



## Enerflex Announces First Quarter 2020 Financial Results and Quarterly Dividend

May 07, 2020

CALGARY, Alberta, May 07, 2020 (GLOBE NEWSWIRE) -- Enerflex Ltd. (TSX:EFX) ("Enerflex" or "the Company" or "we" or "our"), a leading supplier of products and services to the global energy industry, today reported its financial and operating results for the three months ended March 31, 2020.

### Summary Table of First Quarter 2020 Financial and Operating Results

	Three months ended		
	March 31,		
(Unaudited)			
(\$ Canadian millions, except per share amounts, horsepower, and percentages)	2020	2019	Change
Revenue	\$ 365.7	\$ 484.9	\$ (119.2)
Gross margin	93.7	88.8	4.9
EBIT	50.0	33.3	16.7
EBITDA <sup>(1)</sup>	70.8	55.3	15.5
Adjusted EBITDA <sup>(2)</sup>	66.7	66.7	0.0
Net earnings	37.4	17.0	20.4
Earnings per share – basic	0.42	0.19	0.23
Recurring revenue growth <sup>(3)</sup>	0.7%	20.5%	
Bookings <sup>(4)</sup>	155.4	118.4	37.0
Backlog <sup>(4)</sup>	397.8	1,193.6	(795.8)
Rental horsepower	686,554	667,236	19,318

(1) Earnings Before Interest (Finance Costs), Income Taxes, Depreciation, and Amortization ("EBITDA") is considered a non-IFRS measure, which may not be comparable with similar non-IFRS measures used by other entities.

(2) Adjusted EBITDA is a non-IFRS measure. Please refer to the full reconciliation of these items in the Adjusted EBITDA section.

(3) Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature. Growth in recurring revenue is calculated over the comparative period.

(4) Engineered Systems Bookings and Backlog are considered non-IFRS measures that do not have standardized meanings as prescribed by IFRS, and are therefore unlikely to be comparable to similar measures used by other entities.

"While continuing to prioritize the health and safety of our employees, clients and suppliers, we are proud to say that all of Enerflex's manufacturing facilities, rental, BOOM, and Service operations are open and have been operational since the beginning of the COVID-19 pandemic. Throughout these challenging times, Enerflex employees have kept natural gas, natural gas liquids, and electricity flowing for the benefit of our clients," said Marc Rossiter, Enerflex's President and Chief Executive Officer.

"Enerflex is a highly globalized company that pays close attention to risk mitigation via minimizing customer, basin, and country concentration. We are less exposed to swings in customer capex than we were five years ago as a significant portion of our cash flows derive from the ownership and servicing of natural gas infrastructure. We have continued a disciplined approach to balance sheet management that has allowed for the development of capital intensive recurring revenue streams with appropriate levels of debt. We realized an improved quarter for new equipment bookings and high operational effectiveness. Notwithstanding the positive quarter, management has implemented business and financial actions to mitigate the downside risk of the global oil and gas market. Our focus is to exercise caution while we continue to navigate this environment."

### Quarterly Overview

- Operating income for the first quarter of 2020 improved over the prior year, largely driven by continued execution on a small number of large, high margin Engineered Systems projects.
- Engineered Systems bookings of \$155 million were higher in the quarter versus the prior year period driven by activity in the USA and Rest of World ("ROW") segments. The movement in exchange rates resulted in an increase of \$26 million on foreign currency denominated backlog during the first quarter of 2020, compared to a \$21 million decrease in the comparable period.
- Inventory increased during the first quarter due to purchases of major equipment with long lead times, which were ordered in prior periods and delivered in the current period. The Company expects to realize this major equipment inventory into Engineered Systems projects and new contract compression units, however the timing and extent to which inventory can be

utilized is dependent on demand.

- The Company invested \$63 million in rental assets and four previously announced build-own-operate-maintain (“BOOM”) projects. During the quarter, 18,000 horsepower of contract compression assets was installed and began generating revenue. At March 31, 2020, the USA contract compression fleet totaled approximately 325,000 horsepower with an 87 percent utilization rate.
- The Company exited the quarter with a net debt to EBITDA ratio of 1.2:1, largely due to a \$68 million increase in net debt compared to December 31, 2019. The increase in net debt is attributable to: (i) foreign exchange fluctuations during the quarter between the U.S. and Canadian dollar; and (ii) expenditures on inventory and capex commitments, which are front-loaded for the year and will see a significant slowdown in the second half of 2020. The Company has access to \$530 million of credit for future drawings, and with a net debt to EBITDA ratio of 1.2:1 against the covenant requirement of 3:1, the Company has significant liquidity capacity.
- Subsequent to March 31, 2020, Enerflex declared a quarterly dividend of \$0.02 per share, payable on July 2, 2020, to shareholders of record on May 14, 2020.

#### **Outlook**

Enerflex’s capital allocation priorities over the past five plus years have been oriented toward making our cash flows more stable and resistant to the natural, yet unpredictable, cyclicity in our markets. Priorities have included significant investments in recurring revenue projects in the USA and ROW segments. While the reduction in global oil demand will significantly impact demand for Enerflex’s products and services, these investments are expected to assist in stabilizing Enerflex’s cash flow throughout this downturn.

North America is the area of greatest risk for Enerflex. Engineered Systems revenues in the Canadian and USA regions will greatly reduce from 2019 levels, while business lines oriented toward our customers’ opex in North America, namely Service and Rentals, will experience pressure throughout the year. Given the current commodity price environment, producers in the Canadian and USA regions may elect to shut in production, which would reduce production volumes and negatively impact demand for Enerflex’s products and services.

The ROW segment is expected to fare better than Enerflex’s North American regions, primarily because this segment’s revenues are dominated by 5- to 10-year contracts with counterparties that are national oil companies, major integrateds, and large public and private regional players. We believe our counterparties represent a low level of overall risk; however, even strong counterparties will experience financial strain during this pandemic and the resulting weakness in commodity prices. Management is working diligently to understand and address all nascent counterparty risk.

In response to the above realities, Enerflex has instituted the following regional-specific measures to preserve the strength of our balance sheet and maximize free cash flow:

- In aggregate, the Canadian and USA regions have reduced their total workforce by 20 percent from January 1 to May 1. Global workforce reductions in 2020 are expected to yield \$33 million to \$35 million in annualized savings.
- In addition, enacted the following temporary compensation reductions which are expected to yield savings of approximately \$10 million to \$12 million in 2020:
  - a. Canada and USA regions enacted a 10 percent wage reduction.
  - b. ROW regional management teams have enacted a 10 percent wage reduction.
  - c. The Executive Management Team will enact a 10 percent wage reduction.
  - d. The Board of Directors will enact a 10 percent compensation reduction.
- The Company is in the process of applying for the Canada Emergency Wage Subsidy that the Federal Government enacted to allow employers to mitigate further job losses in the Canadian region while dealing with impact of COVID-19. Enerflex will also continue to monitor eligibility for other government assistance programs in the jurisdictions we operate in.
- Instituted a hiring freeze, limited business travel expenses, decreased marketing expenditures, and reduced IT infrastructure and maintenance expenditures, except where critical.
- Reduced 2020 growth capital expenditures from approximately \$210 million to approximately \$90 million, subject to foreign exchange fluctuations between the U.S. and Canadian dollar.
- Reduced its dividend by 83 percent from the last quarter.

The Company continues to make progress on previously awarded BOOM projects in Latin America and the Middle East/Africa. However, COVID-19-related travel restrictions and limitations on worksites are expected to delay the dates on which these projects were expected to commence operations and begin generating revenue, with commencement dates now being estimated at various times through mid- to late-2020.

#### **First Quarter Segmented Results**

##### *USA*

USA segment revenue was \$227 million, a decrease of \$65 million from the same period in 2019. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings throughout 2019, while Service revenue increased as a result of higher activity levels, and Rentals revenue increased due to the organic growth of the contract compression fleet, which grew by 32 percent on a horsepower basis in the last year. An increase of \$12 million in EBIT was driven by improved gross margin performance on strong project execution and lower SG&A costs driven by mark-to-market impacts on share-based compensation.

##### *Rest of World*

Revenue in the Rest of World segment decreased by \$24 million as a result of lower Engineered Systems and Service revenues. Engineered Systems revenue was down for the first quarter of 2020 primarily attributable to a lower opening backlog, while Service revenue decreased due to equipment sales in Asia in the prior year that did not recur in 2020. EBIT increased by \$8 million as a result of lower SG&A costs, as well as non-recurrence of the negative impacts of higher estimated costs to complete certain projects and write-down of equipment included in the comparative period. SG&A for the first quarter of 2020 decreased compared to 2019 due to mark-to-market impacts on share-based compensation, partially offset by unfavourable foreign exchange movements.

##### *Canada*

Canadian revenue decreased by \$30 million as a result of lower Engineered Systems revenue on a lower opening backlog. Service and Rentals revenues were down in the first quarter due to lower equipment sales and reseller activity. EBIT decreased as a result of lower gross margin on

reduced revenue, partially offset by lower SG&A costs driven by mark-to-market impacts on share-based compensation.

#### Adjusted EBITDA

The Company's results include items that are unique and items that management and users of the financial statements adjust for when evaluating the Company's results. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. Adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that have historically been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) restructuring activities; 3) transaction costs related to M&A activity; and, 4) share-based compensation. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on factors that are not specific to the long-term performance of the Company. The disposal of idle facilities is isolated within Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

Management believes that identification of these items allows for a better understanding of the underlying operations of the Company based on the current assets and structure.

(\$ Canadian millions)

Three months ended March 31, 2020	Total	USA	ROW	Canada
Reported EBIT	\$ 50.0	\$ 37.4	\$ 10.3	\$ 2.3
Severance costs in COGS and SG&A	1.0	0.3	0.0	0.7
Share-based compensation	(5.1)	(2.7)	(1.6)	(0.8)
Depreciation and amortization	20.8	9.9	8.6	2.3
Adjusted EBITDA	\$ 66.7	\$ 44.9	\$ 17.3	\$ 4.5

(\$ Canadian millions)

Three months ended March 31, 2019	Total	USA	ROW	Canada
Reported EBIT	\$ 33.3	\$ 25.8	\$ 2.0	\$ 5.5
Write-off of equipment in COGS	2.0	-	2.0	-
Share-based compensation	9.4	5.1	2.3	2.0
Depreciation and amortization	22.0	7.7	11.7	2.6
Adjusted EBITDA	\$ 66.7	\$ 38.6	\$ 18.0	\$ 10.1

#### Dividend

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of \$0.02 per share, payable on July 2, 2020, to shareholders of record on May 14, 2020. This new dividend amount represents a decrease of 83 percent, and was previously communicated in a press release dated March 17, 2020. The decrease in dividend is consistent with Enerflex's long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

#### Quarterly Results Material

This press release should be read in conjunction with Enerflex's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020 and 2019, and the accompanying Management's Discussion and Analysis, both of which will be available on the Enerflex website at [www.enerflex.com](http://www.enerflex.com) under the Investors section and on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Conference Call and Webcast Details

Enerflex will host a conference call for analysts, investors, members of the media, and other interested parties on Friday, May 8, 2020 at 8:00 a.m. MDT to discuss the first quarter 2020 financial results and operating highlights. The call will be hosted by Mr. Marc Rossiter, President and Chief Executive Officer; Mr. Sanjay Bishnoi, Senior Vice President and Chief Financial Officer; and Mr. Stefan Ali, Director, Investor Relations.

If you wish to participate in this conference call, please call 1.844.231.9067 or 1.703.639.1277. Please dial in 10 minutes prior to the start of the call. No passcode is required. The live audio webcast of the conference call will be available on the Enerflex website at [www.enerflex.com](http://www.enerflex.com) under the Investors section on May 8, 2020 at 8:00 a.m. MDT. A replay of the teleconference will be available on May 8, 2020 at 11:00 a.m. MDT until May 15, 2020 at 11:00 a.m. MDT. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 5777567.

#### About Enerflex

Enerflex Ltd. is a single source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power generation equipment – plus related engineering and mechanical service expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission, and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, gas lift compression, refrigeration systems, and electric power equipment servicing the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 2,200 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures operate in Canada, the United States, Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, the United Arab Emirates, Oman, Bahrain, Kuwait, Australia, New Zealand, Indonesia, Malaysia, and Thailand. Enerflex's shares trade on the Toronto Stock Exchange under the symbol "EFX". For more information about Enerflex, go to [www.enerflex.com](http://www.enerflex.com).

#### Advisory Regarding Forward-Looking Information

*This press release contains forward-looking information within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "objective" and "capable" and similar expressions are intended to identify forward-looking information. In particular, this press release includes (without limitation) forward-looking information pertaining to: anticipated financial performance; the Company's 2020 growth capital expenditure plans and maintenance capital spending; anticipated market conditions and impacts on the Company's operations; development trends in the oil and gas*

industry; business prospects and strategy; the ability to raise capital; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; and implications of changes in government regulation, laws and income taxes. This forward-looking information is based on assumptions, estimates and analysis made in the light of the Company's experience and its perception of trends, current conditions and expected developments, as well as other factors that are believed by the Company to be reasonable and relevant in the circumstances. Forward-looking information involves known and unknown risks and uncertainties and other factors, which are difficult to predict, including but not limited to: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; disruptions to business operations resulting from the COVID-19 pandemic and the responses of government and the public to the pandemic; changes in economic conditions that restrict Enerflex's cash flow and impact its ability to declare and pay dividends; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company's control. For an augmented discussion of the risk factors and uncertainties that affect or may affect Enerflex, the reader is directed to the section entitled "Risk Factors" in Enerflex's most recently filed Annual Information Form, as well as Enerflex's other publicly filed disclosure documents, available on [www.sedar.com](http://www.sedar.com). While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this press release, as a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements, and readers are cautioned not to unduly rely on forward-looking statements. The forward-looking information included in this press release should not be unduly relied upon. The forward-looking information contained herein is expressly qualified in its entirety by the above cautionary statement. The forward-looking information included in this press release is made as of the date hereof and, other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

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