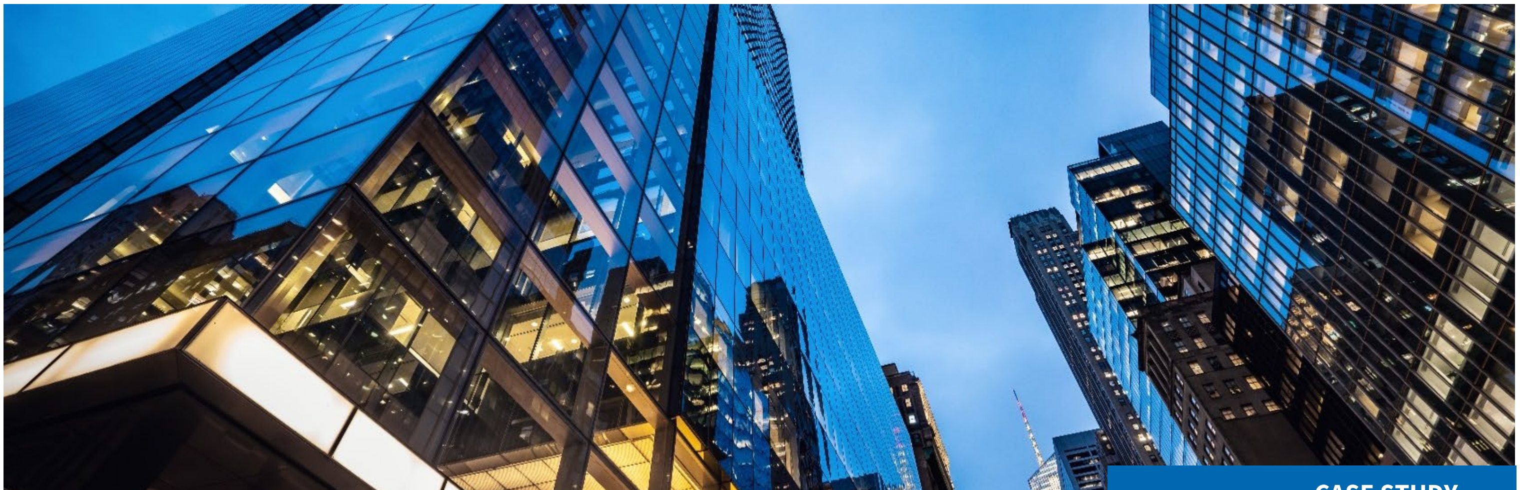

CASE STUDY

Valuation of Contingent Lease Liabilities of a Serviced Office Provider

FTI Consulting advised the unsecured creditor committee ("UCC") of a shared office leasing company ("the Company") which underwent a restructuring in 2020 during the COVID-19 pandemic.

SITUATION

The Company, the North American subsidiary of a global serviced office space, filled for bankruptcy in 2020. It had made cash distributions from two of its subsidiaries in 2019 and earlier in 2020 that were now questioned as part of the restructuring process.

The Company had originally hired external advisors to value the subsidiaries and argued they were solvent at the time of the distributions. Part of the subsidiaries' liabilities included lease guarantees and co-obligor liabilities on account of transferred leases (together the "Contingent Lease Liabilities").

FTI Consulting was hired to value the subsidiaries, with a focus on the Contingent Lease Liabilities, to ascertain solvency at the time of the distributions.

OUR ROLE

The FTI Consulting team reviewed the subsidiaries' valuations and the methodologies used for valuing the Contingent Lease Liabilities. We noted several deficiencies, including:

— historical estimates of default probabilities (backward-looking) that underestimated the default risk from events like COVID-19.

— probabilities of default that were based on global corporates as opposed to real estate companies that did not adequately capture the idiosyncratic risks of the serviced office business.

We addressed the deficiencies of the earlier valuations by:

— using default probabilities that were derived from the credit derivatives market (market-based forward-looking).

— defining baskets of comparable real-estate companies to the serviced office sector.

FTI Consulting also tested the robustness of its valuation by conducting sensitivity analysis to estimate a range of values under various assumptions.

Using the updated values for the Contingent Lease Liabilities and other balance sheet adjustments, FTI Consulting valued the subsidiaries at each distribution.

OUR IMPACT

The team found the earlier valuations were incorrect and the subsidiaries were insolvent at the time of the distributions.

Our results were presented to counsel and the UCC of the Company and as part of a legal petition against the Company.

The team's analysis was used by Counsel and the UCC as an essential component of their strategy during the bankruptcy and to support potential subsequent litigation.

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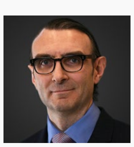

FRANCK RISLER
Senior Managing Director & Leader
Securities, Commodities and Derivatives
212.841.9348
franck.risler@fticonsulting.com

MICHAEL DIODATO
Senior Director
Securities, Commodities and Derivatives
212.651.7168
michael.diodato@fticonsulting.com