

TERRAVEST ANNOUNCES THIRD QUARTER RESULTS FOR FISCAL 2020 AND DIVIDEND DECLARATION

TORONTO, ONTARIO (August 13th, 2020) - TerraVest Industries Inc., (TSX: TVK) ("TerraVest" or the "Company") announces its results for the third quarter ended June 30, 2020 and the declaration of its quarterly dividend.

THIRD QUARTER AND NINE MONTHS REVIEW AND OUTLOOK

Business Performance

Management believes that there are certain non-IFRS financial measures that can be used to assist shareholders in analyzing the performance of TerraVest. The table below highlights certain financial results and reconciles net income to adjusted earnings before interests, income taxes, depreciation and amortization ("EBITDA") for the third quarter and nine months ended June 30, 2020 and the comparative periods in fiscal 2019.

	Third quarters ended		Nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Sales	61,019	70,751	236,022	225,941
Net Income	3,854	4,603	15,546	16,247
<i>Add (subtract):</i>				
Income tax expense	2,031	1,995	5,218	6,277
Financing costs	1,175	1,329	4,202	4,421
Depreciation and amortization	5,281	2,873	13,559	8,839
Change in fair value of derivative financial instruments	(1,438)	(483)	927	306
Change in fair value of investment in equity instruments	47	-	47	-
(Gain) loss on foreign exchange	929	162	(1,094)	(306)
Acquisition-related cost	-	-	171	-
(Gain) loss on disposal of property, plant and equipment	(25)	120	(300)	(86)
(Gain) loss on disposal of assets held for sale	-	-	(931)	-
(Gain) loss on contingent considerations	-	-	(61)	-
Adjusted EBITDA	11,854	10,599	37,284	35,698

Sales for the third quarter ended June 30, 2020 were \$61,019 versus \$70,751 for the prior comparable quarter. This represents a decrease of 14%. However, TerraVest acquired all of the assets of Argo Sales Inc. ("Argo") and Iowa Steel Fabrication, LLC ("ISF"), neither of which contributed to the prior comparable period. Excluding Argo and ISF, sales for the third quarter ended June 30, 2020 were \$46,078 versus \$70,751 for the prior comparable period. This represents a decrease of 35% for TerraVest's base portfolio (excluding Argo and ISF).

Sales for the nine months ended June 30, 2020 were \$236,022 versus \$225,941 for the prior comparable period, representing an increase of 4%. Excluding Argo and ISF, sales for the nine months ended June 30, 2020 were \$190,998 versus \$225,941 for the prior comparable period. This represents a decrease of 15% for TerraVest's base portfolio (excluding Argo and ISF).

The decrease in sales for TerraVest's base portfolio for the third quarter is mainly the result of a major slowdown in the economy due to the COVID-19 pandemic during the third quarter of fiscal 2020, combined with a significant drop in commodity prices which created additional pressure on an already challenged industry resulting in even lower demand for TerraVest's NGL storage and distribution equipment and oil and gas processing equipment and service product lines in Western Canada. The decrease in sales for TerraVest's base portfolio for the nine months is the results of the decrease in sales explained above, partially offset by increased demand for LPG storage and distribution equipment and home heating product lines during the first six months of the fiscal year.

Net income for the third quarter and nine months ended June 30, 2020 were \$3,854 and \$15,546 versus \$4,603 and \$16,247 for the prior comparable periods. This represents decreases of 16% and of 4% respectively. The decreases are a result of decreased sales activities as explained above, partially offset by cost control measures and government wage subsidies to help maintain employment during the COVID-19 pandemic, as well as the variations highlighted in the in the table above.

Adjusted EBITDA for the third quarter and nine months ended June 30, 2020 were \$11,854 and \$37,284 versus \$10,599 and \$35,698 for the prior comparable periods. This represents increases of 12% and 4% respectively, which are primarily the results of the additions of Argo and ISF, and the adoption on IFRS 16 “Leases” on October 1, 2019, for which rent is no longer included in adjusted EBITDA. Instead, an interest expense is recognized on lease liabilities and a depreciation expense is recognized on right-of-use assets. Rent payments were \$3,648 for the nine months ended June 30, 2020. In addition, the economic slowdown resulting from the COVID-19 pandemic had a negative effect on Adjusted EBITDA but was largely offset by emergency government wage subsidies.

The table below reconciles cash flow from operating activities to cash available for distribution for the third quarter and nine months ended June 30, 2020 and the comparative periods in fiscal 2019.

	Third quarters ended		Nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Cash Flow from Operating Activities	16,921	6,486	48,219	18,729
<i>Add (subtract):</i>				
Change in non-cash operating working capital items	(4,281)	924	(17,961)	6,311
Maintenance capital expenditures	(495)	(997)	(2,640)	(3,376)
Repayment of lease liabilities	(940)	-	(2,571)	-
Cash Available for Distribution	11,205	6,413	25,047	21,664
Dividends Paid	1,874	1,729	5,469	5,197
Dividend Payout Ratio	17%	27%	22%	24%

Cash flow from operating activities for the third quarter and nine months ended June 30, 2020 were \$16,921 and \$48,219 versus \$6,486 and \$18,729 for the prior comparable periods. This represents increases of 161% and 158% respectively. The increased cash flow is primarily a result of greater emphasis on working capital management, a reduction of working capital as a result of reduced business activity mainly in the Western Canadian businesses and the deferral of income tax instalment payments as part of a temporary measure from the government of Canada to support businesses during the COVID-19 pandemic.

Maintenance capital expenditures were \$495 for the third quarter ended June 30, 2020 versus \$997 for the prior comparable period representing a decrease of 50%, which is mainly explained by the timing of maintenance capital expenditures. During the third quarter ended June 30, 2020, TerraVest’s total purchase of property, plant and equipment was \$3,007 of which \$2,512 is considered growth capital. The growth capital spent during the quarter was used to add to the Company’s equipment rental fleet.

Cash available for distribution for the third quarter and nine months ended June 30, 2020 increased by 75% and by 16% respectively versus the prior comparable periods. These increases are a result of reasons explained above.

The dividend payout ratio for the third quarter and nine months ended June 30, 2020 were 17% and 22% versus 27% and 24% respectively for the prior comparable periods.

Outlook

The current global pandemic has created a challenging business environment for TerraVest on many fronts. TerraVest continues to operate its plants across North America as an essential equipment and service provider to many critical industries, including residential and commercial heating, propane and fertilizer storage and distribution and energy production and processing. Across all of our businesses, we have implemented new operating procedures in effort to keep our employees, customers and vendors safe. Additionally, TerraVest has undertaken significant cost reduction measures in an effort to mitigate the economic slowdown that has resulted from the COVID-19 pandemic, as well as measures to permanently improve its manufacturing efficiency and capacity.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides the financial results of TerraVest's operations for the third quarter and nine months ended June 30, 2020 and the comparative periods in fiscal 2019.

	Third quarters ended		Nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Sales	61,019	70,751	236,022	225,941
Cost of sales	45,915	54,607	183,136	173,927
Gross profit	15,104	16,144	52,886	52,014
Administration expenses	7,491	7,040	24,850	20,929
Selling expenses	1,040	1,378	4,482	4,226
Financing costs	1,175	1,329	4,202	4,421
Other (gains) losses	(487)	(201)	(1,412)	(86)
	9,219	9,546	32,122	29,490
Earnings before income taxes	5,885	6,598	20,764	22,524
Income tax expense	2,031	1,995	5,218	6,277
Net Income	3,854	4,603	15,546	16,247
Allocated to non-controlling interest	(28)	(7)	(120)	72
Net income attributable to common	3,882	4,610	15,666	16,175
Weighted average shares outstanding – Basic	18,685,491	17,295,368	18,420,527	17,188,907
Weighted average shares outstanding – Diluted	18,995,139	19,127,339	19,071,235	19,132,007
Net income per share – Basic	\$0.21	\$0.27	\$0.85	\$0.94
Net income per share – Diluted	\$0.20	\$0.25	\$0.83	\$0.89

Sales for the third quarter and nine months ended June 30, 2020 decreased by 14% and increased by 4% respectively over the prior comparable periods. The reasons have been explained previously in this press release.

Gross profit for the third quarter and nine months ended June 30, 2020 decreased by 6% and increased by 2% respectively versus the prior comparable periods. This is primarily explained by decreased sales volume for TerraVest's base portfolio, partially offset by the contribution of ISF and Argo, as well as government wage subsidies and cost control measures.

Administration expenses for the third quarter and nine months ended June 30, 2020 increased by 6% and by 19% respectively versus the prior comparable periods which are mainly the result of the addition of ISF and Argo to TerraVest's results and acquisition-related expenses.

Selling expenses for the third quarter and nine months ended June 30, 2020 decreased by 25% and increased by 6% respectively versus the prior comparable periods which are mainly the result of reduced travelling expenses in the third quarter due to travel restrictions, partially offset by the addition of ISF and Argo to TerraVest's results.

Financing costs for the third quarter and nine months ended June 30, 2020 decreased by 12% and by 5% respectively versus the prior comparable periods. The decreases are primarily explained by lower interest expense because of the prime rate reductions in March 2020 and April 2020 and by reduced debt balances, partially offset by interest expense on lease liabilities following the adoption of IFRS 16 "Leases" on October 1, 2019.

Income tax expense increased for the third quarter and decreased for the nine months ended June 30, 2020 versus the prior comparable periods. The marginal increase for the third quarter ended June 30, 2020 is mainly explained by the timing of income tax expense adjustments and non-taxable items while the decrease for the nine months ended June 30, 2020 is the result of reduced taxable earnings and the reduction of the tax rates for certain subsidiaries of TerraVest.

As a result of the above, net income attributable to common shareholders for the third quarter and nine months ended June 30, 2020 decreased by 16% and by 3% respectively versus the prior comparable periods.

DIVIDENDS

TerraVest is pleased to announce that The Board of Directors has declared its quarterly dividend of 10 cents per common share payable on October 9, 2020 to shareholders of record as at the close of business on September 30, 2020. The dividend is designated an “eligible dividend” for Canadian income tax purposes.

Additional information can be found in TerraVest’s interim condensed consolidated financial statements and MD&A which are available on SEDAR at www.sedar.com.

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Non-IFRS Financial Measures

This news release makes reference to certain non-IFRS financial measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. TerraVest’s definitions may differ from those of other issuers and therefore may not be comparable to similarly titled measures used by other issuers. The Company uses non-IFRS financial measures including adjusted EBITDA, cash available for distribution, dividend payout ratio and maintenance capital expenditures.

Adjusted EBITDA: is defined as net income adjusted for income tax expense, financing costs, depreciation, amortization, gains or losses on disposal of property, plant and equipment and on disposal of assets held for sale, change in fair value of derivative financial instruments, gains or losses on foreign exchange, non-recurring acquisition-related costs, impairment charges and other non-recurring and/or non-operations related items that do not reflect the current ongoing operations of TerraVest. Management believes this is a useful metric in evaluating the ongoing operating performance of TerraVest. Readers are cautioned that adjusted EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of TerraVest’s performance.

Cash Available for Distribution: is defined as cash flow from operating activities adjusted for changes in non-cash operating working capital, maintenance capital expenditures and repayment of lease liabilities. Management believes that cash available for distribution, as a liquidity measure, is a useful metric that provides an indication of the cash available from ongoing operations that can be distributed to shareholders as a dividend. Readers are cautioned that cash available for distribution should not be construed as an alternative to cash flow from operating activities determined in accordance with IFRS as an indicator of TerraVest’s liquidity and cash flows.

Dividend Payout Ratio: is defined as dividends paid in cash during the period divided by cash available for distribution for the period. Management believes that dividend payout ratio is a useful metric as it provides an indication of TerraVest’s ability to sustain its current dividend policy. There is no directly comparable IFRS measure for dividend payout ratio.

Maintenance Capital Expenditures: is defined as capital expenditures made to sustain the operations of TerraVest’s operating businesses and to maintain the productive capacity of the businesses over an economic cycle, whether or not they yield significant cost or production efficiencies. Management believes that maintenance capital expenditures should be funded by cash flow from existing operating activities and, therefore, deducted in determining cash available for distribution. There is no directly comparable IFRS measure for maintenance capital expenditures.

Caution Regarding Forward-Looking Statements

This news release contains forward-looking statements. All statements other than statements of historical fact contained in this news release are forward-looking statements, including, without limitation, statements regarding our strategic direction and evaluation of the business segments and TerraVest as a whole, and other plans and objectives of or involving TerraVest. Readers can identify many of these statements by looking for words such as “expects” and “will” or similar terms or variations of these words. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements require us to make assumptions and, accordingly, forward looking statements are subject to inherent risks and uncertainties. There is significant risk that the forward-looking statements will not prove to be accurate. We caution readers of this news release not to place undue reliance on our forward-looking statements because a number of factors may cause actual future circumstances, results, conditions, actions or events to differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements and the assumptions underlying the forward-looking statements.

Assumptions and analysis about the performance of TerraVest as a whole and its business segments, the markets in which the business segments compete and the prospects and values of the business segments are considered in setting the business plan for TerraVest, plans and/or ability to pay dividends, outlook for operations, financial position, results and cash flows, other plans and objectives and in making related forward-looking statements. Such assumptions include, without limitation, demand for products and services of the business segments in respect of the Canadian and other markets in which the businesses are active will be stable, and that input costs to business segments do not vary significantly from levels experienced historically. Should any of these factors or assumptions vary, actual results may differ materially from the forward-looking statements.