Dexterra Group Inc. Announces Results for Q1 2024

Toronto, Ontario -- (Newsfile Corp. - May 14, 2024) **- Dexterra Group Inc. (TSX: DXT)**

Highlights

- The IFM and WAFES business units generated strong results for Q1 2024 with consolidated revenue of $231.6 million, an increase of 7.2% compared to Q1 2023 and consistent with Q4 2023. The increase in Q1 2024 was primarily driven by new contract wins in IFM and strong overall activity in WAFES;
- Q1 2024 Adjusted EBITDA, which excludes the impact of discontinued operations, was $19.6 million compared to $19.8 million and $23.6 million for Q1 2023 and Q4 2023, respectively. The decrease from the last quarter reflects the normal seasonally lower workforce accommodations activity in the WAFES business in Q1. This reduction was partially offset by robust access matting activity and increased Adjusted EBITDA in IFM from defence contracts and the contribution of CMI Management LLC (“CMI”). For the three months ended March 31, 2024, net earnings from continuing operations was $4.4 million compared to $4.7 million in Q1 2023;
- For the three months ended March 31, 2024, Free Cash Flow from continuing operations was $10.6 million compared to a deficit of $5.1 million in the same quarter in 2023. The increase was mainly due to strong collections and reduced inventory levels. Q1 2024 Adjusted EBITDA conversion to FCF from continuing operations was 54%. FCF from continuing operations conversion of Adjusted EBITDA is expected to approximate 50% for 2024;
- Dexterra closed the previously announced acquisition of CMI on February 29, 2024. CMI has IFM operations and is based in Alexandria, Virginia serving a number of federal government agencies and commercial clients across the United States with annual revenue of approximately USD $50 million. CMI is an excellent strategic fit for Dexterra and expands our U.S. IFM presence;
- The Corporation is in the process of finalizing an agreement to sell the Modular business at approximately net book value. The sale is expected to close by early Q3 and will be subject to normal closing conditions;
- Consolidated net loss was $3.6 million for Q1 2024 compared to net earnings of $4.7 million in Q1 2023. The net loss in Q1 2024 was the result of the Modular discontinued operations loss of $8.0 million as rework and remediation costs on social affordable housing projects escalated and overhead absorption was lower due to a temporary decrease in revenue. Net earnings from continuing operations per share at $0.07 was consistent with the prior year results. Total net loss per share was $(0.06);
- In connection to the ongoing Normal Course Issuer Bid (“NCIB”), Dexterra repurchased 279,300 common shares in Q1 2024 at a weighted average price of $5.91 per share, for a total consideration of $1.7 million under the terms of the NCIB. The Board has approved the extension of the program as of May 14, 2024, this will allow the Corporation to repurchase up to 165,600 shares available under the original NCIB of 1.3 million shares; and
- Dexterra declared a dividend for Q2 2024 of $0.0875 per share for shareholders of record at June 28, 2024, to be paid July 15, 2024.

This news release contains certain measures and ratios, such as Adjusted EBITDA, Adjusted EBITDA as a percentage of revenue, and Free Cash Flow from continuing operations, that do not have any standardized meaning as prescribed by GAAP and, therefore, are considered non-GAAP measures. The method of calculating these measures may differ from other entities and accordingly, may not be comparable to measures used by other entities. See "Non-GAAP measures" and “Reconciliation of Non-GAAP measures” of the Corporation’s MD&A for the three months ended March 31, 2024 for details which is incorporated by reference herein.

First Quarter Financial Summary

	Three months ended March 31,	
(000's except per share amounts)	2024	2023[1]
Revenue	$ 231,635	$ 216,029
Adjusted EBITDA[2]	19,579	19,763
Adjusted EBITDA as a percentage of revenue[2]	8%	9 %
Net earnings from continuing operations	4,437	4,682
Net loss from discontinued operations, net of income taxes	(8,003)	—
Net earnings (loss) for the period	$ (3,566)	$ 4,682
Earnings per share:		
Net earnings from continuing operations per share, basic and diluted	$ 0.07	$ 0.07
Total net earnings (loss) per share, basic and diluted	$ (0.06)	$ 0.07
Total assets	$ 656,086	$ 630,940
Total loans and borrowings	132,656	110,567
Free Cash Flow from continuing operations[2]	$ 10,642	$ (5,094)

(1) The comparative numbers have been restated as the Modular segment is classified as held for sale as at March 31, 2024 and its operations are included in net loss from discontinued operations, net of income taxes.

(2) Please refer to the "Non-GAAP measures" section for the definition of Adjusted EBITDA, Adjusted EBITDA as a percentage of revenue and Free Cash Flow from continuing operations and to the "Reconciliation of non-GAAP measures" section for the related calculations.

(3) Non-recurring charges included in pre-tax earnings are described in the reconciliation of Non-GAAP measures and include $0.4 million in the three months ended March 31, 2024 (three months ended March 31, 2023 - $1.8 million).

First Quarter Operational Analysis

	Three months ended March 31,	
(000's)	2024	2023
Revenue:		
IFM	$ 101,559	$ 86,407
WAFES	130,336	129,622
Corporate and Inter-segment eliminations	(260)	—
Total Revenue	$ 231,635	$ 216,029
Adjusted EBITDA:		
IFM	$ 5,316	$ 5,233
WAFES	19,976	18,455
Corporate costs and Inter-segment eliminations	(5,713)	(3,925)
Total Adjusted EBITDA	$ 19,579	$ 19,763

Integrated Facilities Management ("IFM")

For Q1 2024, IFM revenues were $101.6 million, an increase of 17.5% from Q1 2023 and a 13.7% increase compared to Q4 2023. The acquisition of CMI contributed $5.9 million of revenue in March 2024. The remaining increase in revenue was derived across all IFM services areas with the addition of new contracts and project work particularly in the post-secondary education space.

IFM Adjusted EBITDA for the quarter was $5.3 million which was higher compared to the $5.2 million for Q1 2023 and $4.8 million for Q4 2023, respectively. The increase was primarily attributable to the contribution from CMI as well as increased activities in the defence sector partially offset by lower margins in certain post-secondary food service contracts related to higher startup and labour costs related to the onboarding of new contracts. Inflation impacts are beginning to abate and we are recovering these higher costs through price adjustments with some time delays. Adjusted EBITDA margin for Q1 2024 was 5.2% compared to 6.1% for the same quarter last year and 5.3% in Q4 2023. As the aforementioned new food services contracts reach target profitability and other operational improvements are implemented, the IFM segment is expected to increase Adjusted EBITDA margins to over 6% in the back half of 2024.

Workforce Accommodations, Forestry and Energy Services ("WAFES")

Revenue from the WAFES business unit for Q1 2024 was $130.3 million which is consistent with Q1 2023. New contracts coming on-stream in Q1 2024 offset the ramp down of major projects nearing completion. Revenue experienced an 8.1% decrease compared to Q4 2023due to the normal seasonality of the business. The large new contracts mobilizing through Q2 2024 are expected to provide a strong support services revenue base going forward. Adjusted EBITDA for Q1 2024 was $20.0 million compared to $18.5 million in Q1 2023 and $23.0 million in Q4 2023. The increase compared to the same quarter last year was primarily due to strong higher margin camp occupancy and asset utilization as well as strong access matting utilization and sales.

Discontinued Operations (Modular Solutions)

Management intends to exit the business and is in the process of finalizing a sale agreement at approximately net book value and which is expected to close in early Q3.

Net loss from discontinued operations for Q1 2024 was $8.0 million (Q1 2023 - $nil). Modular revenues were $27.7 million for Q1 2024 compared to $52.1 million in Q1 2023. Direct costs included in the loss on discontinued operations for Q1 2024 were $35.7 million and were impacted by costs related to the rework and remediation on certain social affordable housing projects. These projects are now over 75% complete and are expected to be substantially complete near the end of Q2 2024. Additionally, lower overhead absorption due to the temporary decrease in revenue also impacted the quarter. The decision to pursue the sale of the Modular business will allow the Corporation to simplify its business model and allocate capital and resources to the two remaining support services businesses with stronger returns. It is also expected to be positive for the Modular employees, customers and shareholders.

See Note 5 of the Q1 2024 Financial Statements for more details on discontinued operations.

Liquidity and Capital Resources

Debt was $132.7 million at March 31, 2024, compared to $89.6 million at Q4 2023. The increase from Q4 2023 is primarily related to the funding of the CMI acquisition as well as $5.7 million of capital expenditures which include access matting additions.

Q1 2024 Adjusted EBITDA conversion to FCF from continuing operations was 54%. The conversion of Adjusted EBITDA to Free Cash Flow from continuing operations for 2024 is expected to be 50% on an annual basis with Q3 and Q4 experiencing the highest conversions to Free Cash Flow from continuing operations as a result of the seasonality of the WAFES and IFM business units.

Additional Information

A copy of Dexterra's Condensed Consolidated Interim Financial Statements ("Financial Statements") for the three months ended March 31, 2024 and 2023 and related Management's Discussion and Analysis ("MD&A") have been filed with the Canadian securities regulatory authorities and are available on SEDAR at sedarplus.ca and Dexterra's website at dexterra.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards and the reporting currency is in Canadian dollars.

Conference Call

Dexterra will host a conference call and webcast to begin promptly at 8:30 Eastern time on May 15, 2024 to discuss the first quarter results.

To access the conference call by telephone the conference call dial in number is 1-800-806-5484, passcode 2954074#.

A live webcast of the conference call will be accessible on Dexterra Group's website at ***dexterra.com/investor-presentations-events/*** by selecting the webcast link. An archived recording of the conference call will be available approximately one hour after the completion of the call until June 15, 2024 by dialing 1-800-408-3053, passcode 7906982#.

About Dexterra

Dexterra employs more than 8,500 people, delivering a range of support services for the creation, management, and operation of infrastructure across Canada.

Powered by people, Dexterra brings best-in-class regional expertise to every challenge and delivers innovative solutions, giving clients confidence in their day-to-day operations. Activities include a comprehensive range of integrated facilities management services, industry leading workforce accommodation solutions, innovative modular building capabilities, and other support services for diverse clients in the public and private sectors.

For further information contact:

Denise Achonu, CFO

Head office: Airway Centre, 5915 Airport Rd., 4th Floor Mississauga, Ontario L4V 1T1
Telephone: (905) 270-1964

You can also visit our website at dexterra.com

Reconciliation of non-GAAP measures

The following provides a reconciliation of non-GAAP measures to the nearest measure under GAAP for items presented throughout the News Release.

Adjusted EBITDA

(000's)	Three months ended March 31,	
	2024	2023
Net earnings (loss)	$ (3,566)	$ 4,682
Add:		
Share based compensation	713	603
Depreciation & amortization	8,103	7,951
Loss on disposal of property, plant and equipment	20	19
Equity investment depreciation	438	301
Finance costs	3,830	3,236
Income tax expense	1,677	1,218
Net Loss from discontinued operations, net of income taxes	8,003	—
Non-recurring:		
Contract loss provisions(1)	—	255
Restructuring and other costs(2)	361	1,498
Adjusted EBITDA	$ 19,579	$ 19,763

(1) Contract loss provisions for the three months ended March 31, 2024 were $nil (Q1 2023 - $0.3 million).

(2) Restructuring and other costs for the three months ended March 31, 2024 of $0.4 million, relates to legal and other expenses for the acquisition of CMI. Restructuring and other items for Q1 2023 include CEO transition costs of $1.4 million and other selling, general and administration costs of $0.1 million.

Free Cash Flow from continuing operations

(000's)	Three months ended March 31	
	2024	2023
Net cash flows from (used in) continuing operating activities	$ 16,773	$ (139)
Sustaining capital expenditures	(667)	(139)
Finance costs paid	(3,932)	(2,904)
Lease payments	(1,532)	(1,912)
Free Cash Flow from continuing operations	$ 10,642	$ (5,094)

Forward-Looking Information

Certain statements contained in this news release may constitute forward-looking information under applicable securities law. Forward-looking information may relate to Dexterra's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "continue"; "forecast"; "may"; "will"; "project"; "could"; "should"; "expect"; "plan"; "anticipate"; "believe"; "outlook"; "target"; "intend"; "estimate"; "predict"; "might"; "potential"; "continue"; "foresee"; "ensure" or other similar expressions concerning matters that are not historical facts. In particular, statements regarding Dexterra's future operating results and economic performance; Its capital light model management market and inflationary environment expectations, lodge occupancy levels, its leverage, Discontinued Operations, Free Cash Flow from continuing operations, NRB Modular Solutions backlog and revenue, wildfire activity expectations and its objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions, including expected growth, market recovery, results of operations, performance and business prospects and opportunities regarding Dexterra, a reasonable valuation and other satisfactory terms being finalized for the sale of the Modular business which Dexterra believes are reasonable as of the current date. While management considers these assumptions to be reasonable based on information currently available to Dexterra, they may prove to be incorrect. Forward-looking information is also subject to certain known and unknown risks, uncertainties and other factors that could cause Dexterra's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward- looking information, including, but not limited to: the ability to retain clients, renew existing contracts and obtain new business; an outbreak of contagious disease that could disrupt its business; the highly competitive nature of the industries in which Dexterra operates; reliance on suppliers and subcontractors; cost inflation; volatility of industry conditions could impact demand for its services; a reduction in the availability of credit could reduce demand for Dexterra's products and services; Dexterra's significant shareholder may substantially influence its direction and operations and its interests may not align with other shareholders; its significant shareholder's 49% ownership interest may impact the liquidity of the common shares; cash flow may not be sufficient to fund its ongoing activities at all times; loss of key personnel; the failure to receive or renew permits or security clearances; significant legal proceedings or regulatory proceedings/changes; environmental damage and liability is an operating risk in the industries in which Dexterra operates; climate changes could increase Dexterra's operating costs and reduce demand for its services; liabilities for failure to comply with public procurement laws and regulations; any deterioration in safety performance could result in a decline in the demand for its products and services; failure to realize anticipated benefits of acquisitions and dispositions; inability to develop and maintain relationships with Indigenous communities; the seasonality of Dexterra's business; inability to restore or replace critical capacity in a timely manner; reputational, competitive and financial risk related to cyber-attacks and breaches; failure to effectively identify and manage disruptive technology; economic downturns can reduce demand for Dexterra's services; its insurance program may not fully cover losses. Additional risks and uncertainties are described in Note 22 of the Corporation's Consolidated Financial Statements for the year ended December 31, 2023 and 2022 contained in its most recent Annual Report filed with securities regulatory authorities in Canada and available on SEDAR at sedarplus.ca. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Dexterra is under no obligation and does not undertake to update or alter this information at any time, except as may be required by applicable securities law.