



Enerflex Announces Third Quarter 2019 Financial Results and Increased Quarterly Dividend

Nov 07, 2019

CALGARY, Alberta, Nov. 07, 2019 (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 and nine months ended September 30, 2019.

Summary Table of Third Quarter and First Nine Months of 2019 Financial and Operating Results

<i>(Unaudited)</i> (\$ Canadian millions, except per share amounts, horsepower, and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 544.3	\$ 445.8	\$ 98.5	\$ 1,571.1	\$ 1,236.4	\$ 334.7
Gross margin	132.6	89.4	43.2	331.6	226.2	105.4
EBIT	87.7	55.6	32.1	185.1	103.4	81.7
EBITDA ⁽¹⁾	109.1	76.0	33.1	250.2	166.2	84.0
Adjusted EBITDA ⁽²⁾	106.5	65.2	41.3	256.8	160.4	96.4
Net earnings	63.1	37.7	25.4	120.7	68.9	51.8
Earnings per share – basic	0.71	0.43	0.28	1.35	0.78	0.57
Recurring revenue growth ⁽³⁾	10.0%	19.4%		17.7%	13.1%	
Bookings ⁽⁴⁾	125.5	629.0	(503.5)	414.4	1,303.4	(889.0)
Backlog ⁽⁴⁾	701.6	1,065.1	(363.5)	701.6	1,065.1	(363.5)
Rental horsepower	700,733	628,816	71,917	700,733	628,816	71,917

- Earnings before Interest (Finance Costs), Income Taxes, Depreciation, and Amortization ("EBITDA") is considered a non-GAAP measure, which may not be comparable with similar non-GAAP measures used by other entities.*
- Adjusted EBITDA is a non-GAAP measure. Please refer to the full reconciliation of these items in the Adjusted EBITDA section.*
- Recurring revenue is comprised of revenue from the Service and Rental 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.*
- Engineered Systems bookings and backlog are considered non-GAAP measures that do not have standardized meanings as prescribed by GAAP, and are therefore unlikely to be comparable to similar measures used by other entities.*

"Execution excellence in Engineered Systems and continued growth within recurring revenue businesses underpinned another record in quarterly financial results, as evidenced by revenues of \$544 million, adjusted EBITDA of \$107 million, and EBIT of \$88 million," said Marc Rossiter, Enerflex's President and Chief Executive Officer. "These highly positive operating results are overshadowed by a decline in Engineered Systems bookings, which are likely to remain challenged due to short- to medium-term headwinds facing industry participants. Conversely, Enerflex has grown the global contract compression fleet to over 700,000 horsepower in response to strong demand in the USA region. Looking into 2020, Enerflex will maintain focus on three key areas: 1) deployment of capital to asset ownership businesses; 2) maintaining a conservative approach to leverage; and 3) managing the downturn in Engineered Systems. Enerflex has paid a steadily increasing dividend since inception. We are proud to show our commitment to this sustainable and predictable return of cash to shareholders with an increase in the dividend."

Quarterly Overview

- Enerflex delivered strong results in the third quarter of 2019 compared to the prior year, based on strong execution of projects included in our record backlog at December 31, 2018, higher service activity levels, and the continued organic expansion of the contract compression fleet in the USA. Gross margin percentage for the quarter was 24 percent, compared to a five-year average of approximately 19 percent, driven by two main factors: 1) the solid execution of a small number of large, high margin Engineered Systems projects that were booked during the second half of 2018; and 2) increasing revenue from rentals. As the large, high margin projects are completed in 2020, we expect margins to revert to historical levels, with modest improvements provided by growth in recurring revenues.
- Recurring revenue grew by 10 percent over the prior year, driven by increased service activity levels and the continued expansion of the contract compression fleet in the USA. During the quarter, the Company invested \$55 million in rental assets, largely in the USA, where our fleet has grown by 54 percent on a horsepower basis in the last year and has more than doubled since the acquisition of the contract compression platform in July 2017.
- Engineered Systems booking activity was low in the quarter as the upstream oil and gas industry continues to balance growth with prudent financial management. Reduced growth capex in the sector impacts Enerflex's Engineered Systems

business the hardest. Enerflex has ensured, and will continue to ensure, that our costs are aligned with revenue levels expected from Engineered Systems.

- Engineered Systems backlog decreased compared to December 31, 2018 due to Engineered Systems revenue recognized in the period outpacing bookings, as well as unfavourable foreign exchange impacts which resulted in a decrease of \$28 million. The backlog at September 30, 2019 provides visibility for Engineered Systems revenue through 2019 and early 2020.
- During the quarter, Enerflex appointed Sanjay Bishnoi as Senior Vice President and Chief Financial Officer and David H. Izett as Senior Vice President, General Counsel.
- Subsequent to September 30, 2019, the Company's Board of Directors approved an increase to its quarterly dividend to \$0.115 per share, payable on January 9, 2020, to shareholders of record on November 21, 2019. This new dividend amount represents a 10 percent increase and reiterates the Company's commitment to returning capital to shareholders.

Outlook

Enerflex's financial performance continues to benefit from strategic decisions to: 1) diversify product offerings for Engineered Systems; 2) focus on increasing the recurring revenue streams derived from new and existing long-term build-own-operate-maintain ("BOOM"), rental, and service contracts; and 3) develop a geographically diversified business.

Demand for the Company's Engineered Systems product offerings remains dependent on global capital investment in oil and natural gas. Throughout 2019, bookings activity has slowed considerably, driven by several factors including: producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty.

Future production growth in the Permian Basin looks to be transitioning away from smaller producers and toward major oil companies and large independents which are able to take a more measured approach to developing their acreage. Enerflex believes this is a positive dynamic and plays to our strengths of size, scope, and reputation. The Permian is a world-class oil and associated gas resource with significant potential for continued natural gas production growth. Enerflex is well positioned to provide long-term natural gas solutions in the basin.

Enerflex continues to experience strong demand for global after-market services and contract compression in key basins in the USA, with a solid pipeline of opportunities for further growth in those businesses. We continue to see favourable investment opportunities in the contract compression fleet in the USA and are leveraging the expertise of our people and existing supply chain to build out and maintain a highly competitive platform, while maintaining strong returns. Overall, asset ownership represents the most significant growth prospect for the Company and we intend to continue deploying capital to this higher-margin, less-cyclical business. The Company has made significant progress on previously awarded BOOM projects in Latin America and Middle East/Africa ("MEA"), with these projects expected to commence operations and begin generating revenue in the first half of 2020.

In the near term, our backlog and strong execution on project work seen in recent quarters provide visibility on Engineered Systems performance through 2019 and early 2020, while increasing demand for Service and Rental product offerings should continue to drive growth in recurring revenue. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on our customers' activity levels, which will drive the demand for the Company's products and services in future periods.

Third Quarter Segmented Results

USA

USA segment revenue was \$299 million, an increase of \$26 million from the same period in 2018. Engineered Systems revenue improved as a result of the continued progress made on certain large projects, while Service revenues increased on higher activity across the region and Rental revenues improved due to the organic growth of the contract compression fleet. An increase of \$27 million in EBIT was driven by higher revenues across all product lines and improved gross margin performance on strong project execution, partially offset by higher compensation costs on a larger workforce.

Rest of World

Revenue in the Rest of World segment decreased by \$21 million due to lower Engineered Systems revenue on lower opening backlog. This decrease was partially offset by higher Service revenue, primarily due to higher activity levels in Australia and new service agreements in Latin America. EBIT decreased by \$5 million due to lower revenue, as well as the effects of cost recoveries recognized in the prior year. SG&A costs increased compared to 2018 due to the effects of cost recoveries recognized in the prior year, partially offset by mark-to-market impacts on share-based compensation and favourable foreign exchange movements.

Canada

Canadian revenue increased by \$94 million on higher revenues for all product lines. Engineered Systems revenue improved due to continued progress on projects from opening Engineered Systems backlog, while Service and Rental revenues were higher due to increased parts and equipment sales. EBIT increased by \$9 million as a result of higher revenue and improved gross margin percentage on strong project execution, while SG&A costs were consistent with the comparable period in 2018.

Adjusted EBITDA

The Company's results include items that are unique and items that management and users of the financial statements add back 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 been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities; 2) restructuring activities; 3) transaction costs related to M&A activity; and, 4) share-based compensation. Identification of these items allows for an understanding of the underlying operations of the Company based on the current assets and structure. 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.

(\$ Canadian millions)

Three months ended September 30, 2019	Total	USA	ROW	Canada
Reported EBIT	\$ 87.7	\$ 57.1	\$ 13.9	\$ 16.7
Share-based compensation	(2.6)	(1.6)	(0.6)	(0.4)
Depreciation and amortization	21.4	8.6	10.2	2.6
Adjusted EBITDA	\$ 106.5	\$ 64.1	\$ 23.5	\$ 18.9

(\$ Canadian millions)

Three months ended September 30, 2018	Total	USA	ROW	Canada
Reported EBIT	\$ 55.6	\$ 29.7	\$ 18.5	\$ 7.4
Gain on disposal of idle facilities	(6.0)	(2.2)	-	(3.8)
Cost recovery related to OCEP	(9.4)	-	(9.4)	-
Share-based compensation	4.6	2.2	1.6	0.8
Depreciation and amortization	20.4	5.3	13.1	2.0
Adjusted EBITDA	\$ 65.2	\$ 35.0	\$ 23.8	\$ 6.4

Effective January 1, 2019, the Company applied IFRS 16 Leases ("IFRS 16") for the first time. The effect of the new standard is to increase EBIT by \$0.8 million, as a portion of lease expenses are included as interest. In addition, depreciation and amortization increased by \$3.1 million, resulting in a total increase in EBITDA of \$3.9 million. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected. Refer to the Adjusted EBITDA section of the Management's Discussion and Analysis for further detail on the new standard.

Dividend

Subsequent to the end of the quarter, Enerflex declared an increased quarterly dividend of \$0.115 per share, payable on January 9, 2020, to shareholders of record on November 21, 2019.

Quarterly Results Material

This press release should be read in conjunction with Enerflex's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, and the accompanying Management's Discussion and Analysis, both of which will be available on the Enerflex website at www.enerflex.com under the Investors section and on SEDAR at 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, November 8, 2019 at 8:00 a.m. MST to discuss the third quarter 2019 financial results and operating highlights. The call will be hosted by Mr. Marc Rossiter, President and Chief Executive Officer and Mr. Sanjay Bishnoi, Senior Vice President and Chief Financial Officer.

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 under the Investors section on November 8, 2019 at 8:00 a.m. MST. A replay of the teleconference will be available on November 8, 2019 at 11:00 a.m. MST until November 15, 2019 at 11:00 a.m. MST. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 4958516.

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 2,600 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures operate in Canada, the United States, Argentina, Bolivia, Brazil, Colombia, Mexico, Australia, the United Kingdom, the United Arab Emirates, Oman, Bahrain, Kuwait, 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.

Advisory Regarding Forward-Looking Information

This press release contains forward-looking information within the meaning of applicable Canadian securities laws. These statements relate to management's expectations about future events, results of operations and the Company's future performance (both operational and financial) and business prospects. 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: the anticipated duration of weak natural gas prices and the effect thereof in Canada and USA markets; anticipated revenue; expected bookings; and the nature and scope of challenges and opportunities in the Rest of World segment. In developing the forward-looking information in this news release, the Company has made certain assumptions with respect to general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and regulatory approvals. Forward-looking information involves known and unknown risks and uncertainties and other factors, which are difficult to predict and may affect the Company's operations, including, among other things: the impact of general economic conditions; industry conditions, including the adoption of new environmental, taxation and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations, including future dividends to shareholders of the Company; increased competition; the lack of availability of qualified personnel or management; labour unrest; political unrest; fluctuations in foreign exchange or interest rates; stock market volatility; opportunities available to, or pursued by, the Company; obtaining financing; and other factors, many of which are beyond its control. The foregoing list of factors and risks is not exhaustive. 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. 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. 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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