major automotive OEM, including Ford, DaimlerChrysler, Renault/Nissan,

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Volkswagen Group, GM, Toyota, Honda, BMW, Fiat, Hyundai/Kia, Mazda, and Isuzu. The Company's current products include automotive body structural stampings and assemblies including exposed sheet metal ("Class A") components, lower vehicle structural stampings and assemblies, suspension components, modules and systems. The Company has manufacturing, product development, and administrative facilities located in the United States, Canada, Mexico, Germany, Belgium, Poland, Slovakia, Italy, France, Spain, Japan, China, Korea, Brazil, and India. The Company's products can be classified into five main categories as described below:

- *Body Structures and Assemblies* – large metal stampings, including body pillars, roof rails, side sills, parcel shelves and intrusion beams.
- *Lower Vehicle Structures* – pickup truck and Sport Utility Vehicle (“SUV”) full frames, automotive engine and rear suspension cradles, floor pan components and cross members.
- *Suspension and Powertrain Modules* – axle assemblies, assembled brake shoes, hoses and tie rods, and front and rear end suspension modules.
- *Suspension Components* – products that are critical to the ride, handling and noise characteristics of a vehicle.
- *Other* – heat shields and other precision stampings.

Product Category	2001	2002	2003
Body Structures and Assemblies	39%	38%	43%
Lower Vehicle Structures	36%	40%	34%
Suspension and Powertrain Modules	15%	11%	12%
Suspension Components	8%	8%	8%
Other	2%	3%	3%

The North American automotive manufacturing production is dominated by GM, Ford and DaimlerChrysler, but the Japanese and European OEMs are increasing their production capacity, representing approximately 26 percent of production in 2003 versus 23 percent in 2002. The Company currently supplies products primarily to Ford, DaimlerChrysler and GM in North America. As a result of past growth strategies, the Company has further expanded its global presence and has increased penetration into certain existing customers and added new customers

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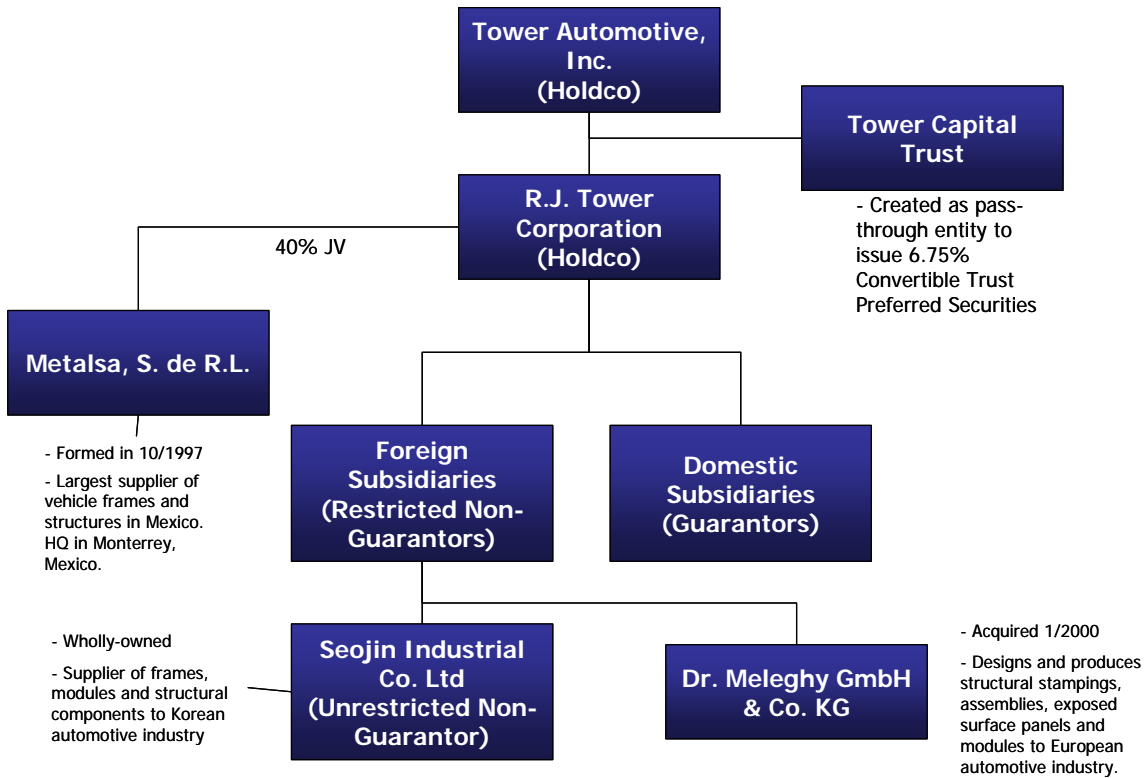
and programs, such as these from Fiat, BMW, Volkswagen Group, Nissan, and Hyundai/Kia. The following charts show historical sales to major customers and sales by geographic region:

Customer	1996	1997	1998	1999	2000	2001	2002	2003
Ford	67%	48%	40%	38%	37%	35%	38%	35%
DaimlerChrysler	10%	19%	27%	29%	31%	25%	22%	19%
General Motors	2%	13%	10%	10%	5%	4%	8%	10%
Total	79%	80%	77%	77%	75%	64%	68%	64%

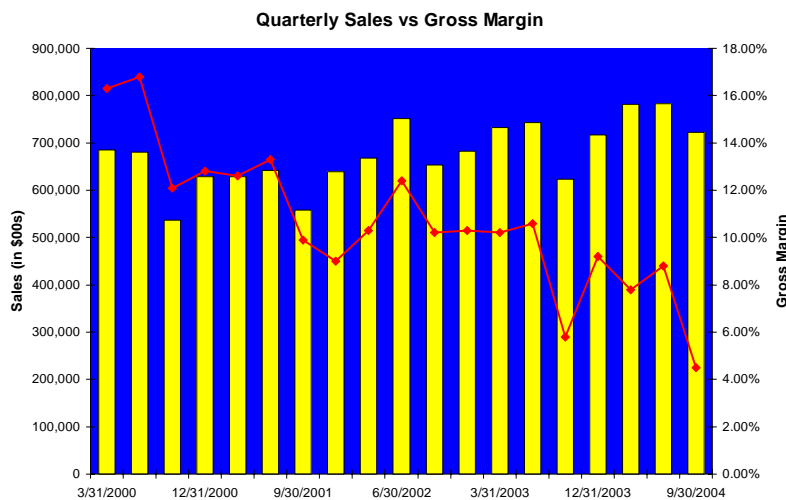
Location	1997	1998	1999	2000	2001	2002	2003
U.S. & Canada	97%	95%	94%	85%	72%	75%	71%
Europe	n/a	n/a	n/a	10%	11%	12%	15%
Asia	n/a	n/a	n/a	4%	15%	12%	13%
Mexico and South America	n/a	n/a	n/a	1%	2%	1%	1%

Tower operates its business through various wholly-owned subsidiaries and joint ventures. The chart below details Tower's organizational structure:

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Recently, Tower has begun to see its financial performance deteriorate. While the Company's sales have remained relatively stable, significant pressures on its cost structure have forced Tower into its current predicament. The graph below illustrates the results of increasing costs, including higher steel prices, health care costs and product launch activities.



Beginning in 2000, the Company embarked on an aggressive restructuring effort focused to take costs out of the business and become more efficient in order to compete in the

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increasingly competitive industry. As part of this, the Company wrote off assets and took significant restructuring charges to realign its operations. The following summarizes these initiatives.

- 1st Restructuring (Announced Oct. 2000)
 - Divested non-core heavy truck business.
 - Closed manufacturing operations in Kalamazoo, MI.
- 2nd Restructuring (Announced Oct. 2001)
 - Closing of Sebewaing, MI facility.
 - Consolidation of activities resulting in downsizing.
 - Reorganization of management between U.S. and Canadian operations.
- 3rd Restructuring (Announced Jan. 2002)
 - Discontinue stamping processes at Milwaukee Press Operations and relocate to other Tower locations or Tier 2 suppliers.
- 4th Restructuring (Announced Oct. 2003)
 - Combine Novi, MI oversight and Grand Rapids, MI corporate office activities.
 - Close Rochester Hills, MI prototype tooling and technical center facility.
 - Transfer production of high-volume frame assemblies for Ford Ranger from Milwaukee, WI to Bellevue, OH. *This decision was reversed in December 2003 as concessions were received from Milwaukee labor unions.*

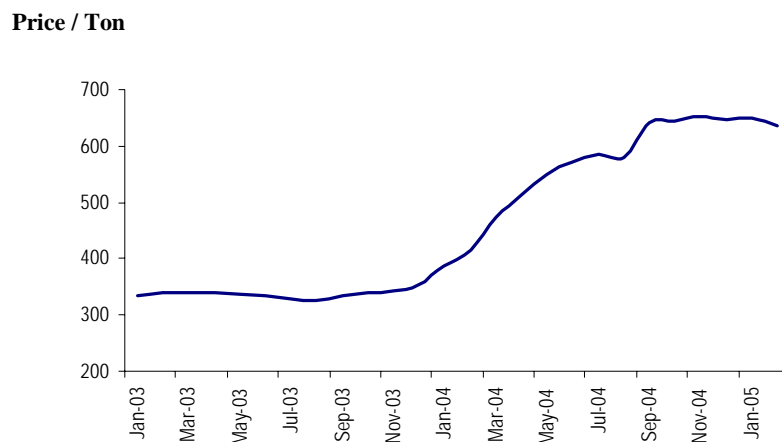
SITUATION ANALYSIS

The Company filed for protection under Chapter 11 of the Bankruptcy Code on February 2, 2005 with the U.S. Bankruptcy Court for the Southern District of New York. Numerous factors contributed to management's belief that Ch. 11 was the correct course of action. In addition to the increasing product launch costs and higher health costs, coupled with a highly levered capital structure, Tower suffered from:

- Higher steel prices;
- Decreasing production by the Big 3;
- The termination of favorable early payment programs by its customers; and
- Deteriorating margins.

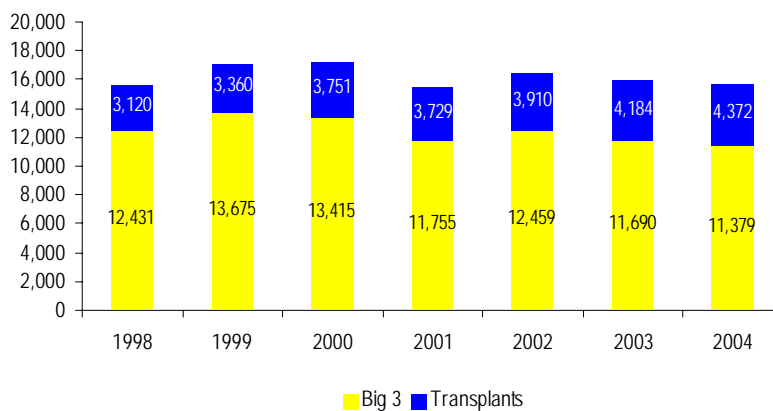
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The following chart shows the trend in steel prices over the last two years:



Tower has arrangements with Ford, Honda, and DaimlerChrysler in which the OEM's purchase steel for use in Tower's manufacturing processes. However, these companies accounted for 56% of the Company's sales in 2003, leaving 44% exposed. The Company is silent in their accounting reports regarding whether this exposure is being hedged or passed on to the OEM's, so we assume that this amount was exposed to price fluctuations, and these fluctuations were a significant driver to the Company's bankruptcy.

As mentioned, the Big 3 continues to lose market share to its foreign counterparts. Tower has begun to increase sales to the foreign OEM's, but this has not completely offset the losses to the domestic producers. The following chart shows total North American production for the Big 3 and transplants.



In 2001, automakers established an early pay program in which they paid their suppliers a few days after delivery versus the normal 45 days. Due to financial constraints at the OEM

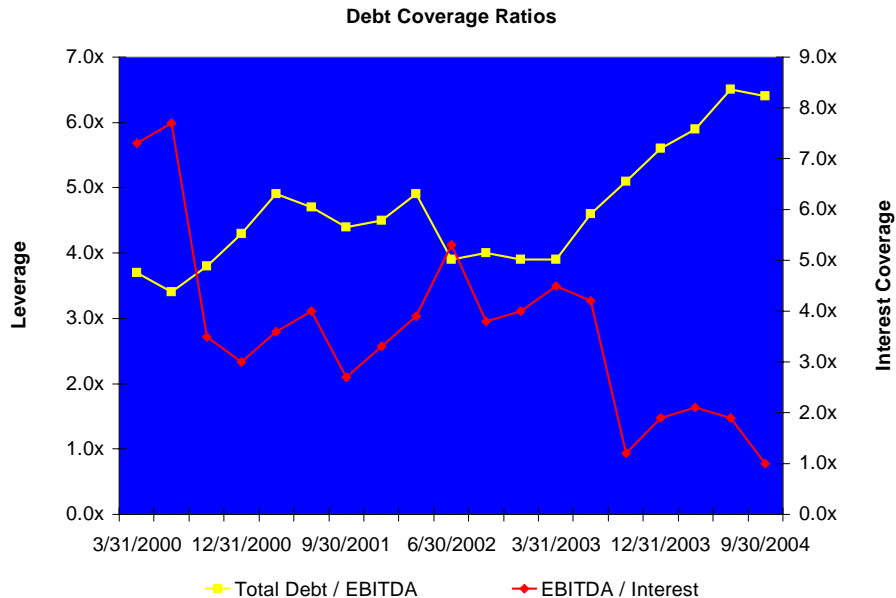
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level, they have recently terminated these programs, thus causing a liquidity crisis for many of the large suppliers that relied on this financing structure.

Finally, as Tower's operating performance continued to deteriorate, its debt requirements became more difficult to service, thereby causing an even greater liquidity shortfall. A summary of the capital structure of the Company is presented below.

Security	Outstanding	Maturity
DIP Financing		
Revolving Credit Facility	\$300.0	2/2/2007
Term Loan	425.0	2/2/2007
Secured Claims		
Revolving Credit Facility	0.0	
Term Loan	0.0	
Letter of Credit Facility	0.0	1/29/2010
Industrial Revenue Bonds	43.8	
Other Foreign Subsidiary Indebtedness	143.0	
Capital Leases and Other	66.0	
Total Secured Claims	\$977.8	
Unsecured Claims		
9.25% Senior Notes	\$195.6	8/1/2010
12.00% Senior Notes	258.0	6/1/2013
5.75% Convertible Notes	125.0	5/15/2024
Total Unsecured Claims	\$578.6	
Other Debt		
6.75% Convertible Trust Preferred	258.8	6/30/2018
Total Debt	\$1,815.1	

The following chart clearly shows the downward trend of Tower's debt servicing capabilities and its inevitable need for a restructuring of the balance sheet.



VALUATION ANALYSIS

DCF Analysis

Our group performed a DCF analysis to calculate a valuation of Tower post-bankruptcy. Particularly in the domestic auto industry, it is very difficult to predict future sales. While Tower does have some international operations, over 60% of its sales come from Detroit which is experiencing continual problems, making it more challenging to forecast more than a year or two out. Accordingly, we have attempted to remain conservative with our assumptions throughout the model.

Our DCF is an APV model (see Exhibit 1) that allows us to specify future cash flow for ten years and a terminal period. We have analyzed the Company on a consolidated basis rather than doing a separate DCF for each subsidiary. We feel that this is appropriate because making assumptions at each operating level over a ten-year period is not feasible based on current public information. In the model, we project Net Income each year and then compute the free cash flows which are discounted at the unlevered cost of capital. We then add initial cash on hand and the present value of the tax shields to arrive at the total valuation. Below is a detailed discussion of how we performed the calculations:

- *Unlevered cost of capital:* We gathered data on six publicly traded comparables, American Axle, Arvinmeritor, Inc., BorgWarner, Inc., Dana Corp., Magna International, and Shiloh Industries, to estimate this variable, as the average of these companies will be a better prediction of the future state of Tower than its recent data. We found the stock beta for each of these companies, unlevered it, and then used the CAPM formula to calculate the average unlevered cost of capital for each firm. In doing so, we used the current 10-year Treasury rate to estimate the risk free rate of 4.00% and assumed a 6.00% market risk premium. We believe these to be reasonable assumptions given current market date. The result was an average unlevered cost of capital of 13.03%.
- *Future debt structure:* The future debt structure is flat \$750 million. We considered increasing this amount over time, but concluded that due to the risks associated with the industry and the uncertainty of future cash flows that the company should slowly delever with time.

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- *Sales Growth:* As was noted above, future sales in this industry are challenged to predict, therefore, we have conservatively estimated no growth in 2005 and a modest 5% thereafter.
- *Gross Margins:* The 2004 estimated gross margin was at 7.2%, and we have forecasted a modest increase to 7.5% in 2005. This is steadily ramped up to a terminal value of 11.0%, which is reasonable considering the company had margins of greater than 10% as recently as 2002.
- *S, G & A:* We have assumed that the company will be able to gain certain economies of scale as it resumes growth so we have assumed that S, G & A will grow at 90% of sales growth.
- *Working Capital:* Working capital requirements can be volatile in this industry and we have estimated that they can be expected to remain at 20% of sales.
- *Interest Rate on Future Debt:* We have estimated that Tower will have to pay 10% to service its debt going forward. This appears reasonable assuming the company is able to get back to a manageable capital structure. Also, this is the rate that we have used to discount the tax shields.
- *Capital Expenditures:* We have estimated that Tower will spend \$200 million on CapEx in 2005 and this will increase proportionally with sales in the future.
- *Restructuring Costs:* We have estimated that Tower will have expenses of \$25 million per year in 2005 and 2006 related to the restructuring of the firm as it emerges from bankruptcy. This includes a \$2m per month of legal, consulting, accounting and other related expenses, based off of monthly SEC filings while the Company has been in Ch.11.

We have built all of these assumptions into our model and have arrived at a value of \$1.12 billion. This gives an implied EBITDA multiple of 4.48x which is in line with market data.

Valuation:		
Present Value 2005-2014	\$191	17%
PV, terminal value	447	40%
Cash on Hand	121	11%
Metalsa Interest	30	3%
Tax Shield	334	30%
Total	\$1,122	100%

Multiple Valuation Analysis

We have performed an EBITDA multiple valuation analysis to provide us with an additional estimate of the value of Tower’s operations. In order to do so, we have completed a financial analysis of the most comparable companies to Tower’s domestic and international operations. As the security holders have claims at different levels of the corporate structure, thereby being secured by different pieces of Tower’s operations, we felt that it was crucial to split out the operations of Tower into the Domestic Guarantors, the International Restricted Non-Guarantors, and the International Non-Restricted Non-Guarantors. In doing so, we have arrived at valuations for each level of the business to be able to analyze how proceeds realized in the Ch.11 process will most likely be awarded.

After carefully examining the U.S. auto supplier industry for businesses that most closely match Tower’s domestic operations, we have selected the following six companies to base our EBITDA multiples off of. A description of each of these businesses and their respective trading multiples is presented below.

Company	EV/EBITDA	Business Description
American Axle & Manufacturing Holdings, Inc.	3.1x	Manufacturing, engineering, designing, and validation of driveline systems and related power-train components and chassis modules for light trucks, sport utility vehicles, and passenger cars and crossover vehicles
ArvinMeritor, Inc.	5.6x	Design, development, manufacturing, marketing, and distribution of various products for use in commercial, specialty, and light vehicles.
Borg Warner, Inc.	6.7x	Manufacture and sell engineered systems and components worldwide. The company operates in two segments, Drivetrain and Engine.
Dana Corp.	7.7x	Engineering, manufacturing, supply, and distribution of systems and components for vehicle manufacturers worldwide. It operates in two segments, Automotive Systems Group and Heavy Vehicle Technologies and Systems Group.
Magna International, Inc.	3.8x	Design, development, and manufacturing of automotive components, assemblies, modules, and systems worldwide. It also engineers and assembles complete vehicles.
Shiloh Industries, Inc.	4.0x	Manufactures first operation blanks, complex stampings, and modular assemblies in North America and Mexico.
Mean	5.2x	
Median	4.8x	

Our analysis of these businesses on an LTM basis generates an industry average multiple of 5.2x and a median multiple of 4.8x EBITDA. Applying a range of EBITDA multiples, based

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on this analysis, to Tower's adjusted EBITDA gives us an enterprise valuate for the Domestic Guarantor Subsidiaries as follows:

Domestic Guarantors Subsidiaries			
	Low	Mid	High
Normalized EBITDA	\$141.6	\$141.6	\$141.6
Multiple	<u>4.00x</u>	<u>4.50x</u>	<u>5.00x</u>
TEV	\$566.4	\$637.2	\$708.0

We have also reviewed the global auto supplier market to find companies that compete with Tower's international operations. We have selected the following eight companies to generate an EBITDA multiple to apply to the Tower's International Non-Guarantor Subsidiaries, both Restricted and Non-Restricted. A description of each of these businesses and their respective EBITDA multiples is presented below:

Company	EV/EBITDA	Business Description
Autoliv	5.9x	Supplies automotive safety systems to the automotive manufacturers worldwide. Develops, manufactures, and supplies car occupant restraint systems to the automotive industry.
Beru	5.9x	Manufacturer of diesel cold start systems with an estimated world-wide market share of 40% for glow plugs.
Continental	4.8x	
Faurecia	4.3x	Equipment supplier specializing in the design and assembly of vehicle modules including seats, cockpits, doors, acoustic packages, front-ends & exhaust systems.
GKN	5.6x	World leader in the design and production of driveline components.
Trelleborg	6.6x	Development and manufacture of polymer-based components and systems used for noise and vibration damping for passenger cars, light and heavy trucks, and for rail, marine and industrial applications.
Valeo	3.5x	Focused on the design, production and sale of components, integrated systems and modules for cars and trucks.
Brembo	5.1x	Design, development, production and sale of disc braking systems for passenger cars, motorcycles, commercial vehicles and racing cars.
Mean	5.2x	
Median	5.4x	

Based on our analysis, Tower's most comparable international competitors trade at a mean of 5.2x and a median EBITDA multiple of 5.4x. Applying a range of EBITDA multiples, based on this analysis, to Tower's adjusted EBITDA generates an enterprise valuate for the International Non-Guarantor Subsidiaries as follows:

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International Non-Guarantors Restricted			International Non-Guarantors Non-Restricted		
Low	Mid	High	Low	Mid	High
\$87.8	\$87.8	\$87.8	\$31.7	\$31.7	\$31.7
<u>4.25x</u>	<u>4.75x</u>	<u>5.25x</u>	<u>4.25x</u>	<u>4.75x</u>	<u>5.25x</u>
\$373.0	\$416.9	\$460.8	\$134.5	\$150.4	\$166.2

Then by combining these valuations, plus an estimated equity value for the Metalsa joint-venture ranging from \$25m to \$35m, the total enterprise value for Tower ranges from \$1.1BN to \$1.4BN.

Total		
Low	Mid	High
\$261.0	\$261.0	\$261.0
<u>4.21x</u>	<u>4.73x</u>	<u>5.25x</u>
\$1,098.9	\$1,234.4	\$1,369.9

Liquidation Analysis

Finally, as part of the Ch. 11 procedure, the Company is required to complete a liquidation analysis. This is to be an estimate of what the assets would be worth in an orderly sale. Although somewhat rare, in the case where this number is greater than the value of the company as a going concern, the court would proceed with a Ch. 7 liquidation and distribute the proceeds to the creditors as it sees fit. In this industry, however, much of the assets are company-specific and would likely not be sold for much in comparison to their book value. Further, the competition is in roughly the same financial condition and has minimal capacity to acquire assets from other firms. To arrive at the liquidation value, we have estimated value at a high and low case where we have applied approximate recovery values to the various line items on the balance sheet as of March 31, 2005.

All of the specific details of the analysis are in Exhibit 4, but there are several noteworthy items. First, the overall amount of assets is \$1.8 billion. Accounts receivable of \$293k were given a 60% to 80% recovery rate, which we feel is very reasonable given the state of the industry. Inventory of \$84k was given a 30% to 50% recovery rate because it is customer-specific, and those customers have significant buyer power in a liquidation. Likewise, the \$645k

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of property, plant, & equipment was given a 20% to 40% value. The investment in JV's was given a 10% to 25% valuation primarily because of a lack of information and uncertainty of finding a buyer. Goodwill of \$325k is purely an accounting entry and is worthless. Given these discounts, the analysis resulted in values of \$386k and \$667k for the low and high cases, respectively. As these values are below any reasonable estimate of the value of the company, Tower should continue as a going concern and not be liquidated.

Recovery Scenarios

The next step is to use the values obtained from the above analyses and determine how much value should be attributed to each claim, depending on seniority. For this analysis, commonly referred to as a waterfall analysis, we used the \$1.2BN obtained from the EBITDA multiple valuation. Both valuations, EBITDA and DCF gave similar results. However, due to recent overall industry problems, we felt more comfortable using the comparable company analysis multiples applied the Tower's EBITDA to arrive at our valuation, as we feel the market valuations would be more accurate than our ten-year projection model.

In this analysis, we were most concerned with recovery values for the 12.00% Senior Notes due 2013, the 9.25% Senior Notes due 2010, and the 5.75% Convertible Notes due 2024, since these are the most actively traded. Plus, typically in bankruptcy situations, bank debt and DIP financing will recover full par value including accrued interest leaving minimal room for trading strategies.

The key task at hand is to evaluate the underlying value of each subsidiary and determine how these values will be distributed to the various levels of claimants. Earlier, we presented a capitalization table detailing all of Tower's debtor claims, ranked by level of seniority as delineated by the respective indentures. However, this analysis is not that cut and dry. Based on the notes' indentures, each note has different seniority based on the particular subsidiary. The industrial revenue bonds, secured receivables, capital leases are all senior in claim to the senior notes. However, they only have a claim on the domestic subsidiary assets. Additionally, any accrued bankruptcy related costs will also have claims to only those entities which filed for bankruptcy protection, namely the domestic subs, Tower Automotive and RJ Tower. Likewise, the trade claims/accounts payables have equal claim to the senior notes, but once again only on the asset value of the domestic subs. Therefore, key to the notes' recovery is the value we

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attribute to each subsidiary as well as the portion of bank debt/DIP facility we attribute. Based on relative enterprise value of the domestic and international subsidiaries, we attribute 53% of the bank debt to the domestic subsidiaries and 47% to the foreign subsidiaries.

Similarly, the Convertible Notes, while junior to most claims, including the Senior Notes do have a pari passu claim to the asset value of Tower Automotive, the parent holding company. However, the only value at this level is the equity value (junior to all claims) Tower Automotive holds in each subsidiary and any inter-company notes (equal in rights to all unsecured claims) Tower holds. Our analysis indicates \$366.5 mm of such inter-company claims could exist. However, we and our industry sources question the validity of these claims, and this assumption is additionally supported by the low trading price of the Convertible Notes, which would receive the most value if these inter-company claims were honored by the courts.

Taking these issues into account, we perform two waterfall recovery scenarios: one including full value recognition of the inter-company claims and one without. We have also broken down the recoveries into amounts recovered from the domestic subsidiaries and the foreign, to properly allocated value between the claimant pools.

Scenario 1 – No Inter-Company Claims

International Non-Guarantors (Restricted and Non-Restricted) (in millions of dollars)			Domestic Guarantors (in millions of dollars)		
International Non-Guarantor EBITDA	\$119.4		Domestic Guarantor EBITDA	\$141.6	
Multiple	4.75x		Multiple	4.50x	
TEV	567.3			\$637	
Value of Minority Interest in Metalsa	30.0		Cash Build		
Existing Cash	41.2		Domestic Guarantor EBITDA	\$141.6	
Cash Build			Interest Expense	(52.0)	
International Non-Guarantor EBITDA	\$119.4		Estimated Taxes	0.0	
Interest Expense	(11.4)		Change in Working Capital	82.1	
Estimated Taxes	(16.4)		Capital Expenditures	(120.0)	
Change in Working Capital	(1.4)		Total Estimated Cash Build	\$51.7	
Capital Expenditures	(84.0)		Total Distributable Value	\$688.8	
Total Estimated Cash Build	\$6.2		Less: Domestic Guarantor Debt	(66.8)	
Total Distributable Value	\$644.7		Less: Allocated Bank Debt	(279.5)	
Less: Non-Guarantor Debt	(185.7)		Less: Pension Contributions	(10.0)	
Less: Allocated Bank Debt	(262.0)		Less: Estimated Bankruptcy Costs	(50.0)	
Total Equity Value for Notes	\$197.0		Total Equity Value for Notes	\$282.5	
<u>Unsecured Claim Pool:</u>			<u>Unsecured Claim Pool:</u>		
12.00% Senior Notes	\$258.0	57%	12.00% Senior Notes	\$258.0	36%
9.25% Senior Notes	195.6	43%	9.25% Senior Notes	195.6	27%
Intercompany claim	0.0	0%	Impaired Trade Claims	260.7	36%
	\$453.6	100%	Intercompany claim	0.0	0%
			Total Impaired	\$714.2	100%
Recovery from International Non-Guarantors	43.4%		Recovery from Domestic Guarantors	39.6%	

83.0%

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Scenario 2 – With Inter-Company Claims

International Non-Guarantors (Restricted and Non-Restricted) (in millions of dollars)			Domestic Guarantors (in millions of dollars)		
International Non-Guarantor EBITDA	\$119.4		Domestic Guarantor EBITDA	\$141.6	
Multiple	4.75x		Multiple	4.50x	
TEV	<u>567.3</u>			<u>\$637</u>	
Value of Minority Interest in Metalsa	30.0		Cash Build		
Existing Cash	41.2		Domestic Guarantor EBITDA	\$141.6	
Cash Build			Interest Expense	(52.0)	
International Non-Guarantor EBITDA	\$119.4		Estimated Taxes	0.0	
Interest Expense	(11.4)		Change in Working Capital	82.1	
Estimated Taxes	(16.4)		Capital Expenditures	(120.0)	
Change in Working Capital	(1.4)		Total Estimated Cash Build	<u>\$51.7</u>	
Capital Expenditures	<u>(84.0)</u>		Total Distributable Value	\$688.8	
Total Estimated Cash Build	\$6.2		Less: Domestic Guarantor Debt	(66.8)	
Total Distributable Value	\$644.7		Less: Allocated Bank Debt	(279.5)	
Less: Non-Guarantor Debt	(185.7)		Less: Pension Contributions	(10.0)	
Less: Allocated Bank Debt	<u>(262.0)</u>		Less: Estimated Bankruptcy Costs	<u>(50.0)</u>	
Total Equity Value for Notes	\$197.0		Total Equity Value for Notes	\$282.5	
<i>Unsecured Claim Pool:</i>			<i>Unsecured Claim Pool:</i>		
12.00% Senior Notes	\$258.0	31%	12.00% Senior Notes	\$258.0	24%
9.25% Senior Notes	195.6	24%	9.25% Senior Notes	195.6	18%
Intercompany claim	366.5	45%	Impaired Trade Claims	260.7	24%
	<u>\$820.1</u>	100%	Intercompany claim	366.5	34%
Recovery from International Non-Guarantors	24.0%		Total Impaired	<u>\$1,080.8</u>	100%
			Recovery from Domestic Guarantors	26.1%	

Est. Recovery to Senior Notes and Convertible Notes (in millions of dollars)		
Recovery to Parent from Intercompany	\$184	
<i>Unsecured Claim Pool:</i>		
Remaining Unpaid Amount of 12% and 9.25%	\$226	64%
5.75% Convertible Notes	<u>\$125</u>	36%
	\$351	100%
Recovery to Convertible Notes	52.4%	
Recovery to Senior Notes		
International Non-Guarantors	24.0%	
Domestic Guarantors	26.1%	
Parent	<u>26.1%</u>	
Total	76.3%	

TRADE RECOMMENDATION / RISKS

In order to formulate a trading strategy, we have compared our estimates of the recovery rate in one year of each security to its current market value. We have estimated that Tower will

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be in bankruptcy for one year from today, and have applied a 20% discount rate to the recovery value, which we feel is a reasonable hurdle rate for investing in securities of a company in bankruptcy. We have then determined whether or not we think the market is fairly valuing the securities, under the scenarios of the Inter-company notes being allowed and disallowed.

Security	@ Market	Estimated Recovery		Returns		Returns 1-year @ 20%	
		Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
12% Senior Notes	58.0	83.0%	76.3%	43%	31%	19%	10%
9.25% Senior Notes	60.0	83.0%	76.3%	38%	27%	15%	6%
5.75% Convertible Notes	22.0	0.0%	52.4%	-100%	138%	-100%	98%

Based on the above analysis, we conclude that under either scenario, the Senior Notes are priced below their discounted recovery values. While we predict the Senior Notes to offer similar returns under the two scenarios, the Convertible Notes represent significantly more risk based on the resolution of the Inter-company Notes. At their current market price of \$22, the Converts stand to either receive nothing or a \$52.4 payout. As we do not believe the Inter-company notes will be allowed, we recommend selling the Convertible Notes.

That said, there are significant risks involved with each of these investment recommendations. First, we have assumed that the bankruptcy proceedings will be resolved in one year. However, this could take substantially longer if the creditors are not able to reach an amenable agreement. The resolution of the inter-company notes also will be a significant driver of value, both for the senior notes and the convertibles. Further, to complete the recommended trading strategy, the convertibles would either have to be currently held or sold short. In the latter case, the securities might not be liquid enough to be sold short, which would limit the effectiveness of the strategy