# Enerflex Announces Fourth Quarter 2019 Financial Results and Quarterly Dividend

Feb 20, 2020

CALGARY, Alberta, Feb. 20, 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 and twelve months ended December 31, 2019.

**Summary Table of Fourth Quarter and Twelve Months of 2019 Financial and Operating Results**

| *(Unaudited)* *($ Canadian millions, except per share amounts, horsepower, and percentages)* | Three months ended December 31, | | | Twelve months ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 474.4** | $ 466.8 | $ 7.6 | **$ 2,045.4** | $ 1,703.3 | $ 342.1 |
| Gross margin [1] | **97.4** | 81.8 | 15.6 | **429.1** | 308.0 | 121.1 |
| EBIT | **48.8** | 48.2 | 0.6 | **233.9** | 151.7 | 82.2 |
| EBITDA [1], [2] | **70.2** | 75.2 | (5.0) | **320.5** | 241.5 | 79.0 |
| Adjusted EBITDA [3] | **89.0** | 64.8 | 24.2 | **345.8** | 225.2 | 120.6 |
| Net earnings | **31.4** | 32.5 | (1.1) | **152.1** | 101.4 | 50.7 |
| Earnings per share – basic | **0.35** | 0.37 | (0.02) | **1.70** | 1.14 | 0.56 |
| Recurring revenue growth [4] | **6.3%** | 12.4% | | **14.5%** | 12.9% | |
| Bookings [5] | **94.5** | 677.0 | (582.5) | **508.9** | 1,980.4 | (1,471.5) |
| Backlog [5] | **467.8** | 1,420.6 | (952.8) | **467.8** | 1,420.6 | (952.8) |
| Rental horsepower | **674,153** | 641,915 | 32,238 | **674,153** | 641,915 | 32,238 |

1. *In the fourth quarter of 2019, Enerflex recognized $24 million of write-offs and impairment charges on rental equipment, of which $2 million was included in the USA segment and $22 million was included in the ROW segment. Of the total value recognized, $14 million relates to the write-off of specialized rental assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.*
2. *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.*
3. *Adjusted EBITDA is a non-IFRS measure. Please refer to the full reconciliation of these items in the Adjusted EBITDA section.*
4. *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.*
5. *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.*

"During the quarter, solid execution of our Engineered Systems backlog and growing contributions from our recurring revenue product lines provided funding for additional investment in our asset ownership platform," said Marc Rossiter, Enerflex's President and Chief Executive Officer. "We remain encouraged by the demand for both US contract compression and international rentals, having been awarded a small, but important, five-year build-own-operate-maintain ("BOOM") project in Brazil subsequent to the quarter. During the quarter, the Company wrote-off some specialized rental equipment which was acquired in 2014 that we have now determined cannot be redeployed and has never been utilized or generated revenue for Enerflex. While this non-recurring event adversely impacted our quarterly results, asset ownership remains a strategic priority for the Company and for the first time, we have disclosed additional metrics within our Management's Discussion and Analysis to better illustrate the strength of our strategy. We anticipate continuing to prudently deploy capital toward our asset ownership platform at a similar pace to 2019 and may utilize our balance sheet to capture attractive opportunities as they emerge. We do expect the weakness in Engineered Systems bookings to persist through 2020 as customers continue to exercise capital discipline and we continue to manage our costs accordingly. Despite this headwind, our geographical footprint and vertically integrated platform provide Enerflex with a distinct advantage to weather near-term challenges and leaves the Company well positioned for growth when the market returns to a more positive cycle."

**Quarterly Overview**

- Operating income for the fourth quarter of 2019 was consistent with the prior year, with higher gross margins being offset by the cost recoveries related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration included in SG&A costs in the prior year. Gross margin improved based on strong execution of projects from opening backlog, higher service activity levels, and the continued organic expansion of the contract compression fleet in the USA. Gross margin percentage for the quarter was 21 percent, compared to 18 percent in 2018, driven by the solid execution of a small number of large, high margin Engineered Systems projects that were booked during the second half of 2018 and increasing revenue from rentals, partially offset by impairments recognized on rental equipment in the USA and ROW segments and the margin impact of warranty experience in the quarter. 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.

- The fourth quarter of 2019 includes $24 million of impairment charges on rental equipment, of which $2 million was included in the USA segment and $22 million was included in the ROW segment. Of the total value of impairments recognized, $14 million relates to the write-off of specialized assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.
- Recurring revenue grew by 6 percent, driven by increased service activity levels and the continued expansion of the contract compression fleet in the USA. During the quarter, the Company invested $76 million in rental assets, largely in the USA, where our fleet has grown by 45 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 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. The Company has ensured, and expects to continue to ensure, that costs are aligned with revenue levels expected from Engineered Systems.
- Engineered Systems backlog decreased compared to the balance at 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 $52 million. The backlog at December 31, 2019 provides visibility for Engineered Systems revenue into mid-2020.
- Subsequent to December 31, 2019, Enerflex declared a quarterly dividend of $0.115 per share, payable on April 2, 2020, to shareholders of record on March 12, 2020.

**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 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: 1) producers having made a general shift to funding growth capital expenditures from free cash flow; 2) constrained access to capital markets for producers; 3) uncertainty around global trade dynamics; and 4) political uncertainty.

Enerflex is responding to customer inquiries across all major basins in the USA, including the Permian, Bakken, Niobrara, Marcellus, and Utica, as customers plan for future growth. However, the pace at which customers are releasing capital for growth projects has moderated significantly compared to the heady days of 2018. In recent periods, the Permian Basin has been a major driver of gas production growth, with significant drilling activity and associated gas production. 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; however, activity in the Basin is dependent on these producers driving a rebound in capital spending from depressed levels in 2019 to those previously seen in the recent build-out of the play. The Company maintains that the Permian is a world-class oil and associated gas resource with significant potential for continued natural gas production growth, and Enerflex is well positioned to provide long-term natural gas solutions in all major basins.

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 our existing supply chain to build out and maintain a highly competitive platform, while preserving 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 MEA, with these projects expected to commence operations and begin generating revenue in mid-2020.

In the near term, the Company anticipates that strong execution on Engineered Systems project work seen in recent quarters will continue for the duration of these projects. Demand for Service and Rentals product offerings, which has continued to increase despite slower Engineered Systems bookings activity, is expected 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.

**Fourth Quarter Segmented Results**

*USA*

USA segment revenue was $277 million, a decrease of $20 million from the same period in 2018. Engineered Systems revenue decreased due to temporary project delays on certain large projects, as well as lower opening backlog on reduced bookings throughout 2019, while Service revenue increased due to higher activity levels and Rentals revenue increased due to the organic growth of the contract compression fleet. An increase of $37 million in EBIT was driven by improved gross margin performance on strong project execution, partially offset by higher SG&A costs and the effects of impairment recognized on certain rental assets.

*Rest of World*

Revenue in the Rest of World segment decreased by $28 million due to lower Engineered Systems revenue on weak bookings during the year. This decrease was partially offset by improved Service revenue on higher activity levels in Australia and the impact of service agreements that were recently signed in Latin America. EBIT decreased by $36 million due to lower revenues and the write-offs and impairment of certain rental assets, as well as the effects of cost recoveries recognized in SG&A in the comparative periods. SG&A costs increased compared to 2018 primarily due to the effects of these cost recoveries in the prior year.

*Canada*

Canadian revenue increased by $56 million due to higher Engineered Systems revenue, which improved due to continued progress on projects from opening backlog. Service and Rentals revenues were down in the fourth quarter due to lower equipment sales and reseller activity. EBIT was consistent with the prior year, as higher revenue and project margin was offset by warranty experience and severance costs. 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 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 removed from Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

During the fourth quarter of 2019, the Company added another adjustment related to the write-off of specialized assets acquired as part of a business combination but never utilized by Enerflex. Impairment of rental equipment included in reported EBIT for the three and twelve months ended December 31, 2019 was $24 million and $26 million. Of the total value of impairments recognized, $14 million relates to the write-off of specialized assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex. The Company considers this non-cash adjustment to be a unique item given these assets have not contributed to earnings since being acquired.

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 December 31, 2019 | Total | USA | ROW | Canada |
|---|---|---|---|---|
| Reported EBIT | **$ 48.8** | **$ 61.1** | **$ (18.2)** | **$ 5.9** |
| Write-off of rental equipment in COGS | **14.5** | **-** | **14.5** | **-** |
| Write-off of facility and equipment in COGS | **0.6** | **-** | **0.6** | **-** |
| Restructuring costs in COGS and SGA | **0.9** | **-** | **-** | **0.9** |
| Share-based compensation | **2.8** | **1.3** | **0.8** | **0.7** |
| Depreciation and amortization | **21.4** | **8.8** | **9.9** | **2.7** |
| Adjusted EBITDA | **$ 89.0** | **$ 71.2** | **$ 7.6** | **$ 10.2** |

*($ Canadian millions)*

| Three months ended December 31, 2018 | Total | USA | ROW | Canada |
|---|---|---|---|---|
| Reported EBIT | $ 48.2 | $ 24.4 | $ 17.5 | $ 6.3 |
| Cost recovery related to OOCEP | (12.9) | - | (12.9) | - |
| Share-based compensation | 2.5 | 1.3 | 0.8 | 0.4 |
| Depreciation and amortization | 27.0 | 6.6 | 18.4 | 2.0 |
| Adjusted EBITDA | $ 64.8 | $ 32.3 | $ 23.8 | $ 8.7 |

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 $0.3 million, as a portion of lease expenses are included as interest. In addition, depreciation and amortization increased by $3.5 million, resulting in a total increase in EBITDA of $3.8 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 a quarterly dividend of $0.115 per share, payable on April 2, 2020, to shareholders of record on March 12, 2020.

**Quarterly Results Material**
This press release should be read in conjunction with Enerflex's audited consolidated financial statements for the three and twelve months ended December 31, 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, February 21, 2020 at 8:00 a.m. MST to discuss the fourth quarter 2019 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 under the Investors section on February 21, 2020 at 8:00 a.m. MST. A replay of the teleconference will be available on February 21, 2020 at 11:00 a.m. MST until February 28, 2020 at 11:00 a.m. MST. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 3827579.

**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 2,500 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.

***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.*

For investor and media inquiries, please contact:


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