Source: *Exco Technologies Ltd.*

February 01, 2022 17:01 ET

Exco Results for First Quarter Ended December 31, 2021

- **Consolidated Sales of $101.0 million and EBITDA of $9.3 million**
- **Net Income of $2.7 million and EPS of $0.07**
- **Quarterly dividend raised 5% to $0.105 per common share**
- **Financial position and liquidity remain strong with $11.6 million net cash**

TORONTO, Feb. 01, 2022 (GLOBE NEWSWIRE) -- **Exco Technologies Limited (TSX-XTC, OTCQX-EXCOF)** today announced results for its first quarter of fiscal 2022 ended December 31, 2021. In addition, Exco announced a 5% increase in its quarterly dividend to $0.105 per common share which will be paid on March 31, 2022 to shareholders of record on March 17, 2022. The dividend is an “eligible dividend” in accordance with the Income Tax Act of Canada.

(in $ millions except per share amounts)	Three Months ended December 31	
	2021	2020
Sales	**$101.0**	$121.4
Net income for the period	**$2.7**	$10.9
Earnings per share		
Basic and Diluted – Reported	**$0.07**	$0.28
EBITDA	**$9.3**	$19.3

“Exco’s results were well below potential this quarter due to widespread supply chain challenges, including constrained vehicle production arising from the global shortage of semiconductors,” said Darren Kirk, Exco’s President and CEO. “We are nonetheless very confident that our performance will rebound strongly through the balance of fiscal 2022 and into the years ahead supporting our Board’s decision to increase our dividend for the 13th consecutive year,” added Kirk.

Consolidated sales for the first quarter ended December 31, 2021 were $101.0 million compared to $121.4 million in the same quarter last year – an decrease of $20.4 million or 17%. The impact of a strengthening Canadian dollar compared to the USD and Euro was $3.5 million in the quarter.

The Automotive Solutions segment reported sales of $55.2 million in the first quarter – a decrease of $20.9 million, or 27% from the same quarter last year. Adjusting for the negative impact of foreign exchange movements, sales decreased 24%. This decline was primarily driven by a 20% reduction in vehicle production volumes of North America and Europe. Despite healthy underlying consumer demand for vehicles, OEM production has remained constrained by COVID-19 related supply chain disruptions, including a shortage of semiconductor chips in particular. Exco’s results were additionally affected during the quarter by unfavorable vehicle and product mix shifts, inventory destocking as well as operational and logistical constraints, which hindered the production and shipment of certain products. Partially offsetting these factors were initial sales from the launch of new programs for both new and existing products. Looking forward, OEM vehicle production volumes are expected to increase in calendar 2022 as the semiconductor chip availability appears to have stabilized and we expect it to improve slowly throughout the calendar year. Exco will also benefit from ongoing new sizeable program launches as well as customers re-stocking inventory levels throughout their various channels. Quoting opportunities are increasing for new potential programs across the segment’s various businesses, which is expected to support future growth over market trend levels.

The Casting and Extrusion segment reported sales of $45.8 million in the quarter – an increase of $0.5 million, from the same period last year. Excluding the $1.1 million negative impact of foreign exchange, sales increased 4% compared to the prior year quarter. The Extrusion group experienced higher sales reflecting demand for extrusion tools particularly in the building and construction, large truck, recreational vehicle, and green energy sectors. Strong demand, combined with operational improvements, which have continued to reduce lead times, have contributed to market share gains in the Extrusion group providing above market growth. The Castool group's revenues were down slightly as demand for die-cast consumable tooling from automotive customers declined due to reduced vehicle production volumes. This decline was partially offset by increased demand for extrusion capital equipment during the quarter. Castool continues to invest heavily and advance its proprietary tooling solutions which are increasingly required by customers as their manufactured components increase in size and complexity and as they focus on improving their own productivity and efficiency. The Large Mould group sales were down during the quarter due to the same supply chain disruptions caused by the semi-conductor shortage negatively impacting vehicle production, requiring less rebuild work for moulds. The Large Mould group quoted and was awarded a number of programs from current and new customers in the quarter; as a result, inventories and backlog continue to grow. This is particularly the case with the group's world leading additive manufacturing business which realized record revenues and order inflow during the quarter while making sizeable inroads with new customers. Looking forward, quoting activity within all groups in this segment is strong and revenues will benefit as automotive production rebounds and awarded programs ramp up.

Consolidated net income for the first quarter was $2.7 million or basic and diluted earnings of $0.07 per share compared to $10.9 million or $0.28 per share in the same quarter last year. The consolidated effective income tax rate for the current quarter was 26% compared to 22% the prior year period. The income tax rate in the current year quarter was impacted by geographic distribution and foreign rate differentials.

The Automotive Solutions segment reported pretax profit of $3.4 million in the quarter – a decrease of $8.2 million over the same quarter last year. The segment's lower pretax profit is due to the 24% reduction in sales, lower overhead absorption, and higher material, logistics and labour costs. The semi-conductor shortage disrupted OEM production which caused significant inefficiencies to our operations. Last minute cancellation of releases were common, or conversely, certain customers have accelerated releases with little notice. This caused our operations to work overtime and incur expedited shipping costs. These production and shipping challenges created inefficiencies that increased overhead and direct labour costs during the quarter which were exacerbated by reduced labour availability due to the increased prevalence of COVID-19. Furthermore, the segment incurred severance costs as lower demand for some products required reorganization of labour. Management remains focused on improving the efficiency of its operations and reducing its overall cost structure. Pricing discipline remains a focus and action is being taken on current programs where possible, though there is typically a lag of a few quarters before the impact is realized. As well, new program awards are priced to reflect management's expectations for higher future costs.

The Casting and Extrusion segment reported $1.9 million of pretax profit in the quarter – a decrease of $2.6 million from the same quarter last year. The Extrusion group's profits benefited from a balanced sales performance across all locations. Higher sales in this group combined with production improvements and increased absorption of overheads provided efficiency benefits to counter higher raw material costs and other inflationary impacts. In particular, our harmonized manufacturing process across the group's facilities has allowed us to centralize certain functions such as programming and design and utilize our capacity on a network basis in order to achieve these results. The Castool group profits were negatively impacted by inflationary pressures on raw materials, unfavorable product mix shifts, lower overhead absorption, higher depreciation costs and start-up costs of Castool Morocco, which only began to realize revenue late in the quarter. Although the Large Mould Group's quoting activity and new business awards were very strong in the quarter, actual shipments of tools were dampened due to reduced global vehicle production and consequently lower mould rebuild work. Reduced labour availability also negatively impacted the results of all three segment business units as measures were taken to reduce the spread of COVID-19. Management remains focused on taking pricing action where possible to preserve margins, reducing its overall cost structure and improving manufacturing efficiencies. Such activities together with sales efforts are expected to improve segment profitability in future quarters.

During the first quarter, the Company signed a definitive agreement to acquire the extrusion dies business of Halex Holdings GmbH ("Halex® Extrusion Dies"). Halex Extrusion Dies was founded in 1990 and operates four key manufacturing locations – two in Germany and two in the northern industrial region of Italy. The company is the second largest manufacturer of aluminium extrusion dies in Europe and the continent's leading supplier of complex extrusion dies. Halex will complement Exco's six existing extrusion die operations, located in Canada, USA (2), Mexico, Colombia and Brazil. The acquisition will provide Exco with well-established and high-quality operations, manufacturing complex extrusion dies in Europe and will provide better support for the Company's global customers.

The transaction is expected to close in the spring of 2022 and is valued at €40 million (C$58 million equivalent) on an enterprise value basis. It will be funded with a combination of cash on hand and available bank lines. Halex will add almost €40 million in annual sales and is expected to be immediately accretive to Exco's earnings per share. Exco will report the results of Halex within its Casting and Extrusion segment.

The Corporate segment expenses were $1.6 million in the quarter compared to $2.2 million in the prior year quarter. Corporate expenses improved primarily due to higher foreign exchange losses incurred in the prior year quarter. Consolidated EBITDA for the first quarter totaled $9.3 million compared to $19.3 million in the same quarter last year. EBITDA as a percentage of sales decreased to 9.3% in the current quarter compared to 15.9% the prior year. The EBITDA margin in the Casting and Extrusion segment was 13.0% compared to 18.0% last year while the EBITDA margin in the Automotive Solutions segment was 9.0% compared to 17.5% last year.

Exco generated cash from operating activities of $8.0 million during the quarter and $5.2 million of Free Cash Flow after $2.8 million in Maintenance Fixed Asset Additions. This cash flow, together with cash on hand was more than sufficient to fund fixed assets for growth initiatives of $8.2 million and $3.9 million of dividends. Exco ended the year with $11.6 million in net cash and $61.6 million in available liquidity, including $26.3 million of balance sheet cash, continuing its practice of maintaining a very strong balance sheet and liquidity position.

Outlook

Despite current macro challenges, the overall outlook is very favorable across Exco's various businesses into the medium term. Consumer demand for automotive vehicles is currently outstripping supply in most markets, which are constrained by a shortage of microchips and, to a lesser extent, other raw materials, components and availability of labour. Dealer inventory levels are near record lows, while average transaction prices for both new and used vehicles are at record highs and the average age of the broader fleet has continued to increase to an all-time high. This bodes well for higher levels of future vehicle production and the sales opportunity of Exco's various automotive components and accessories once supply chains normalize. In addition, OEM's are increasingly looking to the sale of higher margin accessory products as a means to enhance their own levels of profitability. Exco's Automotive Solutions segment derives a significant amount of activity from such products and is a leader in the prototyping, development and marketing of the same. Moreover, the rapid movement towards an electrified fleet for both passenger and commercial vehicles is enticing new market entrants into the automotive market while causing traditional OEM incumbents to further differentiate their product offerings, all of which is driving above average opportunities for Exco.

With respect to Exco's Casting and Extrusion segment, the intensifying global focus on environmental sustainability is creating significant growth drivers that are expected to persist through at least the next decade. Automotive OEMs are looking to light-weight metals such as aluminum to reduce vehicle weight and reduce carbon dioxide emissions. This trend is evident regardless of powertrain design - whether internal combustion engines, electric vehicles or hybrids. As well, a renewed focus on the efficiency of OEMs in their own manufacturing process is creating higher demand for advanced tooling that can contribute towards their profitability and sustainability goals. Certain new EV manufacturers have adopted the approach of utilizing much larger die cast machines to cast entire sub-frames of vehicles out of an aluminum based alloy rather than assemble numerous pieces of separately stamped and welded pieces of ferrous metal. Exco expects traditional OEMs will ultimately follow this trend and is positioning its operations to capitalize accordingly. Beyond the automotive industry, Exco's extrusion tooling supports diverse end markets which are also seeing increased demand for aluminum driven by environmental trends, including energy efficient buildings, solar panels, etc.

On the cost side, inflationary pressures have intensified in recent quarters while prompt availability of various input materials, components and labour has become more challenging. We are offsetting these dynamics through various efficiency initiatives and taking pricing action where possible although there is typically several quarters of lag before the counter measures are evident.

Exco itself is also looking inwards with respect to ESG and sustainability trends to ensure its own operations are sustainable. We are investing significant capital to improve the efficiency and capacity of our own operations while lowering our own carbon footprint. In the current quarter we released our first Sustainability Report on our corporate website and we will update this over time.

Over the next 5 years Exco is currently targeting an organic compounded average annual growth rate of approximately 10% for revenues and slightly higher levels for EBITDA and Net Income during this timeframe, producing an annual EPS of roughly $1.90 in fiscal 2026. This target is expected to be achieved through the launch of new programs, general market growth, and also market share gains consistent with the Company's operating history. Capital investments will remain elevated in the next few years in order to position the Company for the significant growth opportunities we see. Capital expenditures are expected to exceed $55 million for fiscal 2022.

For further information and prior year comparison please refer to the Company's First Quarter Condensed Financial Statements in the Investor Relations section posted at www.excocorp.com. Alternatively, please refer to www.sedar.com.

Non-IFRS Measures: In this News Release, reference may be made to EBITDA, EBITDA Margin, Pretax Profit, Free Cash Flow and Maintenance Fixed Asset Additions which are not measures of financial performance under International Financial Reporting Standards ("IFRS"). Exco calculates EBITDA as earnings before interest, taxes, depreciation, amortization and other expenses and EBITDA Margin as EBITDA divided by sales. Exco calculates Pretax Profit as segmented earnings before other income/expense, interest and taxes. Free Cash is calculated as cash provided by operating activities less interest paid and Maintenance Fixed Asset Additions. Maintenance Fixed Asset Additions represents investment in fixed assets that are required to continue current capacity levels. EBITDA, EBITDA Margin, Pretax Profit and Free Cash Flow are used by management, from time to time, to facilitate period-to-period operating comparisons and we believe some investors and analysts use these measures as well when evaluating Exco's financial performance. These measures, as calculated by Exco, do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other issuers.

Quarterly Conference Call: February 2, 2022 10:00 a.m.(Toronto time)

To access the live audio webcast, please log on to www.excocorp.com, or https://edge.media-server.com/mmc/p/s4962zix a few minutes before the event. The conference call can be accessed by dialing toll free at (866) 572-8261 or internationally at (703) 736-7448. The conference ID is 4594530.

For those unable to participate on February 2, 2022, an archived version will be available on the Exco website.

Source: Exco Technologies Limited (TSX-XTC, OTCQX-EXCOF)
Contact: Darren Kirk, President and Chief Executive Officer
Telephone: (905) 477-3065 Ext. 7233
Website: http://www.excocorp.com

About Exco Technologies Limited:

Exco Technologies Limited is a global supplier of innovative technologies servicing the die-cast, extrusion and automotive industries. Through our 16 strategic locations in 7 countries, we employ about 4,700 people and service a diverse and broad customer base.

Notice To Reader: Forward Looking Statements

This press release contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We may use words such as "anticipate", "may", "will", "should", "expect", "believe", "estimate", "5-year target" and similar expressions to identify forward-looking information and statements especially with respect to growth, outlook and financial performance of the Company's business units, contribution of our start-up business units, contribution of awarded programs yet to be launched, margin performance, financial performance of acquisitions, liquidity, operating efficiencies, improvements in, expansion of and/or guidance or outlook as to future revenue, sales, production sales, margin, earnings, earnings per share, including the outlook for 2026, are forward-looking statements. These forward-looking statements include known and unknown risks, uncertainties, assumptions and other factors which may cause actual results or achievements to be materially different from those expressed or implied. These forward-looking statements are based on our plans, intentions or expectations which are based on, among other things, the current improving global economic recovery from the COVID-19 pandemic and containment of any future or similar outbreak of epidemic, pandemic, or contagious diseases that may emerge in the human population, which may have a material effect on how we and our customers operate our businesses and the duration and extent to which this will impact our future operating results, assumptions about the number of automobiles produced in North America and Europe, production mix between passenger cars and trucks, the number of extrusion dies required in North America and South America, the rate of economic growth in North America, Europe and emerging market countries, investment by OEMs in drivetrain architecture and other initiatives intended to reduce fuel consumption and/or the weight of automobiles in response to rising climate risks, raw material prices, supply disruptions, economic conditions, inflation, currency fluctuations, trade restrictions, our ability to integrate acquisitions, our ability to continue increasing market share, or launch of new programs and the rate at which our current and future greenfield operations in Mexico and Morocco achieve sustained profitability. Readers are cautioned not to place undue reliance on forward-looking statements throughout this document and are also cautioned that the foregoing list of important factors is not exhaustive. The Company will update its disclosure upon publication of each fiscal quarter's financial results and otherwise disclaims any obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise. For a more extensive discussion of Exco's risks and uncertainties see the 'Risks and Uncertainties' section in our latest Annual Report, Annual Information Form ("AIF") and other reports and securities filings made by the Company. This information is available at www.sedar.com or *www.excocorp.com*.