

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

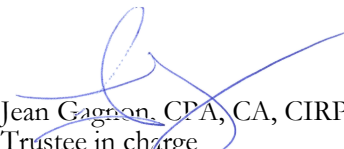
**REPORT OF THE TRUSTEE ON THE STATE OF
THE DEBTOR'S BUSINESS AND FINANCIAL AFFAIRS**
(Subsection 50.4(7)b) of the *Bankruptcy and Insolvency Act*)

PREAMBLE

In accordance with subsection 50.4(7)b) of the *Bankruptcy and Insolvency Act* (the “BIA”), we are filing our fifth 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 March 4, 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, third and fourth reports of the trustee on the state of the Debtor's business and financial affairs, dated respectively September 4, October 19 and December 1st, 2020 and January 18, 2021, 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, 2020, 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 1st, 2020, 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, 2020, 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. On January 6, 2021, the store closures were extended to February 8, 2021. Thus, from December 25, 2020 to February 8, 2021, all of Lilianne's stores in the province of Québec were closed.
- 1.20 On February 8, 2021, non-essential commercial activities were able to resume in the province of Québec, allowing companies such as Lilianne to reopen their physical stores according to the sanitary measures in place, such as the curfew.

1.21 The purpose of this fifth 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 Rehired all the employees previously laid off in the Province of Québec since the authorization of the Government to reopen the stores. At the time of this report, there were 193 employees working for Lilianne, the variation since the filing of the NOI being explained by the normal variation in the workforce.
- 2.1.2 Continued to rationalize and monitor its expenses. Some purchases and expenses have been delayed given the uncertainty surrounding non-essential businesses during that period and the anticipated effect on the cash-flow;
- 2.1.3 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;
- 2.1.4 Negotiated with its landlords to reduce the financial burden caused by high rents. At the time of this report, all the leases and final documents were signed;
- 2.1.5 Continued to optimize its processes and overall efficiency in order to better face its new reality due to the pandemic;
- 2.1.6 Evaluated the evolving governmental programs implemented and to be implemented in reaction to the pandemic; and
- 2.1.7 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 6-week period ending on February 21, 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:

- Sales were 35% higher than expected due to a stronger recovery in the 2-week period following the reopening of non-essential stores. This performance, even if it is higher than expected, remains well below the usual performance of Lilianne, due to the low sales recorded during the 4-weeks period for which all non-essential stores were closed;
- The support to compensate for the closures of non-essential businesses was unknown at the time of the forecasts, such that it was not budgeted. This therefore creates a permanent positive variance;
- The wage subsidies are significantly higher because the sales variance was higher than expected, as the shutdown of non-essential businesses had a considerable impact on the amount received from this program;
- Purchases were 23% lower than previously planned, in particular due to the fact that Management is very cautious about Lilianne's purchases, especially given the uncertainty surrounding non-essential businesses during this 6-week period. To mitigate the impact on the cash-flow, Management preventatively delayed its purchases;
- Salaries and general & administration expenses were lower than expected mainly because of the shutdown of non-essential businesses for 4 weeks out of the 6-week period covered by the cashflow;
- Rent disbursements were slightly higher than anticipated mostly because of a timing difference due to some late payment being done in January 2021 instead of December 2020, since the head office was partially closed at that time;
- Sales tax payment were significantly higher than expected due to higher sales in previous weeks and lower purchases;
- Customs charges were lower over the period. Payment is made monthly for the previous period and the larger disbursement is mainly a question of timing;
- Technology expenses were at zero because Management is still in negotiation regarding the pricing, but the project should happen in the next few months;
- Restructuring costs were higher than anticipated; and
- Regarding the variations of other expenses, these are mainly temporary variations.

4 CONCLUSION

- 4.1 The pandemic situation has not improved significantly 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.