



Enerflex Announces Fourth Quarter 2020 Financial Results and Quarterly Dividend

Feb 24, 2021

CALGARY, Alberta, Feb. 24, 2021 (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, 2020.

Summary Table of Fourth Quarter and Twelve Months of 2020 Financial and Operating Results

<i>(Unaudited)</i> (\$ Canadian millions, except per share amounts, horsepower, and percentages)	Three months ended December 31,			Twelve months ended December 31,		
	2020	2019	Change	2020	2019	Change
Revenue	\$ 298.8	\$ 474.4	\$ (175.6)	\$ 1,217.1	\$ 2,045.4	\$ (828.3)
Gross margin	75.0	97.4	(22.4)	298.2	429.1	(130.9)
EBIT	30.9	48.8	(17.9)	118.1	233.9	(115.8)
EBITDA (1)	52.5	70.2	(17.7)	203.3	320.5	(117.2)
Adjusted EBITDA (2)	52.8	89.0	(36.2)	191.3	345.8	(154.5)
Net earnings	32.7	31.4	1.3	88.3	152.1	(63.8)
Earnings per share – basic	0.36	0.35	0.01	0.98	1.70	(0.72)
Recurring revenue growth (3), (4)	31.2%	6.3%		3.6%	14.5%	
Bookings (5)	52.7	94.5	(41.8)	273.8	508.9	(235.1)
Backlog (5)	143.0	467.8	(324.8)	143.0	467.8	(324.8)
Rental horsepower	713,929	674,153	39,776	713,929	674,153	39,776

- (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) At December 31, 2020 the Company renegotiated two contracts with a customer which were previously recognized as BOOM projects and are now recognized as finance leases. Upon commencement of the new leases, the Company recognized Rentals revenue, based on the fair value of the underlying assets, in the consolidated statements of earnings, which is included in the calculation of recurring revenue. The amount of this revenue reflects the amount that the Company would otherwise recognize on a sale of those assets. Without the effect of this transaction, recurring revenue would have decreased by 10.2% and 7.1% for the three months and year ended December 31, 2020.
- (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.

"Enerflex's manufacturing facilities, rental, BOOM, and service operations have continued operating safely and reliably throughout the quarter. Our 2020 performance is attributable to deep customer relationships, smart investment in US contract compression, and the completion of several long-term natural gas and power infrastructure projects. Subsequent to quarter close, Enerflex was awarded a new ten-year natural gas infrastructure contract representing roughly \$35 million in growth capital expenditure for 2021," said Marc Rossiter, Enerflex's President and Chief Executive Officer.

"This award underscores our belief in the long-term growth opportunities provided by natural gas. Natural gas will play a growing role in the international energy supply, in addition to enabling the transition to lower-carbon sources of energy. This is an area Enerflex will increasingly serve in the years to come by applying the same core competency of technical excellence in modularized equipment that has served global natural gas customers at scale, for over forty years."

Quarterly Overview

- During the quarter, the Company finalized the extensions of two BOOM contracts for an additional 10 years, as previously announced in the second quarter of 2020. These contracts were previously scheduled to end in 2021 and 2024. Under the new agreements, the Company will continue providing, operating, and maintaining the existing equipment, after which ownership of the equipment will transfer to the customer. As such, the Company has recorded these contracts as finance leases in fourth quarter results. Upon commencement, the Company recognized Rentals revenue, based on the fair value of the underlying assets, and cost of goods sold, determined to be the net book value of those assets, in the consolidated statements of earnings. The amount of this revenue reflects the amount that the Company would otherwise recognize on a sale of those assets. Future periods will benefit from the monthly rental and operations and maintenance revenue associated with these leases. This transaction is consistent with Enerflex's emphasis on generating long-term recurring revenues from rental and maintenance of equipment.
- Operating income for the fourth quarter of 2020 decreased compared to 2019 on lower revenue and associated gross margins, partially offset by margin recognized on the finance lease transaction above, and increased contributions from recurring revenue product lines. In addition, the Company saw lower SG&A costs on previously implemented cost-reduction measures and contributions from government assistance programs.

- Engineered Systems booking activity rebounded from the lows seen in the third quarter of 2020 but 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. Bookings in the fourth quarter include \$77 million of new project work, which was offset by \$20 million of previous bookings in the Canada segment that were de-booked and \$5 million of negative foreign exchange impacts. The de-booking largely related to a project initially recorded in a prior year that the customer deferred. The initial deposit for the project was allocated to other projects that the Company had been awarded with the same customer.
- The Company invested \$10 million in rental assets to fund both the organic expansion of the USA contract compression fleet and completion of a previously announced BOOM project in Middle East / Africa ("MEA"). The Company continues to exercise capital discipline and to prioritize capital spending related to executed contracts with customers. At December 31, 2020, the USA contract compression fleet totaled over 350,000 horsepower with an average fleet utilization of 82 percent for the quarter. In addition, Enerflex completed the construction of a previously awarded BOOM project in MEA, which began generating revenue in January 2021.
- The Company maintained balance sheet strength by managing working capital, reducing debt, and continuing to exercise capital discipline. The Company exited the quarter financially strong, with a bank-adjusted net debt to EBITDA ratio of 1.3:1, compared to a maximum ratio of 3:1. The Company has substantial undrawn credit capacity and cash on hand.
- Subsequent to December 31, 2020, Enerflex was awarded a new 10-year natural gas infrastructure contract representing roughly \$35 million in growth capital expenditure for 2021.
- Subsequent to December 31, 2020, Enerflex declared a quarterly dividend of \$0.02 per share, payable on April 1, 2021, to shareholders of record on March 11, 2021.

Outlook

Enerflex's recent focus has been on stabilizing cash flows to maintain a strong balance sheet through a volatile commodity price environment. Engineered Systems sales remain dependent on global capital investment in oil and natural gas, and operators have reduced investment levels across the energy industry. However, in recent months, commodity prices and drilling activity in North America have strengthened, which may precede increased activity within these regions. In addition, an "Energy Transition" towards less carbon-intensive energy sources may result in new opportunities for the Company in all of its operating regions. Enerflex has appointed Patricia Martinez to the new role of Chief Energy Transition Officer, where she is responsible for driving the global strategy for Enerflex products and services in the Energy Transition space, focused on delivering low-carbon energy solutions and positioning Enerflex for success in a changing market.

The Company anticipates that Engineered Systems revenues in the Canada and USA regions are likely to remain pressured through the first half of 2021, or until there is a meaningful increase in bookings activity. In contrast, the outlook for recurring revenue product offerings, namely Service and Rentals, appears to have stabilized in the near-term and we continue to see interest in our BOOM and long-term lease offerings. The completion of multiple BOOM projects in Latin America during 2020, and an additional 10-year BOOM project in MEA that began generating revenue at the beginning of 2021, provides the Company with long-term, stable cash flows. Enerflex continues to assess the effects of various market factors, including supply and demand dynamics as well as political and economic uncertainty, and the corresponding impact on customer activity levels, which will drive the demand for the Company's products and services in future periods.

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. Given the current environment, the Company is carefully assessing project spending, with a focus on ensuring future projects provide maximum returns on invested capital.

Fourth Quarter Segmented Results

USA

USA segment revenue was \$101 million, a decrease of \$176 million from the same period in 2019. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings in recent periods, while Service 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 15 percent on a horsepower basis over the last year. EBIT was down \$55 million due to decreased gross margin, driven by lower revenue on soft bookings throughout 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 salaries. 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 \$144 million, an increase of \$70 million driven by higher Rentals revenue, primarily due to recognition of revenue on the extension of two BOOM contracts that are now recorded as finance leases. The Rest of World also had increased revenues on contributions from three recently commissioned BOOM projects in Latin America, as well as improved Engineered Systems revenue on continued progress made on a power and gas treating plant project. EBIT increased by \$37 million due to the recognition of margin on commencement of finance leases in the period, as well as the non-recurrence of impairments recognized on certain rental assets in the prior year. SG&A costs were consistent with the comparable period in 2019, with higher share-based compensation on mark-to-market movement and increased profit share expense being offset by reduced travel costs and lower allocation of corporate costs.

Canada

Canadian revenue was \$54 million, a decrease of \$70 million, primarily due to lower Engineered Systems revenue on a lower opening backlog and reduced bookings throughout 2020. EBIT increased as a result of lower SG&A, driven by reduced compensation expenses on lower headcount and cost recoveries related to government assistance programs, partially offset by lower gross margin on reduced revenue.

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) severance costs associated with restructuring activities and cost reduction activities undertaken in response to the COVID-19 pandemic; 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 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 financial results 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 December 31, 2020	Total	USA	ROW	Canada
Reported EBIT	\$ 30.9	\$ 5.9	\$ 18.5	\$ 6.5
Severance costs in COGS and SG&A	2.0	0.5	0.6	0.9
Government grants	(6.8)	-	(0.2)	(6.6)
Share-based compensation	5.1	2.6	1.7	0.8
Depreciation and amortization	21.6	10.3	9.1	2.2
Adjusted EBITDA	\$ 52.8	\$ 19.3	\$ 29.7	\$ 3.8

(\$ 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 SG&A	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

Dividend

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of \$0.02 per share, payable on April 1, 2021, to shareholders of record on March 11, 2021. 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 audited consolidated financial statements for the years ended December 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 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 Thursday, February 25, 2021 at 8:00 a.m. MST to discuss the fourth 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 February 25, 2021 at 8:00 a.m. MST. A replay of the teleconference will be available on February 25, 2021 at 11:00 a.m. MST until March 4, 2021 at 11:00 a.m. MST. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 1844329.

About Enerflex

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

Headquartered in Calgary, Canada, Enerflex has approximately 2,000 employees worldwide. Enerflex, its subsidiaries, interests in associates, and joint operations operate in Canada, the United States of America ("USA"), Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom ("UK"), Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, New Zealand, Indonesia, Malaysia, and Thailand. Enerflex operates three business segments: USA, Rest of World, and Canada. 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 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. 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.

For investor and media inquiries, please contact:

Marc Rossiter
President & Chief Executive Officer
Tel: 403.387.6325

Sanjay Bishnoi
Senior Vice President & Chief Financial Officer
Tel: 403.236.6857

Stefan Ali
Director, Strategy, Risk, and Investor Relations
Tel: 403.717.4953

ENERFLEX

Source: Enerflex Ltd.