



Enerflex Announces First Quarter 2022 Financial Results and Quarterly Dividend

May 04, 2022

CALGARY, Alberta, May 04, 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 months ended March 31, 2022.

Summary Table of First Quarter of 2022 Financial and Operating Results

<i>(Unaudited)</i> (\$ Canadian millions, except per share amounts, horsepower, and percentages)	Three months ended March 31,		
	2022	2021 ⁽¹⁾	Change
Revenue	\$ 323.1	\$ 203.2	\$ 119.9
Gross margin	53.6	45.5	8.1
Operating Income	6.8	7.0	(0.2)
EBIT	7.1	6.6	0.5
EBITDA ⁽²⁾	29.0	27.7	1.3
Adjusted EBITDA ⁽³⁾	38.7	29.6	9.1
Net earnings	(0.4)	3.0	(3.4)
Earnings per share – basic	(0.00)	0.03	(0.03)
Recurring revenue growth	13.5%	(6.7)%	
Bookings ⁽⁴⁾	236.9	98.7	138.2
Backlog ⁽⁴⁾	620.0	169.4	450.6
Rental horsepower	833,872	767,842	66,030

(1) Certain prior period amounts have been reclassified between COGS and SG&A following management's continuing review of the function of expenditures incurred. Please refer to Note 1 of the interim condensed consolidated financial statements for additional details.

(2) 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.

(3) Adjusted EBITDA is a non-IFRS measure. Please refer to the full reconciliation of these items in the Adjusted EBITDA section.

(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 is pleased to report a safe and successful first quarter of 2022," said Marc Rossiter, Enerflex's President and Chief Executive Officer. "Our revenue and Adjusted EBITDA increased substantially compared to the prior year quarter despite increased inflationary and competitive pressures. Our global Energy Infrastructure business performed very well and our Engineered Systems business had a very strong quarter on two fronts. First, while we continue progressing some of the lower margin projects that were booked in early 2021, we are starting to see gradual margin improvement off the lows, having increased the margin on Engineered Systems revenue by 200 basis points relative to Q4 2021 while managing a turbulent supply chain. Second, we recorded a high level of new bookings for compression, gas processing and energy transition-related equipment."

"We continue progressing several opportunities in the energy transition space and expect that continued public policy support for lower carbon energy solutions will benefit Enerflex in the coming years. Finally, we are progressing towards close of our transformational acquisition of Exterran that was announced in January of 2022. We are increasingly excited about the strategic fit of the two companies, the supportive macroeconomic fundamentals for global natural gas production growth, and the support received by the market."

Quarterly Overview

- Bookings totaled \$237 million, up significantly from \$99 million in the same period last year, reflecting the increased activity in our Engineered Systems business. Movement in foreign exchange rates resulted in a decrease of \$6 million on foreign currency denominated backlog during the first quarter of 2022.
- Engineered Systems backlog at March 31, 2022 is \$620 million compared to the backlog of \$558 million at December 31, 2021. This \$62 million increase is due to the higher Engineered Systems bookings outpacing revenue recognized in the period, offset by unfavourable foreign exchange impacts of \$6 million.
- The Company experienced a healthy increase in revenue in the current quarter at \$323 million compared to \$203 million in the comparable quarter, mainly due to a stronger opening backlog, revenue recognition of the previously announced 10-year natural gas infrastructure project, higher rental utilizations, and the increased volume of work in all segments. Gross margin was \$54 million or 17 percent for the first quarter of 2022 compared to \$46 million or 22 percent for the comparable period. The higher gross margin in the current quarter is primarily due to the increased volume of work. However, the Company reported a lower gross margin percent due to a shift in the product mix, less government grants received, and competitive pricing pressures on materials and labour.
- SG&A costs of \$47 million in the first quarter of 2022 were up from \$38 million in the same period last year. The increase is primarily due to the transaction costs on the pending Exterran transaction and the reduced cost recoveries from government subsidies. These increases are partially offset by lower share-based compensation.
- Operating income was lower than the prior period, primarily due to higher SG&A and competitive margin pressures, partially offset by increased gross margin from higher revenue. Excluding the transaction costs, the Company's operating income would have been higher than the prior period.
- The Company invested \$29 million towards construction of a natural gas infrastructure asset that was awarded in the

fourth quarter of 2021 and which will be accounted for as a finance lease. The Company also invested \$3 million in rental assets; the majority used to fund the organic expansion of the USA contract compression fleet. At March 31, 2022, the USA contract compression fleet totaled approximately 405,000 horsepower with an average fleet utilization of 91 percent for the quarter.

- The Company continues to maintain a strong balance sheet and our bank-adjusted net debt to EBITDA ratio is 1.43:1, 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 March 31, 2022, Enerflex declared a quarterly dividend of \$0.025 per share, payable on July 7, 2022, to shareholders of record on May 19, 2022. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

Exterran Transaction Update

On January 24, 2022 the Company announced an all-share acquisition of Exterran in which Enerflex would acquire all of the outstanding shares of common stock of Exterran by issuing 1.021 common shares of Enerflex in exchange for each share of Exterran. The closing of the transaction is subject to obtaining regulatory approvals and approval by shareholders of Exterran and Enerflex, and satisfying other conditions that are customary for a transaction of this type, which are fully described in the Merger Agreement which is available under our electronic profile on SEDAR at www.sedar.com as well as our website. The Company continues to progress all matters that need to be addressed to close the Transaction, including the submission of required notifications and applications necessary to obtain the required regulatory approvals and clearances, a number of which have already been obtained.

Pending satisfaction of the terms and conditions as set forth in the Merger Agreement, Enerflex anticipates closing the Transaction during the second half of 2022. For additional information on the status of this transaction, please see Enerflex's Management's Discussion and Analysis for the three months ended March 31, 2022, which is available on the Enerflex website at www.enerflex.com under the Investors section and on SEDAR at www.sedar.com.

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 on strengthening supply/demand fundamentals and a renewed focus on energy security in light of Russia's invasion of Ukraine, 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 continued focus on ESG factors. As a result, Enerflex expects customer capex to increase modestly as fundamentals improve. 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 process solutions for the energy industry. The Company is working with existing and new customers to advance projects that: 1) decarbonize core operations; 2) providing a path for electrification; 3) capture carbon; 4) build infrastructure for Renewable Natural Gas (RNG) and biofuels; and 5) new hydrogen opportunities.

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.

First Quarter Segmented Results

USA

USA segment revenue was \$147 million, an increase of \$66 million from the same period in 2021. Engineered Systems revenue increased due to improved activity levels and higher opening backlog; higher Service revenue due to increased volume of work and the inclement weather that impacted the first quarter of 2021; and higher Energy Infrastructure as a result of larger rental fleet and higher utilizations. SG&A was higher in the first quarter of 2022 compared to the same period last year as a result of the allocated transaction costs related to the previously announced Exterran transaction, and higher total compensation due to increased headcount. EBIT was lower by less than \$1 million in the first quarter primarily due to higher SG&A compared to the prior year, despite the higher gross margins mainly due to the higher Engineered Systems revenue on stronger opening backlog for 2022.

Rest of World

Revenue in the Rest of World segment was \$109 million, an increase of \$39 million from the same period in 2021, with higher Engineered Systems and Energy Infrastructure revenue, offset by lower Service revenue. Engineered Systems revenue improved primarily from a previously announced 10-year natural gas infrastructure project in the Middle East that began operations at the beginning of the year and accounted for as a finance lease. Energy Infrastructure revenues slightly increased during the first quarter helped by the finance lease income on the aforementioned finance lease project, offset by lower Service revenues. The slight increase in SG&A costs are primarily due to the segment's allocated share of transactions costs related to the previously announced Exterran transaction and increased total compensation expense, partially offset by lower share-based compensation on mark-to-market movement and favourable foreign exchange impacts. EBIT increased by \$6 million due to higher gross margins on higher Engineered Systems and Energy Infrastructure revenue, partially offset by slightly higher SG&A.

Canada

Canadian revenue was \$66 million, an increase of \$16 million, primarily due to higher Engineered Systems revenue based on the strength of higher opening backlog. Service revenues have increased due to a number of maintenance service agreements and large parts sales. Energy Infrastructure revenue decreased due to lower utilization of available rental units based on lower demand. Canada did see a decrease in gross margins in the first quarter of 2022 compared to the same period last year, primarily driven by reduced government grants; continued lower margin projects; and margin erosion from unanticipated cost overruns. SG&A increased due to the segment's allocated share of transactions costs related to the previously announced Exterran transaction and reduced government grants. EBIT is in a loss position and the decrease is due to lower gross margins and higher SG&A.

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 five 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) grants received from Federal governments in response to the COVID-19 pandemic; 4) transaction costs related to M&A activity; and 5) 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.

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, 2022

	Total	USA	ROW	Canada
Reported EBIT	\$ 7.1	\$ 0.3	\$ 10.3	(\$ 3.5)
Transaction costs	5.7	2.6	1.9	1.2
Share-based compensation	4.0	1.8	1.5	0.7
Depreciation and amortization	21.9	11.7	8.3	1.9
Adjusted EBITDA	\$ 38.7	\$ 16.4	\$ 22.0	0.3

(\$ 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 in COGS and SG&A	(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

Dividend

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of \$0.025 per share, payable on July 7, 2022, to shareholders of record on May 19, 2022. 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.

Board Retirements

As previously disclosed, Mr. Stephen Savidant and Mr. Robert Boswell, each of whom has served as a director since 2011, did not stand for re-election pursuant to the Board Retirement Policy having attained the age of 72. In addition, Ms. Helen Wesley, having recently been appointed as President of a Florida-based utility company, decided to not stand for re-election after serving as a director since 2013. Enerflex would like to thank Mr. Savidant, Mr. Boswell, and Ms. Wesley for their long-standing dedication, guidance and leadership over the past several years.

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, 2022 and 2021, 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 5, 2022 at 8:00 a.m. MDT to discuss the first quarter 2022 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 May 5, 2022 at 8:00 a.m. MDT. A replay of the teleconference will be available on May 5, 2022 at 11:00 a.m. MDT until May 12, 2022 at 11:00 a.m. MDT. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 1855316.

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 2,100 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.

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ENERFLEX

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