UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
SOUTHEASTERN DIVISION

In re:	§	**Chapter 11**
	§	
BRIGGS & STRATTON CORPORATION, *et al.*,	§	**Case No. 20-43597-399**
	§	
Debtors.	§	**(Jointly Administered)**
	§	

DECLARATION OF JEFFREY FICKS IN SUPPORT OF MOTION OF DEBTORS (1) FOR ENTRY OF AN ORDER (I) APPROVING (A) BIDDING PROCEDURES, (B) DESIGNATION OF STALKING HORSE BIDDER AND STALKING HORSE BID PROTECTIONS, (C) SCHEDULING AUCTION AND SALE HEARING, (D) FORM AND MANNER OF NOTICE OF SALE, AUCTION, AND HEARING, AND (E) ASSUMPTION AND ASSIGNMENT PROCEDURES AND (II) GRANTING RELATED RELIEF AND (2) FOR INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO OBTAIN POSTPETITION FINANCING, (II) AUTHORIZING DEBTORS TO USE CASH COLLATERAL, (III) GRANTING LIENS AND SUPERPRIORITY CLAIMS, (IV) GRANTING ADEQUATE PROTECTION TO PREPETITION SECURED PARTIES, (V) MODIFYING AUTOMATIC STAY, (VI) SCHEDULING FINAL HEARING AND (VII) GRANTING RELATED RELIEF

I, Jeffrey Ficks, pursuant to section 1746 of title 28 of the United States Code, hereby declare, under penalty of perjury, that the following is true to the best of my knowledge, information, and belief:

1. I am a Partner of Ernst & Young LLP ("**EY LLP**"). EY LLP has been retained by the Debtors as their financial and tax advisor.

2. I submit this declaration (the "**Declaration**") in further support of (1) the *Debtors' Motion for Entry of an Order (I) Approving (A) Bidding Procedures, (B) Designation of Stalking Horse Bidder and Stalking Horse Bid Protection, (C) Scheduling Auction and Sale*

Hearing, (D) Form and Manner of Notice of Sale, Auction, and Hearing, and (E) Assumption and Assignment Procedures and (II) Granting Related Relief. (ECF No. 53) (the "**Bidding Procedures Motion**") and (2) the *Debtors' Motion for for Interim and Final Orders (I) Authorizing Debtors to Obtain Postpetition Financing, (II) Authorizing Debtors to Use Cash Collateral, (III) Granting Liens and Superpriority Claims, (IV) Granting Adequate Protection to Prepetition Secured Parties, (V) Modifying Automatic Stay, (VI) Scheduling Final Hearing, and (VII) Granting Related Relief* (ECF No. 35) (the "**DIP Motion**", together with the Bidding Procedures Motion, the "**Motions**").[1]

3. I have reviewed the following: (1) the Objection of the Ad Hoc Group of Senior Noteholders (the "**Ad Hoc Group**") to Bidding Procedures Motion (ECF No. 300) (the "**Ad Hoc Group Bidding Procedures Objection**") (2) the joinder of the Official Committee of Unsecured Creditors (the "**UCC**", collectively with the Ad Hoc Group, the "**Objectors**") to the Ad Hoc Group Bidding Procedures Objection (the "**UCC Joinder**") (ECF No. 401) and the Preliminary Declaration of Christopher Kearns in Support of the UCC Joinder (ECF No. 400) (the "**Kearns Declaration**"), (3) the Objection of the Ad Hoc Group to the DIP Motion (ECF No. 403) (the "**Ad Hoc Group DIP Objection**"), and (4) the Objection of the UCC to the DIP Motion (ECF No. 399) (the "UCC DIP Objection", together with the Ad Hoc Group Bidding Procedure Objection, the UCC Joinder, and the AD Hoc Group DIP Objection, the "**Objections**"). I am authorized by the Debtors to submit this Declaration and, unless otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge, my experience, my review of relevant documents, information provided to me by EY LLP employees working on this

[1] Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motions.

engagement, or information provided to me by members of the Debtors' management ("**Management**") or their advisors. If called upon to testify, I could and would testify to the facts and opinions set forth herein.

I. The Debtors' Projected Cash Burn to Build-Up Inventory is Appropriate and Necessary to Preserve the Going-Concern Value of the Debtors

4. The Objectors challenge the Debtors' "true near-term liquidity needs (which may be *substantially less* than what the Debtors claim)." Ad Hoc Group Bidding Procedures Obj. ¶ 6. Specifically, the Objectors question the $275 million for inventory build-up and $81 million for "other" spending in the Debtors' 18-week forecast period, resulting in a projected negative operating cash flow of approximately $146 million over that same period. *Id.* The Objectors attempt to cast doubt on the need for this projected spending with the Debtors' reported inventory levels as of March 29, 2020 compared to its inventory levels the prior year, and statements in my First Day Declaration[2] regarding the significant difficulties the Company faced in trying to sell inventory in the months before filing these chapter 11 cases. The Objectors misapprehend the Debtors' inventory information and their need to spend the projected amounts to build-up such inventory.

5. First, while the Debtors did have higher than usual inventory levels as of March 29, 2020, the Debtors outperformed their sales projections in the three months ended June 28, 2020 ("Q4") and sold through more inventory than forecasted. In fact, according to the Company's preliminary results, sales were approximately $40 million higher in Q4 than projected in the Debtors' business plan made public in the July 15, 2020 8-K filing (though gross margin

[2] Declaration of Jeffrey Ficks, Financial Advisor of Briggs & Stratton Corporation, in Support of the Debtors' Chapter 11 Petitions and First Day Relief (Dkt. No. 51), at ¶¶ 74-80.

percentage was lower than projected as the Debtors sold inventory at lower margins to generate liquidity). The $358 million in finished inventory and $154 million in work-in-process referenced in the Objection is stale information. I have been informed that the Company's preliminary financial results for Q4 suggest total inventory is approximately $140 million lower as of June 28, 2020 than the figure referenced in the Objection, which is due to a combination of those higher sales and a lower than anticipated inventory build in the pre-filing period to preserve liquidity. Similarly, the Kearns Declaration cites the Debtors' projected amount of accounts receivable and inventory as $645 million, in the aggregate. However, such number is outdated and the actual was $544 million, inclusive of $373 million of inventory and $171 million of accounts receivable as of June 28, 2020.

6. Second, the Debtors' projected inventory build is lower during the same period as compared to prior years. This is a reflection of the concerted efforts the Debtors are taking to minimize use of cash flow during these uncertain economic times, including the impact of the COVID-19 pandemic. The Objection references $275 million of disbursements for supplies and materials; however, the projections only imply an inventory build of approximately $39 million in the 18-week period ending November 20, 2020 (the "**Forecast Period**") compared to an average inventory build of over $100 million during roughly the same time period over the past five years based on the Company's Form 10-K public filings and internal financial statements. It is my understanding that the approximately $39 million inventory build in the 18-week period is required not only to build inventory to support its fiscal third and fourth quarters—where the Company historically has achieved a higher proportion of its sales—but it is also to support the continued sell-through of inventory during the current fiscal quarter and beyond so as to preserve

the value of the business and avoid missing sales orders. In summary, the Company is not simply making product to stock but is also making product to fulfill firm orders.

7. For example, Management has informed me for certain engines, the cycle time from receipt of raw aluminum through production of the engine and shipment from the Company's assembly plants to the OEM customer can range between one to four weeks. I understand that due to the stronger than anticipated Q4 sales of approximately $40 million and the continuation of higher than forecast sales in the current fiscal quarter ending September 27, 2020 ("**Q1**") due to better than anticipated weather conditions this season and other factors, the Company is back-ordered on certain of its engines, pressure washers, and standby generators, and these products are being shipped to customers shortly after completion.

8. Further supporting the Company's need to purchase materials in accordance with the DIP budget so as to build inventory, Management has informed me that the Company needs to avoid further idling of production facilities to maintain its core workforce and sustain its operations given the Company had already completed: (i) a planned shut down of its engine plants in June 2020, (ii) a planned shut down of its Sherrill, New York plant in July 2020 and (iii) running the Statesboro, Georgia, Auburn, Alabama and Poplar Bluff, Missouri plants at lower production rates during Q1. As a result, the Company believes it cannot endure additional disruption to its production schedule from further plant disruptions and/or shut downs. Considering the Company ended its fiscal year 2020 with an inventory level of approximately $373 million, which represents the lowest ending inventory since its fiscal year 2014, the Company requires replenishment of inventory through purchases of material to avoid further disruption that could otherwise lead to increased cost, potential loss of sales, and damage to the business.

9. With respect to the assertion in the Objection that the Debtors have out-performed the DIP budget through the initial weeks of these cases, it is correct that cash performance has exceeded budget. But it is incorrect to assert that the Debtors' liquidity needs are significantly reduced as a result. Sales have exceeded the DIP Budget forecast by $22 million through the first two weeks and approximately $30 million through the first three weeks of the post-petition period. While this has had a positive impact on liquidity through improved collections and increased borrowing base availability, it also reduces the Debtors' inventory, which they must rebuild to support both near term and forecast fiscal year 2021 sales, and avoid further disruption to their operating plants. As a result, while there has been an initial improvement to liquidity from greater cash receipts, it is not nearly as significant as the Objectors assert, and predominantly represents timing from collections that have been brought forward and material purchases for replacement inventory that are still required. To the extent sales continue to out-perform the DIP budget, the incremental margin from sales over and above the inventory cost will ultimately inure to the benefit of the unsecured creditors, although it may be potentially offset by any shortfall in working capital as compared to the working capital peg contemplated in the Stalking Horse Bid.

10. With regard to disbursements, the favorable liquidity performance to date is almost entirely a function of timing. Disbursements are approximately $35 million lower than forecast through the first two weeks and approximately $41 million lower through the first three weeks. The largest component of the lower disbursements are approximately $31 million of supplies and materials, of which approximately $17 million relates to delayed settlement of critical vendor and 503(b)(9) claims. The Debtors have been working extensively with their vendors to maintain and/or restore supply and, given the Debtors' broad vendor base, the process has taken

longer than the timing contemplated in the DIP budget. However, of the approximately $17 million variance through the first three weeks, approximately $8 million represents signed trade agreements with subsequent payments made or scheduled during the Forecast Period. The remaining $9 million of supplies and materials variance relates to pending settlements and agreements, which suggests the entirety of the variance is temporary and will reverse during the Forecast Period.

11. Accordingly, the Objectors' notion that the Debtors are overspending in building up inventory because they have unsold inventory is factually incorrect. So too is the Objectors' assumption that such inventory build-up spending is unnecessary. Without a build-up of inventory, the Debtors will lose sales during these cases (as well as upon exit), which will have an adverse impact on the sales price under the Stalking Horse Agreement, given the working capital adjustment. Moreover, failure to build up inventory will likely cause any other potential bidders to lower their bids substantially given the lower future sales. As such, the projected spend to build-up inventory is necessary to continue operating the Debtors as a going-concern and preserve their value for a sale (or other restructuring) in these cases, to the benefit of all of the Debtors' creditors and stakeholders, including the Ad Hoc Group and the unsecured creditors.

II. A Departure From the Bidding Procedures Schedule, With a Sale Closing in Early October, Has Significant Costs to the Debtors and Their Creditors

12. The Objectors also question the need for a relatively expedient sale transaction in these cases, suggesting a pause and reassessment of the Debtors' situation. Putting aside the need to meet certain sale-related milestones under the Stalking Horse Purchase Agreement and DIP Facility Agreement, the Debtors need to exit chapter 11 quickly because remaining in chapter 11 comes with significant weekly cash costs.

13. It is currently assumed that the Debtors will close a sale by October 9, 2020, assuming the Stalking Horse Bidder is the winning bidder. If such a sale is not closed by then, the Debtors will incur additional costs, to the detriment of their estates and creditors. Each week after October 9, the Debtors will incur approximately $1.9 million in professional fees and $787,000 in accrued interest under the DIP Facility (around $2.6 million per week). When these costs are combined with the Debtors' projected net operational costs, the Debtors are projected to incur approximately $15 million of additional costs by November 20, 2020, assuming that the current Stalking Horse bid remains actionable.

14. However, if the Stalking Horse bid is no longer actionable—likely because the Stalking Horse Bidder would no longer be contractually obligated to close under the Stalking Horse Purchase Agreement—or if a bidder other than the Stalking Horse Bidder prevails at the auction, then the Debtors are projected to incur approximately $43 million of additional costs by that same time (November 20th, instead of October 9th). The Stalking Horse Agreement contains a net working capital adjustment that would recoup approximately $28 million of those additional costs, but there is no guarantee that any other bid or transaction will have the same.

15. Each week that the bid deadline gets extended will result in another week until a bidder other than the Stalking Horse Bidder can start the clock on its antitrust filings and obtain regulatory clearance. Thus, if the Stalking Horse Bidder is not the winning bidder, each week of delay will likely result in millions of dollars of costs for the Debtors, which will likely reduce the recovery to unsecured creditors in these cases.

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Executed this 17th day of August, 2020

/s/ *Jeffrey Ficks*
Jeffrey Ficks
Ernst & Young LLP