Enerflex Announces First Quarter 2021 Financial Results and Quarterly Dividend

May 05, 2021

CALGARY, Alberta, May 05, 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 months ended March 31, 2021.

Summary Table of First Quarter of 2021 Financial and Operating Results

(Unaudited) *($ Canadian millions, except per share amounts, horsepower, and percentages)*		**2021**		2020		Three months ended March 31, Change
Revenue	**$**	**203.2**	$	365.7	$	(162.5)
Gross margin		**49.5**		93.7		(44.2)
EBIT		**6.6**		50.0		(43.4)
EBITDA (1)		**27.7**		70.8		(43.1)
Adjusted EBITDA (2)		**29.6**		66.6		(37.0)
Net earnings		**3.0**		37.4		(34.4)
Earnings per share – basic		**0.03**		0.42		(0.39)
Recurring revenue growth (3)		**(6.7)%**		0.7%		
Bookings (4)		**98.7**		155.4		(56.7)
Backlog (4)		**169.4**		397.8		(228.4)
Rental horsepower		**767,842**		686,554		81,288

(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. Highlights of the first quarter include a modest increase in Engineered Systems backlog and steady cash flow generation from our global natural gas and power assets. A quarterly decrease in recurring revenue was driven largely by a seasonal decrease in aftermarket service in North America that was partially caused by the unseasonably cold weather experienced in Texas in February,” said Marc Rossiter, Enerflex’s President and Chief Executive Officer.

“The increase in backlog in the quarter is good news, although we would caution against seeing it as a firm signal of an inflection point in the market. Our pipeline of new opportunities is slowly improving in both quality and quantity, but North American oil and gas operators continue to exhibit a cautious approach to growth capex. The same operators are exhibiting an increasing level of interest in de-carbonizing the core of their operations. This is an encouraging theme and a growing market that Enerflex will be able to serve in the years to come.”

Quarterly Overview

- Operating income was lower than the prior year, primarily due to reduced Engineered Systems revenue on lower bookings in recent periods, driven by uncertainty around commodity price stability and the ramifications of COVID-19, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020. These impacts were partially offset by the increased contribution from higher margin recurring revenue product offerings. SG&A in the quarter was lower due to decreased compensation expense on reduced headcount, decreased profit share on lower operational results, cost recoveries related to government assistance programs, and lower travel costs, partially offset by higher share-based compensation on the increase of the Company’s share price during the first quarter. This movement in share price resulted in $5.3 million of share-based compensation in the quarter, compared to $(5.1) million in the first quarter of 2020 – a net increase of $10.4 million period-over-period.
- Enerflex was awarded a new 10-year natural gas infrastructure contract during the first quarter of 2021, as previously disclosed in the 2020 Annual Report. The manufacturing portion of the transaction is being recorded as part of our Engineered Systems product line and has been included in bookings for the quarter. The finance lease income portion will then be recognized in the Rentals product line over the lease term.
- Bookings totaled $99 million, down from $155 million in the same period last year. Although first quarter bookings were healthier than cycle lows, bookings activity continued to be impacted by restrained spending within the oil and gas industry. The movement in foreign exchange rates resulted in a decrease of $1 million on foreign currency denominated backlog

during the first quarter of 2021.

- The Company invested $10 million in rental assets to fund the organic expansion of the USA contract compression fleet. In addition, Enerflex achieved full-time operations and began generating revenue from a previously awarded Build-Own-Operate-Maintain ("BOOM") project in the Middle East. The Company continues to exercise capital discipline and to prioritize capital spending related to executed contracts with customers. At March 31, 2021, the USA contract compression fleet totaled approximately 375,000 horsepower with an average fleet utilization of 82 percent for the quarter.
- 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 1.37:1, compared to a maximum ratio of 3:1. The Company has substantial undrawn credit capacity and cash on hand.
- Subsequent to March 31, 2021, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 8, 2021, to shareholders of record on May 20, 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.
- Subsequent to March 31, 2021, a subsidiary of the Company finalized access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars. This new credit facility is non-recourse to the Company.

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.

The Company anticipates that Engineered Systems revenues in the Canada and USA regions are likely to remain pressured through the first half of 2021, however the Company is seeing indications that bookings activity may pick up later in the year. In contrast, the outlook for recurring revenue product offerings, namely Service and Rentals, appears to have stabilized in North America in the near-term and we continue to see interest in our BOOM and long-term lease offerings in our Rest of World segment, including a new 10-year natural gas infrastructure contract signed during the quarter. The completion of multiple BOOM projects in recent periods, as well as long-term contract extensions on certain existing projects, provides the Company with long-term, stable cash flows. Enerflex continues to assess the effects of various market factors, including supply and demand dynamics, particularly the demand for natural gas as an energy transition fuel to support decarbonization, 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. 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 customer activity levels, which will drive the demand for the Company's products and services in future periods.

First Quarter Segmented Results

USA

USA segment revenue was $82 million, a decrease of $145 million from the same period in 2020. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings in recent periods, while Service was lower due to inclement weather during the quarter, as well as pricing pressure on certain Service offerings and a weaker U.S. dollar. Rentals revenue was consistent with the comparative period, with a larger rental fleet being offset by lower utilization and a weaker U.S. dollar. EBIT was down $37 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 largely completed by the third quarter of 2020. SG&A was consistent with the comparative period, as reduced compensation expenses on lower headcount and salaries, decreased profit share on lower operational results, and lower travel costs were offset by mark-to-market impacts on share-based compensation. 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 $71 million, consistent with the comparative period, with higher Engineered Systems and Service revenue being offset by lower Rentals revenue. Engineered Systems revenue improved on the continued progress made on a power and gas treating plant project, while Service revenues increased on higher activity levels in Australia. Rentals revenue decreased due to lower rates on extended contracts in the Middle East, expiration of certain contracts in Mexico during the prior year, and a weaker U.S. dollar during the period. During the first quarter of 2021, the Company commenced operations on a BOOM project, which will provide full contribution to operating results in future quarters. EBIT decreased by $6 million due to lower gross margin on reduced revenue and gross margin percentage. SG&A costs were consistent with the comparable period in 2020, with higher share-based compensation on mark-to-market movement being offset by lower travel costs and favourable foreign exchange movement, as well as lower allocation of corporate costs.

Canada

Canadian revenue was $51 million, a decrease of $18 million, primarily due to lower Engineered Systems revenue on a lower opening backlog and reduced bookings in recent periods. Service revenue increased on higher parts sales, while Rentals revenue decreased slightly due to certain rental units being returned rather than renewed. EBIT decreased due to lower gross margin on reduced revenue, partially offset by improved gross margin percentage and lower SG&A in the quarter. SG&A decreased due to lower compensation and cost recoveries related to government assistance programs, partially offset by higher share-based compensation on mark-to-market movement.

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. The amount of subsidies received has been recorded as a reduction in cost of goods sold and selling and administrative expense within the consolidated statements 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 March 31, 2021		Total		USA		ROW		Canada
Reported EBIT	**$**	**6.6**	**$**	**0.4**	**$**	**4.7**	**$**	**1.5**
Severance costs in COGS and SG&A		**0.7**		**0.1**		**0.2**		**0.4**
Government grants		**(4.1)**		**(0.5)**		**-**		**(3.6)**
Share-based compensation		**5.3**		**2.2**		**2.1**		**1.0**
Depreciation and amortization		**21.1**		**10.2**		**8.9**		**2.0**
Adjusted EBITDA	**$**	**29.6**	**$**	**12.4**	**$**	**15.9**	**$**	**1.3**

($ 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

Dividend

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 8, 2021, to shareholders of record on May 20, 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 unaudited interim condensed consolidated financial statements for the three months ended March 31, 2021 and 2020, and the accompanying Management's Discussion and Analysis, both of which are 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, May 6, 2021 at 8:00 a.m. MDT to discuss the first quarter 2021 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 May 6, 2021 at 8:00 a.m. MDT. A replay of the teleconference will be available on May 6, 2021 at 11:00 a.m. MDT until May 13, 2021 at 11:00 a.m. MDT. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 5228714.

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 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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