



**Initial Hearing**

**In the Matter of a Plan of  
Compromise or Arrangement of  
DCL Corporation**

**(the “Applicant”)**

**December 20, 2022**

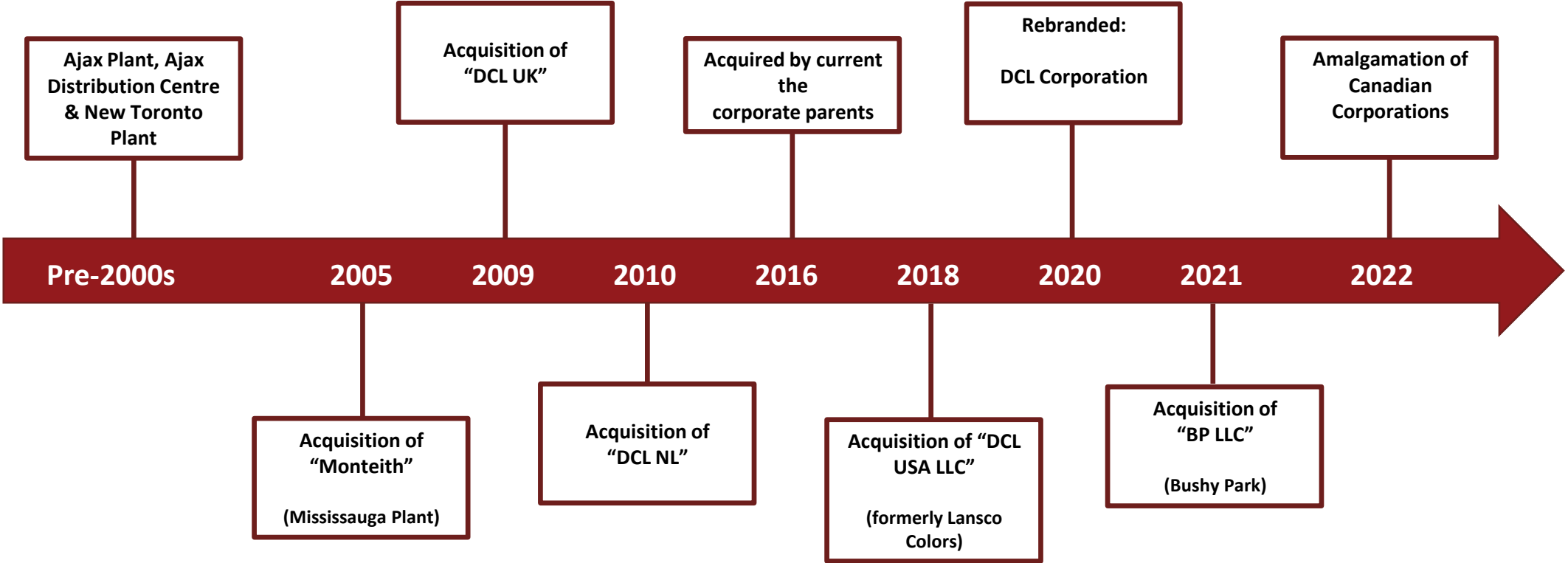
# Agenda

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1. Corporate History & Structure
2. Operational Overview & Causes of Insolvency
3. Secured Credit Facilities & Intercompany Transactions
4. Intercompany Agreements
5. Cash Requirements
6. Overview of Relief Sought
7. DIP Facility & Related Party Stay

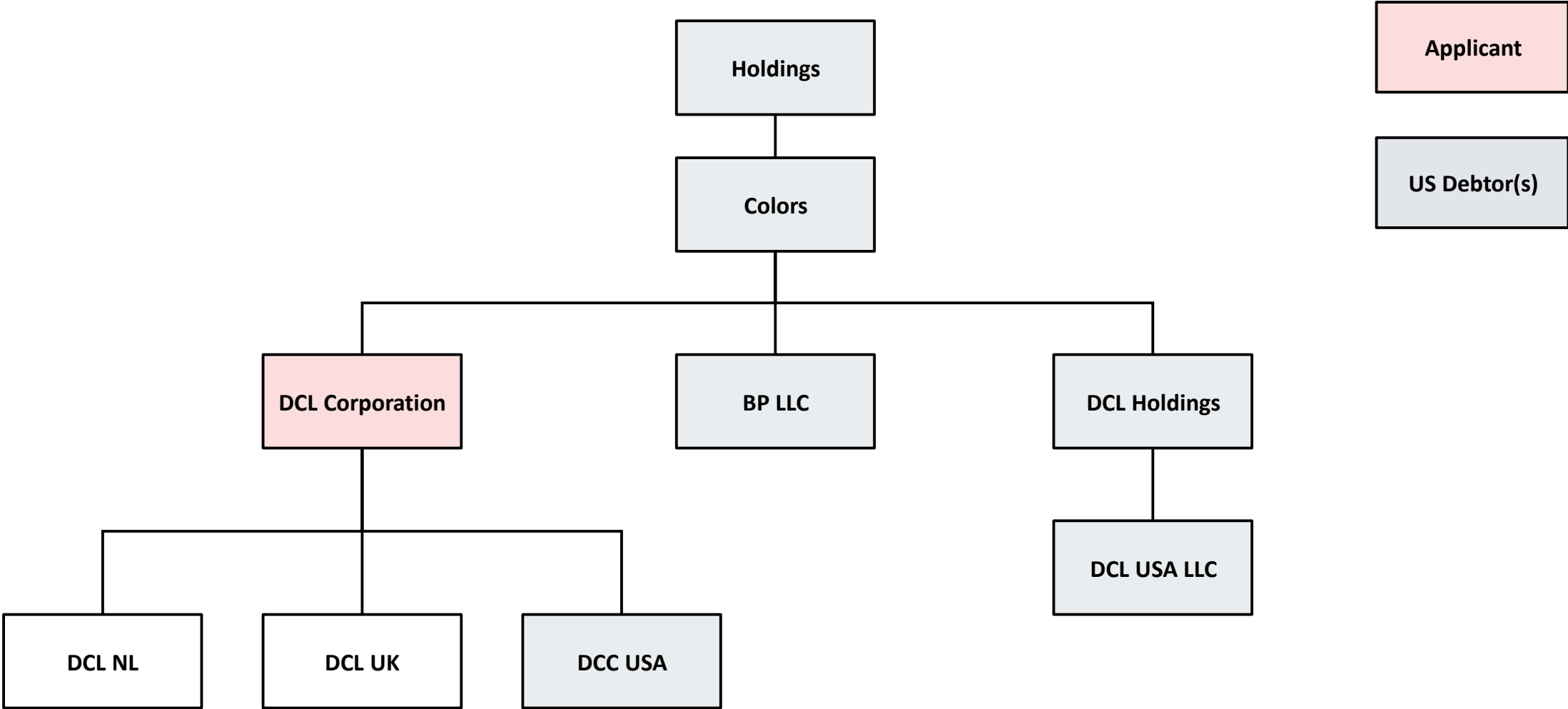
## **Part 1: Corporate History & Structure**

# Corporate History: The DCL Group





# Corporate Structure Chart: The DCL Group



## **Part 2: Operational Overview & Causes of Insolvency**

# Operational Overview

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## Offices & Facilities

1. DCL Head Office (46 employees) – Located in Toronto, Ontario.
  - a. Key executives: VP of Supply Chain, HR, Procurement, IT, Finance, Sales & Marketing, Regulatory, and R&D.
2. Ajax Plant & Ajax Distribution Centre (80 employees)
3. New Toronto Plant (62 employees)
4. Mississauga Plant & Corporate Office (18 employees)
  - a. The “Monteith” business.

**Current on Priority Statutory Liabilities including:** payroll, source deductions, pension liabilities and HST.

# Causes of Insolvency: Summary

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1. **Input costs:** Increased due to several macro-economic circumstances (e.g. inflation, supply chain, the employment market).
  - a. Gross margins have eroded.
2. **Unprofitable manufacturing facilities:** two of the three manufacturing plants are projected to be unprofitable.
3. **Debt structure:** Applicant is heavily burdened with secured debt.
  - a. Term Loan
  - b. ABL Credit Facility
4. **Liquidity crisis:** constrained for cash.
5. **Unable to meet material obligations such as:**
  - a. Third Party Vendors & Trade Creditors: \$11.9 million (approx. \$2.2 million overdue by 90 days)
  - b. KNRV Earn Out Obligation: CAD\$9,822,000 (past due)

## **Part 3: Secured Credit Facilities & Intercompany Transactions**

# Term Loan

Key Features:

- 1. **Initial Commitment:** \$99 million
- 2. **ABL Cap:** approximately \$40 million (as amended)

Date	Balances – Direct Borrowings (USD) (millions)			
	Applicant	DCL Holdings	Colors	Subtotal
As of Jul 31, 2022	11.6	11.9	67	90.5

# Sale of Customer Contracts & Working Capital Assets

**Seller:** Applicant

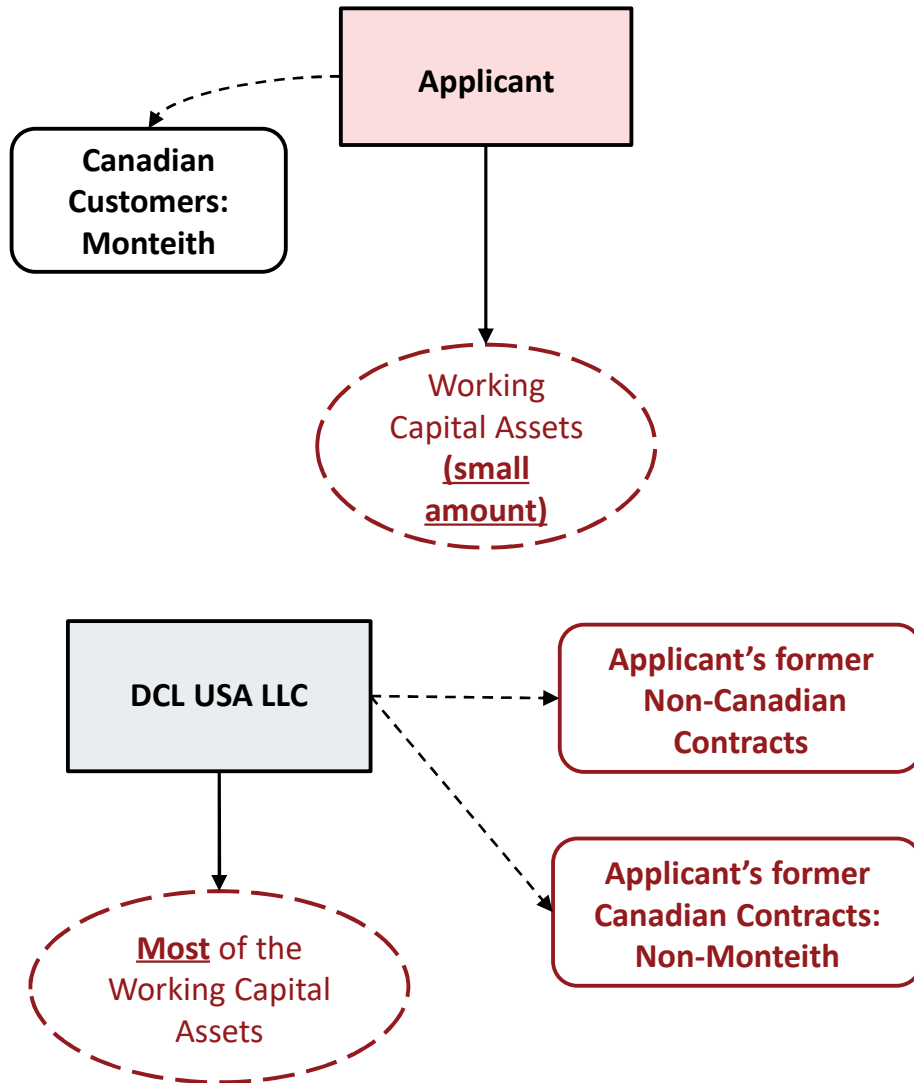
**Purchaser:** DCL USA LLC

Date	Sale of	Related to	Sale amount	Consideration
August 1, 2021	Customer Contracts	Non-Canadian Customers	FMV	Paid from Term Loan Restructuring
July 1, 2022	Customer Contracts	Canadian Customers (non Monteith)	FMV to be determined and then recorded	Interco. A/R (to be recorded)
July 1, 2022	Inventory (Existing on that date)	Both	Cost (to be adjusted)	Interco. A/R
July 1, 2022	A/R (Existing on that date)	Both	Book Value (Arm's Length)	Interco. A/R

**Pricing – July 1, 2022 Transactions:** adjustments to be made in consultation with DCL Group's tax advisor & to be consistent with transfer pricing policies. On-going inventory sales from the Applicant to DCL USA LLC from April 1 to June 30, 2022 are also subject to adjustment.

**Net Effect:** Substantially all of the Applicant's working capital assets were sold to DCL USA LLC (see next slide).

# Current Operating Structure



## Key Highlights – After July 1, 2022

### Customers

1. **Applicant:** Sells to Canadian Monteith customers.
2. **DCL USA LLC:** Sells to the remaining customers.

### Working Capital Assets

1. **Applicant:** holds small amounts of inventory.
2. **DCL USA LLC:**
  - a. Holds most of the inventory.
  - b. Holds most of the third-party accounts receivables

### DCL USA LLC owes the Applicant

Material intercompany accounts receivable.  
(from the July 1, 2022 transactions)



# ABL Credit Facility: Summary

Key Features:

- 1. **Maximum Credit:** \$55 million
- 2. **Borrowing Base:** Eligible A/R and Inventory (Canadian Borrowing Base & US Borrowing Base)
- 3. **ABL Cap (from Term Loan):** approximately \$40 million (as amended)

**Purpose of restructuring:** To align the debt with the party (DCL USA LLC) that owns the primary working capital assets.

Consideration:

- 1. DCL USA LLC pays the Applicant \$40 million (payment direction). The Applicant uses it to pay off its debt.
- 2. DCL USA LLC reduces the intercompany receivable it owed to the Applicant (from approx. \$40.9 million to \$0.9 million)

Date	Net Balances – Direct Borrowings (USD) (millions)		
	Applicant	DCL USA LLC	Subtotal
December 16, 2022 (prior to restructuring)	40	1.7	41.7
December 16, 2022 (immediately after restructuring)	0	41.7	41.7

# ABL Credit Facility: Restructuring

## *Before Restructuring*

### 1. Applicant:

- **Debt:** substantially all the debt.
- **Canadian Borrowing Base:** held a small amount of working capital assets. (insufficient)

### 2. DCL USA LLC:

- **Debt:** small amount of debt.
- **US Borrowing Base:** held most of the working capital assets.

## *After Restructuring – Dec 16, 2022*

### 1. Applicant:

- **Debt:** \$0
- **Canadian Borrowing Base:** small amount.

### 2. DCL USA LLC:

- **Debt:** All of the debt.
- **US Borrowing Base:** held most of the working capital assets.

### 3. Intercompany Balances – Result:

DCL USA LLC reduced the intercompany accounts receivable it owed to the Applicant.

## **Part 4: Intercompany Agreements**

# Intercompany Agreements

## Applicant and DCL USA LLC:

### 1. Applicant to (primarily) provide:

- a. Sale of finished goods inventory
- b. Shared Services
  - i. DCL USA LLC is also expected to provide shared services to the Applicant.
  - ii. The value of the Applicant's shared services provided to DCL USA LLC is expected to exceed the value of the shared services received.

### 2. DCL USA LLC to provide Intercompany Transfers:

- a. the sale of Finished Goods Inventory from the Applicant to DCL USA LLC;
- b. the provision, if any, of Net Shared Services;
- c. flow-through payment for DCL NL supplier invoices; and
- d. the amount, if any, of intercompany loans owing from the Applicant to DCL USA LLC.
  - i. Intercompany loans are to be secured.

**US/Canada Intercompany Agreement:** Formalizes these on-going arrangements with the Applicant and DCL USA LLC.  
Precondition to DIP Financing.

**European Intercompany Agreement:** Formalizes on-going arrangements with the Applicant, DCL USA LLC, DCL UK and DCL NL.  
Precondition to DIP Financing. The Applicant provides Shared Services pursuant to this agreement and is compensated by DCL USA LLC.

## Part 5: Cash Requirements

# Cash Requirements: Key Take-aways

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1. **Cash Deficit:** The Applicant is expected to operate at a cash deficit in absence of (1) the DIP Facility and (2) funding from DCL USA LLC.
2. **Drawing from the DIP Facility:** The Applicant will rely on drawing from the DIP Facility for the first 2 weeks (post-filing).
  - a. The Applicant is expected to exhaust its borrowing base after 2 weeks.
  - b. DIP Facility features: See discussion on “Guarantees under the DIP Facility”
3. **DCL USA LLC is expected to provide Intercompany Transfers.**

The Intercompany Transfers will be reconciled on a monthly basis.

## **Part 6: Overview of Relief Sought**

Relief Sought	Initial Order	Amended & Restated Initial Order ( <u>new</u> or <u>expanded</u> )
Stay of Proceedings	X	
Limited Related-Party Stay (DCL USA LLC Inventory)	X	
Intercompany Matters:		
a) Intercompany Agreements	X	
b) Intercompany Charge	X	
Appointment of:		
a) Monitor: Alvarez & Marsal Canada Inc.	X	
b) Chief Restructuring Officer: Mr. Scott Davido	X	
c) Investment Banker & Sale Advisor: TM Capital		X



Relief Sought	Initial Order	Amended & Restated Initial Order ( <u>new</u> or <u>expanded</u> )
<b>DIP Related Matters:</b>		
a) DIP Facility	X	
b) DIP Quantum	Amount for the Initial 10-Day Period (\$5 million)	Increasing the Max. DIP Borrowings (amended to \$55 million)*
c) DIP Charge	X	Extended to the DCL USA LLC Inventory
Administration Charge	Maximum of: \$175,000	Increasing to the Max. of: \$1,100,000
Directors' Charge	Maximum of: CAD\$1,000,000	Increasing to the Max. of: CAD\$1,700,000
Restructuring Powers		X
Critical Vendors (Pre-filing payments)		X

\* Subject to borrowing base.

## **Part 7: DIP Facility & Related Party Stay**

# DIP Facility: Key Features

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1. Maximum Availability: \$55 million
2. Borrowers:
  - a. Canadian DIP Borrower: Applicant
  - b. US DIP Borrowers: DCL USA LLC & BP LLC
3. Creeping Roll-Up for US DIP Borrowers: No pre-filing ABL debt for the Applicant.
4. Applicant's Guarantee of the US DIP Borrowers:
  - a. Part of the consideration for DCL USA LLC to pay off amounts the Applicant owed under the ABL Credit Agreement
  - b. Further discussion in slides below
5. DIP Charge: ABL priority collateral – subject only to the Administration Charge.

# DIP Facility: Milestones

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## On or before:

**1 Business Day after the Filing Date:** Seek relief to approve the DIP ABL Credit Agreement

**December 29, 2022:** Comeback Hearing & Amended and Restated Initial Order

**January 6, 2023:** File Bid Procedures Motion

**January 31, 2023:** Execute the DIP Asset Purchase Agreement

**February 7, 2023:** Seek approval of the DIP Asset Purchase Agreement & Bid Procedure Order

## DIP Facility: Milestones (Continued)

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### On or before:

**March 10, 2023:** “Bid Deadline” for qualifying bids

**March 15, 2023:** Commence the auction and select the winning bid(s) at the conclusion of such auction

**March 17, 2023:** Sale Order with respect to the results of the auction.

- Proceeds to be applied to obligations under the DIP ABL Credit Facility

**March 31, 2023:** Consummate the sale transaction

**March 31, 2023:** Payment in Full of all obligations under the DIP ABL Credit Facility

- Including the ABL Credit Facility (to the extent still outstanding)

## DIP Facility: Guarantee by the Applicant

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1. Required for DIP Financing
2. Does not impact the collateral position of unsecured creditors because of the ABL restructuring
3. Quasi-Marshalling
4. U.S. borrowings supported by its own borrowing base
5. No stand-alone solution

## Related Party Stay: DCL USA LLC Inventory

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1. Related Party Stay:
  - a. DCL USA LLC and the Applicant – guarantee of secured debt under the DIP Facility
  - b. DCL USA LLC and the Applicant – deeply integrated
  - c. US/Canada Intercompany Agreement – DCL USA LLC will own the finished goods inventory located in the distribution centres in Ontario.
  - d. Value of the finished goods inventory – material.
2. Request: Narrow related party stay of proceedings in favour of DCL USA LLC in respect to its inventory in Ontario.