

CANADA
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-1-058613-205
FILE NO.: 41-2663541

SUPERIOR COURT
“Commercial Division”

IN THE MATTER OF THE PROPOSAL OF:

168662 CANADA INC.

The Debtor

-and-

RAYMOND CHABOT INC., (SR0163)
Jean Gagnon, CPA, CA, CIRP, LIT
Trustee in charge

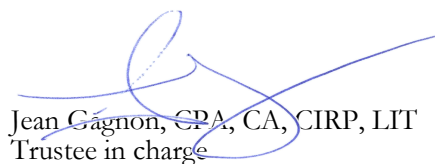
**REPORT OF THE TRUSTEE ON THE STATE OF
THE DEBTOR'S BUSINESS AND FINANCIAL AFFAIRS**
(Subsection 50.4(7)b) of the *Bankruptcy and Insolvency Act*)

PREAMBLE

In accordance with subsection 50.4(7)b) of the *Bankruptcy and Insolvency Act* (the “BIA”), we are filing our first progress report to Court on the Debtor’s business and financial affairs in the context of the last extension of the NOI Proceedings, which exceeded as granted by this Court the usual 45-days delay.

Signed in Montreal on January 18, 2021.

RAYMOND CHABOT INC.
Licensed Insolvency Trustee



Jean Gagnon, CPA, CA, CIRP, LIT
Trustee in charge

1. BACKGROUND AND PURPOSE OF THE REPORT

- 1.1 This report shall be read in conjunction with the first, second and third reports of the trustee on the state of the Debtor's business and financial affairs, dated respectively September 4, 2020, October 19, 2020 and December 1, 2020, filed in the Court record.
- 1.2 In preparing this report, and making the comments herein, the NOI Trustee (as defined below) has namely been provided with, and has relied upon, financial information provided by the Debtor and discussions with management of the Debtor ("**Management**").
- 1.3 The Debtor, 168662 Canada Inc., operates its business under "Lilianne Lingerie", "Moments intimes" and "Body & Beach" brands (hereafter "**Lilianne**"), was founded in July 1989 and is a privately held corporation constituted under the *Canada Business Corporations Act*.
- 1.4 Lilianne is a retailer of lingerie garments, accessories and swimwear in the provinces of Québec and New Brunswick. It operates 27 Lilianne Lingerie stores, 9 Moments intimes stores, 7 Body & Beach stores and 2 combined stores, in addition to its online sales.
- 1.5 Although the company has stores in large centers, Lilianne has a strong presence in the region, where it often operates stores in small shopping centers that are not well served by the competition.
- 1.6 It employed approximately 214 employees in its stores, warehouse and head office at the moment of the filing of the NOI.
- 1.7 Although Lilianne was historically profitable in prior years, the COVID-19 pandemic has had negative effects on the activities of the company, particularly by forcing it to close from March to June 2020 like most retailers across Canada and around the world. Therefore, in March 2020, Lilianne was forced to temporarily lay off all its store employees, as well as a significant number of employees working at its head office and warehouse. Some head office employees have been laid off permanently and the company has also lowered its opening hours after reopening in June 2020 to reduce costs.
- 1.8 Even following the reopening of the stores, the situation remained complicated due to the decrease in attendance at malls as well in the change in consumption habits, including a significant decrease in the swimsuits demand. Moreover, uncertainty remained, including around the continued access to the stores.
- 1.9 Prior to filing its Notice of Intention, Lilianne started negotiations with some of its landlords to reduce the financial burden caused by the high rents compared to the lower revenues generated in the shopping malls where all of its stores are located.
- 1.10 Following these negotiations, which did not lead to significant reductions in rent obligations, and the significant decrease in attendance in malls as well as the drastic reduction in the consumption of swimsuits due to the COVID-19 pandemic, Management decided to implement a formal restructuring plan.
- 1.11 Management explains that the financial difficulties are mainly attributable to the COVID-19 pandemic, since it led to the closure of all the stores from March to June 2020, which had a significant impact on the Lilianne's revenues since March 2020. The performance of swimwear also remains difficult since the gradual reopening of stores, and it is expected to worsen until this summer.

- 1.12 On August 10, 2020, Lilianne filed a Notice of Intention to make a proposal to its creditors (the “**NOI**”) and Raymond Chabot Inc. was appointed as trustee to the NOI (the “**NOI Trustee**”).
- 1.13 On September 4, 2020, Lilianne filed a Motion for an Order Extending the NOI Proceedings, requesting a first extension of the stay of proceedings in accordance with section 50.4(9) of the BIA.
- 1.14 On September 9, 2020, the Court granted Lilianne’s Motion for an Order Extending the NOI Proceedings and rendered an Order Extending the NOI Proceedings, extending the stay of proceedings until October 23, 2020 (the “**First Extension**”).
- 1.15 On October 19, Lilianne filed a Motion for a Second Order Extending the NOI Proceedings and for the Approval of a KERP, requesting a second extension of the stay of proceedings in accordance with section 50.4(9) of the BIA and requesting the approval for a Key Employees Retention Plan for some of its key personnel.
- 1.16 On October 22, the Court granted Lilianne’s Motion for a Second Order Extending the NOI Proceedings and for the Approval of a KERP and rendered an Order Extending the NOI Proceedings and Approving a KERP, extending the stay of proceedings until December 6, 2020 (the “**Second Extension**”).
- 1.17 On December 1, Lilianne filed a Motion for a Third Order Extending the NOI Proceedings, requesting a third extension of the stay of proceedings in accordance with section 50.4(9) of the BIA and requesting that Lilianne exceptionally be allowed more than the six months period provided for in the BIA to meet its objective of completing its operational and financial restructuring and to present a viable proposal to its creditors, and as such, requesting an extension of the stay until April 30, 2021.
- 1.18 On December 4, the Court granted Lilianne’s Motion for a Third Order Extending the NOI Proceedings and rendered an Order Extending the NOI Proceedings, extending the stay of proceedings until April 30, 2021 (the “**Third Extension**”), with among others, the requirement for the NOI Trustee to file progress reports to the Court on the State of the Debtor’s Business and Financial Affairs and to report any material development no later than every 45 days following the Order.
- 1.19 On December 15, 2020, the Government of Québec announced that every activity carried out in a retail commercial establishment be suspended from December 25, 2020 to January 15, 2021, except for essential services and goods.
- 1.20 On December 25, 2020, Lilianne closed all of its stores in the province of Québec.
- 1.21 On January 6, 2021, the Government of Québec announced that the suspension of all non-essential commercial activities was extended to February 8, 2021, such that all Lilianne’s stores in the province of Québec are still closed.
- 1.22 The purpose of this fourth report is to inform the Court with regards to the following:
 - Restructuring process (section 2); and
 - Analysis of the statement of cash flow (section 3).

2 RESTRUCTURING PROCESS

2.1 Since our last report, Lilianne has:

- 2.1.1 Temporarily laid off all of its store employees in the Province of Quebec as a consequence of the store closures, with an objective of rehiring all of them once the stores can reopen;
- 2.1.2 Continued to rationalize and monitor its expenses. Some purchases and expenses have been delayed as a result of the new store closures and their anticipated effect on the cash-flow;
- 2.1.3 Reviewed its cash-flow projections to consider the effects of the store closures. Throughout the new projections, Lilianne is expecting to be able to manage its cash flows without having recourse to bank advances;
- 2.1.4 Concluded the negotiation and signature of its forbearance agreement with its banker in order to maintain its short-term credit facilities. The agreement itself has been finalized, but there remains the implementation of additional security to the benefit of the bank;
- 2.1.5 Continued to negotiate with its landlords to reduce the financial burden caused by high rents. At the time of this report, there remains some negotiations to be concluded on three (3) leases, and final documents are expected to be signed shortly;
- 2.1.6 Continued to optimize its processes and overall efficiency in order to better face its new reality due to the pandemic;
- 2.1.7 Evaluated the evolving governmental programs implemented and to be implemented in reaction to the pandemic; and
- 2.1.8 Continued to evaluate how it can adapt its business model to the new reality, especially its swimsuit division, and the possibility of converting certain stores or developing new concepts in reaction to the new consumer trends.

3 ANALYSIS OF THE STATEMENT OF CASH FLOW

- 3.1 In accordance with the BIA, the NOI Trustee exercised oversight over the business and financial affairs of Lilianne and obtained all the necessary collaboration from Management.
- 3.2 The analysis essentially consisted of enquiry, analytical procedures and discussion related to information supplied by Management. This work does not constitute an audit or review of the financial statements in accordance with generally accepted auditing standards established by CPA Canada or by the American Institute of Certified Public Accountants (AICPA). No audit work has been carried out by us and, consequently, we do not express an opinion on these financial statements.
- 3.3 The comparison of actual and projected changes in cash for the 7-week period ending on January 10, 2021 is presented under seal, in **Schedule A**.

- 3.4 The analysis of the differences in the statement of cashflow allows us to identify the following findings:
- For the first 5-week period ending December 27, 2020, sales were 25% above what was anticipated. This performance, even if it is higher than expected, remains considerably lower than the usual performance of the company;
 - On the other hand, for the 2 weeks period from December 28, 2020 to January 10, 2021, sales were significantly lower and represented only 17% of the expected level due to the closure of all non-essential businesses as a consequence of the sanitary measures related to the pandemic;
 - Therefore, over the 7-week period, sales are slightly lower than the expected level;
 - Purchases were 50% lower than previously planned, in particular due to the fact that Management is very cautious about its purchases, but also because at a certain point in December, it became clear that non-essential businesses would be closed for an indefinite period due to the pandemic. To mitigate the impact on the cash-flow, Management preventatively delayed its purchases;
 - Salaries were lower than anticipated due to the closure of all stores but one in New-Brunswick in the last 2 weeks covered by the cash flow. As a result of the closures, all store level staff was temporarily laid off;
 - Rent disbursements were 45% lower than anticipated, mostly because of a timing difference due to several payments being done in January 2021 and the head office being partially closed;
 - Customs charges were significantly lower over the period. Payment is made monthly for the previous period and the larger disbursement is mainly a question of timing;
 - Restructuring costs were higher than anticipated; and
 - Regarding the variations of other expenses, these are mainly temporary variations.

4 CONCLUSION

- 4.1 Although the pandemic situation has worsened since the Court granted the Third Extension, the NOI Trustee is of the opinion that the financial situation of Lilianne has not deteriorated since the extension was granted, and that its financial position should be similar to what was anticipated previously.
- 4.2 The NOI Trustee is of the opinion that Lilianne has acted, and is acting, in good faith and with due diligence.
- 4.3 The whole, respectfully submitted by Raymond Chabot Inc., in its capacity as Trustee to the Notice of Intention to make a proposal of 168662 Canada Inc.