

Court File No.: CV-22-00691990-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT
ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF DCL CORPORATION

THIRD REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

MARCH 15, 2023

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1.0 INTRODUCTION

- 1.1 On December 20, 2022 (the “**Filing Date**”), DCL Corporation (“**DCL Canada**” or the “**Applicant**”) obtained an initial order (the “**Initial Order**”) from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings commenced thereby are referred to herein as the “**CCAA Proceedings**”. Among other things, the Initial Order appointed Alvarez & Marsal Canada Inc. as monitor in the CCAA Proceedings (in such capacity, the “**Monitor**”).
- 1.2 On December 29, 2022, the Applicant obtained an amended and restated Initial Order (the “**Amended and Restated Initial Order**”) that, among other things, approved the DIP Facility and the Final DIP Credit Agreement (each as defined in the First Report (as defined below)), and extended the Stay Period (as defined in the Amended and Restated Initial Order) until and including March 17, 2023.
- 1.3 On February 22, 2023, the Court issued an order which, among other things, approved the Stalking Horse APA (as defined below) and the Final Bidding Procedures (as defined in the Second Report (as defined below)).
- 1.4 DCL Canada is a subsidiary of its U.S. parent, H.I.G. Colors Inc. (“**Holdings**”), a direct wholly-owned subsidiary of the ultimate corporate parent, H.I.G. Colors Holdings, Inc. (“**HIG Colors Holdings**” and, together with Holdings and its direct and indirect subsidiaries, including the Applicant and its subsidiaries, the “**DCL Group**”).
- 1.5 The CCAA Proceedings were commenced as part of a larger coordinated restructuring of the DCL Group. On the Filing Date, HIG Colors Holdings and certain of its U.S.-based

subsidiaries (collectively, “**DCL US**” or the “**Chapter 11 Debtors**”)¹ each filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Bankruptcy Court**”, and such proceedings, the “**Chapter 11 Proceedings**”, and together with the CCAA Proceedings, the “**Restructuring Proceedings**”). On December 22, 2022, the U.S. Bankruptcy Court granted a number of “first day orders” in the Chapter 11 Proceedings.

1.6 In connection with the CCAA Proceedings, Alvarez & Marsal Canada Inc. (“**A&M**”), in its capacity as proposed monitor, filed the Pre-Filing Report of the Proposed Monitor dated December 20, 2022 (the “**Pre-Filing Report**”). The Monitor has also provided the Court with its First Report of the Monitor dated December 27, 2022 (the “**First Report**”) and its Second Report of the Monitor dated February 16, 2023 (the “**Second Report**”, and together with the Pre-filing Report and First Report, the “**Prior Reports**”). The Prior Reports and other Court-filed documents in the CCAA Proceedings are available on the Monitor’s case website at: www.alvarezandmarsal.com/DCLCanada (the “**Case Website**”).²

2.0 PURPOSE OF THIS REPORT

2.1 Given certain recent developments (as discussed below), the Monitor needed to discuss, consider, and assess such new facts and circumstances in the days leading up to the Applicant’s motion for the Stay Extension Order (as defined below). Accordingly, the Monitor was only able to finalize, serve and file this third report of the Monitor (this “**Third Report**”) on the date hereof.

¹ The Chapter 11 Debtors are: HIG Colors Holdings, Holdings, DCL Holdings (USA), Inc., DCL Corporation (USA) LLC, DCL Corporation (BP), LLC, and Dominion Colour Corporation (USA).

² Materials filed in connection with the Chapter 11 Proceedings are available at: <https://cases.ra.kroll.com/DCL>

2.2 The Monitor understands that, at this time, the Applicant is seeking the Court's approval of only the Stay Extension Order, and is requesting an adjournment of its motion for an order, among other things, approving the transactions (collectively, the "**Transaction**") contemplated by the Stalking Horse APA (the "**Approval and Vesting Order**") until a later date. The Monitor will provide a report to Court in connection with the Approval and Vesting Order at the appropriate time, together with a more fulsome report on actual cash flow results and other updates since the date of the Second Report.

2.3 The purpose of this Third Report is to provide the Court with information and, where applicable, the Monitor's views on:

- (i) the Applicant's updated cash flow forecast for the six-week period ending April 14, 2023;
- (ii) the proposed order extending the Stay Period until and including March 31, 2023 (the "**Stay Extension Order**"); and
- (iii) the Monitor's conclusions and recommendations in connection with the foregoing, as applicable.

3.0 TERMS OF REFERENCE AND DISCLAIMER

3.1 In preparing this Third Report, A&M, in its capacity as Monitor, has been provided with and has relied upon unaudited financial information and the books and records prepared by DCL Canada and the DCL Group (including information prepared by the Applicant's and the Chapter 11 Debtors' restructuring advisor, Ankura LLC ("**Ankura**")) and has held discussions with management, the chief restructuring officer (the "**CRO**"), Ankura and the

DCL Group's Canadian and U.S. restructuring legal counsel (collectively, the "**Information**"). Except as otherwise described in this Third Report, in respect of DCL Canada's cash flow forecast:

- (i) 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* (the "**CPA Handbook**") and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this Third Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

3.2 Future oriented financial information referred to in this Third Report was prepared based on DCL Canada's and the Chapter 11 Debtors' 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 may vary from the projections, even if the assumptions materialize, and the variations could be significant.

3.3 This Third Report should be read in conjunction with the affidavit of the CRO, Mr. Scott Davido, sworn March 10, 2023 (the "**Fourth Davido Affidavit**") filed in support of the Applicant's motion for relief under the CCAA. Capitalized terms used but not defined in

this Third Report shall have the meanings given to such terms in the Fourth Davido Affidavit.

- 3.4 Unless otherwise stated, all monetary amounts contained in this Third Report are expressed in U.S. dollars (“USD”).

4.0 UPDATED CASH FLOW FORECAST

- 4.1 As described in the Prior Reports, the objective of the Restructuring Proceedings is to stabilize and maintain the DCL Group’s business and to commence a court-supervised marketing process for the business and assets of the DCL Group (the “**Stalking Horse Sales Process**”).

- 4.2 The Stalking Horse Sales Process was supported by an amended and restated asset purchase agreement (as it may be further amended, the “**Stalking Horse APA**”) dated as of February 13, 2023, between the Applicant and the Chapter 11 Debtors, as sellers, and Pigments Holdings, Inc., as purchaser (including any permitted assignees, “**Pigments**” or the “**Purchaser**”)³, which served as the “stalking horse bid” pursuant to the Final Bidding Procedures. The Stalking Horse APA, together with the Final Bidding Procedures, were summarized in the Second Report.

- 4.3 On the expiry of the bid deadline under the Final Bidding Procedures on March 10, 2023, the DCL Group received no “Qualified Bids” other than the Stalking Horse APA, and the

³ Pigments is an affiliate of the prepetition term loan lenders to DCL Canada and DCL US. As discussed in the Second Report, a significant portion of Pigments’ contemplated purchase price is comprised of a credit bid of the obligations outstanding under the prepetition term loan.

Stalking Horse APA was therefore deemed to be the “Successful Bid” (each as defined in the Final Bidding Procedures).

- 4.4 The Monitor understands that due to a delay in obtaining certain registrations, permits and licenses that are required by the Purchaser to continue to operate the business of the DCL Group without interruption, the parties require additional time to close the transaction.
- 4.5 The Final DIP Credit Agreement and the Stalking Horse APA each require that the Court and the U.S. Bankruptcy Court enter an order approving the transaction selected pursuant to the Final Bidding Procedures by no later than March 16, 2023, and that such transaction be consummated by no later than March 17, 2023.
- 4.6 The failure by the Applicant or the Chapter 11 Debtors to meet the foregoing milestones will result in events of default arising under the Final DIP Credit Agreement and the Stalking Horse APA. The Monitor understands that the DCL Group and the DIP Agent have reached an agreement in principle to a limited forbearance which will extend to March 24, 2023, or later, in respect of such defaults, while the parties work to finalize amendments and modifications to the Final DIP Credit Agreement to extend the sale approval deadline and maturity date, and to make other consequential changes in order to provide the additional time required to close the transactions contemplated by the Stalking Horse APA (the “**Proposed DIP Amendments**”). The Monitor understands that the DCL Group and the Purchaser are also working on analogous waivers, amendments and modifications to the Stalking Horse APA (the “**Proposed APA Amendments**”).
- 4.7 The Monitor has been advised by legal counsel to each of the Applicant, the DIP Agent and the Purchaser that the parties are working constructively and expect to finalize such documentation in short order. If this is not the case, either the Monitor or the Applicant

will return to Court to provide an appropriate update and seek advice and direction from the Court.

4.8 Accordingly, the Applicant is requesting a short extension of the Stay Period in order to provide it with the time necessary to finalize the Proposed DIP Amendments and the Proposed APA Amendments.

4.9 In connection with the Proposed DIP Amendments and the proposed Stay Period extension, the DCL Group has prepared an amended DIP Budget (the “**Amended DIP Budget**”). One component of the Amended DIP Budget is an updated cash flow forecast for DCL Canada (the “**Updated Cash Flow Forecast**”) for the six-week period from March 4, 2023 to April 14, 2023. A copy of the Amended DIP Budget, together with the Updated Cash Flow Forecast, is attached hereto as **Appendix “A”**.

4.10 Based on the Amended DIP Budget and the Updated Cash Flow Forecast, the Applicant is forecast to have sufficient liquidity through the period required to provide the DCL Group with the opportunity to finalize the proposed amendments discussed above and to close the Transaction.

5.0 STAY EXTENSION ORDER

5.1 The Stay Period currently expires on March 17, 2023, and the Applicant is seeking an extension of the Stay Period until and including March 31, 2023.

5.2 The Monitor supports the Applicant’s motion to extend the Stay Period for the following reasons:

- (i) it will provide the Applicant with the stability to continue to operate in the ordinary course and to negotiate the Proposed DIP Amendments and the Proposed APA Amendments;
- (ii) the Applicant intends to bring a further motion before the Court during the extended Stay Period to seek approval of the Transaction and the Stalking Horse APA;
- (iii) the Applicant is projected to have sufficient liquidity through to the end of the proposed extended Stay Period; and
- (iv) the Applicant continues to act in good faith and with due diligence.

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 For the reasons discussed herein, the Monitor respectfully recommends that the Court grant the Stay Extension Order.

All of which is respectfully submitted to this Court this 15th day of March, 2023.

**ALVAREZ & MARSAL CANADA INC.,
solely in its capacity as Monitor of
DCL Corporation and not in its personal or corporate capacity**

Per: 

Josh Nevsky
Senior Vice-President

Per: 

Stephen Ferguson
Senior Vice-President

APPENDIX "A"

**UPDATED DIP BUDGET
UPDATED CASH FLOW FORECAST**

DCL Group
Amended DIP Budget
(\$ in 000s)

		Amended DIP Budget						Forecast
Week Number		1	2	3	4	5	6	Forecast
#	Detail	3/4	3/11	3/18	3/25	4/1	4/8	6-week
		3/10	3/17	3/24	3/31	4/7	4/14	Total
1.	Receipts:							
2.	Sales Receipts	5,021	4,238	4,277	4,835	4,634	4,505	27,510
3.	Total Receipts	5,021	4,238	4,277	4,835	4,634	4,505	27,510
4.	Operating Disbursements							
5.	Payroll & Benefits	(961)	(263)	(961)	(533)	(977)	(279)	(3,974)
6.	Pre-Petition Payables	(507)	(101)	-	-	-	-	(608)
7.	Vendor Payments	(1,061)	(1,500)	(1,450)	(1,450)	(1,450)	(1,450)	(8,361)
8.	Utilities	(506)	(294)	(250)	(821)	(456)	(252)	(2,578)
9.	Rent	(23)	-	-	(8)	(15)	-	(46)
10.	Insurance	(50)	-	(86)	(3)	-	-	(138)
11.	Freight, Duties & Other	(960)	(825)	(873)	(602)	(808)	(756)	(4,825)
12.	Maintenance Capex	(50)	(50)	(50)	(50)	(50)	(50)	(297)
13.	Total NA Operating Disbursements	(4,117)	(3,033)	(3,669)	(3,467)	(3,755)	(2,787)	(20,828)
14.	International Op. Disbursements	(930)	(977)	(1,006)	(1,106)	(657)	(1,106)	(5,783)
15.	Total Operating Disbursements	(5,047)	(4,010)	(4,675)	(4,573)	(4,412)	(3,893)	(26,611)
16.	Professional Fees	(845)	(2,280)	-	-	-	-	(3,126)
17.	DIP Interest Payment / Fees	-	-	-	-	(301)	-	(301)
18.	Adequate Protection	(316)	-	-	-	-	-	(316)
19.	Total - Non-Op. Disbursements	(1,162)	(2,280)	-	-	(301)	-	(3,743)
20.	Net Cash Flow	(1,187)	(2,052)	(398)	262	(79)	611	(2,844)
21.	Cash Roll forward:							
22.	Beginning Balance	5,537	3,000	2,750	2,000	2,000	2,000	5,537
23.	(+) Inflows	5,021	4,238	4,277	4,835	4,634	4,505	27,510
24.	(-) Disbursements	(6,208)	(6,290)	(4,675)	(4,573)	(4,713)	(3,893)	(30,354)
25.	(+/-) ABL Draws / (Sweeps)	(1,350)	1,802	(352)	(262)	79	(611)	(693)
26.	Ending Balance	3,000	2,750	2,000	2,000	2,000	2,000	2,000
27.	Revolver Summary:							
28.	Beginning Balance	45,321	43,972	45,774	45,422	45,161	45,240	45,321
29.	(+) Draw	6,208	6,290	4,675	4,573	4,713	3,893	30,354
30.	(-) Paydown	(7,558)	(4,488)	(5,027)	(4,835)	(4,634)	(4,505)	(31,047)
31.	Ending Balance	43,972	45,774	45,422	45,161	45,240	44,628	44,628
32.	Maximum Available	55,000	55,000	55,000	55,000	55,000	55,000	
33.	(-) Existing reserves	(508)	(508)	(508)	(508)	(508)	(508)	
34.	(-) LOC	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)	
35.	Maximum Available, net of reserves	52,692	52,692	52,692	52,692	52,692	52,692	
36.	Eligible Collateral	47,711	47,690	47,635	47,106	46,723	46,709	
37.	(-) Carve Out	(500)	(500)	-	-	-	-	
38.	(-) Administrative Charge	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	
39.	(-) Inventory Adjustment	(160)	(160)	(160)	(160)	(160)	(160)	
40.	Eligible Collateral, net of reserves	45,951	45,930	46,375	45,846	45,463	45,449	
41.	ABL Availability	45,951	45,930	46,375	45,846	45,463	45,449	
42.	Less: Loan Balance	43,972	45,774	45,422	45,161	45,240	44,628	
43.	Excess Availability (excl. Cash)	1,980	156	953	685	224	821	
44.	<i>Excess Availability (net of Cash)</i>	<i>4,980</i>	<i>2,906</i>	<i>2,953</i>	<i>2,685</i>	<i>2,224</i>	<i>2,821</i>	

Updated Cash Flow Forecast Assumptions

DCL Corporation Updated Cash Flow Forecast for the period ending April 14, 2023

Disclaimer

In preparing this cash flow forecast (the “Forecast”), DCL Corporation (the “Applicant” or “DCL Canada”) has relied upon unaudited financial information and has not attempted to further verify the accuracy or completeness of such information. The Forecast includes assumptions discussed below with respect to the requirements and impact of a filing under the Companies’ Creditors Arrangement Act (“CCAA”). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved will vary from the Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

The Forecast is presented in thousands of U.S. dollars. Receipts and disbursements denominated in Canadian currency have been converted into U.S. dollars at an exchange rate of US\$1.00:C\$0.74.

Notes

1) Sales Receipts

Sales Receipts are forecast based on Monteith’s accounts receivable during the period, adjusted for certain collection timing assumptions.

2) Intercompany Transfers

Intercompany Transfers includes inflows from DCL USA LLC, either: (a) as payment for Inventory Sales to DCL USA LLC or for the provision of Shared Services; or (b) as additional funding to support DCL Canada by way of Intercompany Loans.

3) Payroll & Benefits

Payroll and Benefits are forecast based on current manufacturing run-rates and include salaries, wages and benefits.

4) Vendor Payments

Vendor Payments include trade, non-trade, and maintenance vendors, forecast based on purchasing requirements, adjusted for certain timing assumptions.

5) Utilities

Utilities forecast based on current manufacturing run rates, adjusted for certain timing assumptions.

6) Rent

Rent includes disbursements for the DCL Head Office and the Mississauga Plant.

7) Insurance

Insurance includes the Applicant’s monthly premium payments.

8) Freight, Duties & Other

Freight, Duties and Other include disbursements for freight, customs and excise duties, commissions related to Monteith and other fixed overhead expenses.

9) Professional Fees

Disbursements include the Applicant's Canadian counsel, the Monitor and its legal counsel, the DIP Lenders' Canadian counsel and financial advisor, and the Term Loan Lenders' Canadian counsel.

10) DIP Interest Payment / Fees

DIP Interest Payments are forecast based on projected drawings under the DIP Facility by the Applicant only.

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COMMERCIAL LIST**
Proceeding commenced at Toronto

THIRD REPORT OF THE MONITOR

OSLER, HOSKIN & HARCOURT LLP
1 First Canadian Place, P.O. Box 50
Toronto, ON M5X 1B8

Marc Wasserman (LSO# 44066M)
Email: MWasserman@osler.com

Martino Calvaruso (LSO# 57359Q)
Email: MCalvaruso@osler.com

Counsel for Alvarez & Marsal Canada Inc., solely in its
capacity as Monitor of DCL Corporation and not in its
personal or corporate capacity