

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re: : Chapter 11
:
VALERITAS HOLDINGS, INC., *et al.*,¹ : Case No. 20-10290 (LSS)
:
Debtors. : (Joint Administration Requested)
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**DECLARATION OF BRENDAN J. MURPHY IN SUPPORT OF
DEBTORS’ MOTION TO OBTAIN SENIOR SECURED
SUPERPRIORITY FINANCING AND RELATED RELIEF**

I, Brendan J. Murphy, hereby declare under penalty of perjury:

1. I am a Managing Director in the Special Situations Group at Lincoln International (together with its affiliates, “Lincoln”), which has its principal office at 500 West Madison Street, Suite 3900, Chicago, Illinois 60661. I submit this declaration (the “Declaration”) in support of the Debtors’ motion to obtain senior secured superpriority financing and related relief (the “DIP Motion”)² filed by Valeritas Holdings, Inc. and its affiliated debtors and debtors in possession (collectively, the “Debtors” or the “Company,” as applicable).

2. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge, my discussions with members of the Debtors’ management team and the Debtors’ advisors, my review of relevant documents and information concerning the Debtors’ operations, financial affairs, and restructuring initiatives, or my opinions based upon my

¹ The debtors in these chapter 11 cases, along with the last four digits of each debtor’s federal tax identification number, are: Valeritas Holdings, Inc. (8907); Valeritas, Inc. (1056); Valeritas Security Corporation (9654); Valeritas US, LLC (0007). The corporate headquarters and the mailing address for the debtors is 750 Route 202 South, Suite 600, Bridgewater, New Jersey 08807.

² Contemporaneously herewith, the Debtors are filing the *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Senior Secured Superpriority Postpetition Financing; (II) Granting (A) Liens and Superpriority Administrative Expense Claim and (B) Adequate Protection to Certain Prepetition Lenders; (III) Authorizing Use of Cash Collateral; (IV) Modifying the Automatic Stay; (V) Scheduling a Final Hearing; and (VI) Granting Related Relief.*



experience and knowledge. If called as a witness, I could and would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of the Debtors.

Professional Background and Experience

3. Lincoln is a multinational investment banking firm with approximately 500 professionals in more than 22 offices around the world. In 2019 alone, Lincoln closed over 230 transactions and completed over 5,000 company valuations. Lincoln and its senior professionals have extensive experience in providing investment banking services to various parties in complex situations, including both in- and out-of-court.

4. Prior to joining Lincoln, I was a Managing Director at Teneo Restructuring, a Director in the global restructuring advisory group of Duff & Phelps Securities, LLC (f/k/a Chanin Capital Partners), and also worked as Senior Associate in the Corporate Value Consulting practice of Standard & Poor's. I began my career working in the global corporate finance group at Enron Corp. in Houston, Texas. I have a MSc from the London School of Economics and a BS from Vanderbilt University.

5. For nearly 20 years, I have advised a broad spectrum of clients requiring special situations, specialized capital raising solutions, and distressed-related expertise. I have a multifaceted skillset incorporating mergers and acquisitions, debt and equity capital markets, corporate valuation, accounting, and legal analysis. My clients include companies, creditors (banks, bonds, trade, unions, and other creditors) and other stakeholders (including preferred and common shareholders). In addition, I leverage extensive relationships in the restructuring, sponsor, and capital-raising communities to deliver client-specific alternatives requiring bespoke solutions.

6. I have executed over 60 successful transactions to completion. Some of those transactions include Arlington Hospitality, BHM Technologies, Chassix, Chem Rx, ClearEdge Power Equipment Group, CRS Reprocessing, Dura Automotive (pending), Global Power Equipment Group, Hayes Lemmerz, Internet, K'NEX, KV Pharmaceuticals, Motor Coach Industries, NeoplanUSA, Pacific Gas & Electric (pending), Pac-West Telecomm, Patriot Coal, Performance Transportation Services, Philadelphia Newspapers, Real Mex Restaurants, Residential Capital (ResCap), RMS Titanic (a/k/a Premier Exhibition), Seahawk Drilling, SkyMall, Stelco, Star Tribune, Trico Marine Services, Ultimate Electronics, Visteon, WHX Corporation, and Worldspace, among other confidential matters.

The Debtors' Need for the DIP Facility and Access to Cash Collateral

7. It is my understanding that the Debtors have an urgent and immediate need for the DIP Facility³ and use of Cash Collateral. The Debtors lack sufficient liquidity and do not generate sufficient cash from operations to fund their business. Without the DIP Facility and ability to use Cash Collateral, the Debtors will not have the liquidity needed to operate their business, fund their ordinary course expenditures, including paying their employees, or pay the expenses necessary to administer the Chapter 11 Cases. Absent adequate funding, the Debtors could be forced to terminate their business as a going concern to the detriment of the Debtors and their stakeholders.

8. Based on discussions with the Debtors' management and PwC, I understand that the proposed DIP Facility is critical to the Debtors' ability to administer the Chapter 11 Cases, and should provide the Debtors with sufficient liquidity to continue operations in the ordinary course while pursuing consummation of a sale of their assets for the benefit of their creditors and other stakeholders.

³ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Motion.

9. I also believe that access to the DIP Facility and Cash Collateral will send a message to customers, vendors, suppliers, and contract counterparties that operations are appropriately funded and that the Chapter 11 Cases will not impair the Debtors' business operations. Access to the DIP Facility and Cash Collateral will also provide the Debtors with the funding necessary to pay their employees' wages and administer the Chapter 11 Cases in order to pursue a sale of their assets as a going concern for the benefit of creditors and their estates.

The Debtors' Efforts to Obtain Postpetition Financing

10. The Debtors engaged Lincoln in December 2019 as their investment banker to provide advice regarding a potential sale transaction of the Debtors' business and raise appropriate new capital, if necessary. In my capacity as investment banker to the Debtors, I was actively involved in the prepetition marketing efforts and subsequent arm's-length negotiations that preceded execution of the DIP Documents.

11. Upon its engagement, Lincoln began an intense effort to assess the Debtors' capital structure and liquidity needs and commenced an expedited marketing effort to obtain postpetition financing. I, along my colleagues at Lincoln, explored potential postpetition financing options with the Debtors' existing lenders, proposed stalking horse buyer, and various third-party financing sources. The Debtors recognized that it would be difficult to secure financing because of the limited timeframe available, quantum and location of collateral, funding needs, certain conditions under the stalking horse asset purchase agreement, and because substantially all of the Debtors' assets are encumbered by existing liens under their prepetition debt. Further, the Debtors prepetition lenders indicated that they would not consent to a "priming" DIP Facility by a third party absent the terms contemplated by the proposed settlement agreement with the Prepetition

Lenders.⁴ Thus, alternative postpetition financing arrangements likely would have resulted in a “priming” fight with prepetition lenders. The Debtors believed that any such fight could upset their efforts to obtain financing and sell their assets as a going concern.

12. The existing lenders were unwilling to provide additional financing. The proposed stalking horse buyer was similarly unwilling. As such, Lincoln approached 50 potential outside lenders regarding the Debtors’ financing needs. Lincoln’s outreach resulted in 20 nondisclosure agreements being executed, allowing those potential lenders to access a confidential information presentation and an online data room. Five of those parties ultimately submitted nonbinding postpetition financing proposals. Of the five proposals submitted, Lincoln recommended moving forward concurrently with two potential lenders for further discussions and to ensure that postpetition financing would be secured prior to commencement of the Chapter 11 Cases.

13. With Lincoln’s advice, the Debtors engaged in good faith, arm’s-length negotiations with the DIP Lender prior to the Petition Date, recognizing that the Debtors would need daily access to liquidity to fund their operations. The Debtors and their advisors negotiated with the DIP Lender regarding the structure and economics of the proposed DIP facility. Ultimately, the Debtors and the DIP Lender agreed to a set of terms that will provide the Debtors with necessary access to liquidity during the pendency of these chapter 11 cases at fees and rates that the Debtors and their advisors consider to be reasonable under the circumstances.

The Debtors Are Unable to Obtain Unsecured or Junior Secured Credit

14. No party that Lincoln spoke to as part of the marketing process, and indeed no party Lincoln is aware of, was interested in providing, or willing to provide, postpetition financing to

⁴ See Motion of the Debtors to Approve Settlement Agreement Among the Debtors, CRG Servicing LLC as Agent for the Prepetition Lenders and the Prepetition Lenders.

the Debtors on an unsecured basis. Indeed, no party other than the DIP Lender was willing to provide a postpetition financing facility in the amount needed with financing terms and conditions that Lincoln considered reasonable based upon the facts and circumstances of the Debtors.

The DIP Facility

15. The proposed DIP Facility will provide the Debtors with timely access to liquidity that is important to ensuring that the Debtors' businesses are stabilized and value is maximized. As noted above, the Debtors also believe that the financing will provide comfort to the Debtors' vendors, suppliers, customers, and employees that the Debtors will be able to continue to meet their commitments during these cases and are not likely to languish in bankruptcy.

The DIP Facility Fees

16. I understand that the Debtors have agreed, subject to Court approval, to pay certain fees to the DIP Lender pursuant to the DIP Term Sheet. These fees are summarized below:

Fee	Amount
Interest Rate	18% per annum (paid in kind)
Origination Fee	\$200,000
Commitment Fees	12.5% of the Interim Commitment; 12% of the aggregate principal amount of the Final Commitment payable as original issue discount

17. Given the other alternatives available, and based on my knowledge of similar financings in the market, I believe that the interest rate and fees reflected in the DIP Facility are reasonable under the circumstances. I also believe that the Milestones and covenants contemplated by the DIP Documents are as expected given certain conditions under the stalking horse asset

purchase agreement or otherwise customary for DIP financing for companies similar to the Debtors.

Conclusion

18. Given the financing efforts and process described above and based on my experience as a restructuring professional and involvement in other financing transactions, I believe that the DIP Facility is the best financing option presently available to the Debtors and that the terms of the DIP Facility are reasonable under the circumstances.

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Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

February 9, 2020

/s/ Brendan J. Murphy
Brendan J. Murphy
Lincoln Partners Advisors LLC