

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

In re:)	
)	Chapter 11
BEAUTY BRANDS, LLC, <i>et al.</i>)	Case No. 19-10031 (___)
)	
Debtors. ¹)	Joint Administration Requested
)	

**DECLARATION OF DERMOTT O’FLANAGAN IN SUPPORT OF DEBTORS’
MOTION FOR ENTRY OF (A) AN ORDER (I) SCHEDULING A HEARING ON THE
APPROVAL OF THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE DEBTORS’
ASSETS FREE AND CLEAR OF ALL ENCUMBRANCES, AND THE ASSUMPTION
AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED
LEASES, (II) APPROVING CERTAIN BIDDING PROCEDURES, ASSUMPTION AND
ASSIGNMENT PROCEDURES, AND BID PROTECTIONS AND THE FORM AND
MANNER OF NOTICE THEREOF, AND (III) GRANTING RELATED RELIEF; AND
(B) AN ORDER (I) AUTHORIZING THE SALE OF ALL OR SUBSTANTIALLY ALL
OF THE DEBTORS’ ASSETS FREE AND CLEAR OF ALL ENCUMBRANCES,
(II) AUTHORIZING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN
EXECUTORY CONTRACTS AND UNEXPIRED LEASES, AND (III) GRANTING
RELATED RELIEF AND RELATED MOTION TO SHORTEN NOTICE**

1. I am above 18 years of age, and I am competent to testify. I am a Managing Director in the Restructuring Group of Lazard Middle Market LLC (“LMM”), an investment banking firm that maintains its principal office at 600 Fifth Avenue, New York, New York 10020. On January 4, 2019, the above-captioned debtors and debtors-in-possession (collectively, the “Debtors”) retained LMM as their investment bank under an amended and restated engagement agreement which replaced LMM’s previous engagement agreement dated August 21, 2018.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, as applicable, are: Beauty Brands, LLC (0290); Beauty Brands Payroll Holdings, Inc. (6218); and Beauty Brands Payroll, LLC (1789). The location of the Debtors’ corporate headquarters is 4600 Madison Avenue, Suite 400, Kansas City, MO 64112.

2. LMM is a wholly-owned subsidiary of Lazard Frères & Co. LLC (“Lazard Frères,” and together with LMM, “Lazard”), the primary U.S. operating subsidiary of a preeminent international financial advisory and asset management firm. Lazard, together with its predecessors and affiliates, has been advising clients around the world for 150 years. Lazard has dedicated professionals who provide restructuring services to its clients and the current managing directors, directors, vice presidents, and associates of Lazard have extensive experience working with financially troubled companies in complex financial restructurings both out-of-court and through chapter 11 proceedings. Lazard and its principals have been involved as advisor to debtor, creditor, and equity constituencies and government agencies in many reorganization cases. Since 1990, Lazard and its affiliates have been involved in over 250 restructurings, representing over \$1 trillion in debtor assets.

3. I have been employed at Lazard since 2004 and focused on advising public and private companies in complex financial restructurings and in raising capital for and selling financially distressed businesses for the last 11 years. Prior to focusing on restructurings, I worked on mergers and acquisitions of middle market companies both at Lazard and previously at a subsidiary of McGladery & Pullen. While at Lazard, I have advised companies and creditors in connection with numerous in-court and out-of-court restructurings and recapitalizations, mergers, acquisitions and financing transactions across a wide range of industries, including Nuverra Environmental, Modular Space Corporation, Horsehead Holdings, Standard Register, Associated Wholesalers, Global Geophysical Services, Bowe Bell + Howell, Premier Trailer Leasing, Allens Vegetables, and Heartland Automotive.

4. I have personally served as an investment banker in over 20 transactions involving the sale of all or substantially all of a company's assets, resulting in sale proceeds ranging from under \$100 million to over \$500 million.

5. I graduated from Georgetown University with a bachelor of science degree in business administration with a concentration in finance. I hold FINRA Series 7, 24, and 79 General Securities and Series 63 State Law licenses.

6. I submit this Declaration in support of the *Debtors' Motion for Entry of (A) An Order (I) Scheduling a Hearing on the Approval of the Sale of All or Substantially All of the Debtors' Assets Free and Clear of All Encumbrance, and the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases, (II) Approving Certain Bidding Procedures, Assumption and Assignment Procedures, and Bid Protections and the Form and Manner of Notice Thereof, and (III) Granting Related Relief; and (B) An Order (I) Authorizing the Sale of All or Substantially All of the Debtors' Assets Free and Clear of All Encumbrances, (II) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases, and (III) Granting Related Relief* (the "Sale Motion") and related motion to shorten notice filed contemporaneously herewith.²

7. Except as otherwise indicated, the facts set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, information provided to me by other Lazard employees who have worked with the Debtors since our engagement in August 2018, or my opinion based upon my experience, knowledge, and information concerning the operations of the Debtors and the industry in which they conduct business. If called upon to

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Sale Motion.

testify, I would testify competently to the facts set forth in this Declaration, which are incorporated into the Sale Motion, as appropriate.

A. The Prepetition Marketing Process

8. As noted in more detail and for the reasons set forth in the *Declaration of Timothy Boates in Support of First Day Motions* (the “First Day Declaration”), prior to the Petition Date, the Debtors and their professionals explored a range of strategies and restructuring constructs.

9. On August 21, 2018, the Debtors retained Lazard as their financial advisor to run a capital raise and sale process. Between August and December 2018, Lazard undertook an extensive marketing effort engaging with financial and strategic counterparties to either invest in or acquire the Debtors as a going concern business.

10. Lazard prepared certain solicitation materials, including a Confidential Information Memorandum, to provide to interested parties and maintained a virtual dataroom to facilitate the due diligence process. In connection therewith, Lazard contacted over 150 potential financial and strategic investors and solicited their interest in purchasing or investing in the business, either in whole or in part. Of those parties, 43 signed non-disclosure agreements and received access to the Debtors’ confidential information. Ultimately, five parties submitted non-binding indications of interest. Throughout this process, Lazard provided frequent and detailed updates to the Debtors and their board of directors.

11. In my view, the Debtors’ prepetition marketing process was comprehensive and robust and involved solicitation of interest from a diverse set of potential strategic and financial partners. All parties were afforded a full, fair, and reasonable opportunity to make offers to purchase some or all of the Debtors’ assets. Despite the marketing process, the Debtors were unable to produce a going concern sale for all of the Debtors’ stores.

12. On or about December 17 and 18, 2018, the Debtors received two competing asset purchase agreements for a partial going concern transaction related to a portion of the Debtors' store level operations and distribution center. The Debtors re-engaged with the going concern bidders in an effort to develop and evaluate either opportunity for a partial going concern sale transaction. As noted in the First Day Declaration, neither of the going concern bidders provided an actionable proposal for the 33 stores (collectively, the "Core Stores") which, in the Debtors' view, would result in greater value for the Debtors' estate and creditors than proceeding with "store closing" themed disposition of the Debtors' inventory and other property. Accordingly, the Debtors and Hilco entered into that certain *Amended and Restated Agency Agreement* dated January 5, 2019 pursuant to which Hilco will act as the Debtors' agent for the purpose of conducting "store closing" themed sales at the Core Stores. The Debtors have designated Hilco to serve as a stalking horse in connection with the proposed sale of the Core Stores, subject to higher and better offers.

B. The Bidding Procedures

13. The Debtors are seeking authority to proceed with the proposed bidding and auction process set forth in the Sale Motion in order to generate the highest or otherwise best value for their Assets, including the Core Stores, which collectively represent the Debtors' most valuable store locations. With the assistance of their professionals, the Debtors developed the Bidding Procedures with these objectives in mind. To stimulate bidding, potential buyers may submit bids for individual Assets or combinations of Assets. Thus, the Bidding Procedures will preserve maximum flexibility and generate the greatest level of interest in, and the highest or otherwise best value for, the Assets. Additionally, by establishing a schedule of dates for submitting bids, conducting the Auction, and approving and closing the Sale, the Bidding

Procedures will provide clarity as to the Debtors' bidding and auction process to all interested parties.

14. In my opinion, the Bidding Procedures will allow the Debtors to obtain the highest or otherwise best value for their Assets under the circumstances of these Chapter 11 Cases. The Bidding Procedures are designed to establish a fair, open, and competitive postpetition bidding and auction process, subject to the time limitations driven by the realities of the Debtors' current financial status and the milestones established in connection with the Debtors' proposed debtor-in-possession financing and the Stalking Horse APA. In my opinion, under the circumstances of these Chapter 11 Cases, the contemplated timeline for the sale process is unlikely to have a negative impact on the Debtors' ability to achieve the highest or otherwise best value for their Assets because some or all of the parties that originally expressed interest in purchasing the Assets prior to the Petition Date will have the opportunity to participate in the postpetition sale process, as will parties that did not participate in the prepetition marketing process.

15. Pursuant to the Sale Motion, the Debtors also request authority to provide Hilco with certain Bid Protections, including a Break-Up Fee and Expense Reimbursement. Based on the marketing process that has been conducted thus far, these Bid Protections are necessary to attract and retain Hilco as the Stalking Horse Purchaser. I believe that the proposed Bid Protections will help the Debtors to realize the highest or otherwise best value for the Assets for the benefit of the Debtors' estates, their creditors, and other parties in interest and that such protections are reasonable under the circumstances of these Chapter 11 Cases and consistent with market practices. By inducing Hilco to hold its offer open as a baseline from which other

potential bidders can submit higher and better offers, the Bid Protections serve to encourage more competitive bidding, which will hopefully increase the purchase price of the Assets.

16. In conclusion, I believe that approval of the Bidding Procedures will enable the Debtors to obtain the best possible recovery for their creditors under the circumstances of these Chapter 11 Cases and preserve and maximize the value of the Debtors' estates to the benefit of all stakeholders.

17. Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: January 6, 2019

/s/ Dermott O'Flanagan

Dermott O'Flanagan
Lazard Middle Market LLC