



Enerflex Announces Third Quarter 2020 Financial Results and Quarterly Dividend

Nov 05, 2020

CALGARY, Alberta, Nov. 05, 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 nine months ended September 30, 2020.

Summary Table of Third Quarter and First Nine Months of 2020 Financial and Operating Results

(Unaudited) (\$ Canadian millions, except per share amounts, horsepower, and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	Change	2020	2019	Change
Revenue	\$ 265.0\$	544.3\$	(279.3)\$	918.2\$	1,571.1\$	(652.9)
Gross margin	63.7	132.6	(68.9)	223.2	331.6	(108.4)
EBIT	21.7	87.7	(66.0)	87.2	185.1	(97.9)
EBITDA ⁽¹⁾	42.8	109.1	(66.3)	150.8	250.2	(99.4)
Adjusted EBITDA ⁽²⁾	38.2	106.5	(68.3)	138.4	256.8	(118.4)
Net earnings	10.7	63.1	(52.4)	55.6	120.7	(65.1)
Earnings per share – basic	0.12	0.71	(0.59)	0.62	1.35	(0.72)
Recurring revenue growth ⁽³⁾	(6.1)%	10.0%		(6.0)%	17.7%	
Bookings ⁽⁴⁾	23.2	125.5	(102.3)	221.1	414.4	(193.3)
Backlog ⁽⁴⁾	186.3	701.6	(515.3)	186.3	701.6	(515.3)
Rental horsepower	714,375	700,733	13,642	714,375	700,733	13,642

(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.

"Enerflex's manufacturing facilities, rental, BOOM, and Service operations have continued operating safely and reliably throughout the quarter. Given where we are in the cycle, Enerflex delivered a strong quarter. Our results benefitted from the growing contribution of our recurring revenue product lines, cost-reduction measures, and our customer-centric, service-oriented approach," said Marc Rossiter, Enerflex's President and Chief Executive Officer.

"We believe in the long-term fundamentals of natural gas. As the cleanest of all fossil fuels, it can facilitate a reduction in carbon emissions from a growing global economy while enabling an energy transition that includes increasingly significant contributions from renewables. Enerflex is a leading supplier of innovative natural gas infrastructure solutions on a global scale. We will continue to provide these innovative solutions during the pandemic and beyond with a sharp focus on controlling costs and maximizing investment returns."

Quarterly Overview

- o Operating income for the third quarter of 2020 benefited from previously implemented cost-reduction measures and contributions from government assistance programs but decreased over the prior year on lower revenue and increased bad debt provisions.
- o Engineered Systems booking activity continued to be impacted by restrained spending within the oil and gas industry due to uncertainty around commodity price stability and the ramifications of COVID-19. However, the Company is seeing some success from non-traditional applications, including electrified compression and lower carbon-intensity projects.
- o The Company invested \$17.6 million in rental assets within its USA and Rest of World segments. Three of four previously announced Build-Own-Operate-Maintain ("BOOM") projects were successfully commissioned in Argentina and Brazil. These projects are operating as designed and contributing to the bottom line. The fourth BOOM remains scheduled to commence operations during the fourth quarter of 2020. Capital spending for 2020 is estimated at approximately \$135 million to \$140 million, compared to the previously disclosed \$125 million to \$130 million, due primarily to increased BOOM completion costs due to COVID-19-induced delays and make-ready costs for the redeployment of certain Mexican rental assets on new contracts.
- o At September 30, 2020, the USA contract compression fleet totaled approximately 350,000 horsepower. Average fleet utilization remained stable during the quarter at 81 percent.

- o The Company maintained balance sheet strength by monetizing inventory and reducing debt. The Company exited the quarter financially strong, with a bank-adjusted net debt to EBITDA ratio of 1.2:1, compared to a maximum ratio of 3:1. The Company has substantial undrawn credit capacity and cash on hand.
- o Subsequent to September 30, 2020, Enerflex declared a quarterly dividend of \$0.02 per share, payable on January 7, 2021, to shareholders of record on November 26, 2020.

Outlook

The COVID-19 pandemic and recent commodity price volatility has adversely impacted global capital investment within the oil and natural gas industries. Despite recent improvement in natural gas benchmark pricing, the Company has yet to see a meaningful increase in Engineered Systems bookings but continues responding to inquiries for non-traditional applications, including the recent sale of a 13 MW power and gas treating plant to reduce flare gas in Colombia, as well as various other electrified compression and lower carbon-intensity projects. Overall, the outlook for Engineered Systems remains uncertain and revenues from this product line are expected to remain low through the remainder of 2020 and into 2021.

In contrast, over the past several years, Enerflex has prioritized investments specifically oriented toward making our cash flows more stable and resistant to the natural, yet unpredictable, cyclicity in our markets. The outlook for the related business lines, namely Service and Rentals, appears to have stabilized in the near-term and we continue to see interest in our BOOM offerings. Future periods will see the contribution from a 10-year BOOM project in the Middle East scheduled to be commissioned in the fourth quarter of 2020, while Latin America will benefit from the completion of certain BOOM projects in Brazil and Argentina and the renewal of certain rental assets in Mexico. The Company is optimistic that its investments in recurring revenue projects will continue to stabilize cash flows through this downturn and beyond.

In the short term, Enerflex remains focused on providing a safe working environment for all employees, while preserving capital and maintaining balance sheet strength in response to uncertainty caused by the COVID-19 pandemic and recent market volatility. In the longer term, the Company is focused on controlling costs, optimal capital allocation, and ensuring future projects maximize returns on invested capital.

Third Quarter Segmented Results

USA

USA segment revenue was \$127 million, a decrease of \$172 million from the same period in 2019. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings in recent periods, while Service revenue was lower due to travel restrictions related to COVID-19 and pricing pressure on certain Service offerings. Rentals revenue increased due to the organic growth of the contract compression fleet, which grew by 22 percent on a horsepower basis over the last year. EBIT was down \$51 million due to decreased gross margin, driven by lower revenue on soft bookings from 2019 and the first nine months of 2020, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were booked during the second half of 2018 that were largely completed by the third quarter of 2020. Decreased revenue and margins were partially offset by lower SG&A, the result of reduced compensation expenses on lower headcount and decreased profit share on lower operational results. The Company continues to monitor costs in response to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic and remains focused on controlling costs where possible.

Rest of World

Revenue in the Rest of World segment was \$79 million, a decrease of \$9 million driven by lower Engineered Systems revenue due to timing of project work, as bookings from recent periods began contributing to operating results in the third quarter, while Engineered Systems revenue in the prior year reflected continued progress made on projects included in the opening backlog. EBIT decreased by \$6 million due to increased bad debt provisions, driven by expected credit losses, partially offset by improved gross margin percentage, reduced compensation expenses and decreased profit share on lower operational results, as well as lower travel and non-critical IT expenditures.

Canada

Canadian revenue was \$59 million, a decrease of \$98 million, primarily due to lower Engineered Systems revenue on a lower opening backlog. Service and Rentals revenues were down due to lower equipment sales and reseller activity, Service branches performing more light-duty work as opposed to overhauls, and the return of certain rental units. EBIT decreased as a result of lower gross margin on reduced revenue and increased bad debt provisions, partially offset in the quarter by reduced compensation expenses on lower headcount and decreased profit share on lower operational results, as well as cost recoveries related to government assistance programs.

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.

During the second quarter of 2020, the Company added another adjustment related to government grants, most notably the Canada Emergency Wage Subsidy and the JobKeeper Payment program in Australia. The amount of subsidies received has been recorded as a reduction in cost of goods sold and selling and administrative expense within the interim condensed consolidated statement of earnings in accordance with where the associated expense was recognized. Enerflex considers this to be a unique item as these temporary grants relate to the recent COVID-19 pandemic and are not anticipated to be part of the ongoing operations of the Company.

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 September 30, 2020	Total	USA	ROW	Canada
Reported EBIT	\$ 21.7	\$ 6.4	\$ 8.0	\$ 7.3
Severance costs in COGS and SG&A	0.7	0.2	0.0	0.5
Government grants	(6.4)	-	(1.4)	(5.0)
Share-based compensation	1.1	0.7	0.4	0.0

Depreciation and amortization	21.1	10.4	8.5	2.2
Adjusted EBITDA	\$ 38.2	\$ 17.7	\$ 15.5	\$ 5.0

(\$ 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

Dividend

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of \$0.02 per share, payable on January 7, 2021, to shareholders of record on November 26, 2020. 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 and nine months ended September 30, 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 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 6, 2020 at 8:00 a.m. MST to discuss the third 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, Strategy, Risk, and 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 November 6, 2020 at 8:00 a.m. MST. A replay of the teleconference will be available on November 6, 2020 at 11:00 a.m. MST until November 13, 2020 at 11:00 a.m. MST. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 7172239.

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 2,100 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. 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 and the section entitled "Supplemental Risk Factors" in Enerflex's MD&A for the three months ended March 31, 2020, 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, 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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