Enerflex

Enerflex Announces Fourth Quarter 2021 Financial Results and Quarterly Dividend

Feb 23, 2022

CALGARY, Alberta, Feb. 23, 2022 (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, 2021.

Summary Table of Fourth Quarter and Twelve Months of 2021 Financial and Operating Results

(Unaudited) *($ Canadian millions, except per share amounts, horsepower, and percentages)*	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Revenue	**$ 321.3**	$ 298.8	$ 22.5	**$ 960.2**	$ 1,217.1	$ (256.9)
Gross margin	**59.9**	75.0	(15.1)	**219.6**	298.2	(78.6)
Operating income	**19.9**	31.0	(11.1)	**54.3**	116.0	(61.7)
EBIT	**20.6**	30.9	(10.3)	**55.1**	118.1	(63.0)
EBITDA (1)	**43.7**	52.5	(8.8)	**142.7**	203.3	(60.6)
Adjusted EBITDA (2)	**41.5**	52.8	(11.3)	**140.0**	191.3	(51.3)
Net earnings	**(32.7)**	32.7	(65.4)	**(18.5)**	88.3	(106.8)
Earnings per share – basic	**(0.36)**	0.36	(0.72)	**(0.21)**	0.98	(1.19)
Recurring revenue growth (3)	**(11.7)%**	31.2%		**(2.0)%**	3.6%	
Bookings (4)	**324.4**	52.7	271.7	**768.7**	273.8	494.9
Backlog (4)	**557.5**	143.0	414.5	**557.5**	143.0	414.5
Rental horsepower	**800,271**	713,929	86,342	**800,271**	713,929	86,342

(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 Energy Infrastructure (formerly 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 strong quarterly results compared to the third quarter of 2021 and a fourth consecutive quarter of backlog growth with $324 million in Engineered Systems bookings. This rally in bookings is supported by robust demand fundamentals for natural gas, natural gas liquids, and crude oil. We were also able to secure a 10-year extension on a BOOM asset in the Rest of World segment, extending these revenues with no new capital expenditures," said Marc Rossiter, Enerflex's President and Chief Executive Officer.

"On the energy transition front, our team is making meaningful progress on CCUS infrastructure opportunities. We are working closely with a number of carbon emitters and carbon management/infrastructure developers, enabling the decarbonization of industrial emitters in the USA and Canada. We booked several hydrogen compression units in the quarter and progressed on the manufacture of some large non-fossil fuel-based gas projects booked in previous quarters. We are also proud to have started building three large ultra-low-methane-emitting electrified rental units for our USA fleet based on strong customer demand.

The Enerflex teams did a good job in the quarter gaining some traction in margin. We were also able to mitigate supply chain risks but inflationary pressure on materials, delivery delays, and freight costs became more significant yet manageable in the quarter. We expect our teams will be managing these challenges for the balance of 2022, as we capitalize on improving fundamentals for the oil and gas industry.

We are pleased with progress made in the regulatory, capital structure and integration planning workstreams in preparation for the acquisition of Exterran Corporation as announced on January 24, 2022. Enerflex management remains focused on delivering on the strategic rationale of the acquisition, including: increasing recurring pro forma gross margin to approximately 70 percent of total, striving for a sustainable cost structure through synergy realization, and providing better capabilities to our global client base."

Quarterly Overview

- Bookings totaled $324 million, up substantially from $53 million in the same period last year and $191 million in the third quarter of 2021, which mirrors the optimism in the recovering oil and gas sector and is reflected in the increased activity in our Engineered Systems business.
- Comparing the fourth quarter of 2021 to the third quarter, the Company experienced an improvement in both revenue and operating income, driven mainly by higher Engineered Systems revenue, improved gross margins on certain Engineered Systems projects and lower SG&A in the current quarter.
- Operating income was lower than the prior year, primarily due to competitive margin pressures on Engineered Systems projects, the recognition of large finance leases in the prior year, and lower government grants received. These decreases

were offset by improved Engineered Systems revenues on stronger opening backlog, reduced SG&A on lower share-based compensation and profit share, and the recognition of a finance lease in the current quarter.

- During the quarter, the Company negotiated an extension of an existing contract on a significant BOOM asset. The extension is accounted for as a finance lease and is similar to the extensions that were signed in the fourth quarter of 2020 but has a lower impact in the current year and is the primary driver for the decrease in recurring revenues for the year.
- SG&A was slightly lower due to the lower share-based compensation on the decrease of the Company's share price during the fourth quarter, partially offset by higher compensation costs.
- The Company derecognized $45 million of deferred tax assets. This non-cash event related to unused tax losses and other deductible temporary differences in Canada. The derecognized tax assets have a finite life and the continued challenging market conditions create uncertainty whether sufficient taxable income will be available to offset these unused tax losses prior to their expiry.
- The Company invested $17 million in rental assets; the majority used 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 December 31, 2021, the USA contract compression fleet totaled approximately 400,000 horsepower with an average fleet utilization of 89 percent for the quarter. The Company has also invested $13 million towards construction of a natural gas infrastructure asset, which will be accounted for as a finance lease.
- 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 1.00:1, 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.
- Subsequent to December 31, 2021, the Company's Board of Directors approved its quarterly dividend of $0.025 per share, payable on April 7, 2022, to shareholders of record on March 10, 2022. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.
- On January 24, 2022, Enerflex and Exterran Corporation (NYSE: EXTN) announced they have entered into a definitive agreement to combine the companies in an all-share transaction to create a premier integrated global provider of energy infrastructure. Upon completion of the transaction, which will require shareholder and regulatory approval, the combined entity will operate as Enerflex Ltd. Subject to all approvals, the transaction is expected to close in the second or third quarter of 2022.

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 have risen to a five-year high, 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 and evolving regulatory risks associated with the curtailment of hydrocarbons at the regional, national, and international levels. As a result, Enerflex expects customer capex to increase as fundamentals improve in 2022. This trend can be seen in Enerflex's bookings which have been trending upward since the third quarter of 2020. Although customers continue to show discipline in spending within their cash flow and return money to shareholders, we are cautiously optimistic that this trend should continue given the current fundamentals outlook.

In addition, an "Energy Transition" towards less carbon-intensive energy sources is presenting new opportunities for the Company in several regions, leveraging the strength of Enerflex in providing modularized engineer-to-order solutions for the energy industry. The Company is working with existing and new customers to advance projects that: 1) decarbonize core operations; 2) capture carbon; 3) build infrastructure for biofuels; and 4) explore new hydrogen opportunities.

On January 24, 2022 the Company announced the acquisition of Exterran with a transaction value of $735 million USD. The transaction will exchange 1.021 shares of Enerflex for each share of Exterran. Management expects the deal to close in the second or third quarter of 2022 after shareholder votes for Exterran and Enerflex respectively, regulatory approvals and other conditions customary for the transaction of this type. The Company will continue to preserve the strength of its balance sheet and maximize cash flow through disciplined capital spending, with investments prioritizing higher-margin, less-cyclical businesses with attractive returns. Once approved and closed, the acquisition of Exterran will result in accelerated growth of recurring revenues, expected to account for approximately 70 percent of the combined entity's pro forma gross margin, as well as approximately doubling EBITDA. Leverage will temporarily rise to fund four major in-flight projects. We expect these projects to be completed in late 2022 or early 2023 and excess free cash flow after completion of these projects will be used to lower leverage ratios. 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.

Enerflex remains focused on providing a safe working environment for all employees, while positioning the Company to capitalize on increased industry spending. 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, particularly as an energy transition fuel to support decarbonization. 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.

Fourth Quarter Segmented Results

USA

USA segment revenue was $167 million, an increase of $66 million from the same period in 2020. Engineered Systems revenue increased due to higher activity levels resulting from stronger bookings and opening backlog, while Service revenues continued to improve from increasing volumes of work. Energy Infrastructure 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 mark-to-market impact on share-based compensation and lower profit share, partially offset by higher compensation due to the effect of the temporary cost savings measures that were removed in the previous quarter. The net impact to EBIT was an increase of $4 million, driven by higher gross margins on increased revenues, and lower SG&A versus the comparative period as discussed above.

Rest of World

Revenue in the Rest of World ("ROW") segment was $99 million, a decrease of $45 million from the same period in 2020, with lower Engineered Systems and Energy Infrastructure revenues, offset by higher Service revenues. Engineered Systems revenue declined based on the timing of new bookings, which have not yet hit revenue recognition, while Service revenues increased on higher activity levels in Argentina and Colombia. Energy Infrastructure revenue decreased in the period despite the revenue recognized on the extension of a BOOM contract that is now recorded as a finance lease. The contribution is lower than the two finance leases recorded in the same quarter last year. EBIT decreased by $7 million due to lower gross margins from decreased revenues, partially offset by lower SG&A. SG&A costs were lower than the comparable period in 2020 due to lower share-based compensation on mark-to-market movement.

Canada

The Canadian segment recorded revenues of $55 million, an increase of $2 million, primarily due to higher Engineered Systems revenue. Energy Infrastructure revenue decreased due to certain rental units being returned. Service revenue slightly decreased on lower activity levels. Despite the increase in revenues, gross margins were lower due to pricing pressures and project pick-ups during the fourth quarter of 2020 that did not repeat in the current quarter. SG&A increased due to lower government subsidies, and higher compensation due to the effect of the temporary cost savings measures that were removed in the previous quarter, partially offset by lower share-based compensation expenses on mark-to-market movement. The resulting impact to EBIT is a decrease of $7 million compared to the same period last year.

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.

The Company added an additional adjustment related to government grants, most notably the Canada Emergency Wage Subsidy in the second quarter of 2020, the Canada Emergency Rent Subsidy in the first quarter of 2021, and the Hardest-Hit Business Recovery Program in the fourth quarter of 2021. The subsidies received have been recorded as a reduction in cost of goods sold and selling and administrative expenses within the consolidated statements of earnings in accordance with where the associated expenses were 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, 2021	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	**$ 20.6**	**$ 9.8**	**$ 11.2**	**$ (0.4)**
Government grants in COGS and SG&A	**(2.0)**	**-**	**-**	**(2.0)**
Share-based compensation	**(0.2)**	**0.2**	**(0.3)**	**(0.1)**
Depreciation and amortization	**23.1**	**11.4**	**9.9**	**1.8**
Adjusted EBITDA	**$ 41.5**	**$ 21.4**	**$ 20.8**	**$ (0.7)**

($ 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 in COGS and SG&A	(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

Dividend

Subsequent to December 31, 2021, the Company's Board of Directors approved its quarterly dividend of $0.025 per share, payable on April 7, 2022, to shareholders of record on March 10, 2022. The Board 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, 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, February 24, 2022 at 8:00 a.m. MST to discuss the fourth 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 February 24, 2022 at 8:00 a.m. MST. A replay of the teleconference will be available on February 24, 2022 at 11:00 a.m. MST until

March 3, 2022 at 11:00 a.m. MST. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 1488358.

About Enerflex

Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, energy transition solutions, 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, energy transition solutions, 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; implications of changes in government regulation, laws and income taxes; and the anticipated outcomes of Enerflex's proposed combination with Exterran Corporation, including the combined entity's accelerated generation of recurring gross margins to approximately 70 percent of total, approximate doubling of EBITDA, and capital allocation priorities following the completion of in-flight projects in 2022 and 2023. 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.

Future-Oriented Financial Information

This press release contains information that may constitute future-oriented financial information or financial outlook information ("FOFI") about Enerflex and the entity resulting from its combination with Exterran, including with respect to the combined entity's prospective financial performance, financial position or cash flows, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may provide to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Enerflex, Exterran or the combined entity's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Enerflex has included FOFI in this press release in order to provide readers with a more complete perspective on the combined entity's future operations and management's current expectations regarding the combined entity's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was made as of the date of this press release. Unless required by applicable laws, Enerflex does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events, or otherwise.

For investor and media inquiries, please contact:

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