Raymond Chabot Inc.

An affiliate of
Raymond Chabot Grant Thornton LLP

CANADA DISTRICT OF QUEBEC	SUPERIOR COURT Commercial Division (Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*, R.S.C., c. C-36, as amended)
DIVISION NO.: 01-MONTREAL COURT NO.: 500-11-059536-215	
IN THE MATTER OF THE ARRANGEMENT OR COMPROMISE OF:	**ATIS GROUP INC.,** a legal person domiciled at 1000 de La Gauchetière Street West, Suite 2500, in the city of Montréal, in the province of Québec, H3B 0A2.
	-and-
	ITS SUBSIDIARIES: 10422916 CANADA INC., 8528853 CANADA INC. (D.B.A. PORTES ET FENÊTRES ALTEK INC.), 9060642 CANADA INC., 9092455 CANADA INC. (D.B.A. ALWEATHER WINDOWS & DOORS), DISTRIBUTEUR VITRO CLAIR INC., SOLARCAN ARCHITECTURAL HOLDING LIMITED, VITRERIE LÉVIS INC., VITROTEC PORTES & FENÊTRES INC. AND ATIS LP
	Hereinafter collectively referred to as "Atis Group" or the "Debtors"
	-and-
	RAYMOND CHABOT INC., (SR0163) Dominic Deslandes, CPA, CA, CIRP, LIT
	Hereinafter referred to as the "Monitor"

THIRD REPORT OF THE MONITOR

PREAMBLE

To one of the Honourable judges of the Superior Court, sitting in commercial division, in and for the judicial district of Montréal, we respectfully submit this report of the Monitor as part of an application seeking authorization from the Court to sell the Debtors' assets and the issuance of approval, assignment and vesting orders (the "Application").

Signed in Montréal on May 25, 2021

RAYMOND CHABOT INC.
Monitor

Dominic Deslandes, CPA, CA, CIRP, LIT

1. INTRODUCTION

1.1 This report of the Monitor should be read in conjunction with the report dated February 19, 2021 ("Pre-Filing Report") prepared by Raymond Chabot Inc. ("RCI"), then in its capacity as proposed monitor, as well as the First and Second reports by Raymond Chabot in its Capacity as Monitor respectively dated February 28 and April 27, 2021, in the context of the current proceedings (the "CCAA Proceedings").

1.2 Given the new judge assigned to this matter, the Monitor submits that it is appropriate for this Report to begin with a general overview of the Debtors and the facts and circumstances leading to their insolvency, as appears more fully in the following section.

2. OVERVIEW OF ATIS

2.1 Atis Group was created in 2004 by Cyprium Partners, a U.S.-owned private equity firm ("Cyprium") following the purchase of two companies, Solarcan Doors and Windows and Laflamme Doors and Windows.

2.2 In 2015, Cyprium sold its shares of the company to a consortium of Québec investors comprised of Fonds de solidarité FTQ ("FSTQ"), Fondaction CSN ("Fondaction"), and Capital régional et coopératif Desjardins ("CRCD"). As of the date hereof, these three Québec investors are still the majority shareholders of Atis.

2.3 Between the time of its creation and 2017, Atis Group achieved growth through more than 20 acquisitions.

2.4 At that point, Atis Group:

a) Operated nine manufacturing facilities located in Québec, Ontario, British Columbia and New Brunswick;

b) Generated annual revenues of close to $200 million; and

c) Had a workforce of approximately 1,400 employees across Canada.

2.5 Atis Group's products were sold under various brands including Laflamme, Vinylbilt, Solarcan, Vimat, Supervision, Melco, Allsco, and Altek.

2.6 Starting in FY18, various factors resulted in a significant drop in sales and major operating losses.

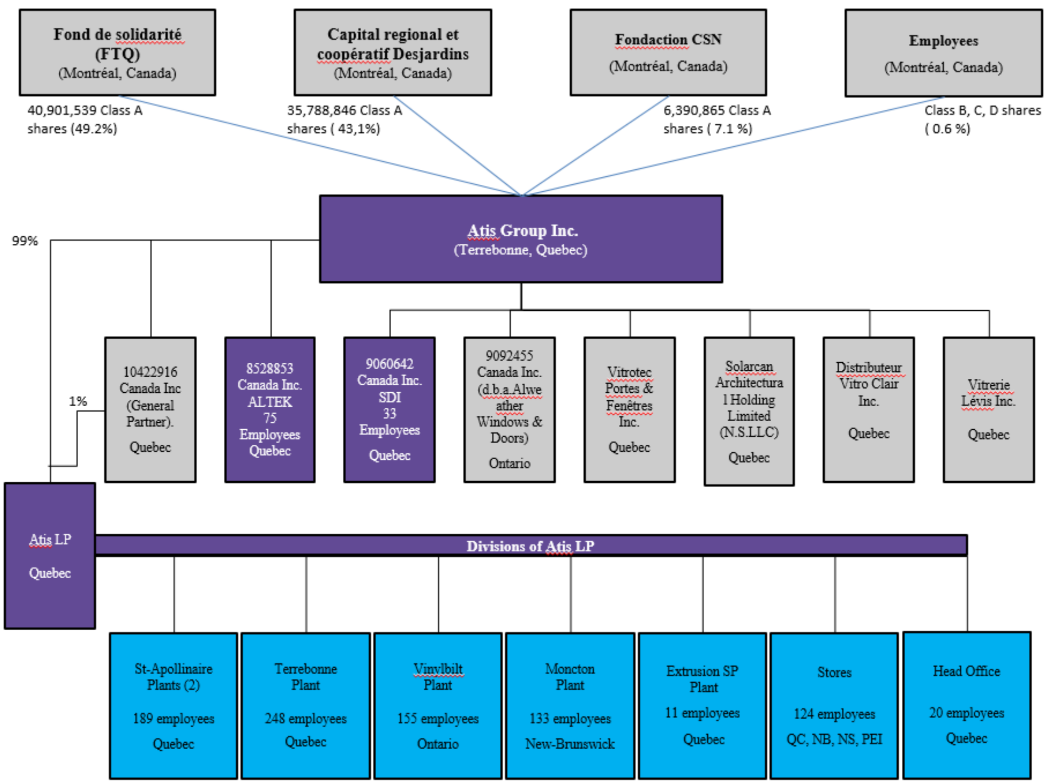
2.7 As at December 31, 2020, Atis Group:

a) Operated seven manufacturing plants located in Québec, New Brunswick and Ontario (Toronto Region) and 26 stores located in Québec, New Brunswick, Nova Scotia and Prince Edward Island;

b) Generated revenues of just over $115 million; and

c) Had a workforce of approximately 988 employees, 659 of whom were in Québec.

2.8 The current organizational chart is summarized below:



a) Operating companies in Atis Group are identified in purple whereas the divisions of Atis LP are presented in blue.

b) More specifically, all of the commercial activities are in Atis LP, except for commercial construction sales and operations, which are isolated in distinct companies (Altek – Material; SDI – Installation).

c) Except for the Extrusion SP plant, which manufactures PVC products for Atis Group, all of the other plants that are part of Atis LP manufacture windows and/or door products for different market segments (retail customers, commercial customers, distribution through large retailers) under the Atis, Allsco, Laflamme, Supervision, Vinylbilt and Armor brands for distribution sales, as well as the Altek brand for commercial sales.

2.9 Following the departure of the previous president in Fall 2020 (Benoit Alain), the Board of directors of Atis Group Inc. (the "Board") appointed Claude Rouleau (Solstice groupe conseil inc.) to act as Chief Restructuring Officer ("CRO") and interim president of the Atis Group to help the restructuring and to allow it to return to profitability.

2.10 As of April 29, 2021, all members of the Board have resigned.

2.11 Since the beginning of the CCAA proceedings and as part of Atis Group's restructuring measures, the Terrebonne Plant and the retail operations in the Province of Quebec (18 stores) were shut-down / closed.

3. CAUSES OF FINANCIAL DIFFICULTIES

3.1 Given the six acquisitions that were made between FY16 and FY18, Atis Group's overall sales volume during that period stabilized around $170 million.

3.2 However, this stability hid the fact that past acquisitions resulted in a significant decrease in revenues. Two of these companies (Solarcan Architectural and Allied Doors and Windows) were ultimately shut down while another one (Phoenix Glass) was sold at a very low price.

3.3 Also, despite management's efforts to try and secure stable prices for raw materials through contracts with its main suppliers, costs increased significantly starting in FY18 due namely to the following factors:

a) Higher prices of glass; and

b) An increase in the rejection rate caused by the aging manufacturing equipment (average age of 19 years) and a high turnover rate for direct labour in many plants.

3.4 Moreover, the plant located in Ontario suffered a significant decrease in sales starting in FY19 since the provincial government ended the "Green ON" program and many major clients were lost to a new competitor.

3.5 The above-mentioned factors caused Atis Group to incur a net loss of over $13 million (before non-recurring costs, mostly made up of the write-off of goodwill and intangible assets) in FY19.

3.6 Given that Atis Group began facing financial difficulties, management hired consultants at the time to help prepare a strategic plan which focused on trying to improve/remedy the following issues:

a) Decline in sales;

b) Brand recognition and customer service;

c) Delivery delay to customers;

d) Productivity rates; and

e) Financial information.

3.7 However, due to the lockdown measures put in place by the governments in the spring of FY20 as a result of the COVID-19 pandemic, almost all of Atis Group's stores and all of its plants had to be closed between March 24 and April 21, 2020.

3.8 Once sites could be reopened, Atis Group was unable to hire foreign workers as it used to do in the past during the high season for temporary production employment. Local workers to replace these employees were hard to recruit and the turnover ratio was very high in some locations, causing a significant increase in delivery times, namely from 6 to 13 weeks.

3.9 These two issues drove the sales down for a second consecutive year, increasing the company's financial difficulties and jeopardizing the plan that was put in place at the end of FY19.

3.10 As sales decreased and direct costs increased, the gross margin declined significantly, shedding even more light on the significant fixed cost structure that could not easily be downsized as many acquisitions over the years were poorly integrated, causing many inefficiencies (i.e. too much duplication of efforts in different locations and a heavy fixed cost structure).

3.11 In May 2020, a total of $9 million in financing (of which $7 million has been injected to this date) was obtained from the Atis Group's shareholders and Investissement Québec.

3.12 However, this financing only provided a short period of relief such that, by the end of 2020, the financial situation had deteriorated to the point where the Atis Group's shareholders were becoming increasingly concerned.

3.13 These concerns included:

a) The inability of management to implement the strategic plan prepared in FY19;

b) The ongoing cash burn coupled with the fact that the subordinated lenders/shareholders were unwilling to continue to provide further financial support and inject the remaining $2 million of the financing authorized in May 2020.

3.14 The preliminary financial statements for FY20 showed a loss of more than $24 million, without considering government programs totalling approximately $8 million.

3.15 On February 9, 2021, the CRO presented different restructuring plans, in which management would shut down and close totally or partially unprofitable operations, while focusing on operating profitable locations and reducing the fixed cost structure.

3.16 Considering the above, given the consequences that would arise from bankruptcy and Atis Group's anticipated inability to meet its overall obligations, Atis Group had no choice but to seek Court protection through the filing of an Application for an Initial Order under the CCAA.

4. PROCEDURAL BACKGROUND

4.1 On February 18, 2021, Atis Group filed an application for an initial order and an amended and restated initial order (the "Application").

4.2 On February 19, 2021, the Superior Court of the Province of Québec for the district of Montréal (the "Court") granted the Application and issued an initial order (the "Initial Order"), ordering *inter alia* the following relief:

a) A Stay of Proceedings against the Debtors and the property until March 1, 2021;

b) A Stay of Proceedings against the directors and officers of the Debtors (the "Directors and Officers") during the Initial Stay Period;

c) The appointment of RCI as the monitor (the "Monitor");

d) The approval of interim financing up to a maximum principal amount of $6.25 million (the "Interim Financing Facility"), together with a $7.5 million charge; and

e) The approval of various charges.

4.3 On February 22, 2021, Atis Group requested an urgent hearing to obtain a Safeguard Order against Energi Fenestrations Solutions Ltd., a supplier of extrusion products and patio doors that had interrupted its supply of goods after its management was made aware of the CCAA Proceedings.

4.4 On March 1st, 2021, the Court issued an Amended and Restated Initial Order (the "ARIO"), which provides as follows, among other things:

a) An extension of the Stay of Proceedings against the Debtors and the property until April 30, 2021;

b) Approval of the Monitor's Charge of $1.5 million;

c) The approval of the Sale and Investment Solicitation Process (the "SISP") and its implementation in accordance with the approved SISP procedures.

4.5 On March 10, 2021, an Order was granted, appointing RCI as receiver for *de minimis* assets of certain entities of Atis Group, for the sole purpose of triggering the application of the Wage Earner Protection Program Act.

4.6 On March 17, 2021, an application for a Safeguard Order and for the Renewal of the Insurance Policies was filed with the Court and, subsequently, the parties were able to agree on a temporary policy.

4.7 On March 25, 2021, a Claims Procedure Order was granted, establishing the procedure implemented by the Monitor to receive the claims from the Creditors.

4.8 The claims bar date (the "Claims Bar Date") was set to April 26, 2021 at 4:00 p.m. (Montreal time).

4.9 On April 27, 2021 Atis Group filed an application for a second extension of the stay period and for ancillary relief.

4.10 On April 28, 2021 pursuant to the application, an Order was granted, which provides as follows, among other things:

a) An extension of the Stay of Proceedings against the Debtors and the property until June 30, 2021 ("Stay Period");

b) An increase in the interim Financing up to $9,000,000 and an increase in the Interim Lender charge to $10,800,000;

c) A change in the CCAA Charges rankings between the Interim Lender Charge and the Senior Security;

d) An increase in the powers of the Monitor.

4.11 On April 29, 2021 and pursuant to the Order rendered on April 28, 2021, the Monitor issued a certificate confirming that it had been informed that all of the Debtors' directors have resigned.

5. SALE AND INVESTMENT SOLICITATION PROCESS

5.1 As described in our previous report, the SISP mainly consisted of two mandatory phases:

a) Phase 1: a non-binding letter of intent ("LOI") phase to qualify Prospective Bidders as Qualified Bidders, with March 26, 2021 as the deadline to submit said LOI; and

b) Phase 2: a binding offer phase where Qualified Bidders had to submit binding Qualified Bids no later than April 21, 2021.

5.2 With respect to Phase 1:

a) The Monitor identified and targeted 106 prospective investors and/or purchasers both in Canada (84) and in the United States (24); the Monitor was able to make direct initial contact with all 106 of these prospective investors. The identified companies were retained for being either of sufficient size to acquire the entire group or only a specific division of the group, or being an investment fund having interests in similar operations or being devoted to distressed assets;

b) 95 teasers were sent to those prospective investors;

c) 56 non-disclosure agreements have been signed;

d) 54 prospective investors have accessed a data room put in place by the Monitor with the assistance of management;

e) 14 potential investors and/or purchasers made site visits to the different plants;

f) 14 potential investors and/or purchasers have submitted a letter of intent.

g) 12 of these 14 potential investors and/or purchasers were selected as qualified bidders.

5.3 With respect to Phase 2:

a) More confidential information was shared through the data room, and a significant amount of time was spent by the Monitor and management to answer the many questions raised by the prospective bidders;

b) On April 21, 2021, 13 binding offers and 1 non-binding offer were submitted to the Monitor.

5.4 With respect to two (2) offers that were received on April 21, 2021 as part of the SISP, agreements have been reached between the Debtors and the bidders, with the consent of the Senior Lender and the shareholders.

5.5 Therefore, Atis Group is now seeking approval by this Court for the contemplated transactions, which are further described below.

6. THE PROPOSED TRANSACTIONS

6.1 The Monitor, the CRO, the senior lender and their legal advisors have studied the different offers and have identified those that are the most advantageous not only for the creditors but for all stakeholders of Atis Group.

6.2 A summary of the offers received as part of the SISP is presented in Schedule A (**under seal**).

- Sale of the Assets of the Vinylbilt Division (Toronto)

6.3 Following the SISP, offers were received for the assets of Vinylbilt, Atis Group's division operating in Toronto, Ontario.

6.4 The offer made by Vinyl Windows Design Ltd. (which ultimately designated an entity for the purpose of the transaction) ("VWD"), which offer was subsequently clarified and amended through discussions, is the most advantageous offer received for the Vinylbilt division and was selected as the successful offer. The VWD offer can be summarized as follows:

a) The transaction is for all tangible and intangible assets of the Vinylbilt division and the amount offered is summarized in Schedule B **(under seal)**;

b) It is the intention of the purchaser to retain most of the employees, preserving approximately 140 employees, and the purchaser will be responsible for the employment obligations in respect of the employees being retained;

c) The purchaser will assume the liability associated with the customer deposits and will be responsible for the fulfillment of all customer contracts;

d) The purchaser will be assigned the lease for the premises as well as some other leases and contracts;

e) Moreover, certificates issued by the Monitor totaling $185,000 would be paid by the purchaser to the Monitor, who in turn will pay the same amount to the suppliers benefitting from such certificates.

6.5 The main conditions for the transaction were as follows:

a) Extended due diligence period, including the interview with Vinylbilt personnel;

b) Assignment of the lease for the premises where the plant is located;

c) Assignment of some specific software licenses used in the production and management of the plant;

d) Assignment of contract or signing of a new contract with a main supplier for the plant;

e) Closing date no later than July 31, 2021.

6.6 As of the date of this report, all conditions have been met, save for the closing date, which is expected to take place within ten (10) days of the granting of the contemplated vesting order.

6.7 A copy of the asset purchase agreement has been filed under seal to the Debtors' application to approve this transaction as Exhibit P-4 (**<u>under seal</u>**).

6.8 The Monitor recommends the acceptance of the retained offer for the following reasons:

a) The contemplated offer is the best offer received following a large, public and transparent solicitation process and contains the most advantageous closing conditions;

b) The amount offered for the inventory and equipment is higher than the orderly liquidation value appraised by Corporate Assets, the appraisal firm retained by the Debtors to evaluate their assets;

c) The amount offered for the accounts receivable is most likely higher than a trustee would have collected in a liquidation context, considering that the company would stop supplying its clients, thereby causing alleged or actual damages;

d) The purchaser intends to honor all the existing customer contracts; and

e) Approximately 140 employees will retain their jobs.

- Sale of the Assets of the Allsco/Alweather Divisions (Maritimes)

6.9 As part of the SISP, the offers detailed in Schedule A (under seal) for these divisions are as follows:

a) One offer for both Allsco and Alweather divisions;

b) One offer for Allsco only;

c) One offer for Alweather only.

6.10 Of these offers, the offer for both divisions received from Polar Holding Ltd. ("Polar") is the most advantageous for the creditors and the stakeholders, and was therefore accepted.

6.11 The amount offered is summarized in Schedule C **(under seal)**.

a) The offer is not conditional to financing;

b) The purchaser expects to offer employment to all of the current employees and will be responsible for employment obligations in respect of the employees being retained;

c) Under the approval, vesting and assignment order, the purchaser would be assigned the leases for premises occupied by Allsco and Alweather, as well as some other leases and contracts;

d) The purchaser will assume the liability associated with the customer deposits and will be responsible for the fulfillment of all customer contracts;

e) Moreover, certificates issued by the Monitor totaling $442,000 would be paid by the purchaser to the monitor, who in turn will pay the same amount to the suppliers benefitting from such certificates.

6.12 The main conditions are as follows:

a) A third-party valuation is to be performed on the inventory and the equipment;

b) Closing by no later than May 31, 2021.

6.13 A copy of the asset purchase agreement is filed in support of the Debtors' application for approval of this transaction as Exhibit P-5 (**<u>under seal</u>**).

6.14 The Monitor recommends the acceptance of the retained offer for the following reasons:

a) The contemplated offer is the best offer received following a large, public and transparent sales process which contains the most advantageous closing conditions;

b) The amount offered for the accounts receivable is most likely higher than a trustee would have collected in a liquidation context , considering that the company would stop supplying its clients, therefore causing alleged or actual damages;

c) The purchaser intends to honor all the existing customer contracts; and

d) Approximately 160 employees will retain their jobs.

7. FINANCIAL IMPACT OF THE CONTEMPLATED TRANSACTION

7.1 The financial impact of the contemplated transaction is presented in Schedule D **(Under seal)**.

8. CONCLUSION

8.1 Considering the above, the Monitor recommends that the Court grant the contemplated vesting order for the two aforementioned offers.

8.2 The Monitor is of the opinion that the proposed transactions are advantageous and therefore recommend their acceptance.

8.3 The consequence of not completing these transctions would cause further negative financial consequences to the Debtors.