



Enerflex Announces Second Quarter 2021 Financial Results and Quarterly Dividend

Aug 04, 2021

CALGARY, Alberta, Aug. 04, 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 six months ended June 30, 2021.

Summary Table of Second Quarter and First Half of 2021 Financial and Operating Results

<i>(Unaudited)</i> (\$ Canadian millions, except per share amounts, horsepower, and percentages)	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Revenue	\$ 204.5	\$ 287.4	\$ (82.9)	\$ 407.7	\$ 653.2	\$ (245.5)
Gross margin	55.7	65.8	(10.1)	105.2	159.5	(54.3)
Operating income	17.7	14.4	3.3	24.8	64.7	(39.9)
EBIT	18.0	15.4	2.6	24.6	65.4	(40.8)
EBITDA ⁽¹⁾	39.4	37.2	2.2	67.0	108.0	(41.0)
Adjusted EBITDA ⁽²⁾	36.1	33.5	2.6	65.8	100.2	(34.4)
Net earnings	4.3	7.4	(3.1)	7.3	44.9	(37.6)
Earnings per share – basic	0.05	0.08	(0.03)	0.08	0.50	(0.42)
Recurring revenue growth ⁽³⁾	0.9%	(11.9)%		(2.9)%	(6.0)%	
Bookings ⁽⁴⁾	154.5	42.5	112.0	253.2	197.9	55.3
Backlog ⁽⁴⁾	259.0	291.1	(32.1)	259.0	291.1	(32.1)
Rental horsepower	780,916	698,168	82,748	780,916	698,168	82,748

(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 delivered solid results from all regions and business lines in a tough year for the natural gas infrastructure industry. EBITDA of \$39 million was supported by high utilization and tight operational management of the global natural gas infrastructure assets we have invested in over the past seven years," said Marc Rossiter, Enerflex's President and Chief Executive Officer.

"We happily report \$155 million of new bookings in the quarter, which are geographically balanced and heavily weighted to gas processing for upstream, midstream and petrochemical projects. These orders are a clear vote of confidence by our customers in Enerflex's capabilities and core competency of Technical Excellence in Modularized Equipment. In addition, we continue to see attractive investment opportunities for long-term contracts with solid counterparties in our International region and increasing demand for electrified solutions within our USA contract compression fleet. This is one of several areas where Enerflex is being called on by key clients to partner in their efforts to reduce the carbon footprint of oil and natural gas production."

"I would like to conclude by thanking all the employees of Enerflex whose perseverance through the pandemic has positioned us to emerge as a stronger company within our core market of natural gas infrastructure and as a key strategic partner for our clients engaging in energy transition."

Quarterly Overview

- Operating income was higher than the prior year, primarily due to reduced SG&A, as well as an increased contribution from higher margin recurring revenue product offerings. Engineered Systems revenues were lower, as expected, due to a lower entering backlog versus the comparative Q2 2020 period. Adverse foreign exchange impact due to a weaker U.S. dollar, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020 also contributed to the difference.
- Bookings totaled \$155 million, up from \$43 million in the same period last year and demonstrate an improving backdrop for our Engineered Systems business. The movement in foreign exchange rates resulted in a decrease of \$1 million on foreign currency denominated backlog during the second quarter of 2021.
- SG&A in the quarter was lower due to the large bad debt provisions in Q2 2020, lower compensation expense on reduced headcount, and decreased profit share on lower operational results. These SG&A savings were partially offset by higher share-based compensation on the increase of the Company's share price during the second quarter, and reduced cost recoveries related to government assistance programs. This movement in share price resulted in \$3 million of share-based

compensation in the quarter, compared to \$1 million in the second quarter of 2020.

- The Company invested \$13 million in rental assets to fund the organic expansion of the USA contract compression fleet. Enerflex continues to exercise capital discipline and to prioritize capital spending related to executed contracts with customers. At June 30, 2021, the USA contract compression fleet totaled approximately 380,000 horsepower with an average fleet utilization of 85 percent for the quarter. The Company has also invested \$14 million towards construction of a natural gas infrastructure asset, which will be accounted for as a finance lease.
- The Company repaid \$40 million of 6.0 percent senior unsecured notes ("Senior Notes") that were due on June 22, 2021. The repayment was financed by cash on hand and drawings on the Bank Facility.
- 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.
- The Company maintained balance sheet strength by managing working capital, reducing debt, and continuing to exercise capital discipline. We exited the quarter financially strong, with a bank-adjusted net debt to EBITDA ratio of 1.18:1, compared to a maximum ratio of 3:1. This leverage ratio excludes the non-recourse debt. Enerflex has substantial undrawn credit capacity and cash on hand.
- The Company's long-term debt is comprised of both recourse debt totaling \$296 million, and non-recourse debt totaling \$43 million.
- Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of \$0.02 per share, payable on October 7, 2021, to shareholders of record on August 19, 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 June 30, 2021, the Company extended \$660 million of its Bank Facility to June 30, 2025, under substantially the same terms and conditions.

Outlook

The outlook for Exploration & Production ("E&P") capital spending has been steadily improving since mid-2020 when budgets were reset during the COVID-19 pandemic. Commodity prices, which decreased from changes in the supply and demand for oil, have recovered, and E&P and Midstream balance sheets and free-cash-flow positions have been improving. Oil and gas demand has been recovering, despite some continued effects of the COVID-19 pandemic. As a result, Enerflex expects operator capex to increase as fundamentals improve in the second half of 2021 and 2022. This trend can be seen in Enerflex's bookings which have improved steadily since Q2 2020. Although operators continue to show discipline in spending within their cash flow, we are cautiously optimistic that this trend should continue given current fundamentals outlook.

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. 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, which will drive the demand for the Company's products and services in future periods. These factors include supply and demand dynamics, particularly the demand for natural gas as an energy transition fuel to support decarbonization, political and economic uncertainty, and the corresponding impact on customer activity levels.

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.

Second Quarter Segmented Results

USA

USA segment revenue was \$106 million, a decrease of \$72 million from the same period in 2020. Engineered Systems revenue decreased due to lower opening backlog, while Service was lower due to lower activity levels, as well as continued margin pressure due to higher levels of competition and increasing costs. Rentals revenue was higher than the comparative period, with a larger rental fleet and higher utilization. SG&A was lower than the comparative period, due to the reduced bad debt provision, reduced compensation expenses on lower headcount and salaries, and decreased profit share on lower operational results, partially 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. The net impact to EBIT was a decrease of \$2 million, driven by lower revenue versus the comparative period as discussed above. The results for the USA segment were negatively impacted by the weakening U.S. dollar relative to the comparative period.

Rest of World

Revenue in the Rest of World ("ROW") segment was \$65 million, an increase of \$6 million from the same period in 2020, with higher revenues in all product lines. A significant portion of ROW's results are based in the U.S. dollar, and as such the weakening U.S. dollar has had an unfavorable impact to the overall results. Engineered Systems revenue improved on the continued progress made on an electric power and gas treatment project, while Service revenues increased on higher activity levels in Australia. Rentals revenue increased in the period despite the weaker U.S. dollar, which had a negative impact of approximately \$5 million. During the first quarter of 2021, the Company commenced operations on a BOOM project, which provided a full contribution to operating results during Q2 2021. EBIT increased by \$6 million due to higher gross margin on increased revenues, partially offset by slightly higher SG&A. SG&A costs were slightly higher than the comparable period in 2020, with higher share-based compensation on mark-to-market movement being offset by lower third-party services.

Canada

The Canadian segment recorded revenues of \$33 million, a decrease of \$17 million, primarily due to lower Engineered Systems revenue on a lower opening backlog. 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 reduced revenue versus the comparative period as discussed above, and higher SG&A, partially offset by improved gross margin percentage. SG&A increased due to lower cost recoveries related to government assistance programs and share-based compensation expenses 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 subsidies received have 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 June 30, 2021	Total	USA	ROW	Canada
Reported EBIT	\$ 18.0	\$ 4.9	\$ 9.4	\$ 3.7
Government grants	(6.4)	(0.9)	-	(5.5)
Share-based compensation	3.2	1.6	1.1	0.5
Depreciation and amortization	21.3	10.3	9.2	1.8
Adjusted EBITDA	\$ 36.1	\$ 15.9	\$ 19.7	\$ 0.5

(\$ Canadian millions)

Three months ended June 30, 2020	Total	USA	ROW	Canada
Reported EBIT	\$ 15.4	\$ 6.8	\$ 3.7	\$ 4.9
Severance costs in COGS and SG&A	2.0	0.5	0.1	1.4
Government grants	(6.4)	-	(0.6)	(5.8)
Share-based compensation	0.7	0.4	0.2	0.1
Depreciation and amortization	21.8	10.7	9.0	2.1
Adjusted EBITDA	\$ 33.5	\$ 18.4	\$ 12.4	\$ 2.7

Dividend

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of \$0.02 per share, payable on October 7, 2021, to shareholders of record on August 19, 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 and six months ended June 30, 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, August 5, 2021 at 8:00 a.m. MDT to discuss the second 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, Vice President, Strategy 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 August 5, 2021 at 8:00 a.m. MDT. A replay of the teleconference will be available on August 5, 2021 at 11:00 a.m. MDT until August 12, 2021 at 11:00 a.m. MDT. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 1661127.

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:

Marc Rossiter
President & Chief Executive Officer
Tel: 403.387.6325

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

Stefan Ali
Vice President, Strategy & Investor Relations
Tel: 403.717.4953

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