Supremex

PRESS RELEASE

SUPREMEX ANNOUNCES Q2 2023 RESULTS
Graf-Pak acquisition now integrated into the Lachine folding carton hub

Montreal, Quebec, August 10, 2023 – Supremex Inc. ("Supremex" or the "Company") (TSX: SXP), a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions, today announced its results for the second quarter ended June 30, 2023. The Company will hold a conference call to discuss these results, today at 10:00 a.m. (Eastern Time).

Second Quarter Financial Highlights and Recent Events

- Total revenue increased by 14.6% to $71.7 million, from $62.5 million in the second quarter of 2022.
- Envelope segment revenue up 7.3% to $49.3 million, from $45.9 million in the prior year.
- Packaging and specialty products segment revenue of $22.4 million, up 34.7% from $16.6 million last year.
- Net earnings were $2.1 million, compared to $7.4 million last year.
- Earnings per share of $0.08, versus $0.28 a year ago.
- Adjusted EBITDA[1] of $9.6 million, or 13.3% of revenue, versus $13.9 million, or 22.3% of revenue, a year ago.
- Acquisition on May 8, 2023 of Graf-Pak Inc. ("Graf-Pak"), a provider of folding carton packaging solutions located in the province of Quebec.
- Appointment of François Bolduc as Chief Financial Officer of the Company, effective July 4, 2023.
- On August 9, 2023, the Board of Directors declared a quarterly dividend of $0.035 per common share, payable on September 22, 2023 to shareholders of record at the close of business on September 7, 2023.

Financial Highlights
(in thousands of dollars, except for per share amounts and margins)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2023	**2022**	**2023**	**2022**
Statements of Earnings				
Revenue	**71,666**	62,518	**160,088**	125,787
Operating earnings	**4,471**	10,314	**18,842**	19,143
Adjusted EBITDA(1)	**9,562**	13,914	**28,403**	25,997
Adjusted EBITDA margin(1)	**13.3%**	22.3%	**17.7%**	20.7%
Net earnings	**2,113**	7,364	**11,609**	13,666
Basic and diluted net earnings per share	**0.08**	0.28	**0.45**	0.52
Adjusted net earnings(1)	**2,270**	7,364	**12,050**	13,675
Adjusted net earnings per share(1)	**0.09**	0.28	**0.46**	0.52
Cash Flow				
Net cash flows related to operating activities	**10,006**	10,426	**17,547**	10,637
Free cash flow(1)	**9,808**	10,235	**13,211**	10,131

(1) Non-IFRS financial measures or ratios. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the non-IFRS financial measures section for definitions and reconciliations.

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1 Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

"Our second quarter results reflect the temporary effect of inventory adjustments by certain customers and lower demand from sectors more affected by inflation and interest rate levels," said Stewart Emerson, President & CEO of Supremex. "The first half of 2023 was a very busy period, especially for our Packaging operations, as we consolidated a significant portion of our folding carton activities under one roof in Lachine while also integrating two acquisitions. Our Envelope business continued to generate a solid free cash flow which allowed us to fund our expansion and reduce debt by $3.1 million this past quarter."

"Although disappointed with the transitory profitability reduction in Packaging, we are excited with the significant potential of the Lachine facility. Its considerable footprint will enable us to further expand folding carton production to better meet additional demand from this growing market. In this regard, the Graf-Pak operations have been successfully merged into Lachine and we continue to assess initiatives to further optimize efficiency and achieve synergies by leveraging available capacity," concluded Mr. Emerson.

Summary of three-month period ended June 30, 2023

Revenue

Total revenue for the three-month period ended June 30, 2023, was $71.7 million, representing an increase of $9.2 million, or 14.6%, from the equivalent quarter of 2022 essentially reflecting the acquisitions of Royal Envelope Corporation ("Royal Envelope"), Impression Paragraph Inc. ("Paragraph") and Graf-Pak.

Envelope Segment

Revenue was $49.3 million, representing an increase of $3.4 million, or 7.3%, from $45.9 million in the second quarter of 2022. The increase reflects a $9.1 million contribution from the Royal Envelope acquisition, an average selling price increase of 33.6% from last year's second quarter primarily reflecting a more favourable customer and product mix in U.S. operations and price increases implemented throughout 2022 to mitigate input cost inflation, as well as a favourable currency conversion effect. These factors were partially offset by a lower volume of units sold following last year's over-ordering in a time of tight supply, and macro-economic effects of rising interest rates and higher inflation. The Envelope segment represented 68.7% of the Company's revenue in the quarter, compared with 73.4% during the equivalent period of last year.

Packaging & Specialty Products Segment

Revenue was $22.4 million, up 34.7% from $16.6 million for the corresponding quarter of 2022. The increase is attributable to a $7.8 million contribution from the Paragraph acquisition, while the activities of Graf-Pak have been integrated into the pre-existing operations of the Company, and higher demand for e-commerce packaging solutions. These factors were partially offset by the wind down of the Durabox operations in 2022, lower demand from certain sectors more closely correlated to economic conditions and the residual effect on sales from the inefficiencies from consolidating the folding carton operations in Lachine concurrently with integrating acquisitions. Packaging & Specialty Products represented 31.3% of the Company's revenue in the quarter, up from 26.6% during the equivalent period of last year.

EBITDA[2] and Adjusted EBITDA[2]

EBITDA was $9.4 million, down from $13.9 million in the second quarter of 2022. Adjusted EBITDA amounted to $9.6 million, compared to $13.9 million for the same period last year. The decrease reflects higher operating and selling, general and administrative expenses. The Adjusted EBITDA margin was 13.3% of revenue, compared to 22.3% in the equivalent quarter of 2022.

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[2] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Envelope Segment

Adjusted EBITDA was $9.7 million, compared to $11.6 million in the second quarter of 2022. This decrease mainly reflects a lower volume of units sold following last year's over-ordering in a time of tight supply which negatively impacted the absorption of fixed costs. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 19.6%, compared with 25.3% in the equivalent period of 2022.

Packaging & Specialty Products Segment

Adjusted EBITDA was $1.7 million, versus $3.3 million in the second quarter of 2022. This decrease is mainly explained by lower demand from certain sectors more closely correlated to economic conditions, which negatively impacted the absorption of fixed costs and by the residual effect on profitability of inefficiencies from consolidating the folding carton operations in Lachine concurrently with integrating business acquisitions. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 7.4%, compared to 19.6% in the equivalent period of 2022.

Corporate and unallocated costs

The Corporate and unallocated costs were $1.8 million in the second quarter of 2023, compared to $0.9 million in the second quarter of 2022. The increase is essentially attributable to a foreign exchange loss and, to a lesser extent, an unfavourable adjustment related to the DSUs and PSUs during the quarter.

Net Earnings, Adjusted Net Earnings, Net Earnings per share and Adjusted Net Earnings per share[3]

Net earnings were $2.1 million or $0.08 per share for the three-month period ended June 30, 2023, compared to $7.4 million or $0.28 per share for the equivalent period last year.

Adjusted net earnings were $2.3 million or $0.09 per share for the three-month period ended June 30, 2023, compared to $7.4 million or $0.28 per share for the equivalent period last year.

Summary of six-month period ended June 30, 2023

Revenue

Total revenue for the six-month period ended June 30, 2023, was $160.1 million, representing an increase of $34.3 million, or 27.3%, from the equivalent period of 2022 essentially reflecting the acquisitions of Royal Envelope, Paragraph and Graf-Pak.

Envelope Segment

Revenue was $113.7 million, representing an increase of $23.2 million, or 25.6%, from $90.5 million in the six-month period ended June 30, 2022. The increase is attributable to a $21.1 million contribution from Royal Envelope, an average selling price increase of 36.6% from last year primarily reflecting a more favourable customer and product mix in U.S. operations and price increases implemented throughout 2022 to mitigate input cost inflation, as well as a favourable currency conversion effect. These factors were partially offset by the volume reduction in the second quarter. Envelope represented 71.0% of the Company's revenue in the period, versus 72.0% during the equivalent period of last year.

Packaging & Specialty Products Segment

Revenue was $46.4 million, up 31.5%, from $35.3 million in the corresponding period of 2022. The increase reflects a $15.6 million contribution from the Paragraph acquisition and higher demand for e-commerce packaging solutions. These factors were partially offset by the wind down of the Durabox operations in 2022, lower demand from certain sectors more closely correlated to economic conditions and the residual effect on sales from the inefficiencies from consolidating the folding carton operations in Lachine concurrently with integrating acquisitions. Packaging & Specialty Products represented 29.0% of the Company's revenue in the first half of 2023, compared with 28.0% during the equivalent period of last year.

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[3] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

EBITDA[4] and Adjusted EBITDA[4]

EBITDA was $27.8 million, up from $26.0 million in the first six months of 2022. Adjusted EBITDA was $28.4 million, up from $26.0 million for the same period a year ago. This increase reflects higher total revenue, partially offset by the higher material and labour costs as well as higher selling, general and administrative expenses. The Adjusted EBITDA margin reached 17.7% in the first half of 2023, versus 20.7% in the first half of 2022.

Envelope Segment

Adjusted EBITDA was $26.9 million, up from $21.6 million in the first half of 2022. This increase was primarily due to higher revenue, driven by an increase in the average selling price and a more favorable product mix in U.S. operations, partially offset by the effect of lower volume on the absorption of fixed costs. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 23.7%, compared to 23.8% in the equivalent period of 2022.

Packaging & Specialty Products Segment

Adjusted EBITDA was $5.5 million, compared to $7.4 million in the first half of 2022. This decrease mostly reflects lower demand from certain sectors more closely correlated to economic conditions which impacted the absorption of fixed costs and the residual effect on profitability of inefficiencies from consolidating the folding carton operations in Lachine concurrently with integrating acquisitions. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 11.9%, compared to 21.1% in the equivalent period of 2022.

Corporate and unallocated costs

The Corporate and unallocated costs were $4.0 million compared to $3.0 million in the first half of 2022. The increase resulted mainly from a foreign exchange loss and severances.

Net Earnings, Adjusted Net Earnings, Net Earnings per share and Adjusted Net Earnings per share[4]

Net earnings were $11.6 million or $0.45 per share for the six-month period ended June 30, 2023, compared to $13.7 million or $0.52 per share for the equivalent period last year.

Adjusted net earnings amounted to $12.1 million or $0.46 per share for the six-month period ended June 30, 2023, compared to $13.7 million or $0.52 per share for the equivalent period in 2022.

Liquidity and Capital Resources

Cash Flow

Net cash flows from operating activities were $10.0 million for the three-month period ended June 30, 2023, compared to $10.4 million for the same period in 2022. The slight decrease is attributable to lower profitability mostly offset by lower working capital requirements this quarter compared to the equivalent period of 2022.

For the six-month period ended June 30, 2023, net cash flows from operating activities reached $17.5 million, compared to $10.6 million in the equivalent period of 2022. The increase is mainly attributable to lower working capital requirement partially offset by lower profitability.

Free cash flow[4] amounted to $9.8 million in the second quarter of 2023 compared to $10.2 million for the same period last year. The slight decrease mirrors a similar reduction in cash flow from operations.

Free cash flow[4] amounted to $13.2 million in the six-month period ended June 30, 2023 compared to $10.1 million in the corresponding period of 2022. The increase is mainly attributable to higher cash flow from operations, partially offset by higher acquisitions of property, plant and equipment.

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[4] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Normal Course Issuer Bid ("NCIB")

During the three and six-month periods ended June 30, 2023, the Company repurchased 56,700 common shares for cancellation under its NCIB program for a total consideration of $0.3 million.

Subject to the approval of the TSX, the Company intends to renew its NCIB which expires on August 30, 2023.

Debt and Leverage

The Company's total debt increased to $78.2 million as at June 30, 2023, compared to $54.7 million as at December 31, 2022. The increase is essentially attributable to the acquisitions of Paragraph and Graf-Pak for considerations of $25.7 million and $6.0 million, respectively, net of cash acquired, partially offset by debt repayment resulting from a solid free cash flow generation.

Dividend Declaration

On August 9, 2023, the Board of Directors declared a quarterly dividend of $0.035 per common share, payable on September 22, 2023, to the shareholders of record at the close of business on September 7, 2023. This dividend is designated as an "eligible" dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial legislation.

Outlook

Since the beginning of 2023, new order intake has slowed appreciably as customers work through excess inventory built via over-ordering in a time of tight supply in 2022 and macro-economic conditions including rising interest rates and high inflation, which has adversely affected discretionary spending. The Company expects these conditions to affect its operations in the third quarter and potentially into the fourth quarter. Supremex will rely on its solid reputation and geographic reach to assist in mitigating a slowdown while continuing to tightly control expenses.

The Company will continue to focus on integrating the Royal Envelope Corporation, Impression Paragraph Inc. and Graf-Pak business acquisitions, while actively seeking to capture all sales and cost synergies. As planned, Graf-Pak's operations have been merged into the Lachine facility and the Company continues to assess optimization initiatives to leverage Lachine's larger capacity.

With respect to capital deployment for 2023, the Company will continue to look for strategic acquisitions, mainly in the Packaging and specialty products segment, while sustaining capital returns to shareholders.

August 10, 2023 - Second Quarter Results Conference Call:

A conference call to discuss the Company's results for the second quarter ended June 30, 2023 will be held Thursday, August 10, 2023 at 10:00 a.m. (Eastern Time).

A live broadcast of the Conference Call will be available on the Company's website, in the Investors section under Webcast.

To participate (professional investment community only) or to listen to the live conference call, please dial the following numbers. We suggest that participants call-in at least 5 minutes prior to the scheduled start time:

- Confirmation Number: 10022126
- Local (Vancouver) and international participants, dial: 604-638-5340
- North-American participants, dial toll-free: 1-800-319-4610

A replay of the conference call will be available on the Company's website in the Investors section under Webcast. To listen to a recording of the conference call, please call toll-free 1-855-669-9658 or 604-674-8052 and enter the code 0277. The recording will be available until Thursday, August 17, 2023.

Non-IFRS Financial Measures

Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. Management considers these metrics to be information which may assist investors in evaluating the Company's profitability and enable better comparability of the results from one period to another.

These Non-IFRS Financial Measures are defined as follows:

Non-IFRS Measure	Definition
EBITDA	EBITDA represents earnings before net financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. The Company uses EBITDA to assess its performance. Management believes this non-IFRS measure, provides users with an enhanced understanding of its operating earnings.
Adjusted EBITDA	Adjusted EBITDA represents EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, when applicable, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and business acquisition costs. The Company uses Adjusted EBITDA to assess its operating performance, excluding items that are not in the normal course of operations. Management believes this non-IFRS measure, provides users with enhanced understanding of the Company's operating earnings and increase the transparency and clarity of the Company's core results. It also allows users to better evaluate the Company's operating profitability when compared to previous years.
Adjusted EBITDA margin	Adjusted EBITDA margin is a percentage corresponding to the ratio of Adjusted EBITDA divided by revenue. The Company uses Adjusted EBITDA margin for purpose of evaluating business performance, excluding items that are not in the normal course of operations. Management believes this non-IFRS measure, provides users with enhanced understanding of its results and related trends.
Adjusted net earnings	Adjusted net earnings represents net earnings excluding items of significance listed above under Adjusted EBITDA, net of income taxes. The Company uses Adjusted net earnings to assess its business performance and profitability without the effect of items that are not in the normal course of operations, net of income taxes. Management believes this non-IFRS measure, provides users with an alternative assessment of the Company's earnings without the effect of items that are not it the normal course of operations making it valuable to assess ongoing operations and trends in the business performance. Management also believes this non-IFRS measure provides users with enhanced understanding of the Company's results and provides better comparability between periods.
Adjusted net earnings per share	Adjusted net earnings per share represents Adjusted net earnings divided by the weighted average number of common shares outstanding for the relevant period. The Company uses Adjusted net earnings per share for purposes of evaluating performance and profitability, excluding items that are not in the normal course of operations of the Company, net of income taxes, on a per share basis.
Free cash flow	This measure corresponds to net cash flows related to operating activities according to the consolidated statements of cash flows less additions (net of disposals) to property, plant and equipment and intangible assets. Management considers Free cash flow to be a good indicator of the Company's financial strength and operating performance because it shows the amount of funds available to manage growth, repay debt and reinvest in the Company. Management considers this measure useful to provide investors with a perspective on its ability to generate liquidity, after making capital investments required to support business operations and long-term value creation.

The following tables provide the reconciliation of Non-IFRS Financial Measures:

Reconciliation of Net earnings to Adjusted EBITDA
(in thousands of dollars, except for margins)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2023	2022	2023	2022
Net earnings	**2,113**	**7,364**	**11,609**	**13,666**
Income tax expense	850	2,458	4,255	4,542
Net financing charges	1,508	492	2,978	935
Depreciation of property, plant and equipment	1,722	1,640	3,269	2,890
Depreciation of right-of-use assets	1,380	1,091	2,726	2,175
Amortization of intangible assets	1,777	869	2,970	1,777
EBITDA	**9,350**	**13,914**	**27,807**	**25,985**
Acquisition costs related to business combinations	72	—	263	12
Restructuring expenses	129	—	255	—
Value adjustment on acquired inventory through a business combination	11	—	78	—
Adjusted EBITDA	**9,562**	**13,914**	**28,403**	**25,997**
Adjusted EBITDA margin (%)	13.3%	22.3%	17.7%	20.7%

Reconciliation of Net earnings to Adjusted net earnings and of Net earnings per share to Adjusted net earnings per share
(in thousands of dollars, except for per share amounts)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2023	2022	2023	2022
Net earnings	**2,113**	7,364	**11,609**	13,666
Adjustments, net of income taxes				
Acquisition costs related to business combinations	53	—	194	9
Restructuring expenses	95	—	188	—
Value adjustment on acquired inventory through a business combination	9	—	59	—
Adjusted net earnings	**2,270**	7,364	**12,050**	13,675
Net earnings per share	**0.08**	0.28	**0.45**	0.52
Adjustments, net of income taxes, per share	**0.01**	—	**0.01**	—
Adjusted net earnings per share	**0.09**	0.28	**0.46**	0.52

Reconciliation of Cash flows related to operating activities to Free cash flow
(in thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2023	2022	2023	2022
Cash flows related to operating activities	**10,006**	10,426	**17,547**	10,637
Acquisitions (net of disposals) of property, plant and equipment	(164)	(175)	(4,297)	(381)
Acquisitions of intangible assets	(34)	(16)	(39)	(125)
Free cash flow	**9,808**	10,235	**13,211**	10,131

Forward-Looking Information

This press release contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net earnings, Adjusted net earnings per share, free cash flow[5], capital expenditures, dividend payments and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and ability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this press release. Such assumptions, expectations and estimates are discussed throughout the MD&A for the year ended December 31, 2022. Supremex cautions that such assumptions may not materialize and that economic conditions such as heightened inflation and central banks' large interest rate hikes, economic downturns or recessions, may render such assumptions, although believed reasonable at the time they were made, subject to greater uncertainty.

Forward-looking information is subject to certain risks and uncertainties and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: decline in envelope consumption, growth and diversification strategy, key personnel, labour shortage, contributions to employee benefits plans, cyber security and data protection, raw material price increases, operational disruption, dependence on and loss of customer relationships, increase of competition, economic cycles, exchange rate fluctuation, interest rate fluctuation, credit risks with respect to trade receivables, availability of capital, concerns about protection of the environment, potential risk of litigation, no guarantee to pay dividends and other external risks such as global health crisis and pandemic and inflation. Such risks and uncertainties are discussed throughout the MD&A for the year ended December 31, 2022, and in particular, in ''Risk Factors''. Consequently, the Company cannot guarantee that any forward-looking information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The Management Discussion and Analysis and Financial Statements can be found on www.sedar.com and on Supremex' website.

About Supremex

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates eleven manufacturing facilities across four provinces in Canada and six manufacturing facilities in four states in the United States employing over 1,000 people. Supremex' growing footprint allows it to efficiently manufacture and distribute envelope and packaging solutions designed to the specifications of major national and multinational corporations, direct mailers, resellers, government entities, SMEs and solutions providers.

For more information, please visit www.supremex.com.

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[5] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.