HÉROUX DEVTEK

Annual General Meeting of Shareholders / Assemblée annuelle des actionnaires

Friday August 9, 2019 / Vendredi le 9 août 2019
Westin Montreal, Montréal, Québec

Vice President and CFO's Speach / Allocution du vice-président et chef de la direction financière

Stéphane Arseneault

Thank you Martin.

Good morning everyone.

Nous avons livré de solides résultats financiers au courant de l'exercice 2019.

Les ventes consolidées ont atteint 483,9 millions de dollars, en hausse de 25,2 % comparativement 386,6 millions de dollars à l'exercice 2018, excédant ainsi nos prévisions financières.

Cette croissance des ventes découlait principalement de CESA et Beaver ainsi que de l'accroissement des livraisons dans le cadre des programmes visant les Boeing 777 et 777X et de l'augmentation des ventes dans le marché des jets d'affaires attribuable à l'accélération des livraisons dans le cadre du programme Embraer 450/500. La croissance organique était influencée négativement par l'incidence nette de la fin du contrat de réparation et d'entretien avec l'armée de l'air américaine, en partie annulée par l'accélération du contrat correspondant conclu avec AAR.

Le résultat opérationnel a été de 37,2 millions de dollars, ou 7,7 % des ventes, comparativement à 23,4 millions de dollars, ou 6,0 % des ventes, à l'exercice précédent.

Le BAIIA ajusté a atteint 74,2 millions de dollars, ou 15,3 % des ventes, en hausse par rapport à 56,9 millions de dollars, ou 14,7 % des ventes, à l'exercice précédent.

L'augmentation de notre profitabilité était attribuable à l'incidence des acquisitions de Beaver et de CESA et à une hausse du flux de production, ce qui a entraîné une imputation plus élevée des coûts de fabrication.

Our consolidated sales increased by 67.2 % to $143.4 million.

15% of this growth was the result of organic growth, driven by increase deliveries for the Boeing 777 and 777X programs, the increase in production rate of the Lockheed Martin F-35 program and higher aftermarket sales to the defense market.

52% of the growth came from the contribution of our acquisitions.

Operating income was up from 5.7% to 7.2% of sales, while Adjusted EBITDA grew from 14.3% to 15% of sales. These increases were mainly attributable to the impact of the Beaver and CESA acquisitions, partially offset by higher manufacturing costs.

As at June 30, 2019, our long-term debt stood at $306.6 million, compared with $132.0 at March 31, 2018.

The increase was mainly driven by our four acquisitions, which resulted in an additional $189.4 million of debt. We also recognized $27.0 million of operating leases as debt during the first quarter following the adoption of IFRS 16, and made just over $40 million of repayments over this 15 month period.

As at June 30, 2019, our long-term debt now includes a new term loan from the Fonds de Solidarité FTQ, on which we have now drawn $60 million in two tranches. Our government loans have also increased, as we assumed $35.6 million in loans with the CESA acquisition, bringing the total to $91 million. This means that 49% of our current debt balance is unsecured, of which 75% matures in over five years.

The cash cost of our debt is approximately 3.2% annually. Based on our last twelve months of results, our leverage ratio as at June 30, 2019 stood at 3.2 times, or 2.1 times when excluding government loans.

That means we are well below our covenants, and our facilities had available capacity to draw over $260 million of additional debt under certain conditions, providing us with good financial flexibility.

While we closed the first quarter at our highest ever debt position, we are also generating more cash flows than ever before. Over the last three fiscal years, we have generated combined cash flows related to operating activities and free cash flows of $182.2 million and $141.9 million, respectively, representing 14.4% and 11.1% of sales. This cash generation is a strong indicator of our ability to deleverage rapidly.

Our recent performance and strong industry fundamentals in both the commercial and defence sectors have led us to update our sales guidance for fiscal 2020 and 2022. Following the acquisition of Alta Precision, we are confident in our ability to grow sales to reach between $580 million and $600 million in fiscal 2020 and between $650 million to $680 million in fiscal 2022.

As mentioned earlier, our funded backlog now stands at a record $747 million, which is a strong foundation for our ability to deliver on this guidance. When compared to $466 million at the beginning of last fiscal year, this represents an increase of 60%, of which more than 20% comes from legacy business, mainly in the defense sector.

I will take any question you might have after Martin’s concluding remarks. Thank you.