

SOURCE: Imaflex Inc.

Imaflex Reports Strong Q2 2020 Results and Provides Business Update

Realizes sequential increase in year-over-year profitability; COVID-19 has no material impact on operations

Q2 2020 Highlights

- Packaging film sales volumes up approximately 18% over 2019 on a poundage basis
- Gross margin of 17.5%, versus 12.8% in prior year
- EBITDA¹ of \$1.9 million, up 46.3% over Q2 2019; up 63.4% on constant currency basis
- Net income of \$0.3 million or \$0.01 per share, up 66.8% from \$0.2 million in 2019
- Operating cash flows remain strong

Montreal, Québec, CANADA – August 25, 2020 – Imaflex Inc. (“Imaflex” or the “Corporation”) (TSX-V: IFX), announces its consolidated financial results for the second quarter (Q2) ended June 30, 2020 and provides a business update. All amounts are in Canadian dollars.

“We delivered another solid quarter executing on our strategy of providing high-value, innovative solutions to our customers, while achieving important new milestones with ADVASEAL[®], our next generation crop protection film under development,” highlighted Mr. Joe Abbandonato, President and Chief Executive Officer of Imaflex. “Quarterly year-over-year profitability was up again, while the strength of our balance sheet and cash flows also continued to grow.”

Consolidated Financial Highlights (unaudited)

CDN \$ thousands, except per share amounts (or otherwise indicated)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues	20,807	21,269	(2.2)%	41,838	43,136	(3.0)%
Gross Profit	3,641	2,712	34.3 %	7,670	5,784	32.6 %
Selling & admin. expenses	1,878	1,863	0.8 %	3,774	3,554	6.2 %
Foreign exchange (gains) losses	816	366	123.0 %	(866)	715	(221.1)%
Net income	342	205	66.8 %	3,434	763	350.1 %
Basic EPS	0.01	0.00	n/a	0.07	0.02	250.0 %
Diluted EPS	0.01	0.00	n/a	0.07	0.02	250.0 %
Gross margin	17.5%	12.8%	4.7 pp	18.3%	13.4%	4.9 pp
Selling & admin. expenses as % of revenues	9.0%	8.8%	0.2 pp	9.0%	8.2%	0.8 pp
EBITDA (Excluding FX)	2,675	1,637	63.4 %	5,723	3,789	51.0 %
EBITDA	1,859	1,271	46.3 %	6,589	3,074	114.3 %
EBITDA margin	8.9%	6.0%	2.9 pp	15.7%	7.1%	8.6 pp

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

Financial Review: Quarter ended June 30

Revenues

Revenues were \$20.8 million for the second quarter of 2020, down 2.2% from \$21.3 million in 2019. The decrease was largely due to lower citrus film sales and product pricing, which continued to be impacted by competitive pressures and lower resin prices. Excluding citrus film sales, which were nil for the current quarter versus \$0.5 million in 2019, revenues were essentially flat year-over-year. On a poundage basis, packaging film volumes were up materially over 2019, coming in approximately 18% higher.

For the six months ended June 30, 2020 revenues came in at \$41.8 million, versus \$43.1 million in the corresponding prior-year period. The decrease was largely due to the same variables outlined for the quarter.

Gross Profit

The quarterly gross profit was up markedly over 2019, coming in at \$3.6 million or 17.5% of sales as compared to \$2.7 million and 12.8% of sales in the prior year. The improvement was driven by heightened control of the Corporation's variable production costs, higher sales volumes on a poundage basis and favourable fluctuations in foreign exchange.

Gross profit for the first half of 2020 also came in higher, reaching \$7.7 million and 18.3% of sales, up from \$5.8 million and 13.4% of sales in the corresponding prior-year period. The increase was due to the same factors outlined for the quarter.

Operating Expenses

Selling and administrative expenses were \$1.9 million or 9.0% of sales for the second quarter of 2020, relatively unchanged from \$1.9 million and 8.8% of sales, respectively in 2019. For the year-to-date, selling and administrative expenses were \$3.8 million or 9.0% of sales, up slightly from \$3.6 million and 8.2%, respectively in the prior year. The year-over-year increases were largely due to higher sales commissions resulting from better sales volumes on a poundage basis and other miscellaneous expenses.

Due to the depreciation of the US dollar against the Canadian dollar, Imaflex recorded a foreign exchange loss of \$0.8 million in the second quarter of 2020, compared to a loss of \$0.4 million in 2019. Conversely, for the first half of 2020 Imaflex realized a foreign exchange gain of \$0.9 million, versus a loss of \$0.7 million in 2019, resulting in a favourable year-over-year variance of \$1.6 million. A majority of the Corporation's foreign exchange gains and losses are non-cash impacting and largely relate to intercompany balances for which Imaflex can control the time of settlement.

Net Income and EBITDA

Net income stood at \$0.3 million for the current quarter, up 66.8% from \$0.2 million in 2019. The year-over-year improvement was largely due to the higher gross profit for the current quarter, partially offset by unfavourable year-over-year movements in foreign exchange. For the first half of 2020, net income stood at \$3.4 million, up 350.1% from \$0.8 million in 2019. The increase was driven by the higher gross profit, along with favourable movements in foreign exchange.

EBITDA was \$1.9 million or 8.9% of sales for the current quarter, up from \$1.3 million and 6.0% of sales in the second quarter of 2019. On a constant currency basis, the quarterly EBITDA stood at \$2.7 million (12.9% of sales), up 63.4% from \$1.6 million (7.7% of sales) in 2019.

For the first half of 2020, EBITDA was up 114.3% over the prior year, coming in at \$6.6 million or 15.7% of sales, versus \$3.1 million and 7.1% of sales in 2019. Excluding the impact of foreign exchange, EBITDA was \$5.7 million (13.7% of sales), up 51.0% from \$3.8 million (8.8% of sales) in the first half of 2019.

Liquidity and Capital Resources

Net cash generated by operating activities was \$3.7 million for the second quarter of 2020, up from \$2.4 million in 2019. The 50.8% increase was driven by higher trade & other receivables due to the greater sales volumes (pounds) this year, non-cash movements in foreign exchange and income tax expenses, along with the higher profitability for the current quarter.

For the first half of 2020, net cash generated by operating activities stood at \$5.7 million, versus \$5.6 million in 2019. Excluding movements in working capital and taxes paid, cash flows from operating activities were up \$1.9 million year-over-year, coming in at \$5.7 million, versus \$3.8 million for 2019 year-to-date. The increase was driven by the higher profitability in 2020, partially offset by non-cash movements in foreign exchange.

As at June 30, 2020, Imaflex had approximately \$11.4 million of cash available for operating activities, including the unused portion under its \$12.0 million revolving line of credit. Imaflex's balance sheet continues to strengthen, further bolstering the Corporation's financial flexibility.

ADVASEAL® Update

The Corporation expects to report final results from the previously announced Efficacy Trial in the coming weeks. Based on the positive interim information from that trial, showing ADVASEAL's ability to release the film's active ingredients (chemicals) into the soil in the desired manner, the Corporation will now be proceeding with a more comprehensive Release Study.

The new study, which is targeted to begin in the third quarter of 2020, will determine the exact timing for release of each active ingredient coated on ADVASEAL®. This is required to show compliance with the pre-harvest interval legally established by the U.S. Environmental Protection Agency (EPA), which is essentially the wait time required between the application of crop protection products onto the soil and when a crop can be harvested for safe human consumption.

The Corporation remains focused on submitting the new ADVASEAL® registration package with the EPA around year-end 2020. The EPA review process can take up to a year. As a reminder, the new ADVASEAL® contains all the active ingredients, not just a herbicide as originally approved by the EPA.

Impact of COVID-19 – All plants remain fully operational and running at normal levels

COVID-19 continues to have no material impact on Imaflex's operations, nor is the Corporation experiencing any delays with its suppliers or distribution channels. Imaflex is fortunate to be considered an essential vendor due to the important role its products play in protecting and preserving, with most of its films being used in the food and packaging industry. All of the Corporation's plants remain fully operational, they are running at normal business levels and no material capital project has been halted. Each plant has the ability to take on more volume should it be required due to business interruption at another plant or heightened order flow. The Corporation is monitoring developments closely and taking strong preventative measures to protect its employees, customers and business.

Outlook

"Looking forward, the impact of COVID-19 on our business, financial situation and results remains unclear and cannot be predicted," said Mr. Abbandonato. "Any outbreak at one of our plants, deferrals in purchases, payment issues with customers, or supply and distribution delays could impact us. This said, we view these risks as temporary and believe our solid foundation and dynamic team should allow us to adapt to any challenges ahead."

“Operationally, we continue to do business in a dynamic pricing environment. Resin prices have firmed up in recent months, coming off a market bottom reached earlier this year. As we have no long term contracts with our customers, we are able to adjust our pricing accordingly. Though, there is usually a 30-day lag between resin price increases and when we are able to pass this along to our customers, we do not expect it to have a material impact on our business in 2020.

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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Imaflex Contact:

John Ripplinger

Vice-President Corporate Affairs

Tel: (514) 935-5710 ext. 157

Fax: (514) 935-0264

johnr@imaflex.com

www.imaflex.com