ORIGIN
MERCHANT PARTNERS

Spotlight on Challenging Markets

Recent developments in strategic, capital and structural advisory solutions

September 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.

In this Issue

In this issue, you'll find:

- The most recent data for BIA filings by industry
- CCAA proceedings: what the numbers are showing
- An interview with Chris Burr, a Partner in the Insolvency Group at Blake, Cassels & Graydon LLP, who provides ground level insights on the current filings data, and speculates on the likelihood of a domino effect in the months ahead

Business and Industry Filings Update – June 2020

The most recently available BIA filings statistics reflect little negative impact from COVID-19. Broadly, the June numbers show a sharp drop in filings, with the exception of several sectors:

- Arts, Entertainment and Recreation, Retail, Management and Educational Services filings are up
- While still down YTD, Mining and Oil and Gas Extraction filings picked up in May fairly materially (more than doubling from 5 YTD April to 11 through to the end of June)

More recent CCAA proceeding information is available. While numbers are small and subject to more noise, July kept pace with June's trend of material increase in the number of filings; filings are up more than 100% YTD over 2019

Consumer insolvencies in June sat well below the 2019 rate, in line with April and May, reflecting the impact of CERB and other programs in offsetting lost employment income, and the likelihood that fewer consumers see a benefit from declaring bankruptcy.

All Canadian BIA Bankruptcies and Proposals

NAICS Economic Sector	YTD June	Change From 2019 Levels
Accommodation and Food Services	245	-15%
Retail Trade	210	12%
Construction	202	-45%
Manufacturing	134	-20%
Professional, Scientific and Technical Services	92	-41%
Transportation and Warehousing	85	-31%
Other Services	75	-21%
Wholesale Trade	70	-31%
Real Estate and Rental and Leasing	67	-12%
Arts, Entertainment and Recreation	65	71%
Management of Companies and Enterprises	54	17%
Admin & Support, Waste Mgmt and Remediation	52	-45%
Health Care and Social Assistance	32	-32%
Agriculture, Forestry, Fishing and Hunting	30	-6%
Information and Cultural Industries	28	-40%
Educational Services	18	20%
Finance and Insurance	17	-56%
Mining and Oil and Gas Extraction	11	-54%
Utilities	3	0%
Public Administration	0	0%
Total Business BIA Filings	**1,490**	**-23%**
CCAA Proceedings - YTD June	**38**	138%
CCAA Proceedings - YTD through July	**43**	139%
Consumer Insolvencies	**52,387**	-22%

Source: Office of the Superintendent of Bankruptcy Canada

CHRIS BURR, PARTNER, BLAKE, CASSELS & GRAYDON LLP

Blakes

Chris's practice focuses on corporate restructuring, insolvency litigation and debt enforcement, including domestic and cross-border debt financing, distressed mergers and acquisitions, financial restructurings, and debtor-in-possession (DIP) financings.

OMP: Six months into the pandemic, where are bankruptcy and insolvency filings?

- ***Very little COVID-related impact reflected in the CCAA uptick***

Chris Burr: At this stage, the economic effects are really being felt, and yet weirdly, we've got flat stats on the BIA filings (bankruptcies, proposals). We do have a fairly healthy number of CCAA filings, but peeling back a layer on these, they are primarily in the retail, energy and cannabis sectors, which were all facing challenges pre-COVID-19. What's happening now was going to happen anyway. For example, the big retail CCAAs in Montreal were already in the hopper.

OMP: How do you explain the flat BIA filings data?

- ***BIA flat stats are not that surprising***

CB: There are a couple of reasons why the BIA data is not surprising. Most significantly, if you file for bankruptcy, that's it. There's no restructuring, no tomorrow, you're effectively saying I'm turning over the keys to the trustee, and if I'm management, I'm walking away.

The alternative to the bankruptcy is the proposal, which is essentially a mini-CCAA. I expect to see that pick up as people need to get the benefit of certain of the core protections: you can start a proposal process and get a stay of proceedings, which provides breathing room to come up with a restructuring plan. The trouble is, once you start the process, there is no turning back, even if it's just to take advantage of the stay of proceedings. Initiating a proposal may be a huge source of regret: for example, if things turn around, and more liquidity in the market presents an alternative solution to get through the COVID aftermath.

- ***Banks and senior creditors waiting it out…for now***

Another reason for the flat stats: banks and other senior creditors are all waiting for the other to go first. Everyone is holding back on calling loans, other than in the scenarios that were already coming, or where there is evidence of fraud or gross mismanagement.

OMP: In your view, what will trigger the inflection point?

- ***End of wage subsidy will be the likely trigger***

CB: We're anticipating that the trigger will be when the CEWS (wage subsidy) is terminated; in many cases, the wage subsidy is keeping companies afloat, but doing so artificially. When the subsidy inevitably comes to an end, at least some of the companies that have been on this life support will fall. I am expecting a domino type of a situation, with a spike in filings, including in industries where we aren't seeing them now. This may result in a flood of assets in similar sectors, all on the market at the same time, something like what we're currently seeing in the cannabis industry.

OMP: What steps can business owners/company management take to minimize the negative impact of a liquidity crisis?

CB: Often it's difficult to look beyond the immediate day-to-day crisis, but getting help as early as possible can be critical to achieving the most successful outcome. There are three key steps that I'd suggest:

1. Call the bank: If there are existing or impending defaults in payments or covenants, a conversation with the bank can make the difference between a successful and unsuccessful turnaround. In my experience, banks want their clients to succeed. The types of decisions that get made when there is imperfect information, or when the borrower is unresponsive, often wouldn't get made if there was ongoing dialogue. The value of ongoing communication with lenders is immeasurable.

2. Get help. That can come in a number of forms and will depend on the type of problem. The help may come from the bank, perhaps in the form of providing interim liquidity. The bank may also suggest - or the borrower company may independently find - a financial advisor to help structure a solution. Hiring a financial advisor with expertise in restructuring can be a critical inflection point; they will have the experience to provide different proposals and suggestions tailored to the specific issues facing the distressed company. Seasoned financial advisors can identify where value can be created, and which bleeding wound needs to be addressed first. In addition, they will have access to the resources and capital necessary to navigate through a turnaround situation, which company management may not otherwise be able to access.

3. Get counsel. Legal counsel can be a valuable source of support, as there are structural solutions that may be available to mitigate future damage. It's also useful for companies to talk to counsel about what insolvency looks like, and gain an understanding of the options if the company gets there (if restructuring and refinancing out of court doesn't work). In addition, it's helpful to understand what enforcement looks like. It's a tough conversation to have, but there is so much more that legal counsel can do if they come in early.

What is critical, for companies facing current or future liquidity challenges, is to get help as early as possible, because there is no one size fits all solution, and there is a whole universe of expertise out there that can really make a difference.

Blakes

ORIGIN MERCHANT PARTNERS

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

Origin Merchant Partners
220 Bay Street, Suite 1500
P.O. Box 23
Toronto, Ontario
M5J 2W4

OMP Restructuring Team:

Jim Osler
Principal
T: 416-800-0784
jim.osler@originmerchant.com

Lindsay Adam Weiss
Principal
T: 416-775-3656
lindsay.weiss@originmerchant.com

Robert Fedrock
Principal
T: 416-817-8054
robert.fedrock@originmerchant.com