

C A N A D A

SUPERIOR COURT
(Commercial Division)

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

N° : 500-11-058602-208

**IN THE MATTER OF THE
COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985,
C. C-36, AS AMENDED**

**MAGASIN LAURA (P.V.) INC. /
LAURA'S SHOPPE (P.V.) INC.**

Applicant

- and -

KPMG INC.

Monitor

SECOND REPORT OF THE MONITOR

(Companies' Creditors Arrangement Act, R.S.C. 1985, C. C-36, As Amended)

AUGUST 26, 2020

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A. INTRODUCTION

1. On July 27, 2020, Magasin Laura (P.V.) Inc. / Laura's Shoppe (P.V.) Inc. ("**Laura**" or the "**Company**") filed the application for the issuance of (I) a first-day initial order and (II) an amended and restated initial order (the "**Initial CCAA Application**") before the Quebec Superior Court, Commercial Division (the "**Court**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**").
2. On July 27, 2020, KPMG Inc., in its then capacity as proposed monitor, provided the Court with a pre-filing report dated July 27, 2020, (the "**Pre-Filing Report**") in connection with the Company's Initial CCAA Application.
3. On July 31, 2020, the Court granted the Initial CCAA Application, in part, and rendered an initial first day order which provided for, among other things, the appointment of KPMG Inc. as monitor of the Applicants (in such capacity, the "**Monitor**") in these CCAA proceedings (the "**CCAA Proceedings**") and a stay of proceedings until August 10, 2020 (the "**Stay Period**") as well as various priority charges (the "**First-Day Initial Order**").
4. On August 6, 2020, the Monitor provided the Court with its first report as monitor (the "**First Report of the Monitor**") in connection with the Initial CCAA Application.
5. On August 10, 2020, the Court granted the amended and restated initial order sought by the Company (the "**Amended and Restated Initial Order**") which provided for, among other things, the extension of the Stay Period until September 25, 2020 (the "**Second Stay of Proceedings**") as well as increases of the amount of the administration charge (the "**Administration Charge**") and the directors' and officers' charge (the "**Directors' Charge**") previously granted as part of the First-Day Initial Order.
6. On August 21, 2020, the Company filed the application (the "**Claims Procedure Application**") for a claims procedure order (the "**Claim Procedure Order**") essentially: (a) establishing a claims bar date for the filing of proofs of claims by the creditors of the Company; (b) approving the form, manner of notice, filing procedure and determination process in respect of such proofs of claims; and (c) granting such orders and further relief as the Court deems appropriate..
7. The purpose of this report (the "**Report**") is to provide the following information to this Court:
 - a) The terms and reference and disclaimer for the Report (section **B**);
 - b) The Monitor's activities since the issuance of the Amended and Restated Initial Order (section **C**);
 - c) The Company's restructuring efforts since the issuance of the Amended and Restated Initial Order (section **D**);

- d) Laura's actual receipts and disbursements for the 4-week period ended August 22, 2020, as compared to the corresponding period reflected in the cash flow projections for Laura (the "**Cash Flow Forecast**"), previously filed as part of the Pre-Filing Report (section **E**);
 - e) The Company's request for the Claims Procedure Order (section **F**);
 - f) The Monitor's recommendations on the relief sought by the Company in the Claims Procedure Application (section **H**);
8. A detailed description of the business operations of the Company and background of its restructuring efforts to date is provided in the Claims Procedure Application.

B. RESTRICTIONS AND SCOPE LIMITATIONS

9. In preparing this Report, the Monitor has been provided with and has relied upon audited and unaudited financial information, books and records prepared by certain senior management of the Company ("**Senior Management**"), and discussions with Senior Management (collectively, the "**Information**"). Except as further described in this Report:
- a) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CASs**") pursuant to the *Chartered Professional Accountants Canada Handbook* and accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
 - b) If some of the information referred to in this Report consists of financial forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
10. Future oriented financial information referred to in this Report was prepared based on Senior Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections. Even if the assumptions materialize, the variations could be significant.
11. The information contained in this Report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Company.
12. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars, which is the Company's common Reporting currency.

13. This Report does not consider all future impacts of the COVID-19 pandemic on the Company's projections and future-oriented financial information and action plans either taken or considered by Laura as a result of the evolving circumstances caused by the COVID-19 pandemic. Any reference made to the impact of the pandemic on Laura in this Report is based entirely on preliminary discussions and are not to be interpreted as an exhaustive and/or accurate assessment of the full impact of the COVID-19 pandemic. The potential impact of the COVID-19 pandemic on the Company's customers, suppliers, commercial counterparts (both direct and indirect to Laura's operations) and other stakeholders is unknown and cannot be quantified at this time.

C. MONITOR'S ACTIVITIES SINCE THE ISSUANCE OF THE AMENDED AND RESTATED INITIAL ORDER

14. Pursuant to paragraph 28 of the Amended and Restated Initial Order, the Monitor:

- a) On August 14, 2020, published the second notice containing the information prescribed under the CCAA in the newspapers *La Presse* and *The Globe and Mail*; and
- b) Posted on the Monitor's websites home.kpmg/ca/laura and home.kpmg/ca/laura-fr (the "**Website**") the Amended and Restated Initial Order, the First Report of the Monitor, the service list and the list of creditors as at July 31, 2020.

15. The Monitor has furthermore:

- a) Assisted the Company with its communications with suppliers, lenders and other parties;
- b) Responded to telephone calls, emails and inquiries and addressed concerns from creditors and other stakeholders regarding the effect of the CCAA Proceedings;
- c) Had numerous exchanges with the Bank of Montreal ("**BMO**");
- d) Provided assistance to the Company in its reporting to BMO in accordance with the forbearance agreement agreed between the Company and BMO (the "**Forbearance Agreement**"):
 - i. Review of weekly update of cash flows to be provided to BMO; and
 - ii. Preparation of weekly variance analysis on the Cash Flow Forecast to be provided to BMO.
- e) Reviewed and approved payments made by the Company to key suppliers and service providers in accordance with the First-Day Initial Order and the Amended and Restated Initial Order. At the date of this report, the total amount paid to key suppliers and service providers amounts to \$1.3M.
- f) Reviewed the fixed rent payments for the month of August 2020; and
- g) Reviewed the notices by the Company to disclaim or resiliate an agreement in accordance with subsection 32(1) CCAA (the "**Notices to Disclaim**").

D. THE COMPANY'S RESTRUCTURING EFFORTS SINCE THE ISSUANCE OF THE AMENDED AND RESTATED INITIAL ORDER

16. Since the issuance of the Amended and Restated Initial Order, Laura has:
- a) Continued to operate in the normal course of business. All the Company's 140 stores are open in addition to its on-line business;
 - b) Issued two (2) Notices to Disclaim (one of which was subsequently withdrawn);
 - c) Continued to carry out extensive discussions and negotiations with landlords with regards to its stores, with the objective of agreeing to new viable lease terms that would enable Laura's to carry on its business in the current challenging environment;
 - d) Agreed to new terms with some of its landlords;
 - e) Continued its discussions with suppliers with regards to obtaining ongoing supplies; and,
 - f) Completed the materials in respect of the Claims Procedure Application and Claims Procedure Order.

E. CASH FLOW RESULTS RELATIVE TO CASH FLOW FORECAST

17. A table summarizes the cash receipts and disbursements for the 4-week ended August 22, 2020, as compared to the Cash Flow Forecast is filed under seal will be filed with this Report as Appendix A;
18. The opening net bank indebtedness, as at July 26, 2020, was \$324,000 lower than forecasted.
19. As at August 22, 2020, the Company's closing net bank indebtedness was approximately \$12,139,000 which represents a favorable variance of \$473,000 compared to the Cash Flow Forecast.
20. In addition to the favorable permanent difference of \$178,000 due to the cancellation of outstanding cheques as at the date of the CCAA Proceedings, the negative net cash flow during the period was approximately \$30,000 higher than forecasted. The primary reasons for the net cash flow variance are summarized below:
- a) Total cash receipts during the period were approximately \$119,000 higher than forecasted mainly due to:
 - i. Higher receipts from sales of \$1,619,000, in part offset by;
 - ii. Timing difference in the receipt of the government wage subsidy forecasted in week 4 for an amount of \$1,500,000. The Company currently expects to receive payment of the government wage subsidy in week 5.
 - b) Total cash disbursements during the period were approximately \$149,000 higher than forecasted mainly due to:

- i. Timing difference, especially with regards to higher payments of merchandise than forecasted due to vendors requiring more COD payments and key suppliers requiring faster payments of their pre-filing obligations to continue manufacturing and supplying the Fall goods; in part offset by,
 - ii. Timing difference, especially with regards to lower shipping disbursements due to delay in shipping; and
 - iii. Permanent favorable difference, especially with regards to lower general and administration disbursements due to higher than forecasted obligations that remained unpaid at the date of the filing of the CCAA Proceedings and which will be subject to the Plan.
21. Laura has paid and continues to pay in the normal course of business for any goods and services received subsequent to the date of the First-Day Initial Order, including payroll and new purchases.
22. In accordance with the Cash Flow Forecast, the Amended and Restated Initial Order, payments of fixed rents for the month of August 2020 were made on August 14, 2020.
23. Based on current discussions and negotiations between the Company and its landlords, the Company estimates that actual rent expenses for the upcoming months are likely to be materially less than amounts reflected in the Cash Flow Forecast.

F. CLAIMS PROCEDURE ORDER

24. The Claims Procedure Application includes a request that the Court issue the Claims Procedure Order to govern, *inter alia*, the claims process (the "**Claims Process**"). Capitalized terms not otherwise defined in this section are as defined in the Claims Procedure Order. Significant aspects of the Claims Process include:
 - a) The establishment of a Claims Bar Date of October 5, 2020 at 5:00 p.m., except for landlords with a Renegotiated Lease Claim or a Disclaimed Lease Claim, where the Claims Bar Date shall be the later of (i) October 5, 2020 at 5:00 p.m., and (ii) twenty (20) days after the date of an agreement between the Company and the Landlord in respect of a Renegotiated Lease Claim or the effective date of a Notice to Disclaim giving rise to the Disclaimed Lease Claim;
 - b) The publishing of the Newspaper Notice by the Monitor in French in La Presse, and in English in The Globe and Mail, as soon as possible but no later than September 4, 2020;
 - c) The mailing of the Creditors' Instructions by the Monitor (regular mail) to every Known Creditor by September 4, 2020;
 - d) The posting by the Monitor of the Creditors' Instructions, the Claims Procedure Order and the Creditors' List on the Website no later than September 4, 2020;

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- e) The Creditor's Instructions include a Proof of Claim Form (regular and Landlord Proof of Claim), a proxy, an Instruction Letter explaining how to complete same and a copy of the Claims Procedure Order; and
 - f) Landlords with a Disclaimed Lease Claim or a Renegotiated Lease Claim shall value their claims as follows:
 - i. **Disclaimed Leases:** Disclaimed Lease Claims shall be valued in accordance with the CCAA and shall take into account any mitigation by a Landlord of the damages arising from the Disclaimed Lease.
 - ii. **Renegotiated Leases:** Renegotiated Lease Claims shall be valued in an amount equal to the aggregate rent payable pursuant to the Original Lease less the rent payable pursuant to the Renegotiated Lease for the period remaining under the Original Lease following the effective date of the Renegotiated Lease, up to a maximum term of eighteen (18) months.
25. In addition to the above, the Claims Procedure Order also includes certain standard provisions for the review by the Monitor of the claims received as well as a procedure for the revision or disallowance of claims by the Monitor and the related appeal process available to creditors whose claims have been disallowed in whole or in part.
26. Subsequent to the service of the Claims Procedure Application, counsel for certain major landlords suggested changes to the proposed Claims Procedure Order, which the Company has substantially agreed to. Essentially, the agreed changes remove any formula for the valuation of Disclaimed Leases since there is currently only one situation where that applies (and the subject Disclaimed Lease expires in March 2021), maintains the formula for Renegotiated Lease Claims and eliminates any opting out mechanism to avoid confusion and possible additional delay. The Monitor believes that the revised Claims Procedure Order streamlines the Claims Process and will likely eliminate most potential disputes that could have occurred relating to the valuation of Claims arising from the renegotiation of the Company's Leases.
27. The Monitor is of the view that the Claims Process, and related timeline, will provide a reasonable opportunity for the Company's creditors to assert their claims in the context of the CCAA Proceedings.

G. THE MONITOR'S RECOMMENDATIONS

28. The Monitor supports the Company's request for the issuance of the Claims Procedure Order, as revised.

29. The Monitor also confirms that:

- a) The Company has acted and is continuing to act in good faith with due diligence; and
- b) The restructuring efforts implemented by the Company in the CCAA Proceedings are reasonable.

All of which is respectively submitted to this Honourable Court this 26th day of August 2020.

KPMG INC.

in its capacity as the Monitor of
Magasin Laura (P.V.) Inc. / Laura's Shoppe (P.V.) Inc.



Per: Dev A. Coossa, CIRP, LIT
Partner

**APPENDIX A – ACTUAL CASH FLOW VS CASH FLOW
FORECAST (*UNDER SEAL*)**
