INVESTMENT SUMMARY

Recommendation Summary
Neiman Marcus' ("NMG" or "the Company") profitability is declining sharply which is pushing leverage to unsustainably high levels after a 2013 re-LBO by Ares and CPPIB ("the Sponsors") put $4.7bil of debt on the Company's balance sheet. The collapse in oil prices, a strong dollar appreciation, and various operational missteps over the past three years have taken roughly 10% out of the Company's revenue base and pushed margins to historically low levels. All signs point to a near-term continuation of that trend. Absent a debt restructuring, the Sponsors are looking at leverage of 11.4x Adjusted EBITDA by fiscal 2017E which ends in July. Recovering their $1.6bil equity investment would require a 15.2x EBITDA valuation, roughly twice the implied valuation of its unsecured debt that is trading at $57-61. With revenue declines and margin pressures to continue for several quarters, the picture will get worse before it can get better.

Base Case	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Revenues	5,095	4,949	4,642	4,657	4,802	4,972	5,154
Growth	*5.3%*	*(2.9)%*	*(6.2)%*	*0.3%*	*3.1%*	*3.5%*	*3.7%*
EBITDA	710	585	412	465	577	635	679
Margin	*13.9%*	*11.8%*	*8.9%*	*10.0%*	*12.0%*	*12.8%*	*13.2%*
Total Debt	4,711	4,717	4,696	4,773	4,490	4,385	4,320
Interest Coverage	2.7 x	2.2	1.5	1.6	2.0	2.2	2.2
Total Leverage	6.6 x	8.1	11.4	10.3	7.8	6.9	6.4
Total Valuation	8.9 x	10.8	15.2	13.7	10.5	9.4	8.7

With $1.5bil of incremental secured debt capacity and strong positive operating cash flow, the Company has time to work through its operational issues but after freeing ~$380 million of assets from debt covenant restrictions and hiring Lazard to evaluate strategic options including a possible sale last month, it seems that the Sponsors are about to address the Company's capital structure. With the secured debt trading at $80 and the unsecured debt at $57-61, they can pursue several avenues to extract value. Four out of five scenarios should disproportionately benefit secured creditors and hurt unsecured note holders while one benefits both. As a result, investors should be long the secured debt and short the unsecured notes.

Proposed Trade
At $80, the Term Loan is undervalued and does not accurately reflect the substantially superior recovery prospects over every other security in the capital structure across various restructuring scenarios inside and outside of bankruptcy. At $57-61, the unsecured notes are overvalued and do not reflect the substantial downside risk in every restructuring scenario but one. As a result, investors should allocate their investment ~2.5x long the Term Loan and ~1x short the Cash Notes. Neutralizing coupon costs and volatility, the trade should generate 30%+ positive returns in four of five possible restructuring scenarios and deliver a nominal positive return in one scenario while minimize downside potential should prices move against this investment thesis. For the trade to loose money, the Term Loan would have to decline while the Cash Notes appreciate, a highly implausible and unlikely scenario but a possibility investors should protect against.

Investment Risks
The downside risk of being long the Term Loan is very limited given strong covenant protections and substantial recovery in the worst case scenario of liquidation. The Sponsor's ability to extract money ahead of the Term Loan is severely restricted and exploitation of narrow carve-outs should be recoverable fraudulent conveyances in bankruptcy. The downside risk on being short the Cash Notes is limited to a possible acquisition of the Company with all of its debt without a prior tender/exchange offer. This scenario is highly unlikely given complex structural hurdles but also because it implies that the Sponsors leave several hundred million dollars on the table for no good reason.

COMPANY ANALYSIS

Company Profile
NMG is the only pure-play high-end luxury retailer in the United States. The Company operates four brands – Neiman Marcus (44 stores), Bergdorf Goodman (2 stores), Last Call (41 outlets), and MyTheresa (online) – and offers primarily women's (but also men's) apparel, handbags, shoes, cosmetics, and jewelry from highly expensive designers like Brioni, Chanel, Goyard, Gucci, Loro Piana, Louboutin, Louis Vuitton, Prada, Saint Laurent, Tom Ford, Valentino, Van Cleef & Arpels, Zegna and the like. More than 85% of the Company's customers are female, 40% are 55 years and older, and 40% have annual household incomes of $200k+ and net worth of $1mil+. The average customer owns ~50 pairs of shoes and ~20 handbags. The Company's store footprint is highly concentrated in wealthy geographies and those with high tourist traffic. Although it has stores in 18 states, CA, FL, NY, and TX together account for roughly half of the Company's revenues. As a result, comparability of Neiman Marcus (83 stores, 14k employees) with other high-end retailers like Macy's (800+ stores, 140k+ employees) or Nordstrom (350+ stores, 72k+ employees) that operate nationwide footprints with wide product spectrums outside the luxury segment is limited. The Company's fiscal year runs from 8/1 to 7/31 with 2Q being the seasonally strongest quarter as it includes November and December. All references to quarters and years refer to the Company's fiscal year.

Recent Developments
Negative headlines have dominated the NMG news story for the past several quarters. Two key macro factors have weighed heavily on the Company's performance. With 50% of revenues tied to oil wealth in TX and high tourist traffic geographies CA, FL, and NY, the collapse in crude oil from ~$105 to the high $40s and the 25%+ appreciation of the dollar vs. the euro (and 50%+ vs. the BRL and the RUB) since the beginning of FY2015 have had a heavy negative impact on the Company's profitability. As this impact fully materialized throughout FY2016, total sales of $4.95bil declined 2.9% and Adjusted EBITDA dropped 17.7% to $585mil, a 213bps EBITDA margin compression, driven by higher merchandise mark-downs to keep revenue from eroding. As a result, the Company wrote down intangible assets and goodwill by $466mil or 8.8% in 4Q16.

This past November, CFO/COO Don Grimes resigned from the Company after only 18 months and was replaced with interim CFO Michael Fung. In early January, two months into 2Q17, the Company pulled its planned IPO on the back of worsening sales declines and increasing margin erosion, driven in large part by ongoing macro pressures and the botched roll-out of a new inventory management system (NMGOne) in 1H17. 1H17 revenues were down 6.7% vs. the prior year and EBITDA was down 5.7% representing 300bps of EBITDA margin compression vs. 1H16. As a result, the Company wrote down its intangible assets and goodwill by another $154mil or 2.9% at the end of 2Q17.

Along with disappointing 2Q17 results in early March, the Company announced that it has retained Lazard to evaluate strategic alternatives including a possible sale of the Company and to explore "other initiatives to optimize the capital structure". In a first step to gain more flexibility, the Company moved a German subsidiary through which it operates its international online MyTheresa business (with 2017E revenues of $264mil, $27mil EBITDA, and $281mil total assets) and certain real-estate assets (with ~$5mil in annual leasing revenues and $98 mil in book value) into an unrestricted subsidiary, freeing them from key covenant constraints. Although foreign subsidiaries did not secure or guarantee creditors to begin with, moving the assets to unrestricted status allows for easier monetization and more flexible use of proceeds. After selling off, the PIK Toggle and Cash Notes stabilized at $57 and $61, respectively, on the back of rumors that Hudson's Bay ("HBC") is in advanced takeover talks with the Company.

Operating Outlook
Despite the below-mentioned positive catalysts that should drive improving operating performance over the next two to three years, things will almost certainly get worse before they get better. Management quantified missed 1H17 revenues due to the botched NMGOne rollout at $55-65mil and does not expect this issue to be resolved before the end of FY2017, implying a 2017E seasonally adjusted revenue decline of $100mil+ from this issue alone. According to CEO Karen Katz's comments on the 2Q17

earnings call, the Company is beginning to see sales recoveries across its TX footprint as crude oil prices have stabilized but this seems like an over-optimistic assessment as improved February revenues in its newly opened and enlarged Fort Worth flagship store are unlikely to translate to the other stores across the state. Following the 1H17 trend, 2017E revenues should be down ~6.4% vs. 2016A or $315mil as ongoing domestic weakness is only partly offset by its fast-growing but relatively small international online MyTheresa business.

	2015A	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Revenues	5,095	4,949	4,642	4,657	4,802	4,972	5,154
Growth	*5.3%*	*(2.9)%*	*(6.2)%*	*0.3%*	*3.1%*	*3.5%*	*3.7%*
Gross Profit	1,790	1,627	1,455	1,475	1,607	1,690	1,752
Margin	*35.1%*	*32.9%*	*31.3%*	*31.7%*	*33.5%*	*34.0%*	*34.0%*
EBITDA	710	585	412	465	577	635	679
Margin	*13.9%*	*11.8%*	*8.9%*	*10.0%*	*12.0%*	*12.8%*	*13.2%*

Gross and EBITDA margin should continue to decline throughout 2H17 as missed revenues from NMGOne continue to drive up outdated inventories, pushing a higher proportion of the Company's merchandise into the next season, which ultimately results in higher mark-downs forcing the Company to move more of its merchandise through its LastCall outlets at lower overall profitability. Management estimates the gross margin impact of NMGOne in 1Q17 and 2Q17 at 130bps and 110bps, respectively, with the remaining margin pressures of 30-40bps due to deleveraging of buying and occupancy costs.

Assuming management can get a handle on NMGOne after a steep learning curve through four full quarters of hits, we should see domestic store revenues beginning to stabilize in 2H18 and overall revenue growth to resume in 3Q18 as the Bergdorf Goodman renovations come to completion and domestic online and MyTheresa growth begin to outweigh a lagging recovery of the domestic store business. Gross margin should make a modest recovery in 2018 as the above-mentioned NMGOne pressures soften in 1H18 and the Company begins to recover roughly half of that margin hit in 2Q18 with the balance being recouped in 1H19. While the botched roll-out should worry us, once fully functional, NMGOne should lower inventory levels and eventually drive margin improvement.

On a positive note, management has made substantial investments in operating profitability over the past two years, the fruits of which have partially been masked despite SG&A down 3.8% in 2016A vs. a 2.9% revenue decline. Since October 2015, the Company has eliminated ~600 positions and as store remodeling phases out over the next couple of years SG&A should decline as revenue remains flat and the benefit from past initiatives falls to the bottom line, causing EBTIDA margin improvement to catch up with gross margin recovery in 2019E.

Cash Flow Projections
CapEx has weighed heavily on the Company's ability to generate free cash flow due to several large-scale (Fort Worth, Long Island) new store openings and flagship (Bergdorf Goodman) and mainline store remodeling across the Company's footprint as well as substantial investments in IT (NMGOne). Management expects 2017E gross CapEx of $200-215mil and, with investments in the new Hudson Yards store ramping up towards a 1Q19 opening, 2018E CapEx are likely closer to 2016A than 2017E levels again.

	2015A	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Operating	229	311	258	193	403	310	383
Investing	(452)	(302)	(219)	(270)	(120)	(120)	(120)

That said, with pure maintenance CapEx of $50-60mil and the vast majority of its footprint remodeled and updated by the end of 2018E, CapEx should drop significantly in 2019E, assuming the Company does not pursue an unexpected organic expansion (which is very unlikely). As a result, free cash flow generation should improve substantially by 2019E allowing for organic deleveraging to begin.

CAPITAL STRUCTURE

Overview

Following the LBO in October 2013, the Sponsors own 100% of NMG Inc. ("Parent"), which owns 100% of MIH LLC ("HoldCo"), which owns 100% of NMG LTD LLC ("Borrower" or "Issuer"), which owns 100% of NMG LLC ("OpCo"), which has various guarantor and non-guarantor subsidiaries under two credit agreements and three notes indentures. As of 2Q17, the Company has $4.71bil of consolidated total debt outstanding, $3.15bil or 67% of which are secured, $1.56bil or 33% are unsecured. $123mil of Legacy Notes were issued at the OpCo level. All other debt is issued at the Borrower level. All of the Company's outstanding secured and unsecured debt ranks equally in payment priority.

	Balance	Rank	Security	Rate	Maturity	Price
Term Loan	2,854	Senior	1st /2nd Lien	~ 450 Float	10/2020	80
Revolver	170	Senior	2nd /1st Lien	~ 250 Float	7/2021	–
Legacy Notes	123	Senior	1st Lien	713 Fixed	6/2028	79
Cash Notes	960	Senior	Unsecured	800 Fixed	10/2021	61
PIK Toggle Notes	600	Senior	Unsecured	875 Fixed	10/2021	57
Sponsor Equity	1,583					
Total	**6,290**					

Leverage

At current profitability and capitalization levels, the Company is substantially over-levered and, absent spectacular improvements in operating performance beyond the Base Case outlined above (see attached model), some kind of balance sheet restructuring will be inevitable for the Sponsors to recover (part of) their $1.6bil equity investment. As of 2Q17, Senior Secured Net Leverage (SSNL) and Total Net Leverage (TNL) stood at 6.4x and 9.6x, respectively, based on LTM Adjusted EBITDA of $487mil. Even at peak Adjusted EBITDA of $710mil in 2015A, SSNL was 4.3x and TNL was 6.5x. At the same time, current interest coverage and fixed charge coverage levels of 1.8x and 2.3x, respectively, indicate that the Company has time to address its profitability issues should the Sponsors choose to take that time.

EBITDA	450	**LTM = 487**	550	600	650	700	750
Secured Leverage							
Term Loan	6.3 x	**5.9**	5.2	4.8	4.4	4.1	3.8
Revolver	6.7 x	**6.2**	5.5	5.0	4.7	4.3	4.0
Legacy Notes	7.0 x	**6.5**	5.7	5.2	4.8	4.5	4.2
Unsecured Leverage							
Cash Notes	9.1 x	**8.4**	7.5	6.8	6.3	5.9	5.5
PIK Toggle Notes	10.5 x	**9.7**	8.6	7.8	7.2	6.7	6.3
Sponsor Equity	14.0 x	**12.9**	11.4	10.5	9.7	9.0	8.4

Liquidity

Liquidity is currently NOT an issue for the Company and is not likely to become one for the foreseeable future. On top of a $48mil cash balance and LTM operating cash flow of $308mil, the Revolver's unused borrowing capacity stood at $638mil at the end of 2Q17. Generally speaking, total capacity of the Revolver is the lesser of $900mil and 90% of the Borrowing Base (the sum of the Borrower's and its Restricted Subsidiaries' cash and cash equivalents, net orderly liquidation value of eligible inventory, and all accounts receivable). The first major debt maturity is the Term Loan in October 2020, one year before the Cash and PIK Toggle Notes come due and nine months before the Revolver expires (unless the Term Loan is repaid or refinanced in which case the Revolver automatically extends to July 2021). Until then, the only maturities are fixed quarterly repayments of 0.25% or $7.5mil on the Term Loan. Because the Company has not generated, and is not expected to generate meaningful Excess Cash Flows (essentially operating cash flow less cash CapEx) anytime soon, mandatory prepayments of 25% (if SSNL > 3.5x) to 50% (if SSNL > 4.0x) of fiscal year Excess Cash Flows have not been and likely wont be triggered before 2019E.

Equity Value
To set the stage: taking out the unsecured notes at current prices would still wipe out the Sponsors at LTM EBITDA of $487mil and a reasonably aggressive valuation multiple. To recover only half of their $1.6bil equity investment in such a take-out, EBITDA would have to reach $600mil and even that would require a valuation multiple north of 8.5x EBITDA. To break even, assuming a more reasonable but still rich 8.0x multiple, the Company would have to make $750mil of EBITDA. Even in the Bull Case, this will not happen until 2021E, if ever, and it would surpass the Company's 2015A peak EBITDA of $710mil by 5.6%, a very unlikely scenario.

	6.0x	6.5x	7.0x	7.5x	8.0x	8.5x	9.0x
450	0%	0%	0%	0%	0%	0%	0%
LTM = 487	0%	0%	0%	0%	0%	0%	4%
550	0%	0%	0%	0%	5%	22%	39%
600	0%	0%	0%	11%	30%	49%	68%
650	0%	0%	14%	35%	55%	76%	96%
700	0%	14%	36%	58%	80%	**102%**	**125%**
750	11%	35%	58%	82%	**106%**	**129%**	**153%**

Incremental Debt Capacity
On top of its $638mil unused Revolver capacity, NMG has $1.5bil incremental secured debt capacity: the Term Loan can be upsized by $746mil, the Revolver by up to $200mil (assuming sufficient Borrowing Base), and the credit agreements and indentures allow for incremental lien carve-outs for capital leases of up to $200mil, foreign subsidiaries of up to $50mil, and a general basket of up to $250mil.

Secured Creditors
Secured creditors share three buckets of collateral: A) 100% of the capital stock in OpCo, B) all inventory, cash, deposit accounts, and payments from credit card clearing houses to OpCo, and C) substantially all of OpCo's and its subsidiary guarantors' assets (essentially all assets not included in B). The Term Loan is secured by a first priority pledge of A, a second priority security interest in B, and a first priority security interest in C. The Revolver is flipped with a first priority interest in C and a second priority pledge and security interest in A and C, respectively. The Legacy Notes are equally and ratably secured alongside the Term Loan by first lien security interests in A and in select real-estate assets included in C.

Unsecured Creditors
The Cash Notes are straight-forward semi-annual cash coupon notes. Under the PIK Toggle Notes indenture, the Company can elect to pay semi-annual interest in 100% cash, 100% PIK (additional notes), or 50/50, for up to six out of the ten interest payments from April 2015 to October 2018 but has not made any PIK payments to date. PIK payments get a coupon step-up to 9.50% and the Company now has three interest periods left in which in can elect to pay all or part in kind (10/2017, 4/2018, 10/2018) after which the notes revert back to mandatory all cash interest for the remaining six payments until maturity. To elect, the Company must deliver a PIK notice no later than one day prior to the beginning of the relevant interest period, i.e. by April 15th (one day prior to April 16th) for the October 15th payment.

Guarantors
The Term Loan, Revolver, and unsecured notes are each guaranteed by HoldCo and by each current and future subsidiary, but NOT by unrestricted subsidiaries, foreign subsidiaries, and certain immaterial and SPV securitization subsidiaries. As of 2Q17, the Term Loan, the Revolver, the Cash Notes, and the PIK Toggle Notes had two NON-guarantor subsidiaries: the above-mentioned German MyTheresa subsidiary (with 2017E revenues of $264mil, $27mil EBITDA, and $281mil total assets) and one unrestricted real-estate subsidiary (with ~$5mil in annual leasing revenues and $98 mil in book value). The Legacy Notes on the other hand are guaranteed only by OpCo and, unlike the other secured and unsecured creditors, are NOT guaranteed by the Company's Bergdorf Goodman subsidiary. Together with the MyTheresa sub and a NV trust, another non-guarantor under the Legacy Notes, this means that 2017E revenues of $985mil, EBITDA of $120mil, and (mostly intangible) assets of $3.3bil that back the other creditors do not back the Legacy Notes.

RESTRUCTURING OPTIONS

Overview
Staring down the barrel of a big loss, the Sponsors have tasked Lazard with looking at all possible options to restore their investment. Several outcomes from an unsecured debt tender/exchange offer to breaking up the business to a complete sale, or even reorganization under Chapter 11, and various combinations thereof, are possible. Given poor operating performance and a highly over-levered capital structure, any of these options seem reasonably possible outcomes. Which path the Sponsors choose will depend, in large part, on how aggressive they are willing to get vis-à-vis creditors to recover (and make a satisfactory return on) their investment. Although they won't be handing out any money, the Sponsors will want to avoid irreparably damaging their relationship with the banks and possibly with institutional investors who built sizeable positions in the secured and unsecured debt. Below are analyses of the four main restructuring scenarios: 1) Refinancing the Cash and PIK Toggle Notes, 2) Bergdorf Goodman and/or Real Estate Sales, 3) Selling the Company, and 4) Bankruptcy.

1) Refinancing the Cash and PIK Toggle Notes
Whether through buybacks in the open market or a (coercive) tender/exchange offer, refinancing the unsecured notes is a low hanging fruit the Sponsors are likely to grab first. At over 8.0% cost, it is the most expensive part of the capital structure and given current prices of $61 for the Cash Notes and $57 for the PIK Toggle notes, it is the natural starting point of any balance sheet restructuring. As of 2Q17, the Company has not engaged in any open market repurchases. While this is a possibility, a tender/exchange offer seems more attractive as it may be done at a price below market/buybacks.

- Taking the notes out at market would wipe $632mil off the balance sheet and bring current leverage down by 1.3x $487mil LTM EBITDA. But because wiping out $632mil of debt gives rise to an equal amount of cancellation of debt income that is taxable at the Company's marginal income tax rate, the Company will have to raise an extra $253mil of cash to pay the IRS (absent offsetting tax attributes like NOLs). Whether that comes out of the existing Term Loan or Revolver capacity, it will take leverage back up by 0.5x. At the end of the day, taking the notes out at current prices brings leverage down from 9.7x to 8.4x LTM EBITDA.

- Alternatively, If the Company can make credible threats in a coercive tender/exchange offer – like an inevitable Chapter 11 reorganization if, lets say, less than 80% accept their tender/exchange offer – the notes should sell off and allow for a take-out below current prices. A full tender/exchange at, for example $40, would wipe out $936bil of debt and take leverage down by 1.9x on a pre-tax and by 1.1x on an after-tax basis. Assuming there will be holdouts, leverage would be 0.1x – 0.3x higher.

How would the Company fund a buyback/tender/exchange? Plenty of options are available. The two most apparent options are 1) using existing liquidity under the Term Loan and Revolver and 2) monetizing the recently unrestricted MyTheresa and select real estate assets.

At current prices, the Company would need $928mil for the bonds (plus $253mil for taxes), in a $40 take-out it would need $624mil (plus $374mil for taxes). Both sums are just within the Company's incremental secured debt capacity under the Term Loan of $746 mil and the Revolver of $638 mil. Fully exhausting that capacity is not a realistic option, particularly for the Revolver since it has ~$185mil of seasonal balance swings between quarters (2Q is the lowest), as the Company needs flexibility to fund working capital needs. Adjusting the Revolver capacity leaves ~$450mil, which would be just enough. The lenders also may not want to upsize a Term Loan that is trading $20 below par but, after taking into account the lower post-exchange leverage and higher cash flow due to lower interest expenses, the Term Loan should rally so this may not be an issue.

Having done that math themselves, the Company recently created a new pocket to reach into by pushing MyTheresa and some real estate assets into an unrestricted subsidiary, effectively freeing those assets from the monetization constraints under the credit agreement and notes indentures covenants. Using the sub to raise cash for a tender/exchange could be done in one of two ways: sell the sub or issue new debt secured by sub assets. Selling could raise up to ~$550 in pre-tax cash:

- MyTheresa is a ~30% annual revenue growth business with ~$290mil NTM Revenues and ~$25mil NTM EBITDA which should be able to fetch up to a ~$400mil valuation based on a 1.3x sales or 15x EBITDA multiple. The Company acquired the business for $182mil and taking that as a proxy for the Company's tax basis, taxes could reduce cash proceeds from a $400mil sale to ~$315mil.

- Selling the two store properties in San Antonio, TX (120k sqf) and McLean, VA (130 sqf) and the distribution center in Longview, TX (612k sqf) at a 20% haircut to an estimated revenue per sqf of $500 for the stores and $100 for the distribution center could generate ~$150mil in proceeds over a book value of $98mil. Taxes should be minimal (~$20mil given the modest gain).

Each funding choice has different implications. While an exchange offer against new unsecured debt out of the sub would keep current liquidity intact, replacing ~8.25% debt with ~$5.5% doesn't exactly maximize the economics of a tender/exchange. The same thing goes for using the Term Loan and Revolver capacity. Monetizing the sub has drawbacks as well as. Selling MyTheresa would be a strategically bad choice since it's the only piece of the business that is currently growing (and rapidly so) and the only source of international diversification. Given the persistent domestic macro headwinds discussed above, this is a real issue with potential multiple implications in an eventual post-restructuring sale/IPO that the Sponsors will want to take into account.

At the end of the day, the Sponsors must choose one of four options:

- Option A) Refinance the whole buyback/tender/exchange with unused Term Loan/Revolver capacity. Junior debt is probably out of the question for creditors and it is also unattractive for the Company as it would erase a good chunk of the interest savings.

- Option B) Issue as much new secured debt out of the unrestricted subsidiary as possible and supplement with new Term Loan paper as needed. This would probably be up to $420mil (~$120mil from a 90% mortgage on the real estate and $300mil from MyTheresa based on 10x ~$30mil NTM EBITDA) and $580mil of incremental Term Loan paper, albeit at roughly the same cost.

- Option C) Sell the real estate in the unrestricted subsidiary (~$150mil) and supplement with a combination of new secured debt out of MyTheresa (~$300mil) and new Term Loan paper.

- Option D) Sell MyTheresa and the real estate (~$550mil), fund the remainder with new Term Loan paper.

	LTM	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Base Case						
Total Debt	4,707	4,696	4,773	4,490	4,385	4,320
EBITDA	487	412	465	577	635	679
Leverage	9.7 x	11.4	10.3	7.8	6.9	6.4
Valuation	12.9 x	15.2	13.7	10.5	9.4	8.7
Pro-Forma Option A/B						
P/T Leverage		9.1	8.1	5.9	5.1	4.6
P/T Valuation		12.9	11.5	8.7	7.6	6.9
A/T Leverage		10.0	9.0	6.7	5.8	5.3
A/T Valuation		13.8	12.4	9.4	8.3	7.6
Pro-Forma Option C						
P/T Leverage		8.8	7.8	5.7	4.9	4.4
P/T Valuation		12.7	11.3	8.5	7.4	6.7

A/T Leverage		9.8	8.7	6.4	5.6	5.1
A/T Valuation		13.6	12.2	9.2	**8.1**	7.4
Pro-Forma Option D						
P/T Leverage		8.1	7.3	5.2	4.4	3.9
P/T Valuation		12.1	10.9	8.1	7.1	6.4
A/T Leverage		9.0	8.2	6.0	5.2	4.7
A/T Valuation		13.1	11.8	8.9	7.8	7.2

The analysis shows the pre-tax and after-tax leverage and valuation (leverage plus the Sponsors' $1.6bil equity) for each funding structure assuming the Company can take the notes out at $40. The numbers exclude any cash taxes on gains on the sale of MyTheresa or the real estate (there could be offsetting losses, etc. resulting in lower cash taxes). All interest expense savings are used for debt prepayments without assuming any prepayment penalties since the Term Loan indenture does not have any.

The 8.1x valuation in the Base Case under Scenario C in 2020E means that the Sponsors are at least three years away from a complete recovery of their equity investment – even after taking the unsecured notes out at $40. As a result, the Sponsors have to push the refinancing price as low as they possibly can. Buying the notes back in the open market seems least likely to achieve that objective as it would stabilize prices and give the Company less leeway to make threats to unsecured holders. The Company has not bought back any notes as of the 2Q17 conference call on March 14th and it would likely not be able to buy back a sufficiently high volume to move the needle on leverage.

A coercive tender/exchange offer under the threat of Chapter 11 (more on that below) thus seems like a much more appealing structure – if doable. Because a simple majority (of principal) is enough to amend the unsecured notes indentures, the Company should be able to strip holdouts of all indenture covenants and protections. Putting a nominally earlier maturity date on the new secured refinancing debt could put incremental pressure on the remaining holdouts. Given a better growth and diversification profile with MyTheresa still in the fold, Sponsors could probably offset most of the leverage differential between Options C and D with a modestly higher valuation multiple in an eventual IPO/ sale post-restructuring. Today, MyTheresa is not big enough for a sale to have a meaningful balance sheet impact, but this is changing rapidly. The business has already doubled in size since the Company acquired it in 2014 and it should do it again over the next two years. In the Base Case, MyTheresa will contribute roughly 10% to total revenue by 2021E. At the end of the day, a 0.3x reduction in leverage vs. Option C is probably not worth giving up the growth and diversification that will drive multiple expansion between now and an eventual exit. As a result, the best option for the Company is to sell the unrestricted real estate and use incremental Term Loan/Revolver and/or new secured debt out of MyTheresa – whichever is cheaper – to conduct a coercive tender/exchange offer.

2) Bergdorf Goodman and/or Real Estate Sales

Whether or not and with what the Company refinances the unsecured notes, the Sponsors can pull other levers to de-lever the balance sheet through asset sales. The two main separable assets they would likely consider selling are Bergdorf Goodman and the Company's real estate.

Bergdorf Goodman

Unlike MyTheresa, the Bergdorf sub is a Restricted Subsidiary that secures and guarantees the Term Loan and the Revolver, and guarantees both the Cash and the PIK Toggle Notes, making a monetization subject to various covenants. Most importantly, the credit agreement provides that assets sales can only be done at fair market value, proceeds must be 75% or more in cash, non-cash proceeds cannot exceed $125mil, and all net cash proceeds must be used for Term Loan prepayment or be reinvested into one of the remaining Restricted Subsidiaries within a year.

Although the two Bergdorf stores on Fifth Avenue have not been doing great as of late, selling the crown jewels of the Company would make a substantial balance sheet impact. In a nutshell, 2016A revenues of $784mil were down 7.2%, EBITDA of $121mil was down 24.1%, and, much like the rest of the business, the revenue decline accelerated in 1H17. Total revenues of $387mil and EBITDA of $54 mil were down another 9.2% and 21.7%, respectively, vs. 1H16. Nevertheless Bergdorf's 14% EBITDA margin remains ~400bps above the Company's overall margin. While that implies a higher valuation multiple for Bergdorf, the obvious flipside is a lower multiple vs. the status quo for the remaining business in an eventual exit.

Based on an estimated 2017E EBITDA of ~$100mil and a 12x valuation, selling Bergdorf could generate around $1.2bil. This does not reflect cost synergies a potential buyer may be willing to share with the sellers and there may be another ~20% of upside to these numbers as operating performance over the past 18 months was artificially weak due to floor closures from ongoing renovations. With renovations in the women's building completed, revenue declines should slow throughout 2H17. Bergdorf also expects to add an incremental 25k sqf of retail space on existing floors later next year as it relocates office space offsite. The top end of the valuation range a strategic buyer may be willing to pay could thus be closer to $1.5bil. Using a $1.35bil midpoint, the pro-forma P&L and balance sheet of the remaining Company would look something like this:

	LTM	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Base Case						
Revenues	4,772	4,642	4,657	4,802	4,972	5,154
EBITDA	487	412	465	577	635	679
Total Debt	4,707	4,696	4,773	4,490	4,385	4,320
Leverage	9.7 x	11.4	10.3	7.8	6.9	6.4
Valuation	12.9 x	15.2	13.7	10.5	9.4	8.7
Pro-Forma for Bergdorf Goodman Sale						
Revenues		3,921	3,935	4,066	4,221	4,388
EBITDA		310	360	467	520	559
Total Debt		3,346	3,423	3,140	3,035	2,970
Leverage		10.8	9.3	6.4	5.3	4.7
Valuation		15.9	13.7	9.8	8.4	7.5

Leverage increases immediately after the transaction due to the lower pro-forma EBITDA margin but ~$80mil in annual interest savings (all sale proceeds are used for voluntary Term Loan prepayments) quickly compensate for that and bring leverage and valuation to much more moderate levels by 2020E.

A key caveat to this is, again, the cash tax consequences on a potential gain on the sale, which will depend on the Company's tax basis in its Bergdorf stock and Bergdorf's tax basis in its own assets. This is a much more relevant question in a Bergdorf sale than it is for the MyTheresa sale discussed above because sale proceeds and thus potential tax liabilities are materially higher. The Company can generally choose to structure the transaction as a stock sale (of Bergdorf stock to the acquirer) or an asset sale (of Bergdorf's assets to the acquirer) with a subsequent liquidation of the Bergdorf unit within the Company. The stock sale would leave Bergdorf's inside gain unrecognized but trigger outside gain recognition to the extent the sale proceeds exceed the Company's tax basis in the Bergdorf stock. The consequences of an asset sale with subsequent liquidation are flipped with full inside gain recognition at the Bergdorf unit triggered by the sale of the assets but no outside gain in the subsequent liquidation to the Company, although the Company could opt to have the asset sale treated like a stock sale for tax purposes. So while there is flexibility for optimization, the estimated impact above could be overstated.

In any event, selling the crown jewels of the Company would give management a lot more breathing room to fix the rest of the business than the smaller restructurings discussed above. Combining such a sale with a refinancing of the unsecured notes in one of the above structures could thus materially accelerate the restoration of the Sponsors' equity investment. Interestingly enough, two weeks ago, on April 12th, only a month after the Company appointed Lazard, Joshua Schulman, President of Bergdorf Goodman since 2012 and of MyTheresa the acquisition in 2014, resigned from all positions with the Company.

Real Estate Sales

Although the Company owns less real estate than most of its competitors, even at a 30% haircut to conservative 2017E revenues per sqf estimates across is footprint, NMG has over $1bil worth of stores and properties tied up in its Restricted Subsidiaries. There are two ways the Company can monetize these assets to use the proceeds for a debt restructuring.

Under the Term Loan's sale and lease-back covenant, the Company can enter any sale and lease-back transaction with a remaining lease present value of up to $200mil but the net cash proceeds of any such transaction are subject to the same prepayment sweep mechanism that applies to asset sales outlined above. As a result, the Company has substantial incremental capacity to extract value from unsecured creditors and pay the secured lenders but only limited capacity to use its real estate assets to raise cash to fund an unsecured tender/exchange offer and mortgage costs below that of its senior secured debt.

The only way to monetize real estate assets without subjecting the proceeds to mandatory Term Loan prepayment is to first move them into an Unrestricted Subsidiary just like the Company did with the three select properties mentioned earlier that it moved in 2Q17. To be able to do that, the Company cannot be in default on any of its debts, the re-designation itself would not trigger a default, and its pro-forma Fixed Charge Coverage Ratio would have to be at or above 1.0x, a relatively low bar. Under the Permitted Investments, Permitted Liens, and Permitted Debt covenants of the Term Loan, that capacity is limited at $200mil of book value. Taking the $98mil book value vs. an estimated $150mil potential sale value as a general valuation proxy for the Company's properties, total capacity to move real estate collateral out from under the Term Loan and Legacy Notes into an Unrestricted Subsidiary is ~$300 mil.

	LTM	2017E	2018E	2019E	2020E	2021E
Base Case						
Revenues	4,772	4,642	4,657	4,802	4,972	5,154
EBITDA	487	412	465	577	635	679
Total Debt	4,707	4,696	4,773	4,490	4,385	4,320
Leverage	9.7 x	11.4	10.3	7.8	6.9	6.4
Valuation	12.9 x	15.2	13.7	10.5	9.4	8.7
Pro-Forma for $300mil Real Estate Sale						
Revenues		4,642	4,657	4,802	4,972	5,154
EBITDA		399	451	563	621	665
Total Debt		4,393	4,454	4,154	4,028	3,938
Leverage		11.0	9.9	7.4	6.5	5.9
Valuation		15.0	13.4	10.2	9.0	8.3

Due to the relatively insignificant size, leverage decreases only by a modest 0.4x, almost identical to the results that a standalone sale of MyTheresa would yield. However, the important take-away is that, while none of the seemingly low-impact restructuring tools like a MyTheresa sale or sale-and-leaseback transaction solve the Company's balance sheet troubles overnight, together, they can make a meaningful difference if deployed in the correct order. Especially if management contemplates tendering/exchanging the unsecured notes below current market prices, first showing bondholders how the Company is willing and able to redistribute value to secured creditors, is an important part of a strategy to take those notes out at the lowest possible price.

3) Selling the Company

Speculation about advanced takeover talks with Canadian Saks Fifth Avenue owner HBC have dominated the NMG news cycle since it retained Lazard and rumors spread that HBC's earlier efforts to pursue a Macy's take-over weren't making any progress. Comparing the Company side-by-side with three key hypothetical buyers, it is easily apparent why HBC may favor an NMG take-over over Macy's and why HBC is probably the most interested out of the three potential buyers. Assuming $100mil of synergies in each of the below combinations, taking over NMG would boost HBC's EBITDA margin by 240bps while taking leverage up by 0.9x, a much more attractive combination than with Nordstrom or Macy's. Adding the Neiman Marcus and Bergdorf Goodman brands to HBC's domestic brands portfolio (Lord & Taylor and Saks Fifth Avenue) and MyTheresa to its German brick-and-mortar platform (Galleria Kaufhof) is a much better strategic fit than the large-scale footprints of Nordstrom and Macy's. Having acquired, restructured, and successfully integrated both Saks and the German business over the past five years, HBC is in a much better position to pursue this deal than Macy's who is dealing with substantial revenue declines, margin pressures, and store closures.

		HBC Merger		Nordstrom Merger		Macys Merger	
	LTM NMG	LTM HBC	NMG + HBC	LTM NS	NMG + HBC	LTM Macy's	NMG + Macy's
P&L							
Revenues	4,772	11,013	15,786	14,498	19,270	25,778	30,550
Adjusted EBITDA	487	485	1,072	1,648	2,235	2,950	3,537
Margin	***10.2%***	***4.4%***	***6.8%***	*11.4%*	*11.6%*	*11.4%*	*11.6%*
Adjusted EBITDAR	606	1,031	1,737	1,850	2,556	3,289	3,995
Margin	*13%*	*9%*	*11%*	*13%*	*13%*	*13%*	*13%*
Balance Sheet							
Cash	48	93	141	1,007	1,055	1,297	1,345
Total Assets	8,157	9,304	17,460	7,858	16,015	19,581	27,738
Total Debt	4,707	3,152	7,859	2,774	7,481	6,871	11,578
Net Debt	4,658	3,059	7,718	1,767	6,425	5,574	10,232
Leverage							
Net Leverage	**9.6 x**	**6.3**	**7.2**	1.1	2.9	1.9	2.9
Total Leverage	**9.7 x**	**6.5**	**7.3**	1.7	3.3	2.3	3.3
Adj. Net Leverage	9.3 x	7.2	7.5	1.8	3.5	2.5	3.5
Adj. Total Leverage	9.3 x	7.3	7.6	2.4	3.9	2.9	3.8

Looking at a sale in isolation, the unsecured notes indentures covenants put up unusually low hurdles for potential buyers to avoid a change of control ("CoC") trigger of bondholders' put option at $101. A CoC is triggered in the sale of all or substantially all assets of the Issuer and its Restricted Subsidiaries to anyone other than a Permitted Holder or when anyone other than one or more Permitted Holders acquires beneficial ownership of more than 50% of the voting power of the Issuer. This covenant is basically gutted by the definition of Permitted Holders, which (aside from groups controlled by the Sponsors and management) includes any Permitted Parent – that is any public Company whose voting stock is traded on an exchange or OTC that is not majority owned by any one person. The CoC covenant under the Term Loan is much more narrowly structured as its Permitted Parent definition does not include the public Company prong that the notes indentures have. As a result, any voting control acquisition would be a CoC under the Term Loan. This, in itself, should not be viewed as prohibitive for HBC as the Company's current SSNL ratio of 6.4x is basically identical with HBC's 6.3x net leverage ratio. What makes an outright acquisition very difficult is the incremental unsecured leverage of 3.2x and, assuming the Sponsors are not interested in an equity stake in the combined entity, the incremental 1.5x leverage required to cash out the Sponsors.

Thus, even if HBC or the Company take the unsecured notes out below their current price, HBC will most likely try to structure a transaction in which it can avoid taking on the Company's debt so as to preserve the value of their discounted trading prices in separate transaction down the road. The easiest way to do that would be a an acquisition of just below 50% voting control in the Borrower and some kind of incremental non-voting preferred stock or debt investment in the Borrower or its Restricted Subsidiaries. The problem with either of these options is that the Company's ability to pay preferred dividends out of its Restricted Subsidiaries is limited under its Fixed Charge Coverage Ratio covenant and any direct preferred investments in the Borrower are effectively prohibited under the Term Loan's Restricted Payments covenant. Other than what is discussed above, issuing new debt is currently not an option as the Company already exceeds the SSNL and TNL caps for incremental debt incurrence. As a result, structuring an HBC merger that transfers economic but not voting control may not work.

4) Bankruptcy

To recap, while the Company is not doing well, it has been and is expected to continue to pay its debts as they come due despite its ongoing challenges. A voluntary filing should be a last resort for the Sponsors given substantial risk of diluting, if not losing, their ownership interest. Yet, if everything else has failed, their primary objective in bankruptcy will not be to hand the keys over to creditors but to preserve a path to restore that investment. Doing so while extracting substantial value from creditors will prove difficult but may not be impossible. A lot will depend on valuation but with the debtor (who is represented by management, who is picked by the board, which is controlled by the Sponsors) running the show, two approaches seem reasonably possible in pursuing that path. Both of them are aggressive and risky.

Naturally, valuation will be the main driver of the outcome. In bankruptcy even more so than outside it is an art more than it is a science. But with $1.5bil in real estate (stores and properties), $1.1bil in merchandise inventory, and almost $1bil worth of below-market price leases, a $2–3bil liquidation value on an $8bil balance sheet is a relatively comfortable baseline for secured creditors to drive a hard bargain from. By the end of 2018E, the Company is looking at LTM EBITDA of $465mil in the Base Case, and, using a 7.5x EBITDA valuation multiple, a reasonable starting point for valuation negotiations could be $3.5bil. With $3.2bil of secured debt, that leaves only $300mil or 19% of principal for the unsecured notes compared to $61 for the Cash Notes and $57 for the PIK Toggle Notes today.

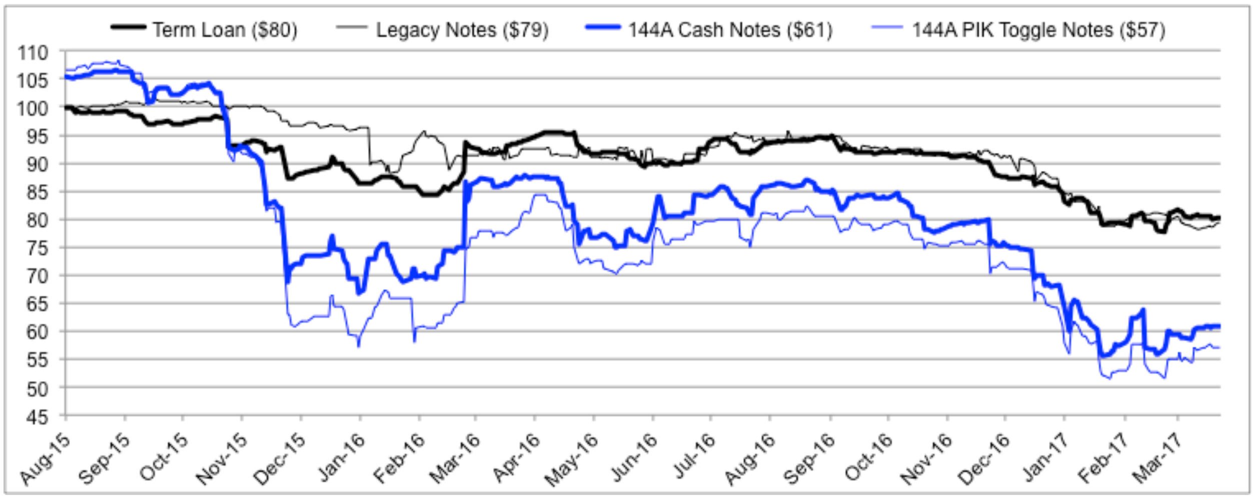
At the very aggressive end of the spectrum of approaches, the Sponsors would build a sufficiently large position (~$500mil) in the Term Loan to protect their initial investment. Although that would require for them to put up more cash, they could negotiate a plan of reorganization with the banks and try to push through a pre-packed plan. If the 2018E Base Case with EBITDA of $465mil proves to be too optimistic and results come in closer to $400mil, management should be able to make a credible case that a $3.0bil valuation is more appropriate which would effectively turn the Term Loan into the fulcrum security. To restore their equity investment, Sponsors' pre-packed plan would include a post-reorganization capital structure with minimal equity and provide for a debt for equity swap between the Sponsors and the banks that makes the banks whole and takes the Sponsors' ownership percentage back to 100%. If necessary, a rights offering could supplement as needed. If structured and negotiated the right way the Company could wipe out $1.7bil of unsecured debt tax-free and leave the banks and equity owners unimpaired. Although the Sponsors are then holding a $2.1bil rather than a $1.6bil equity investment in the Company, the debt-wipe out more than compensates for that. The obvious hurdle here is that unsecured creditors would never agree to this and be deemed to have rejected the plan, sending it straight to cram-down. Although unsecured creditors would almost definitely be wiped out in liquidation, no court would approve this plan without prolonged negotiations and litigation over valuation, which will could take years and take a lot of money out of the Company as all sides will hire their own experts. Because the debtor pays for the unsecured creditors committee's advisors, they have every incentive to draw this process out so that the banks and the Sponsors will given them at least something.

The more prudent, less aggressive, but potentially just as risky approach would be for the Sponsors to build a position in the unsecured notes instead, but not until after filing a voluntary petition that sends them well below their current price. Rather than building a position in the Term Loan at $80, the Sponsors could build a, lets say, $250mil position in the notes at somewhere around $30 given the minimal recovery prospects that unsecured creditors face in liquidation. The obvious draw-back of that approach is that building a sufficiently large position may prove difficult as the hypothetical $250mil stake at $30 is more than 50% of the outstanding principal of the Cash and PIK Toggle Notes. But it's not impossible, especially as the debtor uses the first few months of the exclusivity period to draw up a plan. A full recovery for the secured debt and a $30 recovery on the notes would imply a $3.7bil valuation and could reach the same post-reorganization capital structure as the above scenario through another debt-for-equity swap – this time between the unsecured holders and the Company. Depending on how much of the unsecured notes the Sponsors can buy up, a majority ownership post reorganization is not unrealistic. With the Sponsors holding a substantial stake in the notes, reaching the requisite 2/3 in amount and 1/2 in number threshold in the unsecured note holders class should be achievable.

None of this is to say that either of these two options is easy, quick, or even the most likely outcome in the event of a bankruptcy filing. The key point is that the Sponsors could pursue several avenues in bankruptcy to restore the value of their equity investment if out-of-court restructuring alternatives fail to materialize. When it comes to the point where Chapter 11 is their best option, the Sponsors will choose being aggressive in trying to preserve value rather than walking away from a $1.6bil investment.

PROPOSED TRADE

Timing
With every strategic option on the table, takeover speculation has stabilized the unsecured notes over the past six weeks. The next scheduled catalyst is the PIK Notice due date of April 15th for the October payment, which could widen the $4 price spread between the Cash and PIK Toggle Notes and send all securities lower. After that, 3Q17 results in mid-June should come in below street expectations, which do not fully reflect NMGOne implications and seasonal weakness and should drive further downward revisions of 2017E estimates and widen the gap between the unsecured notes and the Term Loan. Lastly, a decision on renewing the CEO's expiring four-year employment agreement is up on July 25th.



Source: Bloomberg

Trade Structure
As shown above, the Term Loan has substantially superior recovery prospects compared to every other security in the various restructuring scenarios inside and outside of bankruptcy. At $80, it is trading at a $10 premium to liquidation value and below reorganization value and with much lower volatility than the unsecured notes, which are worthless in liquidation and trade at a $20 premium to reorganization value. With the Term Loan undervalued and the unsecured notes overvalued, investors should be ~2.5x long the Term Loan and ~1x short the Cash Notes. Neutralizing coupon costs and volatility, the trade should generate positive returns in each of the four restructuring scenarios outlined above and minimize downside potential should prices move against this investment thesis.

Return Scenarios
In Scenario 1 the notes are refinanced at $45, which means the Company realizes an after-tax benefit of $515mil. This benefit represents 16% of the outstanding secured debt and goes to secured creditors first and to equity holders second. A 16% increase over the pre-refinancing $80 price of the Term Loan implies the Term Loan should rally to $93. Assuming the bank loan goes up to $85 as some of the benefit accrues to equity holders, the trade generates a 29.3% over a one-year holding period.

Notes Refinancing						
	Put On				**Close Out**	
	Units	**Price**	**Size**	**Coupon**	**Price**	**Value**
Term Loan	100	$ 80	$ (8,000)	5.5 %	$ 85	$ 9,050
Cash Notes	50	$ 61	$ 3,050	8.0 %	$ 45	$ (2,650)
Cash Flow			**$ (4,950)**			**$ 6,400**
Return						**29.3%**

In Scenario 2, the Company completes assets sales and uses net cash proceeds to prepay the Term Loan. A $1bil sale (e.g. Bergdorf Goodman) and 75% cash prepayments means 24% of secured debt is redeemed and no money goes to unsecured creditors. A corresponding 24% increase over the $80 pre-sale price of the Term Loan would imply a $99 post-sale price. The unsecured notes see $750mil or 16% of the capital structure reallocated to secured creditors. Down 16% means the notes would trade at $50. Assuming the Term Loan goes up to $95, the trade generates a 44.4% return in one year.

Asset Sales						
	Put On				**Close Out**	
	Units	**Price**	**Size**	**Coupon**	**Price**	**Value**
Term Loan	100	$ 80	$ (8,000)	5.5 %	$ 95	$ 10,050
Cash Notes	50	$ 61	$ 3,050	8.0 %	$ 50	$ (2,900)
Cash Flow			**$ (4,950)**			**$ 7,150**
Return						**44.4%**

In Scenario 3, the above M&A analysis is wrong and a buyer takes the Company over in a CoC transaction assuming or repaying all the debt. Without first buying the unsecured notes back at even just a small discount, the Sponsors are leaving money on the table for no apparent reason. But, for the sake of downside scenario analysis, if both securities rally to $100/1, the trade generates 3.0% in one year.

Company Sale						
	Put On				**Close Out**	
	Units	**Price**	**Size**	**Coupon**	**Price**	**Value**
Term Loan	100	$ 80	$ (8,000)	5.5 %	$ 100	$ 10,550
Cash Notes	50	$ 61	$ 3,050	8.0 %	$ 101	$ (5,450)
Cash Flow			**$ (4,950)**			**$ 5,100**
Return						**3.0%**

In Scenario 4, out-of-court restructuring fails and the Company files for Chapter 11. Given uncertainty of recovery, both securities sell off. If negotiations lead to plan confirmation, the unsecured creditors should get something, albeit materially less than the Term Loan. Assuming the banks get $85 and the unsecured notes get $40, the trade generates a 34.3% one-year return.

Chapter 11						
	Put On				**Close Out**	
	Units	**Price**	**Size**	**Coupon**	**Price**	**Value**
Term Loan	100	$ 80	$ (8,000)	5.5 %	$ 85	$ 9,050
Cash Notes	50	$ 61	$ 3,050	8.0 %	$ 40	$ (2,400)
Cash Flow			**$ (4,950)**			**$ 6,650**
Return						**34.3%**

If no plan confirmation can be achieved after prolonged negotiations and litigation, the secured creditors are looking at a substantial recovery in a 363-sale followed by liquidation in compliance with the absolute priority rule where unsecured creditors get little or nothing. Even in a Chapter 7 liquidation, the Term Loan should get up to $70 while notes are wiped out. The trade generates a 47.5% two-year return.

Liquidation						
	Put On				**Close Out**	
	Units	**Price**	**Size**	**Coupon**	**Price**	**Value**
Term Loan	100	$ 80	$ (8,000)	5.5 %	$ 70	$ 8,100
Cash Notes	50	$ 61	$ 3,050	8.0 %	–	$ (800)
Cash Flow			**$ (4,950)**			**$ 7,300**
Return						**47.5%**