

Court File No.: \_\_\_\_\_

**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 YATSEN GROUP OF COMPANIES INC., SAR REAL ESTATE INC. AND  
THE COMPANIES LISTED IN APPENDIX "A"

**PRE-FILING REPORT OF THE PROPOSED MONITOR  
ALVAREZ & MARSAL CANADA INC.**

**JANUARY 24, 2021**

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## 1.0 INTRODUCTION

1.1 Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Proposed Monitor**”) understands that Yatsen Group of Companies Inc. (“**YGC**”), SAR Real Estate Inc. (“**SAR Real Estate**”) and the 36 companies listed in **Appendix “A”** (collectively, the “**Applicants**”<sup>1</sup>) intend to make an application to the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) for an order (the “**Initial Order**”) granting, among other things, a stay of proceedings pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing A&M as Monitor of the Applicants (the “**Monitor**”). The proceedings to be commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.

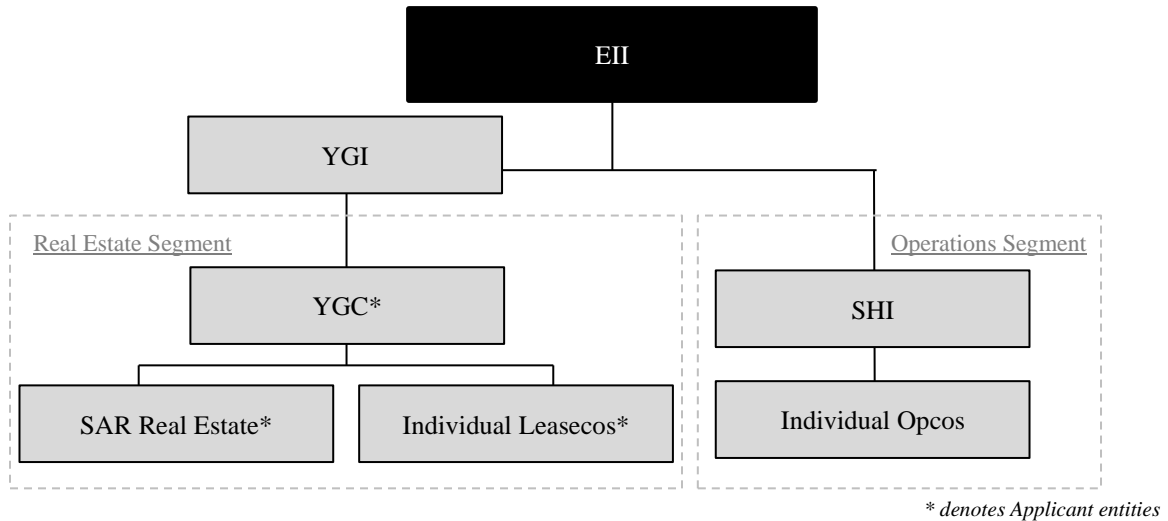
1.2 Each of the Applicants are directly or indirectly owned by Yatsen Group Inc. (“**YGI**”), a wholly owned subsidiary of Edjar International Inc. (“**EII**”). EII, collectively with its direct and indirect subsidiaries (“**Sarku Japan**” or the “**Company**”), operates approximately 226 Japanese quick service restaurants across the United States.

1.3 As described below, Sarku Japan’s business is comprised of two segments: (i) the real estate segment (the “**Real Estate Segment**”); and (ii) the restaurant operations segment (the “**Operations Segment**”). The Operations Segment’s parent company is SAR Holdings Inc. (“**SHI**”).

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<sup>1</sup> YGC and two of the other Applicants are incorporated under the laws of Ontario. The remaining Applicants are incorporated in the United States.

1.4 An organizational chart showing the legal entity structure of Sarku Japan, including the Applicants, is attached hereto as **Appendix “B”**. A simplified version of the legal and operational structure is as follows:



1.5 Each of the Applicants are entities within the Real Estate Segment. EII, YGI and the entities in the Operations Segment are not Applicants in the CCAA Proceedings.

1.6 The impact of the COVID-19 pandemic on the Company’s business has been significant, including extensive government-mandated restaurant closures and a material reduction in revenue and profitability. As a result of these challenges, the Company has accrued significant rent arrears across the majority of the Applicants’ lease portfolio and, as further described below, defaulted under the Wells Fargo Credit Facility (defined below) guaranteed by, among others, YGC.

1.7 The objective of the CCAA Proceedings is to stabilize the Applicants’ business and to allow them to pursue a restructuring plan that includes: (i) continuing ongoing discussions with landlords in an effort to obtain sustainable lease amendments across the lease

portfolio; and (ii) the termination of leases in respect of a number of underperforming locations that the Applicants, in consultation with their advisors, have determined have no path towards viability. The Applicants are continuing to review and assess their lease portfolio in that regard.

1.8 The purpose of this pre-filing report (the “**Report**”) is to provide the Court with information, and where applicable, the Proposed Monitor’s views on:

- (i) A&M’s qualifications to act as Monitor (if appointed);
- (ii) background information with respect to the Applicants (and the Company generally);
- (iii) the DIP Facility (defined below);
- (iv) the Applicants’ 13-week cash flow forecast;
- (v) the Applicants’ cash management system;
- (vi) intended next steps in the CCAA Proceedings, including the proposed Chapter 15 proceedings;
- (vii) the priority Court-ordered charges over the property and assets of the Applicants (the “**Property**”) as well as the non-impairment of a secured guarantee provided to Wells Fargo by YGC, as sought in the Initial Order; and
- (viii) the Proposed Monitor’s conclusions and recommendations in connection with the foregoing.

## 2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Report, A&M, in its capacity as Proposed Monitor, has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Company (including information provided by the Operations Segment's financial advisor, CR3 Partners, LLC ("CR3")) and has held discussions with the Company's management and its legal and financial advisors (collectively, the "**Information**"). Except as otherwise described in this Report in respect of the Applicants' cash flow forecast:

- (i) the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed 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 Proposed 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 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.

2.2 Future oriented financial information referred to in this Report was prepared based on the Company's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable,

actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

- 2.3 This Report should be read in conjunction with the Affidavit of Joseph McCullagh, President of YGC, and the President and Co-Chief Executive Officer of YGI, sworn on January 24, 2021 (the “**McCullagh Affidavit**”), and filed in support of the Applicants’ application for relief under the CCAA. Capitalized terms used and not defined in this Report have the meanings given to them in the McCullagh Affidavit.
- 2.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars (“**CAD**”).

### **3.0 A&M’S QUALIFICATIONS TO ACT AS MONITOR**

- 3.1 Alvarez & Marsal Canada ULC was engaged to act as consultant to YGC and its subsidiaries on December 22, 2020, and as such, the Proposed Monitor is familiar with the business and operations of the Applicants, their personnel and the key issues and stakeholders in the proposed CCAA Proceedings. A&M is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.
- 3.2 A&M is related to Alvarez & Marsal Holdings, LLC which is an independent international professional services firm, providing, among other things, bankruptcy, insolvency and restructuring services. The senior A&M personnel with carriage of this matter include experienced insolvency and restructuring practitioners who are Chartered Professional Accountants (Chartered Accountants), Chartered Insolvency and Restructuring

Professionals, and Licensed Insolvency Trustees, and whom have previously acted in CCAA matters of a similar nature and complexity in Canada.

3.3 The Proposed Monitor has retained Osler, Hoskin & Harcourt LLP to act as its independent legal counsel.

3.4 A&M has consented to act as Monitor of the Applicants should the Court grant the Applicants' request to commence the CCAA Proceedings.

#### **4.0 BACKGROUND INFORMATION**

##### Overview

4.1 Extensive background information regarding the Applicants' and the Company's business generally is provided in the McCullagh Affidavit. Certain key aspects are summarized below.

4.2 Sarku Japan is a Japanese quick service restaurant chain which operates approximately 226 mall-based and street level restaurants across the United States. The Company operates five complementary banners, each with a unique brand and concept. Of the 226 locations, 185 are Company-owned and 41 are franchised<sup>2</sup>.

4.3 Although all of the Company's restaurants are located in the United States, its head office and all of its senior management are located at YGI's head office in Markham, Ontario.

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<sup>2</sup> Of Sarku Japan's 226 restaurants: (a) 207 locations are leased by entities within the Real Estate Segment (189 of these leases are held by the Applicants); (b) seven locations are leased directly by Individual Opco's (as defined below); and (c) 12 locations are leased directly by franchisees.



4.4 The COVID-19 pandemic has had a significant detrimental impact on the Company's business, including, but not limited to the following:

- (i) commencing in March 2020, in accordance with applicable government mandates, Sarku Japan was required to close substantially all of its restaurant locations;
- (ii) as closure mandates were eased, a number of the Company's locations have remained closed. As of the date of this Report, of the Company's 226 locations, approximately 184 are open (of which, approximately 152 are subject to leases held by one of the Applicants);
- (iii) as a result of reduced sales due to the COVID-19 mandated closures and lower foot traffic in many of the re-opened locations, the Company's consolidated revenue for the twelve months ended December 2020 declined by approximately 46% compared to the same period in the prior year; and
- (iv) the deteriorated financial position of the Company resulted in certain defaults under a Wells Fargo Credit Facility during the second quarter of fiscal 2020.

4.5 Rental payments in respect of all restaurants owned by the Company had been paid in full up to and including March 2020. Since April 2020, other than approximately US\$6.4 million of rent (or partial rent) that was paid, the Company generally ceased paying rent in respect of substantially all of its leases. As at December 31, 2020, approximately 174 of the Applicants' 189 leases are in arrears, with approximately US\$26.8 million outstanding in aggregate.

4.6 In light of the above challenges:

- (i) in September 2020, CR3 was engaged by the Company to, among other things, assist the Company with a review of strategic alternatives and engage in discussions with Wells Fargo (as defined below) regarding the Wells Fargo Credit Facility; and
- (ii) in August 2020, Hilco Real Estate, LLC (“**Hilco**”) was engaged by the Company to provide certain consulting services in connection with reviewing leases and developing a strategic plan for restructuring and/or terminating leases, and negotiating and implementing such plan with applicable landlords.

4.7 YGC, with the assistance of Hilco and on behalf of the entire Real Estate Segment, has made extensive efforts to seek consensual arrangements with landlords for viable lease terms; however, the Applicants have been unable to achieve such an out-of-court resolution with the majority of their landlords. The Proposed Monitor understands that a number of landlords have commenced legal action against certain of the Applicants in multiple jurisdictions, including one in which a location was lost due to the landlord’s actions. In addition, one landlord has locked the Applicants out of seven locations, which the Applicants have not had access to since October 2020.

4.8 As described in further detail below, YGC has a negligible cash position and the remaining Applicants do not generate cash. The lease obligations of the Applicants were previously satisfied by various Individual Opcos (as defined below) and franchisees pursuant to occupancy and sublease agreements. However, following restaurant closures and the resulting financial difficulties, these Individual Opcos and franchisees generally stopped

making their applicable rent payments, as set forth in greater detail in the McCullagh Affidavit.

#### Leases & Restaurant Operations

4.9 Sarku Japan's business is comprised of two segments, the Real Estate Segment and the Operations Segment. The McCullagh Affidavit describes these segments in detail. A summary is provided below:

##### *Real Estate Segment*

- (i) comprised of YGC, SAR Real Estate and 57 individual entities (the “**Individual Leasecos**”) (36 of the 57 Individual Leasecos are Applicants in the CCAA Proceedings, see Appendix A);
- (ii) SAR Real Estate and the Individual Leasecos have separately entered into lease agreements with third-party landlords for the subject restaurant locations;
- (iii) after entering into a lease, SAR Real Estate or the applicable Individual Leaseco then entered into an occupancy agreement and/or sublease with an Individual Opco or the franchisee that operates the restaurant;
- (iv) for administrative efficiency, the Individual Opco or franchisee typically makes the payment in respect of the rent obligations to the applicable landlord on behalf of SAR Real Estate or the Individual Leaseco (rather than paying the amounts due to SAR Real Estate or the Individual Leaseco to then pay to the landlord);

- (v) of Sarku Japan's 226 restaurants: (a) 207 locations are leased by entities within the Real Estate Segment (189 of these leases are held by the Applicants); (b) seven locations are leased directly by Individual Opcos; and (c) 12 locations are leased directly by franchisees;
- (vi) the Real Estate Segment does not have any employees and in all material respects is managed by YGI from the Markham, Ontario headquarters;
- (vii) as at December 31, 2020, the Applicants owed approximately US\$26.8 million in rent pursuant to its 189 leases;
- (viii) YGC guarantees approximately 73 leases across the portfolio (approximately 61 of which are for leases held by an Applicant). YGC earns a guarantee fee based on a percentage of the applicable rent amounts, which fee is paid by the applicable counterparty;
- (ix) of the total rent arrears noted above, US\$8.4 million relates to those leases of the Applicants which are guaranteed by YGC;

- (x) the following table summarizes the leases, guarantees and rent arrears owing by the Applicants and non-Applicants within the Real Estate Segment:

<i>(USD in millions)</i>	<b># of Entities</b>	<b># of Leases</b>	<b># of Leases Guaranteed</b>	<b>Total Arrears</b>	<b>Guaranteed Arrears</b>
<i>Applicants</i>					
YGC	1	-	73	\$ -	\$8.4
SAR Real Estate (Applicant)	1	150	-	22.6	-
Individual Leaseco (Applicants)	36	39	-	4.2	-
<b>Applicants' Totals</b>	<b>38</b>	<b>189</b>	<b>73</b>	<b>\$26.8</b>	<b>\$8.4</b>
<i>Non-applicants</i>					
Individual Leaseco (non-Applicants)	18	18	-	-	-
<b>Real Estate Segment Totals</b>	<b>56</b>	<b>207</b>	<b>73</b>	<b>\$26.8</b>	<b>\$8.4</b>

*Operations Segment*

- (xi) comprised of SHI and 58 individual entities (the “**Individual Opcos**”);
- (xii) SHI and the Individual Opcos are not Applicants and are not party to the CCAA Proceedings;
- (xiii) the Operations Segment operates the Company’s corporate-owned restaurants, holds all intellectual property, are party to franchise arrangements and provide ancillary services in respect of franchised locations;
- (xiv) the Operations Segment is funded from cash flow generated by operating the restaurants and from the Wells Fargo Credit Facility;
- (xv) the Operations Segment is managed by YGI in Canada from the Markham, Ontario headquarters, including, among other things, making all key business and strategic

decisions, negotiating and entering into key supplier arrangements, and providing accounting, bookkeeping, IT and other services to the Individual Opcos; and

- (xvi) the Company also has a number of franchise arrangements with third-party franchisees; in respect of these franchised locations, the Operations Segment provides various services pursuant to franchise agreements.

#### Unsecured Creditors

- 4.10 Other than the amounts owing for rent arrears discussed above (and associated guarantees), the Applicants' books and records reflect that no other amounts are owing to any third-party creditors.

#### Rent Payments

- 4.11 As described above, the Applicants are party to 189 leases. Pursuant to these leases, SAR Real Estate and the 36 Individual Leasecos, as applicable, are obligated to make rent payments to the applicable landlord. On a combined basis, rent for these 189 locations is approximately US\$3.6 million per month.
- 4.12 The leases to which the non-Applicant entities are a party will not be affected by these CCAA Proceedings and will continue pursuant to their existing terms, as will the related occupancy agreements or subleases.
- 4.13 Pursuant to the applicable occupancy and/or sublease agreements, each Individual Opco or franchisee is contractually obligated to pay the applicable rent amount on behalf of SAR Real Estate or the Individual Leaseco, as applicable, for the leased locations.

- 4.14 As described in the McCullagh Affidavit, the Individual Opcos and franchisees have historically paid rent directly to the applicable landlord on behalf of SAR Real Estate or the Individual Leaseco. The Proposed Monitor understands that during the CCAA Proceedings this practice will continue. The Company has provided the Proposed Monitor with confidential information that shows, to the satisfaction of the Proposed Monitor, provision for the full payment of rent owing by the Applicants during the CCAA Proceedings by the Individual Opcos, provided that Wells Fargo does not take any enforcement actions with respect to the defaults under the Wells Fargo Credit Facility.
- 4.15 In order to provide additional comfort to landlords that rents will be paid in accordance with the leases during the CCAA Proceedings, the Applicants have agreed to an arrangement pursuant to which the applicable Individual Opcos will fund, in aggregate, US\$3.1 million (the “**Rent Reserve**”), to be held by the Monitor in escrow as security for the payment of rent obligations incurred from and after the commencement of the CCAA Proceedings. The escrow agreement (the “**Escrow Agreement**”) pursuant to which the Rent Reserve will be deposited and administered (subject to the proposed Initial Order) is appended as Exhibit “E” to the McCullagh Affidavit.
- 4.16 The amount of the Rent Reserve is equal to the sum of the forecast rent obligations of the Applicants for the one-month period following the commencement of the CCAA Proceedings, excluding rent obligations for the 30-day notice period applicable to leases the Applicants intend to disclaim promptly after obtaining the proposed Initial Order and payments for leases expiring at the end of this month which the Applicants do not intend to renew. The Applicants understand that the Individual Opcos will pay rent obligations on their behalf for such disclaimer notice period in accordance with the proposed Initial Order

and to pay rent for the “stub” period between filing and January 31, 2021 prior to the proposed comeback hearing.

- 4.17 In the event any Individual Opco or franchisee fails to pay its monthly rent following the commencement of the CCAA Proceedings (e.g. post-filing period rent), YGC, on behalf of the applicable Applicant, will have the ability to direct the Monitor to pay the applicable lease payment from the Rent Reserve on behalf of SAR Real Estate or the applicable Individual Leaseco, subject to the terms of the Escrow Agreement.

Wells Fargo Credit Facility

- 4.18 SHI (a non-Applicant entity) is the borrower under the Credit Agreement with Wells Fargo Bank, National Association, as administrative agent (“**Wells Fargo**”) and the various lenders party thereto (the “**Wells Fargo Credit Facility**”). The facility is guaranteed by Edjar Food Group Inc., EII, YGI and YGC (the only Applicant guarantor), among others. The facility is a US\$70 million revolving credit facility, of which approximately US\$50 million had been drawn as at December 31, 2020. The Wells Fargo Credit Facility is described in further detail in the McCullagh Affidavit.

- 4.19 The Proposed Monitor understands that Wells Fargo has raised no objection to the commencement of the CCAA Proceedings or borrowings to be made under the DIP Facility, though it is reserving its rights in all respects and on the understanding that it will be an unaffected creditor in any plan of compromise or arrangement filed by the Applicants in the CCAA Proceedings and that the Charges (as defined below) will be subordinated to security granted by YGC. The Monitor understands that the parties to the Wells Fargo Credit Facility are in the process of settling a formal amendment with respect to same.



4.20 The Applicants are seeking that the Initial Order provide that Wells Fargo shall be treated as unaffected in any plan of arrangement under the CCAA or any proposal filed by the Applicants under the *Bankruptcy and Insolvency Act* with respect to any claims against YGC under its secured guarantee of the Wells Facility. Furthermore, as described below, the court ordered charges are proposed to rank behind such security.

4.21 In connection with the above-noted relief being sought in the proposed Initial Order, the Proposed Monitor's counsel has conducted a review of the security granted by YGC to Wells Fargo pursuant to its guarantee of the Wells Fargo Credit Facility. Subject to qualifications and assumptions customary in rendering security opinions of this nature, the Proposed Monitor's counsel is of the view that such security is valid and enforceable security perfected by registration in the province of Ontario, to the extent capable of perfection by registration of a financing statement under the Ontario *Personal Property Security Act*. The Proposed Monitor's counsel expects to prepare a security opinion setting out their conclusions with respect to the security, which the Proposed Monitor will make available to this Court on request.

## **5.0 DIP FACILITY**

5.1 As described in the McCullagh Affidavit, the Applicants require financing to fund the professional and legal fees associated with the CCAA Proceedings and the Chapter 15 proceedings and to implement the contemplated restructuring of the Applicants' business. As noted above, the Applicants do not generate or hold any cash. Accordingly, financing will be required upon the commencement of the CCAA Proceedings.

5.2 The Applicants have been offered financing from 1699803 Ontario Inc. (in such capacity, the “**DIP Lender**”), an entity owned by the equity holders of the Company, pursuant to a secured debtor-in-possession credit facility (the “**DIP Facility**”). The DIP Facility is described in detail in the McCullagh Affidavit. Key terms of the DIP Facility include the following:

<b>Yatsen Group of Companies Inc. DIP Facility</b> (Capitalized terms have the meaning ascribed thereto in the DIP Financing Agreement)	
Agreement	<ul style="list-style-type: none"> <li>• DIP Financing Agreement in the form attached to the McCullagh Affidavit (the “<b>DIP Financing Agreement</b>”)</li> </ul>
Borrowers	<ul style="list-style-type: none"> <li>• Yatsen Group of Companies Inc. (the “<b>Administrative Borrower</b>”); and</li> <li>• Each of the other Applicants</li> </ul>
Lender	<ul style="list-style-type: none"> <li>• 1699803 Ontario Inc.</li> </ul>
Facility Amount	<ul style="list-style-type: none"> <li>• Multiple draw credit facility up to a maximum principal amount of \$5 million</li> <li>• Draws to be made by the Borrower submitting a Drawdown Request Certificate</li> </ul>
Interest	<ul style="list-style-type: none"> <li>• 3.0% per annum to be added to principal on monthly basis and payable on the Maturity Date</li> </ul>
DIP Collateral	<ul style="list-style-type: none"> <li>• To be secured by the DIP Lender’s Charge (as defined below)</li> <li>• DIP Lender’s Charge to be subordinate to Wells Fargo’s security</li> <li>• Obligations under the DIP Financing Agreement shall secure all of the Borrowers’ current and future assets, undertakings and properties</li> </ul>
Permitted Payments	<ul style="list-style-type: none"> <li>• The Borrowers shall use proceeds of the DIP Facility solely for the (i) professional fees and expenses incurred by: (i) the DIP Lender; (ii) the Borrowers; and (iii) the Monitor and its counsel</li> <li>• The Borrowers may not use the proceeds of the DIP Facility to pay any pre-filing obligations (other than costs and expenses described in the foregoing paragraph); and</li> <li>• Each Advance shall be disbursed by the DIP Lender directly to the applicable vendor and in no event shall any Advance be disbursed to any Borrower directly</li> </ul>
Maturity Date	<ul style="list-style-type: none"> <li>• The DIP Facility shall be repayable in full on the earlier of:               <ol style="list-style-type: none"> <li>i. occurrence of any Event of Default that has not been cured and a demand for repayment in writing having been made by the DIP Lender to the Borrowers with a copy to the Monitor</li> <li>ii. the termination of the Proceedings; and</li> <li>iii. July 31, 2021</li> </ol> </li> </ul>

	<ul style="list-style-type: none"><li>• The Maturity Date may be extended from time to time with the consent of the DIP Lender</li></ul>
Milestones	<ul style="list-style-type: none"><li>• The Borrowers shall achieve the following Milestones:<ul style="list-style-type: none"><li>i. file the Recognition Proceedings (one day following entry by the CCAA Court), obtain entry of an order in the Recognition Proceedings granting provisional relief (within seven days following entry by the CCAA Court); and obtain entry of an order in the Recognition Proceedings granting recognition of the CCAA Proceedings as a foreign main proceeding (within 35 days of the entry by the CCAA Court);</li><li>ii. the Comeback Motion shall be heard by the CCAA Court not later than ten (10) days following the entry of the Initial Order; and</li><li>iii. the CCAA Court shall have granted an amended and restated Initial Order, in form and substance satisfactory to the DIP Lender, acting reasonably, not later than two (2) Business Days following the hearing of the Comeback Motion</li></ul></li></ul>

5.3 The Proposed Monitor is of the view that the DIP Facility is reasonable in the circumstances. The Proposed Monitor notes the following:

- (i) the amount of the DIP Facility requested to be approved pursuant to the Initial Order (\$500,000) is projected to provide the Applicants with sufficient liquidity during the first ten days of the CCAA Proceedings to pay the costs of necessary professional advisors who, as described further herein, will only have a limited and subordinated Administration Charge (as defined below) against the Applicants, which do not generate or hold cash;
- (ii) the DIP Facility should not financially prejudice the Applicants' limited creditor pool, given: (a) the protections to be afforded to the various landlords in the proposed Initial Order (as described further herein, including the Rent Reserve); (b) that it is intended that the landlords will receive all post-filing rent amounts owing in the ordinary course; and (c) the proposed prohibition on Wells Fargo being affected in any plan of arrangement or proposal; and

- (iii) at 3% interest and no fees, the DIP Facility provides favourable pricing and terms compared to other similar related-party DIP facilities approved by the Canadian courts in other CCAA proceedings, which is particularly relevant in light of the limited asset base of the Applicants and the priority treatment to be afforded to Wells Fargo described herein.

## 6.0 CASH FLOW FORECAST

- 6.1 The Applicants have prepared a weekly cash flow forecast (the “**Cash Flow Forecast**”) for the 13-week period from January 25 to April 24, 2021 (the “**Cash Flow Period**”). A copy of the Cash Flow Forecast, together with a summary of assumptions (the “**Cash Flow Assumptions**”) and Management’s report on the cash-flow statement required by section 10(2)(b) of the CCAA are attached hereto as **Appendices “C”** and “**D**”, respectively.
- 6.2 As summarized in the table below, during the Cash Flow Period, the Cash Flow Forecast shows negative net cash flows of approximately \$2.1 million.

<b>Cash Flow Forecast</b>	<i>\$millions</i>
<b>Receipts</b>	\$ -
<b>Disbursements</b>	
Professional Fees	(2.1)
<b>Net Cash Flow</b>	<b>(\$2.1)</b>
<b>DIP Facility (incl. accrued interest)</b>	<b>\$2.1</b>

- 6.3 The Proposed Monitor notes the following with respect to the Cash Flow Forecast:
- (i) as at the date of this report, the Applicants have a negligible cash balance, which will not change during the course of the CCAA Proceedings;

- (ii) other than professional fees, the Applicants' do not have any other disbursements forecast during the Cash Flow Period; and
- (iii) as described in paragraphs 4.11 through 4.17 of this Report, consistent with past practice, all rent obligations owing by the Applicants during the CCAA Proceedings will be paid directly by the Individual Opcos and franchisees pursuant to the occupancy agreements or subleases.

6.4 Based on the Proposed Monitor's review<sup>3</sup>, nothing has come to its attention that causes it to believe, in any material respect that:

- (i) the Cash Flow Assumptions are not consistent with the purpose of the Cash Flow Forecast;
- (ii) as at the date of this Report, the Cash Flow Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the Cash Flow Assumptions; or
- (iii) the Cash Flow Forecast does not reflect the Cash Flow Assumptions.

The Cash Flow Forecast has been prepared solely for the purpose and subject to the assumptions described above, and readers are cautioned that it may not be appropriate for

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<sup>3</sup> The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of management. The Proposed Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast.

other purposes. The Cash Flow Forecast is subject to material change in the event that the Applicants are not able to negotiate acceptable rent arrangements with their landlords.

## **7.0 CASH MANAGEMENT SYSTEM**

7.1 As described in the McCullagh Affidavit, the Applicants have banking relationships with CIBC and TD Bank in Canada, and Wells Fargo in the United States. The Applicants' cash management system (the "**Cash Management System**") is operated through various bank accounts denominated in both US and Canadian dollars and held by the individual Applicants at CIBC and TD Bank, each in Markham and Toronto, respectively, and Wells Fargo in California. The Applicants are part of an integrated, centralized cash management system with Sarku Japan's other entities (the "**Cash Management System**"). The Cash Management System is administered by Sarku Japan's treasury department at the head office in Markham, Ontario.

7.2 The activity through the Applicants' Cash Management System and associated bank accounts is relatively minimal. For administrative efficiency, the Individual Opco or franchisee typically makes the payment in respect of the rent obligations to the applicable landlord on behalf of SAR Real Estate or the applicable Individual Leaseco (rather than paying the amounts due to SAR Real Estate or the Individual Leaseco to then pay to the landlord). Similarly, where applicable, the Individual Opco or the franchisor makes the payment in respect of any applicable lease guarantee fee directly to YGC.

7.3 The Applicants intend to continue using their existing Cash Management System in substantially the same manner as before the commencement of the CCAA Proceedings and are seeking the approval of Court to do so. The Proposed Monitor supports this request.

## **8.0 CHAPTER 15 PROCEEDINGS**

8.1 As discussed in the McCullagh Affidavit, the Applicants intend to seek recognition of the these CCAA Proceedings under Chapter 15 of the United States Bankruptcy Code and authorization for the Proposed Monitor to apply as foreign representative for the recognition of these proposed CCAA Proceedings as “Foreign Main Proceedings”.

## **9.0 INTENDED NEXT STEPS IN THE CCAA PROCEEDINGS**

9.1 The Proposed Monitor understands that, subject to obtaining the proposed Initial Order, the Applicants intend to:

- (i) deliver 30-day lease disclaimer notices for approximately 27 leases that have been identified as unviable following the Applicant’s analysis of same, in consultation with their advisors, subject to the Monitor’s approval; and
- (ii) continue ongoing discussions and negotiations with landlords to achieve consensual lease amendments to make such leases viable, failing which disclaimer of same may be required.

9.2 The Proposed Monitor understands that, in light of the Applicants’ liquidity position, the various legal actions commenced by certain of its landlords and the significant uncertainties with respect to the current operating environment, it is imperative that the Applicants complete their restructuring initiatives on a highly expedited timeline.

## **10.0 COURT-ORDERED CHARGES SOUGHT IN THE INITIAL ORDER**

10.1 The Proposed Initial Order seeks the granting of the Administration Charge and the DIP Lender's Charge (collectively, the "**Charges**") over the Property of the Applicants, as described below.

10.2 As described in the McCullagh Affidavit, the Charges are proposed to rank behind the security provided by YGC pursuant to its guarantee of the Wells Fargo Facility.

### Administration Charge

10.3 The Initial Order provides for a charge over the Applicants' Property in an amount not to exceed \$500,000 in favour of the Monitor, counsel to the Monitor and counsel to the Applicants (the "**Administration Charge**").

10.4 The Proposed Monitor assisted the Applicants in the calculation of the Administration Charge and is of the view that the amount of the charge for the initial 10-day stay period is reasonable and appropriate in the circumstances, having regard to the nature of the proceedings, potential work involved at peak times, and the size of charges approved in similar CCAA proceedings.

### DIP Lender's Charge

10.5 The Initial Order provides for a charge on the Applicants' Property as security for the outstanding obligations under the DIP Facility (the "**DIP Lenders' Charge**").



10.6 It is a condition of the DIP Facility that the DIP Lender's Charge be granted by this Court. The Monitor's observations with respect to the DIP Facility are set out in paragraph 5.0 above.

Priority of Charges Created by the Proposed Initial Order

10.7 The priorities of the Charges are proposed to be as follows:

- (i) First – Administration Charge (to the maximum amount of \$500,000); and
- (ii) Second – DIP Lenders' Charge (to the maximum amount of \$500,000).


10.8 As set out above, the Proposed Monitor believes that the Charges are reasonable in the circumstances.

**11.0 CONCLUSIONS AND RECOMMENDATIONS**

11.1 For the reasons set out in this Report, if the Court is satisfied that the Applicants are companies to which the CCAA applies, the Proposed Monitor is of the view that the relief requested by the Applicants in the proposed Initial Order is reasonable, appropriate and necessary having regard to the current circumstances of the Applicants. As such, the Proposed Monitor supports the Applicants' application for CCAA protection and respectfully recommends that the Court grant the Initial Order containing the relief requested by the Applicants.

All of which is respectfully submitted to the Court this 24th day of January, 2021.

**Alvarez & Marsal Canada Inc., in its capacity as Proposed Monitor of Yatsen Group of Companies Inc., SAR Real Estate Inc. and the Companies listed in Appendix "A", and not in its personal or corporate capacity**

Per:  \_\_\_\_\_

Alan J. Hutchens  
Senior Vice-President

**APPENDIX A**  
**LIST OF ADDITIONAL APPLICANT COMPANIES**

1. HEAP Japanese Food Inc.
2. KB Wisconsin Food Inc.
3. MT Security Square Food Inc.
4. SAR Buckland Food Inc.
5. SAR Coastland Food Inc.
6. SAR Coventry Food Inc.
7. SAR Dulles Expo Center Inc.
8. SAR First Colony Food Inc.
9. SAR Glenbrook Food Inc.
10. SAR Greenbrier Food Inc.
11. SAR Laurel Food Inc.
12. SAR Lloyd Food Inc.
13. SAR Oglethorpe Food Inc.
14. SAR Orange Park Food Inc.
15. SAR Oviedo Food Inc.
16. SAR Park Place Food Inc.
17. SAR Plymouth Food Inc.
18. SAR Ramsey Food Inc.
19. SAR Santa Rosa Food Inc.
20. SAR Security Square Food Inc.
21. SAR St. Charles Food Inc.
22. SAR Stafford Food Inc.
23. SAR Superstition Springs Food Inc.



24. SAR Tanforan Food Inc.
25. SAR Valley Plaza Food Inc.
26. SAR Westgate Massachusetts Food Inc.
27. SAR Willowbrook Food Inc.
28. SJ Arsenal Inc.
29. SJ Boynton Inc.
30. SJ Fox Run Inc.
31. SJ Lenox Food Inc.
32. SJ Macon Food Inc.
33. SJ Rosspark Food Inc.
34. SJ Savannah Food Inc.
35. SJ South Hills Food Inc.
36. SJ Yorktown Food Inc.

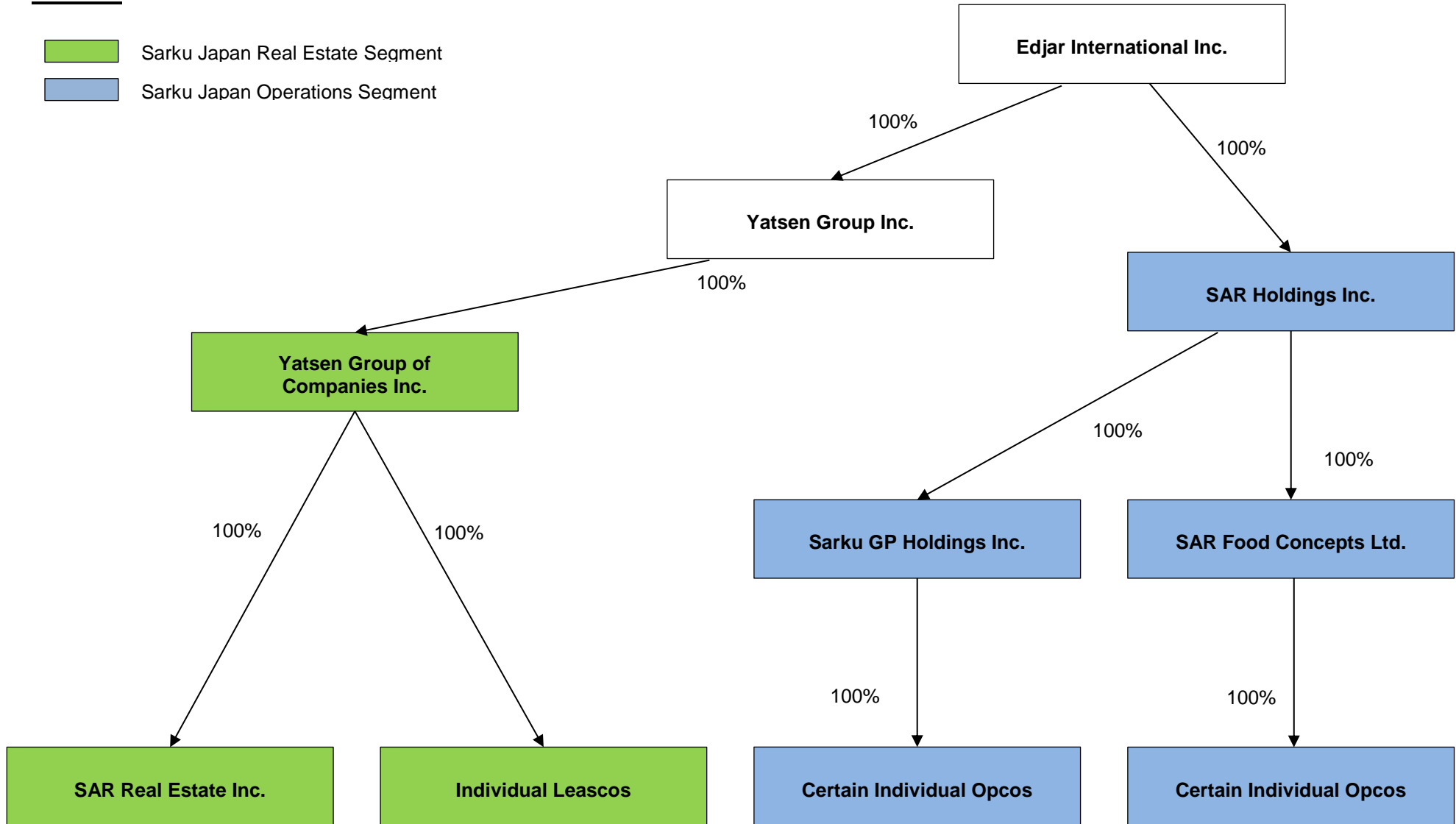
**APPENDIX B**  
**SARKU JAPAN CORPORATE STRUCTURE**

See attached.

# Sarku Japan Summary Corporate Chart\*

## LEGEND

-  Sarku Japan Real Estate Segment
-  Sarku Japan Operations Segment



\*Certain subsidiaries of Edjar International Inc. and SAR Holdings Inc. have been omitted in this summary chart

**APPENDIX C**  
**CASH FLOW FORECAST**

See attached.

**Yatsen Group of Companies Inc., et. al.**  
**Cash Flow Forecast**  
(Unaudited, in 000s CAD)

<b>Week Ending</b>	<i>Week 1</i> <b>Jan 30</b>	<i>Week 2</i> <b>Feb 6</b>	<i>Week 3</i> <b>Feb 13</b>	<i>Week 4</i> <b>Feb 20</b>	<i>Week 5</i> <b>Feb 27</b>	<i>Week 6</i> <b>Mar 6</b>	<i>Week 7</i> <b>Mar 13</b>	<i>Week 8</i> <b>Mar 20</b>	<i>Week 9</i> <b>Mar 27</b>	<i>Week 10</i> <b>Apr 3</b>	<i>Week 11</i> <b>Apr 10</b>	<i>Week 12</i> <b>Apr 17</b>	<i>Week 13</i> <b>Apr 24</b>	<b>13 Week Total</b>
<b>Total Receipts</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Disbursements</b>														
Professional Fees	-	(449)	-	(488)	-	(328)	-	(322)	-	(257)	-	(257)	-	(2,101)
<b>Net Cash Flow</b>	-	<b>(449)</b>	-	<b>(488)</b>	-	<b>(328)</b>	-	<b>(322)</b>	-	<b>(257)</b>	-	<b>(257)</b>	-	<b>(2,101)</b>
<b>DIP Facility</b>														
Beginning DIP Balance	-	-	(449)	(449)	(937)	(937)	(1,267)	(1,267)	(1,589)	(1,589)	(1,849)	(1,849)	(2,106)	-
DIP (Advance) / Repayment	-	(449)	-	(488)	-	(328)	-	(322)	-	(257)	-	(257)	-	(2,101)
+ Accrued Interest	-	-	-	-	-	(2)	-	-	-	(4)	-	-	-	(5)
<b>Ending DIP Balance</b>	-	<b>(449)</b>	<b>(449)</b>	<b>(937)</b>	<b>(937)</b>	<b>(1,267)</b>	<b>(1,267)</b>	<b>(1,589)</b>	<b>(1,589)</b>	<b>(1,849)</b>	<b>(1,849)</b>	<b>(2,106)</b>	<b>(2,106)</b>	<b>(2,106)</b>

Prepared by Management. To be read in conjunction with the Notes and Summary of Assumptions.



**Yatsen Group of Companies Inc., et al**  
**13-Week Cash Flow Forecast**  
**Notes and Summary of Assumptions**

**Disclaimer**

In preparing this cash flow forecast (the “Forecast”), the Applicants have relied upon unaudited financial information and have 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 during the Forecast period 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 Canadian dollars.

1. Professional Fees - Includes payments to the Applicants’ Canadian and US legal counsel, CCAA Monitor, Monitor’s Canadian and US legal counsel and legal advisors to the DIP lenders.
2. Rent - Readers are directed to review Section 4 of the Pre-Filing Report of the Proposed Monitor (the “Report”).

As described in the Report, the Applicants’ are party to a number of leases and are contracted to make rent payments to landlords pursuant to those leases. The Applicants’ however have occupancy and/or sublease agreements for each of its restaurant locations with an Individual Opcos or franchisee who is contractually obligated to pay the Applicants the applicable rent amount for each of the individual locations. Prior to the impacts of the COVID pandemic, these rent amounts were paid directly by the Individual Opcos and franchisees to the applicable landlord on behalf of the Applicants. During the CCAA Proceedings, the applicable Individual Opcos or franchisees will continue to make rent payments directly to the applicable landlord, not to the Applicants who would then have to remit them to the applicable landlords. **Accordingly, rent payments have not been included in the Forecast.**

Further, in order to provide additional comfort to landlords that rents will be paid in accordance with the leases during the CCAA Proceedings, the Applicants have agreed to an arrangement pursuant to which the Individual Opcos will fund, in aggregate, US\$3.1 million (the “**Rent Reserve**”) representing one month’s aggregate rent obligations of the Applicants pursuant to their respective leases, to be held in escrow by the Monitor as security to ensure the payment of such rent obligations from and after the commencement of the CCAA Proceedings.

3. Cash - as at December 31, 2020, YGC had cash of approximately USD\$925,000. The Proposed Monitor understands that this cash balance was used to pay the pre-filing fees of the Proposed Monitor, its Canadian and US legal counsel, and to fund retainers for each of those firms, and to pay the pre-filing fees of the Applicants’ Canadian and US legal counsel. Accordingly, the cash in YGC was substantially utilized prior to these CCAA filings.

**APPENDIX D**  
**MANAGEMENT'S REPRESENTATION LETTER**  
**REGARDING CASH FLOW FORECAST**

See attached.

# **YATSEN GROUP OF COMPANIES INC.**

7650 Birchmount Road  
Markham, Ontario, Canada  
L3R 6B9  
Tel: (905) 474-0710  
Fax: (905) 474-1939

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Alvarez & Marsal Canada Inc.  
Royal Bank Plaza South Tower  
200 Bay Street, Suite 2900  
Toronto, ON M5J 2J1

Attention: Mr. Al Hutchens

**January 22, 2021**

Dear Sirs:

**Re: Yatsen Group of Companies Inc. (“Yatsen Group”) – CCAA section 10(2) Prescribed Representations with Respect to Cash Flow Forecast**

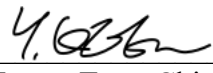
In connection with the application by the Applicant for the commencement of proceedings under the *Companies’ Creditors Arrangement Act*, the management of Yatsen Group has, with the assistance of Alvarez & Marsal Canada Inc., prepared the attached 13-week projected cash flow statement for the period January 25, 2021 to April 24, 2021 (the “**Cash Flow Statement**”) and the list of assumptions on which the Cash Flow Statement is based. The purpose of the Cash Flow Statement is to determine the liquidity requirements of Yatsen Group during the CCAA proceedings.

Yatsen Group confirms that the hypothetical assumptions on which the Cash Flow Statement is based are reasonable and consistent with the purpose described herein, and the probable assumptions are suitably supported and consistent with the plans of Yatsen Group and provide a reasonable basis for the projections. All such assumptions are disclosed in notes to the Cash Flow Statement (the “**Notes**”).

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projections have been prepared solely for the purpose described herein, using the probable and hypothetical assumptions set out in the Notes. Consequently, readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

Yours truly,

  
\_\_\_\_\_  
Per: Name: Tony Chiu  
Title: VP Finance

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF YATSEN  
GROUP OF COMPANIES INC., SAR REAL ESTATE INC. AND THE COMPANIES  
LISTED IN APPENDIX "A"**

Court File No.: \_\_\_\_\_

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at Toronto

**PRE-FILING REPORT OF THE  
PROPOSED MONITOR**

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