ORIGIN
MERCHANT PARTNERS

Spotlight on Challenging Markets

Recent developments in strategic, capital and structural advisory solutions

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June 2020

Innovative. Independent. Experienced. Canada's Largest M&A Advisory Boutique

COVID-19 Impact

Origin's Comment

These are extraordinary times. We're facing a global health crisis that is rapidly becoming a financial and existential crisis for many businesses. At Origin, our collective expertise, experience, and extensive investor relationships may be useful to businesses faced with current challenges, and we are here to help.

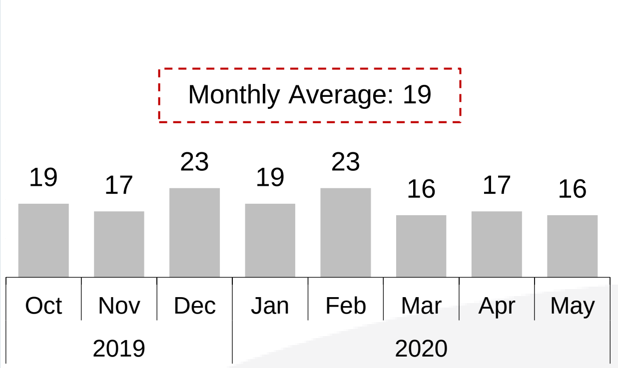
Our team is deeply engaged with its broad network of capital providers, backstopping our commitment to support Canadian businesses with thoughtful debt, equity and structural solutions. Our goal: to help businesses navigate through this challenging period, then thrive when we emerge on the other side.

Current Filing Environment

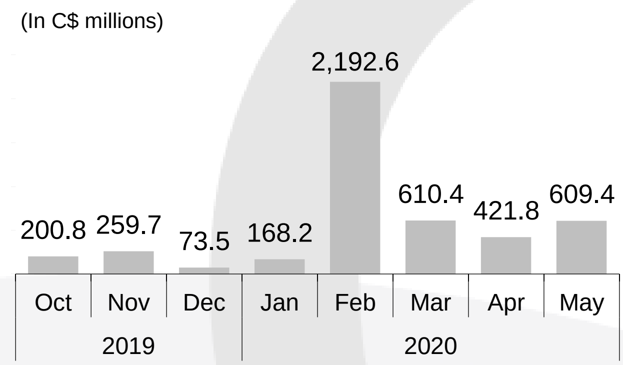
There has been a steady flow of Canadian companies filing for protection from creditors through either the CCAA process or BIA but no large uptick. This is largely attributable to the following:

- Multi-billion dollar government support programs (which will likely reduce or expire in the coming months)
- Significant challenges for creditors to enforce against companies in the current environment, as the prospects for due diligence, sale mandates, and even liquidations are challenging

Number of Filings



Liabilities Claimed



What we have seen early in the COVID-19 environment is the filing by issuers who already had business challenges previously, or who were in the middle of revising their business strategies and were thus more vulnerable to the shock from the lockdowns. Aldo is a key example of this type of issuer (filed under CCAA on May 7, 2020).

COVID-19 IMPACT

Critical Time for Capital

It's unclear how long this period of de facto forbearance will last, but in our opinion, many companies will face considerable liquidity issues by this fall, leading to an increase in filings.

- An end to the lockdowns, or even a SARS-CoV-2 vaccine, is not expected to result in a return to full production/consumption
- The market optimism is unlikely to survive Q2 earnings releases in mid-late August that will reveal the full impact of the COVID-19 crisis
- Banks and lenders have high loan losses this quarter (as increased provisions have been taken), and patience may wane

Sourcing capital and transactional solutions now is paramount, to bolster liquidity as government funding programs expire

With deep expertise in financing, M&A, and business restructuring, the Origin team understands how to help companies develop pre-emptive strategic and capital solutions to address liquidity issues and ensure financial stability through this challenging time.

By taking pre-emptive action, and working with an advisor, a business can have more confidence in securing needed capital and other transaction alternatives. Initial steps could include:

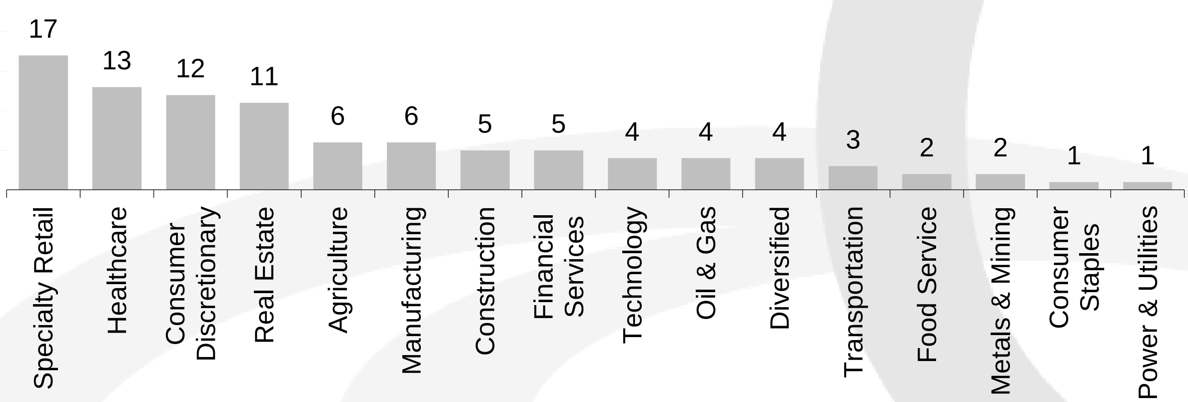
- Financial modeling and projections, including critical 13-week cash flow forecast
- Securing potential financing sources, including any DIP financing if required
- Creating a targeted partners list if an auction for some or all of the business is sought through the process
- Refining management business plan and preparing marketing materials
- Negotiation and communication with various stakeholder groups including lenders
- Assessment of existing lending covenants and financial flexibility

INSOLVENCY FILINGS

Recent Events

- On June 8th, **Coalision** filed an NOI with over C$33 million in liabilities owed to a lending syndicate. Coalision is a Quebec-based designer and developer of lifestyle and performance apparel, including activewear brand Lolë. The company recorded losses for the last several years caused by a general downturn in the global retail clothing market and excess inventory, which were exacerbated by the COVID-19 pandemic and closure of all Lolë stores.
- On June 3rd, **Comark Holdings.** et al ("**Comark Group**") obtained protection under the CCAA with over C$26 million in liabilities. The group operates specialty apparel retail stores across Canada. A C$50 million loss in sales from the COVID-19 pandemic and losses in past years have created a severe liquidity crisis. As a result, the group has been unable to pay rent for it's retail stores and has received notices of defaults from its landlords with respect to 56 stores
- On June 2nd, **Sail Plein Air** filed an NOI with over C$140 million in liabilities owed to various retailers. Sail Plein Air is a Quebec-based outdoor sports retailer with 14 stores across Ontario and Quebec. The company cites a downturn in the retail environment and reduced business activity from the COVID-19 pandemic as contributing factors to its financial difficulties.
- On May 21st, **First Hamilton Holdings** ("**FHH**") was placed in liquidation, listing C$34 million in liabilities. FHH is an Ontario-based investment corporation specialising in high yield bonds. The company attributes its financial difficulties to margin calls from parties which required the liquidation of significant portions of its portfolio of corporate bonds resulting in lower interest income and loss on sales of certain bonds it held.

Filings by Industry[1]



1. 2020 YTD

OTHER RESTRUCTURING NEWS

Supreme Court Decision on Litigation Financing

The Ruling:

The Supreme Court of Canada released a unanimous decision regarding the legality of third-party litigation finance agreements in CCAA proceedings. Its decision:

- Clarifies that a CCAA plan may be funded by a litigation finance agreement, if the supervising judge deems it appropriate
- Opens another options for debtors to access a unique financing option

The Case:

The judgement followed an appeal from two numbered Quebec companies, whose assets have almost been entirely liquidated; the debtor retained a damages claim against a former lender.

The Supreme Court justices ruled that 'interim financing' (a term not defined under CCAA) may take on a range of forms and that the supervising judge in a CCAA process has significant deference to discretionary decisions

- "Third-party litigation funding may be one such form (of financing)"
- "Whether third-party litigation funding should be approved as interim financing is a case-specific inquiry that should have regard to the text of s. 11.2 and the remedial objectives of the CCAA more generally"

In the Quebec situation specifically, the Supreme Court restored the decision of the supervising judge who had approved a $20 million litigation finance agreement ("LFA") among other things. This ruling is not a general view on the legality of LFAs broadly, but does clarify that they are not illegal per se. Ultimately the decision supports a supervising judge's ability to approve non-traditional funding arrangements where it is fair and appropriate and confirms that such funding is not necessarily a 'Plan' under the CCAA which would require a creditor vote.

The decision also addressed circumstances under which certain creditors are able to vote on a plan of arrangement.

Read further about this decision here.

About Origin Merchant Partners

Origin Merchant Partners is an independent investment bank that provides value added corporate finance, mergers and acquisitions and merchant banking services delivered by senior professionals. Our clients engage us for our dedicated, high level of service and independent advice to address their strategic and financial plans

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