

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
DIVISION No.: 01-Montreal
COURT. No.: 500-11-052159-171
ESTATE. No.: 41-2223474

S U P E R I O R C O U R T
Commercial Division

IN THE MATTER OF THE
BANKRUPTCY OF:

BCBG MAX AZRIA CANADA INC., a legal person, duly constituted under the *Canada Business Corporations Act*, having its registered office at 1000 De La Gauchetière Street West, suite 2100, Montreal, Quebec, H3B 4W5

Debtor/Bankrupt

– and –

DELOITTE RESTRUCTURING INC.
(Martin Franco, CPA, CA, CIRP, LIT, designated responsible person), having a place of business at 1190 Avenue des Canadiens-de-Montréal, suite 500, Montreal, Quebec, H3B 0M7

Trustee

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

The purpose of this report is to apprise the creditors as to the affairs of the bankrupt as well as to the status of the administration of BCBG Max Azria Canada Inc. ("**BCBG Canada**" or the "**Company**").

We caution the readers that certain information contained in this report has been prepared from representations of management and unaudited books and records of the Debtor. The Trustee has not conducted an audit and has not reviewed in detail the books and records of the Debtor. Consequently, the Trustee expresses no opinion whatsoever with respect to the reliability or completeness of such information.

BACKGROUND

History of the Company

Prior to its bankruptcy, BCBG Canada was an indirect wholly-owned subsidiary of BCBG Max Azria Global Holdings, LLC ("**BCBG Global Holdings**"), a Delaware corporation, and the Canadian operating entity of the BCBG Max Azria group of companies (the "**BCBG Group**"), a fashion design, wholesale,

and retail conglomerate specializing in women's apparel and accessories, founded in 1989, and headquartered in California. The Company operated in Canada at the time of filing the NOI (as defined hereinafter), on March 1, 2017, in 51 retail and factory stores (the "**Stores**") and 17 licensed partner shops within Hudson's Bay Company ("**HBC**") retail locations (the "**Partner Shops**").

Events leading to the bankruptcy

BCBG Canada's financial situation deteriorated significantly over the last few years due to shifts in customer shopping patterns (e-commerce), expensive leases, and underperforming and unprofitable store operations.

BCBG Canada suffered losses of approximately \$74.7M over the last five-year period. As presented below, according to the unaudited financial statements for the year ended December 31, 2016, BCBG Canada had net sales of approximately \$64.6M and a negative EBITDA of approximately \$14.4M.

Historical Results (\$ 000)

Income Statement for the year ended	Dec-14	Dec-15	Dec-16
Revenues	83,933	69,678	64,561
Cost of Goods Sold	<u>38,146</u>	<u>32,832</u>	<u>36,628</u>
Gross Profit	45,787	36,846	27,933
Expenses	<u>51,459</u>	<u>45,430</u>	<u>42,307</u>
EBITDA	<u>(5,672)</u>	<u>(8,584)</u>	<u>(14,374)</u>

On March 1, 2017, BCBG Canada filed a notice of intention to make a proposal to their creditors (the "**NOI**") under the *Bankruptcy and Insolvency Act* with Deloitte Restructuring Inc. ("**Deloitte**") agreeing to act as the proposal trustee (the "**Trustee**"). On March 3, 2017, the Superior Court of Quebec (the "**Court**"), granted an Order approving a DIP Financing and a DIP Charge, an Administration Charge, a D&O Charge, a Consulting Agreement and Sale Guidelines, and granting ancillary relief (the "**First Order**"), as appears from the Court's record.

On March 29, May 12, June 28, and July 20, 2017, the Court extended the time to make a proposal until May 15, June 29, August 11, and August 31, 2017, respectively, to allow sufficient time for the Company to complete the liquidation of the Stores, and to conclude on the best alternative for the Partner Shops. After undergoing a Liquidation Sale (as defined hereinafter), a Sale Process (as defined hereinafter), and other steps, the Company was unable to file a proposal and, consequently, BCBG Canada was deemed to have made an assignment in bankruptcy on September 1, 2017, with Deloitte acting as the trustee to the estate.

Disposal of assets - Liquidation of the Stores

On March 3, 2017, pursuant to the First Order, BCBG Canada commenced a liquidation sale of all of its inventory and furniture, fixtures, and equipment at its Stores (the "**Liquidation Sale**"), with the assistance of its consultants, Gordon Brothers Canada ULC and Merchant Retail Solutions ULC. As of May 31, 2017, the liquidation and wind-down of BCBG Canada's Stores was completed.

BCBG Canada retained the services of A&G Realty Partners, LLC to assist with the marketing of certain leasehold interests for sale and/or assignment through a lease sale and solicitation process (the "**Lease Sale Process**"). As of the Company's Final Bid Deadline (April 5, 2017), no bids had been received by the Company. As a result, by May 1, 2017, the Company provided a 30-day notice of its disclaimer for all 51 Stores' property leases.

Disposal of assets - Sale Process of the Canadian Assets

Following the filing of the NOI, the Company continued to operate the Partner Shops business in the ordinary course from the date of the NOI until an Order was granted in the United States in the context of the larger restructuring proceedings of the BCBG Group under Chapter 11 of the Bankruptcy Code. Said Order approved the commencement of a thorough sale and solicitation process (the "**Sale Process**") for the assets of the BCBG Group, including the Partner Shops business.

As part of the Sale Process, 137 potentially interested parties were approached. The Sale Process solicited different types of potential purchasers, namely sponsors, strategic buyers, brand buyers, and other buyers like liquidators. In total, 67 parties executed a non-disclosure agreement for the purpose of accessing a data room.

On June 9, 2017, BCBG Global Holdings, BCBG Canada, and certain of their affiliates (the "**Sellers**") entered into an asset purchase agreement (the "**Asset Purchase Agreement**") with GBG USA Inc. (the "**Purchaser**"). The Asset Purchase Agreement documented the sale of BCBG Global Holdings inventory, contracts, and certain other assets (the "**Acquired Assets**"). Included within the Acquired Assets were the inventory located in the Partner Shops (the "**Inventory**") and the agreement between BCBG Canada and HBC pursuant to which the Partner Shops operate (the "**HBC Agreement**") (collectively, the "**Canadian Assets**"). The furniture and fixtures in the Partner Shops belong to HBC.

The purchase price for the Acquired Assets was US\$23.0M (the "**Purchase Price**"). The portion of the Purchase Price which was paid to BCBG Canada as consideration for the Canadian Assets was US\$0.5M (converted to C\$0.62M) (the "**Canadian Purchase Price**").

BCBG Canada retained the services of Hilco Valuation Services, LLC ("**Hilco**") to provide an appraisal of the net orderly liquidation value (**NOLV**) of the Inventory. Hilco estimated the NOLV of the Inventory to be approximately C\$0.5M, before consideration of professional fees other than Hilco's that would be required to conduct and monitor the liquidation, which was lower than the Canadian Purchase Price of approximately \$0.62M.

The HBC Agreement had a minimal value on a standalone basis given that said agreement may be canceled or terminated at any time upon a minimum one hundred and eighty (180) days written notice to the other party.

On July 20, 2017, the Company filed an Application asking the Court to approve the sale of the Canadian Assets, the transfer of the HBC Agreement, and for issuance of a vesting order. The Trustee supported said Application considering that it was unlikely that a liquidation of the Inventory would allow BCBG Canada to generate a realization value that would allow full repayment of the DIP Facility and as a result, it was unlikely that BCBG Canada would generate a surplus for its unsecured creditors.

On July 25, 2017, the Court granted an Order authorizing the approval, vesting, and assignment requested.

The sale to the Purchaser (the "**Sale Transaction**") was executed on July 31, 2017, and the Canadian Purchase Price proceeds were transferred on that date.

BCBG Canada was deemed to have made an assignment in bankruptcy on September 1, 2017.

TRUSTEE'S PRELIMINARY EVALUATION OF ASSETS

Below is a summary of the statement of affairs as of September 1, 2017.

Statement of affairs (\$ 000)	
Values as at	9/1/2017
ASSETS	
Cash and other current assets	1
Receivables	29
Inventory	-
Other assets	-
TOTAL ASSETS	<u>30</u>
LIABILITIES	
Secured creditors	(372)
Unsecured creditors	<u>(107,446)</u>
TOTAL LIABILITIES	<u>(107,818)</u>
TOTAL SURPLUS (DEFICIT)	<u>(107,788)</u>

ASSETS

Because of the Sale Transaction and the Liquidation of the Stores, all known assets have been disposed of. The receivables on the statements of affairs represent deposits to suppliers. The Trustee is not aware of any other assets, other than what appears on the statement of affairs.

LIABILITIES

Secured creditors

BCBG Max Azria Group LLC ("**BCBG US**" or the "**Secured Creditor**") is the first-ranking secured creditor of BCBG Canada, notably by virtue of secured promissory notes for inventory sold post-NOI as well as the subrogation of the shortfall on their Canadian ABL line of credit from their lender, Bank of America (the "**ABL Lender**"). The Trustee is not aware of any other secured creditors. The Trustee has not requested an independent opinion on the validity of BCBG US security given the anticipated deficit.

Unsecured creditors

The Debtor's books and records amounts due to unsecured creditors total approximately \$107.4M. The majority of the unsecured claim, approximately \$105.3M, is due to BCBG US. The Trustee understands that the BCBG US claim is due for unpaid inventory purchased by BCBG Canada over the last few years. The Trustee has yet to receive sufficient proofs of claim to confirm the total amount owed to unsecured creditors.

Security for unpaid wages – S. 81.3 claims

The Trustee is not aware of any amounts owed to the Company's former employees that would qualify as claims under section 81.3 of the BIA.

CONSERVATORY AND PROTECTIVE MEASURES

The Trustee sent a letter to Bank of America, Bank of Montreal, CIBC, Coast Capital Savings, Royal Bank of Canada, and Scotia Bank in order to freeze all of BCBG Canada's bank accounts and requesting the transfer of funds to the Trustee.

The Trustee published a notice to creditors in the Globe and Mail newspaper in their September 13, 2017 edition.

INFORMATION RELATING TO PROVABLE CLAIMS

As at the time of the preparation of this report, a limited number of proofs of claim had been received; therefore, whether there will be a significant difference between the amount of claims as presented in the statement of affairs and the amount of claims proven by the various creditors is not determinable.

LEGAL PROCEEDINGS, TRANSFER AT UNDERVALUE, AND PREFERENCE PAYMENTS

The Trustee has not initiated any legal proceedings and has not identified any transfers at undervalue or preference payments to date.

CONFLICT OF INTEREST

As described earlier in this report, Deloitte acted as Trustee in the NOI filed by BCBG Canada on March 1, 2017. The Trustee does not believe that Deloitte's role as Trustee in the NOI puts it in a position of conflict of interest by acting as Trustee in the bankruptcy of BCBG Canada.

PROJECTED DISTRIBUTION

The Trustee estimates that there will not be any proceeds available for distribution to unsecured creditors as there are little to no assets available for the unsecured creditors in the Bankrupt's estate (as described above).

TRUSTEE'S REMUNERATION

In consideration for consenting to act in the NOI and subsequent potential bankruptcy, BCBG US provided a retainer to the Trustee in the amount of US\$180K (the "**Deposit**") to guarantee payment of the Trustee's fees and disbursements, including the fees and disbursements of its legal counsel, should funds not be sufficiently available from the estate.

Any unused portion of the initial Deposit will be reimbursed to BCBG US upon completion of the administration of the Debtor's estate.

OTHER MATTERS

Further information relating to the Company's bankruptcy proceedings may be obtained from Deloitte's website at www.deloitte.com/ca/BCBG.

DATED AT MONTREAL, this 20th day of
September 2017.

DELOITTE RESTRUCTURING INC.
Trustee in re: the bankruptcy of
BCBG Max Azria Canada Inc.



Martin Franco, CPA, CA, CIRP, LIT
Senior vice president