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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	Chapter 11
PHILIPPINE AIRLINES, INC.,[1]	Case No. 21-11569 (SCC)
Debtor.	

DECLARATION OF DOUGLAS WALKER IN SUPPORT OF DEBTOR'S MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, AND 364 (A) AUTHORIZING THE DEBTOR TO OBTAIN POSTPETITION FINANCING; (B) GRANTING LIENS AND SUPERPRIORITY ADMINISTRATIVE EXPENSE CLAIMS; (C) GRANTING ADEQUATE PROTECTION TO THE BRIDGE LENDER; (D) MODIFYING THE AUTOMATIC STAY; (E) SCHEDULING A FINAL HEARING; AND (F) GRANTING RELATED RELIEF

I, Douglas Walker, declare and state as follows:

1. I am a Managing Director at Seabury International Corporate Finance LLC, which along with its FINRA-regulated broker-dealer affiliate, Seabury Securities LLC (together, "**Seabury**"), is the proposed financial advisor and investment banker to the to the above-captioned debtor and debtor in possession (the "**Debtor**").[2]

[1] The Debtor in this chapter 11 case, along with its registration number in the Philippines, is Philippine Airlines, Inc. Philippine Securities and Exchange Commission Registration No. PW 37. The Debtor's corporate headquarters is located at PNB Financial Center, President Diosdado Macapagal Avenue, CCP Complex, Pasay City 1300, Metro Manila, Philippines.

[2] A detailed description of the Debtor and its business, and the facts and circumstances supporting this motion and the Debtor's chapter 11 case, is set forth in greater detail in the *Declaration of Nilo Thaddeus Rodriguez,*

2. I submit this Declaration in support of the *Debtor's Motion for Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, and 364 (A) Authorizing the Debtor to Obtain Postpetition Financing, (B) Granting Liens and Superpriority Administrative Expense Claims, (C) Granting Adequate Protection to the Bridge Lender, (D) Modifying the Automatic Stay; (E) Scheduling a Final Hearing; and (F) Granting Related Relief* (the "**DIP Motion**").[3]

3. Except as otherwise indicated, all statements in this Declaration are based on my personal knowledge of the Debtor's operations and finances gained throughout Seabury's engagement by the Debtor; my discussions with the Debtor's senior management, other members of the Seabury team, and the Debtor's other advisors; and my review of relevant documents and/or my opinion based upon my experience. If called to testify, I would testify to each of the facts set forth herein based on such personal knowledge, discussions, review of documents, or my opinions based upon my related professional experience.

4. I am not being specifically compensated for this testimony other than through payments received by Seabury as a professional retained by the Debtor. I am over the age of 18 and authorized to submit this Declaration on behalf of the Debtor.

Background and Qualifications

5. In my 24-year career of advising airlines and institutional investors on debt and equity financings, restructurings, fleet acquisitions and dispositions, and mergers and acquisitions, I have worked with over 30 carriers, arranged or funded more that $20 billion in debt and equity capital, and restructured more than $40 billion in obligations through both in-

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Chief Financial Officer of the Debtor, In Support of the Chapter 11 Petition and First Day Pleadings (the "**First Day Declaration**").

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

court proceedings and out-of-court workouts. Among other airline financings and restructurings, I have advised AeroMexico, AirAsia X, Air Canada, Avianca, Copa, GOL, United Airlines, and VivaAerobus, and have advised creditors of Frontier, Mexicana, Republic and Virgin America.

6. Prior to joining Seabury, I was Managing Director and Global Co-Head of Investment Banking at SkyWorks Capital, where I advised clients in a capacity similar to my current role. Before SkyWorks Capital, I was Senior Vice President, Marketing-Americas at SMBC Aviation Capital and its predecessor, RBS Aviation Capital, where I was responsible for the origination and execution of new leasing and debt financing business in that region. Prior to that, I was Managing Director and Senior Counsel at United Airlines, where, among other things, I was responsible for assisting in the restructuring of the company's fleet and financial obligations during United's extensive chapter 11 reorganization.

Seabury's Retention

7. The Debtor retained Seabury in June 2020 to act as its investment banker in connection with a potential restructuring to be completed either in court or outside of a chapter 11 process. The Seabury team, under my supervision, worked closely with the Debtor's management and other professionals retained by the Debtor with respect to these issues and came to understand the Debtor's capital structure, liquidity needs, and business operations. Through this process, it became clear that the Debtor would need to file for chapter 11 protection and to obtain debtor-in-possession financing for its operations.

8. Seabury worked with key members of the Debtor's operations, including members of the finance, financial planning and analysis, fleet, and other groups to evaluate and understand the Debtor's cash flows, business plan, capital structure, fleet strategy, and operations. As part of an evaluation of the Debtor's liquidity position, Seabury assisted in the

development of a rolling 13-week cash forecast (updated weekly), as well as a full set of long-term forecasts of the Debtor's future profitability, cash flows, and balance sheet. These forecasts take into account anticipated cash receipts and disbursements during the projected period and consider the effects of the chapter 11 filing, including incremental administrative costs of a complex chapter 11 filing with a large number of stakeholders, required operational payments, and cost-saving initiatives already undertaken and contemplated to be undertaken by the Debtor. They also take into account the unprecedented adverse market conditions facing the airline industry during and as a result of the ongoing global COVID-19 pandemic, and the impact of those macroeconomic conditions on the Debtor's current and future business.

The Prepetition Bridge Loans Were Necessary To Avoid a Value-Destructive Free-Fall Bankruptcy

9. A traditional "free-fall" into bankruptcy, with no clear exit strategy, would have caused significant concern among the Debtor's vendors, customers, and employees and materially diminish the Debtor's prospects for a successful restructuring. In the airline industry generally, and with PAL in particular, customers tend to book flights many weeks and even months in advance, so it was even more critical for the public to have the benefit of the certainty of a successful and expeditious restructuring. To this end, the Debtor negotiated the Restructuring Support Agreements and other prepetition amendments, waivers, and agreements with the vast majority of its significant creditors, which should ensure a clear and quick path to the Debtor's long-term viability for the benefit of all stakeholders,

10. In order to have the time and flexibility to negotiate the Restructuring Support Agreements with over 40 counterparties, a process that has taken almost a full year, it was necessary for the Debtor to obtain prepetition bridge financing in the aggregate principal amount of $100 million. It did so pursuant to three secured Bridge Loan Facilities provided by its

shareholder and proposed Initial Tranche A DIP Lender, Buona Sorte Holdings Inc. Without these Bridge Loans, the Debtor would not have been able to continue its operations or avoid a value-destructive free fall into bankruptcy.

The Proposed DIP Facility is Necessary and Sufficient to Meet the Debtor's Liquidity Needs

11. In any chapter 11 case, it is critical for the debtor to maintain or obtain liquidity sufficient to finance its ongoing operations and the administrative expenses of the case. Certainty of financing to maintain confidence in the viability of a company is critical for a successful chapter 11 case, especially during a global pandemic, where it is extremely difficult to forecast future revenues. Such uncertainties impact the ability of the Debtor to ensure that it will have access to cash to pay operational expenses should revenue remain suppressed in the near to medium term. At the same time, the Debtor requires additional liquidity to ensure that it will be able to expand its operations if and when conditions permit, in order to capitalize on the opportunity to generate increased revenue. The Debtor's management and Seabury analyzed the funding necessary for debtor-in-possession financing based on management's forecast and concluded that the Debtor would require approximately $505 million for the duration of its restructuring, culminating in this Chapter 11 Case. In addition, Seabury worked with the Debtor's network planning and finance teams to develop an extensive five-year operating plan and profitability forecast which was fed into a cash forecast developed by Seabury and which served as the basis for the DIP sizing.

12. The abrupt and acute downturn in the airline industry since the onset of the COVID-19 pandemic has severely depleted the Debtor's liquidity. At the beginning of the last week of August 2021, the Debtor had approximately $28.64 million in unrestricted cash on hand, which is dangerously low by any measure. By necessity and for an extended period of time, the

Debtor has been operating with liquidity significantly below prudent levels which, for an airline of PAL's size, would typically be not less than $300 million. Even with the projected modest increase in commercial passenger operations in Q4 2021, the Debtor is projected to have negative operating cash flow over the coming four to six months, before including professionals' fees and other restructuring expenses anticipated as part of this Chapter 11 Case.

13. Without immediate access to sufficient postpetition financing, the Debtor will be unable to continue its operations throughout the pendency of this Chapter 11 Case and to work to rebuild its business within the COVID-19 environment. As more fully described in the First Day Declaration, the Debtor needs the DIP Facility to fund working capital, make capital expenditures, cover payroll obligations, pay suppliers, cover overhead costs, and make any other payments that are essential for the continued management, operation, and preservation of the Debtor's business. The funds that would be made available to the Debtor under the DIP Facility are therefore necessary to preserve the value of the Debtor's estate for the benefit of all stakeholders.

14. If the Debtor cannot quickly access the proposed interim draw pursuant to the DIP Facility of $20 million, based on the Debtor's financial forecasts, the Debtor will not be able to continue to operate its business beyond the third full week in September. Likewise, if the Debtor does not have access to the full DIP Facility of $505 million later in the Chapter 11 Case, it would not be able to continue operating in the ordinary course more than a few weeks after the interim funding—and it would lose the ability both to seize opportunities to scale the business back to more normalized levels and to weather any further deterioration in its business due to the ever-evolving pandemic, potential material increases in fuel prices, or any of a number of other volatile macroeconomic factors beyond the Debtor's control. This would negatively impact the

Debtor's revenue, jeopardize the Debtor's stakeholders' confidence in the Debtor's business, and harm the value of the Debtor's estate to the detriment of all stakeholders. Based on the Debtor's financial forecasts, the liquidity provided by the DIP Facility will allow the Debtor to implement its business plan and weather industry headwinds related to macroeconomic uncertainty associated with the global COVID-19 pandemic and the current challenges facing the aviation industry.

15. The size of the DIP Facility, combined with access to receipts, is calculated to permit the Debtor to maintain the minimum amount of liquidity sufficient to sustain operations during this Chapter 11 Case, to fund administrative expenses during the pendency of this Chapter 11 Case, and ensure the Debtor's projected cash balance remains robust in downside scenarios. Because the Debtor expects that, in the context of the COVID-19 pandemic, its operating cash flow will be negative in the majority of weeks in the coming four to six months, the borrowings under the DIP Facility will enable the Debtor to continue to maintain a minimum cash balance of at least $150 million upon final approval and provide sufficient liquidity to fund the remainder of this Chapter 11 Case. Based on the Debtor's projected operating cash flow, a DIP Facility of approximately $505 million is necessary in order to maintain that minimum liquidity requirement. This amount addresses the Debtor's predicted liquidity needs and enables the Debtor to account for potential fluctuations over time, such as changes in fuel costs, as well as other developments that may occur related or unrelated to the COVID-19 pandemic.

16. I believe that the work done in evaluating the Debtor's cash needs was reasonable and sufficient. The Debtor's estimated cash needs reflect the result of modeling along with various stress tests assuming a number of different valuations, and the size of the DIP Facility is reasonable under the circumstances. Based on current forecasts, the Debtor's operational needs

during the course of these proceedings are expected to far exceed the amount of cash on hand and, as of the date hereof, the Debtor is not projected to be able to maintain the minimum liquidity thresholds needed to run its business without the risk of potential disruption, unless the proposed financing is approved. Given the volatility of the current environment, particularly accounting for the continually developing uncertainties regarding how the COVID-19 pandemic may affect the Debtor and its operations in the near and medium term, it is essential for the Debtor to have access as soon as possible to a financing facility that will provide it sufficient liquidity.

17. The proceeds of the DIP Facility will provide the Debtor with the needed stability and sufficient liquidity to continue to operate its business in the normal course, provide comfort to its employees, customers, and vendor constituencies, and fund the administration of this Chapter 11 Case. The ability of the Debtor to obtain sufficient working capital and liquidity through the DIP Facility is vital to the preservation and maintenance of the going-concern value of the Debtor. Absent approval of the DIP Facility, the Debtor would not have sufficient liquidity to operate its business as a going concern.

18. Lastly, but importantly, the DIP Facility is an integral component of the comprehensive restructuring contemplated by the Restructuring Support Agreements that will allow a speedy exit from chapter 11 while substantially improving the Debtor's operational position and leaving all general unsecured creditors unimpaired (unless they have agreed otherwise with the Debtor). Without access to the DIP Facility, the Debtor would not be able to consummate its prearranged restructuring. Failure to do so would result in significant additional professional expenses and operational risks as the Debtor attempted to retain the support of varied stakeholders for an alternative restructuring.

The Debtor's Efforts to Obtain Postpetition Financing

19. As early as August 2020, the DIP Lenders had indicated a willingness to finance the Debtor's restructuring on what appeared to be extremely favorable terms, particularly with respect to interest rate and the option to convert (at the Debtor's discretion) the financing to long-term unsecured debt and equity—rather than repay in cash—upon emergence from chapter 11. Nonetheless, Seabury engaged in discussions over a period of six to eight weeks with representatives of approximately 115 potential funding sources to confirm whether there was, in fact, any market interest in providing postpetition financing on better terms. Over the course of this DIP marketing, approximately 18 parties accessed information about the Debtor through virtual data rooms established and managed by Seabury. Ultimately, none of the parties contacted by Seabury (or, to my knowledge, any other party) were willing to provide such financing on equivalent or more favorable terms; some were unresponsive or did not want to invest capital in an airline during a global pandemic, others would have required economic terms less favorable to the Debtor, and none were willing to provide the Debtor with a conversion option into the proposed mix of equity and long-term unsecured debt.

20. In particular, while certain alternative financing sources expressed possible interest in providing Tranche B DIP Loans, not one was interested in funding Tranche A DIP Loans subject to an option for the Debtor to convert any portion of those loans to long-term unsecured debt at the end of the Chapter 11 Case. And from the outset, the DIP Lenders made clear that they would only extend the Tranche A DIP Loans if they were lenders for both tranches of the DIP Loans. Accordingly, the favorable terms of both the Tranche A DIP Loans and Tranche B DIP Loans provided under the DIP Facility are only available from the DIP Lenders.

21. In the months since this marketing effort concluded, Seabury has remained in touch with the most interested prospective investors, and it remains the case today that none would be prepared to invest on terms as attractive to the Debtor as those proposed under the DIP Facility.

The DIP Facility Has Been Negotiated At Arms-Length and in Good Faith

22. Since engaging with its key stakeholders regarding potential debtor-in-possession financing in the months leading up to the filing, and continuing after the filing, the Debtor and its advisors have engaged in extensive negotiations with the DIP Lenders and their advisors regarding the proposed DIP Facility.

23. The DIP Lenders and the Debtor have exchanged numerous drafts of term sheets and debtor-in-possession loan documents with respect to the proposed DIP Facility and have conducted intense negotiations. White & Case LLP, as counsel to the DIP Lenders, and Debevoise & Plimpton LLP and Seabury, as counsel and financial advisor to the Debtor, were fully engaged in this process, exchanging significant diligence information and negotiating debtor-in-possession financing terms and final documentation. The negotiations culminated in the proposed DIP Facility, as documented in the DIP Credit Agreement, the approval of which is sought on an interim and final basis in the DIP Motion.

24. Over the course of those negotiations, the terms of the financing were materially improved in favor of the Debtor. Among other matters, certain fees and discounts were eliminated from the deal, and most notably, the DIP Lenders agreed to a substantially more debtor-friendly equity conversion mechanism for the Tranche B DIP Loans.

25. The Initial DIP Lenders are direct and indirect holders of the Debtor's equity interests, and the Initial Tranche A DIP Lender is the Debtor's Bridge Lender. The DIP Facility

has been properly evaluated and vetted by the independent members of the Debtor's board of directors. The board implemented procedures early in the process to address any conflicts of interest. In particular, the Debtor's board of directors appointed a restructuring committee in June 2020 to, among other things, decide whether any restructuring plan proposed by the Debtor's management was in the best interests of the Debtor and its relevant stakeholders. That committee included three members not otherwise affiliated with the Debtor or the DIP Lenders, all of whom approved commencement of the Chapter 11 Case—including the DIP Facility—in accordance with the Restructuring Support Agreements.

26. Based upon my observations and involvement in the negotiation of the DIP Facility in this matter, the negotiations with the potential lenders have at all times been conducted at arm's length and in good faith.

The Tranche A and Tranche B Conversion Elections are Fair and Reasonable

27. The Tranche A Conversion Election and the Tranche B Conversion Election (each as defined in the DIP Credit Agreement and, together, the "**Conversion Elections**") are fair and reasonable components of the DIP Facility and provide the Debtor with flexibility for its restructuring and emergence from chapter 11. With respect to the Tranche A DIP Loans, the Debtor would have the option, on the effective date of the Acceptable Plan (as defined in the DIP Credit Agreement) and subject to the conversion of the Tranche B DIP Obligations described below, to either (a) repay the Tranche A DIP Obligations in cash, or (b) release all DIP Liens securing the Tranche A DIP Loans and continue to have the resulting unsecured loans governed by the DIP Credit Agreement until a scheduled maturity approximately five years from anticipated emergence.

28. With respect to the Tranche B DIP Loans, the Debtor would have the option, on the effective date of the Acceptable Plan, to either (a) repay the Tranche B DIP Obligations in cash, or (b) convert all $255 million Tranche B DIP Loans (plus all accrued interest thereon, which may in the aggregate total as much as $258.9 million through the Maturity Date) to 79.5% of the common equity of the reorganized Debtor.

29. The Conversion Elections preserve the Debtor's liquidity options, lower the barriers to exiting chapter 11, and were key components in reaching agreement among those stakeholders that signed on to the Restructuring Support Agreements and agreed to receive distributions of common equity in the reorganized Debtor in exchange for certain of their prepetition claims.

30. Although I believe that the Conversion Options, if exercised, would be favorable to the Debtor's capital structure and post-restructuring operations, any decision to exercise the Conversion Options will be subject to further review and approval by the Court and interested parties—including a creditors' committee, if appointed—during the plan confirmation process. Additionally, any exercise of the Conversion Options will be subject to the approval of the Debtor's disinterested and independent directors, who are not affiliated with the DIP Lenders.

The DIP Facility is the Best Option Currently Available to the Debtor

31. The DIP Facility is attractive for several reasons. First, the pricing is highly competitive versus other market alternatives. Second, the DIP Lenders have agreed to favorable Conversion Options that, if exercised by the Debtor, will preserve the Debtor's liquidity and ability to secure any additional financing with the then-released DIP Collateral. Finally, the DIP Lenders are well known to the Debtor and vice versa, reducing execution risk. The Debtor and its advisors are not aware of any financing available on equal or better terms from other lenders,

and based on the marketing process described above and my experience in the airline finance industry, I do not believe that any could be arranged.

32. Seeking the approval of the DIP Facility on a secured basis is reasonable since it is not expected that the Debtor could secure financing on an unsecured basis due to a number of considerations, including general current market conditions and the severe negative impact the global COVID-19 pandemic has had, and continues to have, on the Debtor's revenue streams and cash flows. As set forth above, Seabury has not received any interest in, or proposals for, an unsecured facility. Based on my experience, unsecured financing would not be a viable option given the current state of the airline industry and the Debtor's current financial position.

33. With respect to repayment of the Bridge Loans with DIP Loan proceeds, the Debtor determined that this component of the DIP Facility is appropriate and necessary under the circumstances. The effective roll up of the Bridge Loans into the DIP Facility was a material component of the DIP Facility required by the DIP Lenders as a condition to their commitment to provide postpetition financing. The Bridge Loan Obligations were incurred prepetition in contemplation of a bankruptcy filing and, without the support provided by its shareholder pursuant to the Bridge Loan Facilities, the Debtor would not have been able to continue its operations in the challenging environment created by the COVID-19 pandemic or negotiate the Restructuring Support Agreements that are essential to the success of this Chapter 11 Case. Importantly, the roll up does not prejudice any creditor that has not already agreed to support the DIP Facility because all such creditors are unimpaired under the Acceptable Plan. Additionally, as discussed above, the Debtor's marketing process shows that there is no postpetition financing on better or similar terms even without the roll up of the Bridge Loans.

34. Based on my 24 years of experience in airline finance and restructuring, I believe the process undertaken by the Debtor has been comprehensive and exhaustive. Additionally, based on my experience with and knowledge of the market, the fees and expenses in the proposed DIP Facility, and the other economic terms of the DIP Facility, are fair and reasonable under the circumstances and are within the market for comparable debtor-in-possession financings. I am confident that the Debtor would be unable to obtain this level of credit on more attractive terms, and that on the whole, the DIP Facility is the best financial option currently available to the Debtor.

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I declare under penalty of perjury that the foregoing is true and correct. Executed on this 3rd day of September, 2021.

By: */s/ Douglas Walker*
Douglas Walker
Managing Director
Seabury International Corporate Finance LLC