

IN THE MATTER OF THE PROPOSAL OF
CONFORTI HOLDINGS LIMITED
OF THE CITY OF MARKHAM, IN THE REGIONAL MUNICIPALITY OF YORK
IN THE PROVINCE OF ONTARIO

TRUSTEE'S REPORT TO CREDITORS ON PROPOSAL

TO THE CREDITORS OF CONFORTI HOLDINGS LIMITED:

Conforti Holdings Limited (“Conforti”) or (the “Company”) filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to the ***Bankruptcy and Insolvency Act*** (“Act” or the “BIA”) on September 28, 2020 (“NOI Filing Date”) with Crowe Soberman Inc., Licensed Insolvency Trustee (the “Proposal Trustee”). The Ontario Superior Court of Justice granted orders on October 26, 2020, December 14, 2020 and January 27, 2021, extending the time in which the Company was required to file a Proposal.

On March 12, 2021, the Company filed a Holding Proposal to their creditors for the purpose of providing more time for the Company and its creditors to reach an agreement that will allow the Company to file an Ultimate Proposal. The Proposal Trustee held a Meetings of Creditors on April 1, 2021 (the “First Meeting of Creditors”) and October 29, 2021 (the “First Reconvened Meeting of Creditors”). Each of the Creditors’ Meetings were adjourned by resolution of the creditors. It was determined at the First Reconvened Meeting of Creditors that the Second Reconvened Meeting of Creditors will be held on March 31, 2022.

On March 21, 2022, the Company filed an Ultimate Proposal to its creditors, the details of which are summarized in **Section B** below.

The following Report will outline the background and financial position of the Company, including relevant information that should be of assistance to creditors in considering their position with respect to accepting or rejecting the Proposal.

The description of the Proposal in this Report is a summary only and is provided for the assistance of Creditors. In the event there is any inconsistency between this Report and the Proposal, the terms of the Proposal shall govern. Creditors are advised to read the Proposal.

Section A – Introduction and Background

The reasons for the Company’s filing of a NOI were a result of the COVID-19 pandemic and the resulting mandatory government measures, lock downs, and restrictions on capacity, which resulted in reduced attendances affecting mall traffic and personal care services. The reasons are more amply set out in the Proposal Trustee’s prior reports available at:

[<https://www.crowe.com/ca/crowesoberman/insolvency-engagements/conforti-holdings-limited>].

The Company required the stay of proceedings afforded through these Proposal Proceedings to allow it an opportunity to restructure its business operations on a going-concern basis under the supervision of the Proposal Trustee, and in a manner that will maximize value for the benefit of the Company’s stakeholders.

As per the Corporation Profile Report, the Company amalgamated with a number of its

subsidiaries under the ***Ontario Business Corporations Act*** effective April 1, 2015. The directors of the Company are Mr. Antonio Conforti ("Mr. Conforti") and Sylvia Conforti.

The Proposal Trustee understands that the business was started by Mr. Conforti in 1977 and has been a family-owned operated business for approximately 45 years. As at the NOI Filing Date, the Company's business operations comprised of 52 hair salons under 10 different trade names in southern Ontario, mostly in rental units in shopping malls and commercial office buildings. Given the various store closures during these Proposal Proceedings, as at the date of this report, the Company is currently operating 36 hair salons. As well, the Proposal Trustee has been advised that these 36 hair salons currently employ approximately 526 people.

Since the NOI Filing Date, the Company has been working with its counsel, the Proposal Trustee and its counsel, and the creditors, while trying to bring its operations to pre pandemic normalcy, or to otherwise stabilize sufficiently to permit the Company to make meaningful projections of its future income in order to fund a Proposal to its Creditors.

Section B – Summary of Proposal

The Company is filing its Proposal to satisfy its debts and obligations to its creditors. This section contains a summary of the Proposal, the terms of which would be effective if:

- i) all Unsecured Creditors with valid proven claims vote for the acceptance of the Proposal by a majority in number and two thirds in value of creditors present, personally or by proxy, at the general meeting of creditors; and
- ii) the Proposal is approved by the Court, in accordance with the provisions of the Act.

The Proposal provides for the restructuring of the Company's liabilities through a monetary distribution to unsecured creditors.

The Proposal provides for the following:

1. Claims as at the NOI Filing Date that could be subject to a demand under subsection 224(1.2) of the ***Income Tax Act (Canada)*** ("ITA"), any provision of the ***Canada Pension Plan*** or of the ***Employment Insurance Act*** that refers to subsection 224(1.2) of the ITA, or any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the ITA, shall be paid within six months after Court approval of the Proposal or as otherwise agreed. Generally, these amounts are for arrears in payment of payroll deductions. **The Company's debt in this regard is in the amount of \$25,145.13.**
2. Any outstanding fees and expenses of the Trustee shall be paid from the amounts paid to fund the Proposal.
3. Any amounts owing to employees or former employees of the Company that would qualify as claims under paragraph 136(1) (d) of the Act if the Company became bankrupt on the Proposal Date, are to be paid on Court approval of the Proposal. For greater certainty, amounts due or which may become due do not include claims for severance or termination pay or any compensation in lieu of termination. **The Company has not declared any debts in this regard.**
4. Secured claims as at the Proposal Date are to be dealt with as follows:

i) Secured creditors with proven claims may vote and participate as Unsecured Creditors to the extent that they surrender the value of their security.

5. Unsecured claims as at the Proposal Date are to be dealt with as follows:

i) Unsecured creditors with proven claims will receive a pro-rata dividend from a fund of the following amount (the "Creditor Payment Fund") which varies depending on whether the security in connection with the debt owing to Beauty Experts Inc. ("BEI") in the amount of \$1,500,000 is valid detailed as follows:

- (i) **\$2,430,000** - if the full BEI Secured Debt is entirely found to be invalid and the full \$1,500,000 then belongs to the Debtor; or
- (ii) **\$1,930,000** - if the full BEI Secured Debt is found to be entirely or partially valid then BEI shall make a secured loan to the Debtor in order to ensure that the Creditor Payment Fund is equal to this amount

ii) In addition to the Creditor Payment Fund, there is potential for a further recovery for the Company's unsecured creditors which is tied to the ongoing litigation with Moroccanoil, Inc. (the "Contingent Litigation Recovery"). Details of the Contingent Litigation Recovery can be found in Section 7.1 (b) of the Proposal.

Section C – Assets

The following is a summary of the Company's assets, as per the Statement of Affairs, dated September 28, 2020, and updated as of March 21, 2022.

	Per Statement of Affairs September 28, 2020	Updated Values as of March 21, 2022	Notes
	\$	\$	
Inventory	149,000	180,000	1
Trade Fixtures	55,000	50,000	1
Real Property	2,558,089	0	2
Furniture	5,000	0	1
Operating bank balance	0	550,000	
Total Assets	<u>2,767,089</u>	<u>780,000</u>	

Notes:

- 1 Updated amounts reflect values on a liquidation basis as per discussion with the Company's management.
- 2 The Real Property located at 7755 Warden Avenue was sold as part of a Stalking Horse Sale Process. This transaction was approved by the court on August 23, 2021.

Section D – Creditor Claims

According to information provided to the Trustee by the creditors, the Company's estimated creditors are comprised of:

Creditor classification	Amount
Unsecured - Preferred	\$5,567,958
Unsecured - Ordinary	\$3,902,148
Total Unsecured	\$9,470,106
Secured*	\$1,500,000
Total Claims	\$10,970,106
Contingent**	\$3,185,308

*The validity of the security in connection with the BEI claim in the amount of \$1,500,000 is being contested. In the event the security is determined to be invalid, the total unsecured claims would be in the amount of \$10,970,106.

**Contingent creditors' claims filed consist of claims submitted by Green Lightning Energy (\$377,830) and Morrocanol Inc. (\$2,807,478). Green Lightning Energy's claim is currently being valued by the Trustee at \$1. Regarding Morrocanol Inc.'s claim, the trustee's court motion requesting the matter be referred back to US courts was heard on March 15, 2022. Decision by judge is under reserve.

Section E – Estimated Realization

The Proposal Trustee has considered multiple scenarios in the following analysis. As previously noted, the validity of the security in connection with the BEI claim is being contested. Accordingly, we have estimated the percentage of return to unsecured creditors in a proposal vs bankruptcy, under a scenario that the BEI security is valid and a second scenario that the BEI security is invalid. Under both scenarios, the estimated percentage return to creditors was higher in a proposal as opposed to a bankruptcy.

Under the scenario that the BEI security is invalid, we estimated the return to creditors in a bankruptcy at 13.4% vs a proposal at 25.3%. Under the scenario that the BEI security is valid, we estimated the return to creditors in a bankruptcy at 4.4% vs a proposal at 20.1%.

The Proposal Trustee notes that it has not considered in the analysis below, a potential recovery to creditors with respect to the Contingent Litigation Recovery. Any such recovery would likely improve the degree by which the anticipated return for creditors under the Proposal as opposed to a bankruptcy, as the willingness and ability of any creditor(s) to fund that litigation in a bankruptcy may be limited, whether by way of prosecution by a trustee in bankruptcy or by way of a s.38 BIA order.

It should be noted that these comparisons are an estimate only, and the actual recovery may differ. Creditors are advised that these estimates should only be used as a guide only and the Trustee takes no responsibility for any difference.

Conforti Holdings Limited
Estimated Realization Analysis - Bankruptcy vs Proposal
March 21, 2022

		<i>BEI Security is Invalid</i>		<i>BEI Security is Valid</i>		Note
		Bankruptcy	Proposal	Bankruptcy	Proposal	
		\$	\$	\$	\$	
Net proceeds from sale of real property		1,397,624	1,397,624	1,397,624	1,397,624	
Proceeds from BEI Security		1,500,000	1,500,000	-	1,000,000	1
Operating bank balance		550,000	-	550,000	-	2
Inventory		180,000	-	180,000	-	3
Furniture and Fixtures		50,000	-	50,000	-	3
Total funds available in administration	A	3,677,624	2,897,624	2,177,624	2,397,624	
Estimated payments prior to distribution to creditors						
Legal and Professional		370,000	270,000	370,000	270,000	4
Corp Tax and ITC adjustments		-	202,000	-	202,000	5
Estimated 1.5 weeks payroll taxes/miscl payroll		140,000	-	140,000	-	6
Employees claims pursuant to s.81.3(1)		506,047	-	506,047	-	7
	B	1,016,047	472,000	1,016,047	472,000	
Available for distribution to Creditors	C=A-B	2,661,578	2,425,624	1,161,578	1,925,624	8
Priority claims						
CRA Deemed Trust Claim (pre-filing)		25,145	25,145	25,145	25,145	
BEI secured amount (Oct 2021 - Mar 2022)		275,000	-	275,000	-	9
Preferred Creditors						
Landlords - inventory		180,000	-	180,000	-	3
Landlords - furniture		50,000	-	50,000	-	3
Total priority claims	D	530,145	25,145	530,145	25,145	
Estimated net after priority claims	C-D	2,131,432	2,400,479	631,432	1,900,479	
Estimated proceeds from US lawsuit	E	-	unknown	-	unknown	10
		2,131,432	2,400,479	631,432	1,900,479	
Total claims of creditors as of March 14 2022		9,470,106	9,470,106	9,470,106	9,470,106	
Estimated increase in unsecured pool		6,435,896	-	4,935,896	-	11
Total Claims	F	15,906,002	9,470,106	14,406,002	9,470,106	12
Estimated percentage return to creditors	E/F	13.4%	25.3%	4.4%	20.1%	

Notes:

- 1** The security in connection with the secured debt owing to BEI is being contested. In the event it is determined that the BEI Security is invalid, \$1,500,000 will be available to fund a portion of the proposal. If it is determined that the security is valid, BEI has agreed to loan \$1,000,000 to the Company towards funding the proposal.
- 2** Estimated funds in the Company's operating accounts, to be used in the proposal for operations.
- 3** Inventory amount calculated based on 36 stores with net realizable value of \$5,000 per store. Furniture amount is the approximate liquidation value of all company-owned furniture in all of the stores. Combined inventory and furniture values owed to landlords for preferred claims.
- 4** Legal fees to Miller Thomson, Crowe Soberman Inc., and GSNH.
- 5** Taxes on sale of building and estimated ITC adjustments including for unpaid invoices.
- 6** Payroll taxes estimated at \$60,000 for 1.5 weeks and additional payroll for closing of \$50,000.
- 7** Section 81.3(1) max claim of \$2,000 per employee, based on a preliminary analysis prepared by the Company's management.
- 8** Amount (before rounding) is referred to as the "Creditor Payment Fund" as per 7.1 (a) of the Proposal, dated March 21, 2022.
- 9** Assuming BEI security is valid for post filing amounts owed to BEI.
- 10** Assuming no trustee participation in US lawsuit after bankruptcy. If the proposal is accepted, Antonio Conforti will personally pay legal fees going forward. Net proceeds, if any, will be split 60% to the company and 40% to Mr. Conforti.
- 11** Estimated increase in unsecured pool in the event of a bankruptcy consists of the following:

	<i>BEI Security is Invalid</i>	<i>BEI Security is Valid</i>
	\$	\$
Landlords' claims for 3 months accelerated	1,227,255	1,227,255
Landlords' claims for diff in % of rent paid	3,218,219	3,218,219
Unsecured WEPPA claims by employees	98,422	98,422
BEI unsecured claim	1,500,000	-
US legal fees outstanding	190,000	190,000
Corp Tax and ITC adjustments	202,000	202,000
Total increase in unsecured pool	<u>6,435,896</u>	<u>4,935,896</u>

- 12** Contingent creditors' claims filed have not been factored in Note 11 above. They consist of the following:

	\$	
Green Lighting Energy	377,830	- Valued as \$1.00 by the trustee
Morrocanol Inc.	2,807,478	- Trustee court motion heard on March 15 2022, requesting the matter be referred back to US courts. Decision by Judge is under reserve.
Total contingent claims	<u>3,185,308</u>	

If Proposal Accepted

If the proposal is accepted by 66.67% of creditors (in dollars) and 50% plus one (in number), the proposal passes, subject only to final Court approval. All unsecured creditors are thereafter bound by its terms, whether they voted for the proposal or not. The amount that unsecured creditors can expect to receive will ultimately depend on the final dollar amount of filed claims.

Distributions to all creditors in respect of their proven claims will be subject to the Superintendent of Bankruptcy levy equal to 5% of the dividend paid.

If Proposal Not Accepted

If the Proposal is not accepted, the Company would be deemed a bankrupt and their assets would vest with the Trustee, subject to the rights of secured creditors.

Section F – Statement of Projected Cash-flow

In accordance with the Act, the Trustee has reviewed the Statement of Projected Cash-flow prepared by the Company.

Section G – Previous Business Dealings with the Debtor

The undersigned Trustee, and Crowe Soberman Inc., confirm that they have no previous business dealings with the Company.

Section H – Remuneration of Trustee

The Company executed an engagement letter where it undertook to pay the Trustee's administrative fees and expenses up to a set amount. If the Trustee's administrative fees and expenses surpass the amount of the agreement, then any shortfall would be payable out of the Proposal Fund.

Section I – Procedures for Dealing with Proposal and Completing a Proof of Claim

In completing the proof of claim form submitted herewith, creditors should only include amounts outstanding as at September 28, 2020.

In light of the Coronavirus (COVID-19) and the observance of proper health and safety protocols, the meeting will be held via Microsoft Teams Meeting. Dial in details are below:

Date & Time: **Thursday, March 31, 2022 at 2:00 pm**

Method of Meeting: **Microsoft Teams meeting**
Join on your computer or mobile app
[Click here to join the meeting](#)
Or call in (audio only)
[+1 437-703-4645; 573789244#](#)
Toronto, Canada
Phone Conference ID: 573 789 244#

Please note that in order for your vote to count in connection with the Proposal, it is necessary that you complete and submit the enclosed proof of claim and voting documents prior to the meeting.

Creditors who do not wish to attend or be represented at the meeting but who wish to vote, may forward their proofs of claim and voting letters to the Trustee via fax or mail so as to be received prior to the meeting.

**If you have any questions on the Proposal or this Report, please contact Daniel Posner
via email at daniel.posner@crowesoberman.com or by telephone at 416-644-8447.**

Dated at the City of Toronto, Province of Ontario, this 23rd day of March, 2022.

CROWE SOBERMAN INC.
Licensed Insolvency Trustee
acting in re: the Proposal of
CONFORTI HOLDINGS LIMITED

Per: 
Hans Rizarri, CIRP, LIT