

SOURCE: Imaflex Inc.

Imaflex Reports Second Quarter 2019 Results and Provides Business Update

Business fundamentals stable despite competitive pressures

Q2 2019 Highlights

- Revenues were \$21.3 million, down 3.0% from \$21.9 million in 2018
- Gross margin was 12.8%, up from 11.2% last year
- EBITDA¹ was \$1.3 million (\$1.0 million excluding the impact of IFRS 16²), versus \$1.7 million in 2018
- Excluding the impact of foreign exchange, EBITDA came in at \$1.6 million, up from \$1.4 million in 2018
- Net income was \$0.2 million, versus \$0.7 million in the prior year
- Operating cash flows remained strong year-over year

Montreal, Québec, CANADA – August 27, 2019 – Imaflex Inc. (“Imaflex” or the “Corporation”) (TSX-V: IFX), announces its consolidated financial results for the second quarter ended June 30, 2019 and provides a business update. All amounts are in Canadian dollars.

“Although we are in a very competitive industry, business fundamentals remained stable during the quarter, supported by higher sales volumes in our core business and solid cash flows,” highlighted Mr. Joe Abbandonato, President and Chief Executive Officer of Imaflex. “Our ability to attract and retain customers attests to our differentiated, competitive offerings and revenue pricing strategy.”

Consolidated Financial Highlights (unaudited)

CDN \$ thousands, except per share amounts (or otherwise indicated)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	2019	2018	% Change
Revenues	21,269	21,927	(3.0)%	43,136	42,544	1.4 %
Gross Profit	2,712	2,460	10.2 %	5,784	6,063	(4.6)%
Selling & admin. expenses	1,863	1,593	16.9 %	3,554	3,277	8.5 %
Foreign exchange (gains) losses	366	(305)	(220.0) %	715	(696)	(202.7) %
Net income	205	727	(71.8)%	763	2,400	(68.2)%
Basic EPS	0.00	0.01	(100.0)%	0.02	0.05	(60.0)%
Diluted EPS	0.00	0.01	(100.0)%	0.02	0.05	(60.0)%
Gross margin	12.8%	11.2%	1.6 pp	13.4%	14.3%	(0.9) pp
Selling & admin. expenses as % of revenues	8.8%	7.3%	1.5 pp	8.2%	7.7%	0.5 pp
EBITDA (Excluding FX)	1,637	1,381	18.5 %	3,789	3,790	(0.0)%
EBITDA	1,271	1,686	(24.6)%	3,074	4,486	(31.5)%
EBITDA margin	6.0%	7.7%	(1.7) pp	7.1%	10.5%	(3.4) pp

¹ EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization. See “Caution Regarding Non-IFRS Financial Measures” which follows.

² IFRS 16, Leases: See “Changes to Critical Accounting Policies” which follows.

Financial Review: Quarter and Year-to-Date Ended June 30

Revenues

Revenues were \$21.3 million for the second quarter of 2019, down 3.0% from \$21.9 million in 2018. The year-over-year decrease is largely due to reduced sales volumes for Imaflex's metalized agriculture films and competitive pricing pressures. This was partially offset by heightened sales volumes in our core flexible packaging business, along with favourable movements in foreign exchange. Citrus film sales stood at \$0.5 million for the quarter, versus \$1.0 million in the second quarter of 2018.

For 2019 year-to-date, sales came in at \$43.1 million, up 1.4% from \$42.5 million in the corresponding prior-year period. The increase was largely due to higher sales volumes for our core flexible packaging products and favourable movements in foreign exchange.

Gross Profit

Gross profit was \$2.7 million or 12.8% of sales for the second quarter of 2019, up from \$2.5 million and 11.2% of sales in the corresponding prior year quarter. The improvement was largely a result of sales mix and higher sales volumes.

For 2019 year-to-date, the gross profit was \$5.8 million or 13.4% of sales, versus \$6.1 million and 14.3% of sales in 2018. The year-over-year decrease was largely due to competitive pricing pressures.

Operating Expenses

Quarterly selling and administrative expenses were \$1.9 million or 8.8% of sales for the current quarter, versus \$1.6 million and 7.3% of sales in 2018. For the first half of 2019, selling and administrative expenses were \$3.6 million or 8.2% of sales, versus \$3.3 million and 7.7% of sales in 2018. The year-over-year increases for the quarter and year-to-date were mainly driven by an expanded sales team to help stimulate demand for Imaflex's products, and in anticipation of new production equipment coming on-line in the near-term.

As a result of unfavourable currency fluctuations, Imaflex recorded a foreign exchange loss of \$0.4 million for the second quarter of 2019. Conversely, in the corresponding prior-year period, the appreciation of the US dollar against the Canadian dollar resulted in a foreign exchange gain of \$0.3 million. Collectively, this generated a negative year-over-year variance of \$0.7 million.

Similarly, the Corporation recorded a \$0.7 million foreign exchange loss for the six-month period ending June 30, 2019, compared to a gain of \$0.7 million in 2018. This resulted in a \$1.4 million negative year-over-year impact on operating results. The majority of the Corporation's foreign exchange gains and losses are non-cash impacting and relate to intercompany balances for which Imaflex can control the time of settlement.

Net Income and EBITDA

Net income came in at \$0.2 million for the current quarter, down from \$0.7 million in 2018. The decrease was largely due to the unfavourable year-over-year movements in foreign exchange and higher selling and administrative expenses, resulting from the strengthened sales team. Net income was \$0.8 million for the first half of 2019, compared to \$2.4 million in 2018. The decrease was driven by the unfavourable year-over-year movements in foreign exchange, lower gross profits and higher selling and administrative expenses.

EBITDA stood at \$1.3 million (\$1.0 million excluding the impact of IFRS 16) or 6.0% of sales for the second quarter of 2019, down from \$1.7 million and 7.7% of sales in 2018. However, excluding the impact of foreign exchange, EBITDA was \$1.6 million (7.7% of sales) for the current quarter, up from \$1.4 million (6.3% of sales) in 2018.

For the first six months of 2019, EBITDA came in at \$3.1 million (\$2.5 million excluding IFRS 16) or 7.1% of sales as compared to \$4.5 million and 10.5% of sales respectively in 2018. Excluding foreign exchange, EBITDA was essentially unchanged year-over-year, coming in at \$3.8 million for the first half of 2019 and 2018.

Liquidity and Capital Resources

Net cash generated by operating activities stood at \$2.4 million for the current quarter, and \$5.6 million for the first half of 2019. This compares to \$1.1 million of cash outflows in the second quarter of 2018 and \$0.1 million of cash inflows in the first six months of 2018. The year-over-year improvement for the quarter and year-to-date is mainly due to favourable movements in working capital.

As at June 30, 2019, Imaflex had approximately \$7.2 million of cash available for operating activities, including the unused portion under its \$12.0 million revolving line of credit.

Assembly of New Coextruder Completed – Wiring Underway

Assembly of the new five-layer extruder is finished and electrical wiring is proceeding. This also includes communication wiring to allow the electrical components to “converse”. At the same time, wiring of another piece of equipment associated with Imaflex’s major capital projects is underway. “This second piece of equipment arrived ahead of schedule, advancing its go-live date, but delaying that of the extruder,” said Mr. Abbandonato. The wiring process is complex requiring many hours and teams of up to eight electricians at a time. As such, Imaflex needs to work with a specialized firm capable of working on projects of this magnitude. The extruder is now expected to be operational in around six weeks.

ADVASEAL® Commercialization

Imaflex is currently working with the contract manufacturer to refine the production process for ADVASEAL®, including optimizing chemical solubility and film characteristics. “Although close to completion, we were not able to make the August 2019 planting window and thus deemed it prudent to move the field trials to spring 2020,” said Mr. Abbandonato. “Given the importance of these trials, we did not want to risk starting them outside of the recommended planting period as we would not have had meaningful comparative data, such as weed control and crop yields, against a control crop planted during the recommended window.”

Outlook

Although downward pricing pressures have lessened in recent quarters, price competition remains high, which is suppressing revenue growth. “This said, we continue to win new business as reflected in the higher production volumes we are seeing for our core products, albeit at a lower sales price point,” said Mr. Abbandonato. “In spite of market volatility, we see on-going stability in our operations, with the possibility of some upside, due to the major capital projects coming on-line and an enhanced sales team. Furthermore, we remain cautiously optimistic citrus film demand will strengthen and continue to believe in ADVASEAL®, a potentially transformational business initiative. Despite some challenges and unforeseen timing delays in our growth projects, we remain confident in the long-term potential of Imaflex.”

Changes to Critical Accounting Policies

Effective January 1, 2019, Imaflex adopted IFRS 16, Leases. Under IFRS 16, lessees are required to account for leases on their balance sheet by recognizing a “right of use” asset and a lease liability, essentially removing the distinction between an operating and finance lease. Certain exemptions exist for short-term leases and leases of low value assets. Imaflex applied the modified retrospective method of application and as such comparative prior-year information has not been restated.

Caution Regarding Non-IFRS Financial Measures

The Company's management uses a non-IFRS measure in this press release, namely EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) and EBITDA excluding foreign exchange.

While EBITDA is not a standard International Financial Reporting Standards (IFRS) measure, management, analysts, investors and others use it as an indicator of the Company's financial and operating management and performance. EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDA may be different from those used by other companies and accordingly it should not be considered in isolation.

About Imaflex Inc.

Founded in 1994, Imaflex is focused on the development and manufacturing of innovative solutions for the flexible packaging space. Concurrently, the Corporation develops and manufactures films for the agriculture industry. The Corporation's products consist primarily of polyethylene (plastic) film and bags, including metalized plastic film, for the industrial, agricultural and consumer markets. Headquartered in Montreal, Quebec, Imaflex has manufacturing facilities in Canada and the United States. The Corporation's common stock is listed on the TSX Venture Exchange under the ticker symbol IFX. Additional information is available at www.imaflex.com.

Cautionary Statement on Forward Looking Information

Certain information included in this press release constitutes "forward-looking" statements within the meaning of Canadian securities laws. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the management of the Corporation, are inherently subject to significant business, economic and competitive uncertainties, risks and contingencies. The Corporation cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of Imaflex to be materially different from the Corporation's estimated future results, performance or achievements expressed or implied by those forward-looking statements and that the forward-looking statements are not guarantees of future performance. These statements are also based on certain factors and assumptions. For more details on these estimates, risks, assumptions and factors, see the Corporation's most recent Management Discussion and Analysis filed on SEDAR at www.sedar.com and on the investor section of the Corporation's website at www.imaflex.com. The Corporation disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

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