

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

FIRST REPORT OF THE MONITOR

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

AUGUST 6, 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 "**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 Application.
3. On July 31, 2020, the Court granted the Application, in part, and rendered an initial first day order which provides 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**") a stay of proceedings until August 10, 2020 (the "**Stay Period**") as well as various priority charges (the "**First-Day Initial Order**").
4. In accordance with the Application, the Company now seeks the issuance of an amended and restated initial order, which provides for, *inter alia*:
 - a) an extension of Stay Period up to October 7, 2020;
 - b) an increase of the administration charge to \$750,000 (the "**Administration Charge**"); and
 - c) The increase of the directors' and officers' charge to \$5,000,000 (the "**Directors' Charge**");
5. 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 First-Day Initial Order (section **C**);
 - c) The Company's restructuring efforts since the issuance of the First-Day Initial Order (section **D**);
 - d) Laura's actual receipts and disbursements for the one-week period ended August 1st, 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 request for extension of the Stay Period (section **F**);
 - f) The Monitor's position on the Company's request to increase the Administration Charge and the Directors' Charge (section **G**);
 - g) The Monitor's recommendations on the relief sought by the Company in the Application (section **H**);

6. A detailed description of the business operations of the Company and background of its restructuring efforts to date is provided in the Application.

B. RESTRICTIONS AND SCOPE LIMITATIONS

7. 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.
8. 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.
9. 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.
10. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars, which is the Company's common Reporting currency.
11. 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 FIRST-DAY INITIAL ORDER

12. Pursuant to paragraph 28 of the First-Day Initial Order, the Monitor:

- a) On August 7, 2020, published a notice containing the information prescribed under the CCAA in the newspapers *La Presse* and *The Globe and Mail*. A second notice is set to be published on August 14, 2020, which will take into account the Amended and Restated Order;
- b) Within five (5) business days after the date of the First-Day Initial Order:
 - i. Posted on the Monitor's websites home.kpmg/ca/laura and home.kpmg/ca/laura-fr (the "**Website**") a notice containing the information prescribed under the CCAA and made the First-Day Initial Order publicly available in the manner prescribed under the CCAA;
 - ii. Sent, in the prescribed manner, a notice (the "**Notice to Creditors**") to all known creditors having a claim against the Applicant of more than \$1,000 advising them that the First-Day Initial Order is publicly available; and
 - iii. Prepared a list showing the names and addresses of such creditors and the estimated amounts of their respective claims and made it publicly available in the prescribed manner under the CCAA.

13. The Monitor published contact information in the Notice to Creditors and on the Monitor's Website to enable creditors or other interested parties to contact the Monitor and obtain additional information concerning the CCAA Proceedings.

14. 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 critical suppliers.

D. THE COMPANY'S RESTRUCTURING EFFORTS SINCE THE ISSUANCE OF THE FIRST-DAY INITIAL ORDER

15. Since the issuance of the First-Day Initial Order, the Monitor understands that Laura has commenced:
- a) Discussions and negotiations with some of its 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;
 - b) Discussions with suppliers with regards to obtaining ongoing supplies; and,
 - c) Drafting materials in respect of a claim procedure order.

E. CASH FLOW RESULTS RELATIVE TO FORECAST

16. As at August 1st, 2020, the Company's net closing bank indebtedness was approximately \$10.6M, which represents a favorable variance of \$567K compared to the Cash Flow Forecast. We expect this variance to be reversed in part in subsequent periods due to the timing of certain payments.
17. 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.
18. In accordance with the Cash Flow Forecast and the First-Day Initial Order, payments of rents for the month of August 2020 are scheduled to be made on August 14, 2020.
19. 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. REQUEST FOR AN EXTENSION OF THE STAY PERIOD

20. The Stay Period pursuant to the First-Day Initial Order expires on August 10, 2020. The Company is seeking an extension of the Stay Period to October 7, 2020. This extension will allow Laura to:
- a) Continue its discussions and negotiations with landlords with regards to the leases of its stores, and/or to disclaim leases;
 - b) Once authorized by the Court, conduct with the Monitor a claims process to determine the validity and quantum of creditors' claims (the "**Claims Process**"); and
 - c) To pursue its restructuring efforts.
21. To date, the Company has been acting diligently and in good faith. Senior Management has provided the Monitor with full co-operation and unrestricted access to the Company's premises, books and records upon requests by the Monitor.

22. The Company, with the assistance of the Monitor, has conducted business through the initial week of the CCAA Proceedings and continues to operate its business in the ordinary course with the benefit of the Stay Period, which has provided stability to the business.
23. The Monitor supports the Company's Motion to extend the Stay Period to October 7, 2020, for the following reasons:
 - a) The Company continues to operate its business in the ordinary course;
 - b) Laura requires additional time to continue its discussions and negotiations of leases with landlords, to conduct a Claims Process and to pursue its restructuring efforts; and
 - c) With the support of its operating lender, BMO, the Company has sufficient liquidity to continue its operations on a going concern basis during the extended Stay Period.

G. INCREASE OF THE ADMINISTRATION CHARGE AND THE DIRECTORS' CHARGE

24. The First-Day Initial Order granted an Administration Charge of \$150,000 and a Directors' Charge of \$1,600,000 (together, the "**Charges**").

Administration Charge

25. The First-Day Initial Order provides for an Administration Charge of \$150,000 in favour of Fishman Flanz Meland Paquin LLP counsel to the Company, the Monitor and its counsel Stikeman Elliott LLP. The amount of the Administration Charge was based on the forecasted professional fees for the 2-week period ending on August 8, 2020.
26. In the Application, the Company is seeking an increase of the Administration Charge up to \$750,000.
27. The Monitor is of the view that the increase of the Administration Charge to \$750,000 is reasonable and appropriate in the circumstances having regard to the complexity of the proceedings, anticipated work levels of the applicable professional firms and the quantum of similar charges having been granted in comparable cases.

Directors' Charge

28. The First-Day Initial Order provides for a Directors' Charge of \$1,600,000 in favour of directors and officers of the Company. The amount of the Directors' Charge was based on their potential personal exposure during the first 10-days following the issuance of the First-Day Initial Order.
29. In the Application, the Company is seeking an increase of the Directors' Charge up to \$5,000,000. The calculation to support this increase was reviewed by the Monitor.
30. The Monitor is of the view that the increase of the Directors' Charge to \$5,000,000 is reasonable and appropriate in the circumstances.

H. THE MONITOR'S RECOMMENDATIONS

31. The Monitor respectfully submits that the Amended and Restated Initial Order should be granted;

32. The Monitor is of the view that:

- a) **Extension of the Stay Period**: The extension of the Stay Period until October 7, 2020, is reasonable in the circumstances; and
- b) **Increase of the Charges**: The increases of the Administration Charge and the Directors' Charge are reasonable in the circumstances;

33. The Monitor confirms that:

- a) The Company has acted and is continuing to act in good faith with due diligence;
- b) If the Extension of the Stay Period, as sought by the Company, is granted by the Court, Laura will be able to continue its restructuring efforts with a view to providing its creditors with a viable plan of compromise and arrangement.

All of which is respectively submitted to this Honourable Court this 6th 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