Raymond Chabot Inc.

An affiliate of
Raymond Chabot Grant Thornton LLP

CANADA
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-064403-245
FILE NO.: 41-3105615

SUPERIOR COURT
"In Bankruptcy and Insolvency"

IN THE MATTER OF THE PROPOSAL OF:

BENTLEY & CO. LTD.,
Legal person incorporated under the *Canada Business Corporations Act*, having its place of business at 6125 Chemin de la Côte-de-Liesse, in the city of Montréal, in the province of Québec, H4T 1C8.

Hereinafter referred to as the "Debtor" or "Bentley"

-and-

RAYMOND CHABOT INC.,
Dominic Deslandes, CPA, CIRP, LIT

Hereinafter referred to as the "Trustee" or "RCI"

TRUSTEE'S REPORT TO THE COURT ON THE SALE OF DEBTOR'S ASSETS

PREAMBLE

TO ONE OF THE HONOURABLE JUDGES OF THE SUPERIOR COURT, SITTING IN COMMERCIAL DIVISION, IN AND FOR THE JUDICIAL DISTRICT OF MONTRÉAL, OR TO THE REGISTER FOR THIS SAME COURT:

This report is being submitted to the Court in connection with an application to authorize the sale of the Debtor's assets.

Signed in Montréal on July 20, 2024

RAYMOND CHABOT INC.
Trustee in charge

Dominic Deslandes, CPA, CIRP, LIT

1. OVERVIEW OF BENTLEY

1.1. Bentley & Co. Ltd. (hereinafter "**Bentley**", the "**Company**" or the "**Debtor**") was incorporated on December 5, 2019, and is fully owned by HUK 94 Limited (hereinafter "**HUK 94**"), a company incorporated under the laws of England & Wales and a subsidiary of Hilco Canada.

1.2. Bentley is a retailer of luggage, handbags, backpacks, school accessories, wallets and other accessories with over 130 stores in Canada. It currently has more than 700 employees and its head office is located at 6125 Chemin de la Côte-de-Liesse, in the city of Montréal.

1.3. COVID-19 has significantly impacted Bentley's operations, especially by reducing customer traffic and causing mandatory closures as well as severe supply chain disruptions, which placed an unprecedented strain on Bentley's stores and resulted in a drop in revenues.

1.4. Like many other retail chains, Bentley has been facing adverse macro trends, including changing consumer preferences and a general shift away from brick-and-mortar to online retail channels. Increased competition from discount and online retailers has exerted significant downward pressure on pricing and margins.

1.5. Management has put in place several measures to mitigate the impact on profitability, notably by negotiating with landlords (some landlords have adjusted rent based on sales). These measures have temporarily helped Bentley since the Company was able to save nearly $7 million in FY22. On the other hand, sales rose by 24% ($19.5 million) in FY23, and occupancy costs therefore increased by $13 million during that year.

1.6. On October 23, 2023, Bentley was the victim of a ransomware attack, resulting in internal operational and inventory disruptions within its retail store network. This attack made it even harder for management to put measures in place, as much data was lost and the Company has since been operating with a more rudimentary accounting system.

1.7. Therefore, after a return to profitability in FY22, Bentley failed to break even in FY23 (loss before taxes: $2.2 million) and for the 8-month period ending March 31, 2024 ($5.7 million). See Section 2 for more details.

1.8. Bentley has an asset-base line of credit with the Canadian Imperial Bank of Commerce (hereinafter "**CIBC**") for an authorized amount of $3 million. CIBC holds first-ranking security in the province of Québec on Bentley's assets. As of July 12, 2024, Bentley owes an amount of $2.2 million to CIBC.

1.9. HUK 89 Limited (hereinafter "**HUK 89**"), a company related to the shareholder, has made advances totalling $8.8 million as of the date of this report. HUK 89 holds second-ranking security in the province of Québec on Bentley's assets.

1.10. On April 16, 2024, Development Bank of Canada (hereinafter "**BDC**") authorized a loan for a maximum amount of $750,000. BDC holds a third-ranking security in the province of Québec on Bentley's assets. As of July 12, 2024, Bentley owes an amount of $419,000 to BDC.

1.11. The Debtor's profitability problems affected its liquidity and the Debtor is therefore in default with CIBC, among other creditors.

1.12. In this context, on June 17, 2024, management and HUK 94, with the support of the mergers and acquisitions ("**M&A**") firm Oaklins Canada ("**Oaklins**"), initiated a process to find a buyer / equity partner.

1.13. On June 25, 2024, the Debtor's management mandated Raymond Chabot Grant Thornton & Cie S.E.N.C.R.L. ("**RCGT**") to support management and the shareholder in a Sale and Investment Solicitation Process ("**SISP**"), among other things, which included without limitation:

1.13.1. Identifying and soliciting potential buyers/investors;

1.13.2. Assisting Bentley in the preparation of financial information required by potential purchasers in a relevant and consistent format, if necessary.

1.14. A Forbearance agreement (maturing on July 31, 2024) was signed on July 5, 2024. One of the conditions of this agreement is the receipt of a binding unconditional offer from a prospective investor by no later than July 23, 2024, as well as confirmation that a transaction has closed by no later than July 31, 2024.

1.15. The SISP process, described in greater detail in Section 3, resulted in two letters of intent ("**LOIs**") from liquidators and one offer from an individual who intends to continue operating most of the stores, thereby keeping most of the employees.

1.16. After discussions with the shareholder, the two main secured creditors, CIBC and HUK 89, the Debtor's management decided to accept the offer that would allow the majority of the stores to remain open with most of the employees being kept. Subject to the Court approval, the proposed transaction ("**Proposed Transaction**") is described in Section 4 of this report.

1.17. Being insolvent, Bentley filed a notice of intention to make a proposal on July 17, 2024, with Raymond Chabot Inc.

1.18. In the circumstances, this report discusses the following:

- Financial situation (Section 2);
- Sale process and description (Section 3);
- Contemplated transaction (Section 4);
- Impact of the sale on creditors (Section 5); and
- Conclusion and recommendations (Section 6).

2. FINANCIAL SITUATION

2.1. The Debtor's financial records are not up to date since the recent cyberattack has affected the financial reporting processes. As a result, the latest available financial data is as at March 31, 2024, representing eight months of actual financial figures. The audited financial statements for the 2023, 2022, and 2021 fiscal years are available as well.

2.2. We have not audited these financial statements, nor are we issuing an audit opinion thereon. Our work consisted mainly in presenting the financial information made available to us.

2.3. Income Statement:

(unaudited - in thousands of $)	CUM24	FY23	FY22	FY21
	(8 months)	(12 months)	(12 months)	(12 months)
Sales	60,931	99,287	79,765	41,410
Cost of sales	(26,372)	(40,676)	(31,668)	(20,113)
Gross profit	34,559	58,611	48,097	21,297
	56.7%	59.0%	60.3%	51.4%
Selling, general and administrative				
Occupancy expenses	12,349	18,184	5,616	12,592
Labour	14,119	20,360	17,181	10,953
Head office salaries	4,647	6,599	6,038	5,475
Other	7,523	13,220	11,822	7,326
	38,638	58,363	40,657	36,347
Income (loss) before other expenses, grants and taxes	**(4,079)**	**248**	**7,440**	**(15,050)**
Other expenses				
Financing costs	846	998	1,290	677
Amortization of property and equipment and intangible assets	429	425	202	163
Professional fees	105	887	427	150
Other	223	123	416	458
	1,602	2,433	2,335	1,448
Income (loss) before grants and taxes	(5,681)	(2,185)	5,105	(16,498)
Government grants	-	-	2,976	11,223
Income (loss) before taxes	**(5,681)**	**(2,185)**	**8,081**	**(5,275)**
Other information				
Number of stores	**151**	**161**	**165**	**167**
Sales per store	404	617	483	248
Occupancy expenses per store	(82)	(113)	(34)	(75)
Square footage	**260,646**	**290,382**	**297,596**	**301,204**
Sales per square foot	234	342	268	137
Occupancy expenses per square foot	(47)	(63)	(19)	(42)

2.3.1. As previously mentioned, the impact of COVID-19 and the supply chain issues have affected the Debtor's results. Consequently, in FY21, the Debtor recorded a loss before taxes of $5.3 million. This loss is mainly attributable to the following:

FY21:

2.3.1.1. Sales totalled only $41.4 million ($248,000 per store).

2.3.1.2. With selling, general and administrative expenses totalling $36 million, the loss before taxes would have been over $16 million. On the other hand, the Debtor obtained grants totalling $11.2 million (government is currently auditing $7.5 million in grants), significantly reducing the Debtor's loss.

FY22:

2.3.1.3. The Debtor recorded significant sales growth (93%, or $38.4 million).

2.3.1.4. In order to improve the Company's profitability during the year, management negotiated new lease terms, under which a portion of the rent was variable and based on store sales.

2.3.1.5. As a result, occupancy expenses decreased by nearly $7 million ($23,000 per square foot), to $5.6 million ($19,000 per square foot) in FY22.

2.3.1.6. The Debtor therefore recorded income before taxes of $8.1 million in FY22.

FY23:

2.3.1.7. Sales growth accelerated to reach almost $100 million ($617,000 per store).

2.3.1.8. However, with the new lease terms, occupancy costs rose by $12.6 million (224%) to total $18.2 million ($63,000 per square foot).

2.3.1.9. As a result, the Debtor recorded a loss before taxes of $2.2 million.

CUM24:

2.3.1.10. Despite the reduction of 10 stores (29,736 sq. ft.), the trend in FY23 continued with occupancy costs being too high compared with the gross profit generated by Bentley, resulting in a loss before taxes of $5.7 million.

2.3.1.11. On a cumulative basis, total losses for the last 20 months amount to $7.9 million.

2.3.1.12. Excluding FY22, operational losses since FY21, before government grants, total $24.4 million.

2.4. Balance sheet

(unaudited - in thousands of $)	2024-03-31	2023-07-29	2022-07-30	2021-07-31
Assets				
Current				
Cash	20	144	3 608	73
Goverment grats receivable	-	-	-	1 211
Accounts receivable	882	1 074	1 011	615
Inventory	12 254	18 141	15 032	14 171
Prepaid expenses and deposits	427	958	2 018	2 071
	13 583	20 317	21 669	18 141
Property and equipement, net and intangible assets	3 899	2 838	1 409	772
	17 482	**23 155**	**23 078**	**18 913**
Liabilities and Shareholder's defenciency				
Current				
Bank indebtedness	4 353	6 921	-	468
Accounts payable and accrued liabilities	11 675	10 043	15 326	21 586
Loans from parent company	53	-	2 000	-
	16 080	16 964	17 326	22 054
Deferred lease inducement	411	443	-	
Deferred rent	5 260	5 122	3 453	994
Deferred revenue	521	578	553	518
Loans from parent company	8 705	7 862	7 374	9 056
	30 977	30 969	28 706	32 622
Shareholder's defiency				
Share capital	1	1	1	1
Deficit	(13 497)	(7 815)	(5 629)	(13 710)
	(13 496)	(7 814)	(5 628)	(13 709)
	17 482	**23 155**	**23 078**	**18 913**

2.4.1. The latest available balance sheet is as at March 31, 2024.

2.4.2. The above table shows a precarious financial situation as at March 31, 2024, with a shareholder's deficit totalling almost $14 million. The Debtor is therefore technically insolvent.

2.4.3. Operating losses in recent years has been borne mainly by bank indebtedness and shareholder advances.

2.4.4. Since March 31, 2024, the Debtor's financial position and liquidity situation have changed and below are the changes in certain balance sheet items as of the date hereof:

2.4.4.1. Inventory is down to $8.1 million;

2.4.4.2. Bank indebtedness decreased to $2.2 million;

2.4.4.3. Accounts payable and accrued liabilities total $10.1 million;

2.4.4.4. New loan from BDC (long-term debt): $419,000 (Debtor obtained authorized financing totalling $750,000 from BDC for IT expenditures);

2.4.4.5. Therefore, as of the date of this report, liabilities can be summarized as follows:

(in thousands of $ - unaudited)	
Secured	
CIBC	2,226
HUK 89	8,836
BDC	419
	11,481
Unsecured	
Rent payable to landlords	3,015
Other payables	7,041
Employees' vacation payable	1,247
	11,303
Total	**22,784**

3. SALE PROCESS AND DESCRIPTION

3.1. SISP initiated by management/shareholder:

3.1.1. Considering the cumulative losses, the additional cashflow injection needed in the near future to support day-to-day operations (payroll, rent, purchases, etc.) and the fact that the Company is expected to be unprofitable in the current and coming years, the shareholder was not ready to commit to an additional cash injection. Consequently, HUK 94, the shareholder, decided to initiate a sale process.

3.1.2. During the week of June 17, 2024, representatives of HUK 94 came from the U.K. to Montréal to explore strategic options with the Debtor's management and CIBC, considering the possibility of initiating a rapid sale process due to profitability and liquidity issues.

3.1.3. HUK 94 representatives and management were introduced to Paul Nassar, who was informed about the potential sale of the business. Consequently, a first meeting was held on June 18,2024.

3.1.4. Paul Nassar is a known businessman in the province of Québec actively involved in the retail industry and manages and operates businesses with chains of retail stores.

3.1.5. Mr. Nassar showed interest in acquiring the Company or its main business and assets during this meeting.

3.1.6. A subsequent call was scheduled for June 19, 2024, to discuss possible deal structures with Mr. Nassar and his attorney, but no consensus was reached despite the fact that several options were explored.

3.1.7. Following the meeting on June 18, 2024, and the call on June 19, 2024 with Mr. Nassar, management decided to launch a formal solicitation process to obtain the best possible offer for the Debtor's business.

3.1.8. To this end, management retained the services of Oaklins Canada to start the sales solicitation process for the sale of Bentley. Oaklins Canada is an M&A and financial advisory firm with offices in Montréal, covering the North American market:

3.1.8.1. Terms with Oaklins were agreed to on June 24, 2024.

3.1.8.2. At the beginning of the process, Oaklins identified and contacted nine interested parties.

3.1.8.3. A data room was created to provide information to potential buyers, including corporate information, financial data (both current information and budgets), inventory, and marketing files.

3.1.8.4. Overall, Oaklins identified and reached out to 19 potential buyers (including the nine initially identified and contacted by management) for the sale of Bentley.

3.1.8.5. Two potential buyers expressed interest. Only one of them, Paul Nassar, signed an NDA and was granted access to a virtual data room.

3.1.9. Between June 24, 2024, and early July 2024, representatives of HUK 94 and Paul Nassar engaged in various direct discussions, as well as discussions through their lawyers, leading to various indications of interest, but several items were not acceptable to either to HUK 94, Bentley or Paul Nassar.

3.1.10. Meanwhile, another party did express interest to Oaklins and the Debtor's management ("**Oaklins/management**") for the assets but declined the opportunity on July 11, 2024.

3.1.11. After further information was provided to Paul Nassar to help in his decision-making process, several drafts of LOIs have been shared, and on July 16, 2024, Paul Nassar, acting without any personal liability on behalf of a corporation to be incorporated, submitted a signed offer to purchase Bentley's assets. Paul Nassar's offer contains a condition related to the continuation of business activities and details of the offer are presented under seal.

3.2. Process by RCGT:

3.2.1. On June 22, 2024, the management of Bentley hired RCGT to assist in the search for an investor/buyer for the Company or the assets through a SISP, among other things.

3.2.2. On June 25, 2024, RCGT started by reviewing the list of parties identified by Oaklins/management, and identified additional potential targets, including liquidators.

3.2.3. One week later, RCGT launched an official SISP process.

3.2.4. The SISP stipulated that LOIs would have to be submitted by 5:00 p.m. on July 12, 2024, and binding offers by 5:00 p.m. on July 19, 2024.

3.2.5. Below is a summary of the SISP:

3.2.5.1. RCGT reached out to 22 potential parties, including liquidators. Out of these:

3.2.5.1.1. A total of 15 parties did not answer despite several follow-ups;

3.2.5.1.2. Seven declined;

3.2.5.1.3. Four expressed interest and signed a NDA;

3.2.5.1.4. Two of them, namely Hilco Merchant Resources LLC (“**Hilco**”) and Tiger Asset Solutions Canada ULC (“**Tiger**”), provided LOIs to liquidate the assets of Bentley. These LOIs are presented under seal.

3.3. After reviewing the offer submitted by Paul Nassar and the two LOIs submitted to RCGT through the SISP, it appears to management and the shareholder that the offer submitted by Paul Nassar is the best one received, for all the stakeholders, in the circumstances.

3.4. Bentley is therefore seeking the Court's permission to conclude the sale of the Company to Paul Nassar (the “**Contemplated transaction**” or “**Transaction**”).

4. CONTEMPLATED TRANSACTION

4.1. In summary, as part of this Transaction the buyer would:

4.1.1. Purchase essentially all of the tangible and intangible assets owned by Bentley;

4.1.2. Assume a majority of the commercial leases;

4.1.3. Offer employment to the majority of employees.

4.2. The details of the Transaction are presented under seal.

5. IMPACT OF THE SALE ON CREDITORS

5.1. Since the amount of the Contemplated transaction is not sufficient to cover all the liabilities and would essentially benefit the secured creditors, namely CIBC and HUK 89, the Trustee sought an opinion on the validity of the security provided and the sale proceeds will remain in trust until this opinion is obtained.

5.2. The impact of the sale on creditors is presented under seal.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1. Whereas:

- The SISP process was undertaken simultaneously by Oaklins/management and RCGT in order to capture a maximum of potential buyers, over a period of approximately one month.
- The period over which the SISP was performed might not seem long, but considering the cashflow situation, the Company's inability to pay for incoming goods from suppliers and the fact that several landlords have begun cancelling leases for payment default, or are threatening to do so, the process had to take place over a very short period of time in order to maximize the value.
- Management and RCGT have sought offers for the Debtor's assets and this process has resulted in two LOIs/offers for a liquidation process and one offer as a going concern.
- The difficult market conditions for many retailers and the responses given to Oaklins/management and RCGT by potential buyers tend to demonstrate that the offer and the LOIs received correspond to the market value of these assets.
- The Contemplated Transaction will make it possible for a number of Bentley's employees to keep their job and for landlords to keep a tenant for most existing locations.
- Realizing the assets through liquidation or in a bankruptcy/receivership context would significantly increase costs and most probably not provide a better result for the creditors and would also create much uncertainty.
- CIBC and HUK 89 are in favour of the Contemplated transaction, even though it will result in a loss for HUK 89.
- The consideration pursuant to the offer is fair and reasonable in the circumstances.
- The transaction does not prejudice unsecured creditors since they would not be receiving any amount in a liquidation context either.

The Trustee therefore recommends that the Contemplated transactions be approved.

APPENDIX A

OFFERS AND LOIS DESCRIPTION

<u>UNDER SEAL</u>

APPENDIX B

IMPACT OF THE SALE ON CREDITORS

UNDER SEAL