



PRESS RELEASE

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VELAN INC. REPORTS SOLID THIRD QUARTER 2022/23 FINANCIAL RESULTS, WITH AN IMPROVING TREND IN BACKLOG, REVENUES AND PROFIT

MONTREAL, QUEBEC

Velan Inc. (TSX: VLN) (the “Company”), a world-leading manufacturer of industrial valves, announced today its financial results for its third quarter ended November 30, 2022.

Highlights:

- Sales for the quarter amounted to \$95.2 million, a significant improvement of \$10.2 million or 12.0% compared to the previous quarter of the current fiscal year, but a decrease of \$14.7 million or 13.4% compared to the third quarter of the previous fiscal year. The decrease in sales for the quarter compared to the prior year is partly due to the weakened euro average rate against the U.S. dollar combined with lower sales achieved by the Company’s Italian operations in part due to a decrease in orders recorded by the subsidiary in prior periods as well as a strong shipment performance in the prior year.
- Gross profit for the quarter amounted to \$29.0 million or 30.4%, a significant improvement of \$5.5 million or 280 basis points compared to the second quarter of the current fiscal year, but a decrease compared to last year’s \$35.9 million or 32.6%. Noteworthy is that the gross profit for the nine-month period of the previous year was 30.1%, net of government subsidies related to Covid-19.
- Net income¹ of \$2.7 million and EBITDA² of \$6.1 million for the quarter, a significant improvement compared to the prior quarter’s net loss¹ of \$3.2 million and EBITDA² of \$1.4 million, but a decrease compared to a net income¹ of \$4.5 million and EBITDA² of \$13.3 million last year. The decrease in EBITDA² is primarily attributable to the previously mentioned reduction in gross profit partially offset by a decrease in administration costs in the quarter.
- Order backlog² remains strong at \$488.3 million, an increase of \$11 million or 2.3% over the prior quarter, but a decrease of \$12.9 million or 2.6% since the beginning of the year. However, this reduction is primarily attributable to the weakening of the euro spot rate against the U.S. dollar and lower upstream oil and gas net new orders (“bookings”)² for the nine-month period.
- The portion of the current backlog² deliverable in the next twelve months slightly increased to \$336.2 million from \$321.9 million from the year, while it decreased from \$347.2 million when compared to the beginning of the quarter.
- Bookings² of \$99.2 million for the quarter, an increase of \$10.7 million or 12.1% compared to last year. The increase in bookings² compared to last year resulted mainly from large marine orders recorded in the Company’s North American operations. The Company’s book-to-bill ratio² for the quarter and the nine-month period was favorable at 1.04.



- The Company’s net cash amounted to \$29.3 million at the end of the quarter, a decrease of \$24.2 million since the beginning of the fiscal year. The decrease in net cash for the fiscal year is primarily attributable to the lower net income¹, combined with unfavorable non-cash working capital items and the ongoing repayment of long-term debt. The overall available liquidity remains strong with \$137.6 million of available cash-on-hand and facilities. The Company’s net cash remained stable when compared to the previous quarter of the current fiscal year.
- The Company continues its improvement trend by prudently navigating market and economic volatilities managing operational throughput as it executes on its backlog² and securing a strong level of new bookings² across the majority of its business segments.

Bruno Carbonaro, CEO and President of Velan Inc., said, “We are happy to see that our financial results are starting to reflect all the countless efforts our teams have put in since the start of the year. As the volatility across various macro economic factors continues across the globe, we once again managed to improve our performance quarter over quarter by carefully planning and executing around the various economic, logistics, supply chain and operational issues we face. Our ramp-up on shipments and deliveries and solid margins and bottom-line profit reflects that careful planning and execution. Our customer confidence is increasing, as evidenced by the strong bookings for the quarter and creates the perfect opportunity for us to continue to improve on our operational and financial performance for all our stakeholders.”

Financial Highlights:

	Three-month periods ended		Nine-month periods ended	
	November 30, 2022	November 30, 2021	November 30, 2022	November 30, 2021
<i>(thousands of U.S. dollars, excluding per share amounts)</i>				
Sales	\$95,229	\$109,971	\$255,288	\$286,393
Gross profit	28,965	35,861	72,520	87,246
Gross profit %	30.4%	32.6%	28.4%	30.5%
Net income (loss) ¹	2,739	4,507	(8,289)	4,449
Net income (loss) ¹ per share – basic and diluted	0.13	0.21	(0.38)	0.21
EBITDA ²	6,136	13,291	4,623	23,007
EBITDA ² per share – basic and diluted	0.28	0.62	0.21	1.07



Third Quarter Fiscal 2023 and First Nine months Fiscal 2023 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the third quarter of fiscal 2022):

Backlog

- The total backlog² decreased by \$12.9 million or 2.6% since the beginning of the fiscal year, settling at \$488.3 million at the end of the quarter. The decrease in backlog² is primarily attributable to the weakening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year which represented \$22.2 million for the nine-month period.
- The decrease since the beginning of the fiscal year was partially offset by a positive book-to-bill ratio² of 1.04 as a result of bookings² outpacing sales.

Bookings

- Bookings² for the quarter amounted to \$99.2 million, an increase of \$10.7 million or 12.1% compared to the third quarter of last year. Bookings² for the nine-month period amounted to \$266.1 million, a decrease of \$20.3 million or 7.1% compared to the prior fiscal year.
- The weakening of the euro average rate against the U.S. dollar on order bookings² for the Company's European operations resulted in a negative impact of \$5.1 million in the third quarter and \$13.1 million on the nine-month period compared to the prior year. Additionally, the decrease in bookings² for the nine-month period is also attributable to lower large orders recorded in the Company's Italian and Portuguese operations. The decrease for the nine-month period was partially offset by a strong bookings² quarter from the Company's North American operations which recorded significant marine orders.
- The decrease for both periods is also attributable to the disposal of the Company's Korean foundry at the end of the previous fiscal year. The Korean foundry had recorded \$1.2 million of bookings² in the second quarter of the previous fiscal year and \$5.5 million for the nine-month period of the same year.

Sales

- Sales amounted to \$95.2 million for the quarter, decreasing by \$14.7 million or 13.4% compared to the same quarter last year. Sales for the nine-month period totaled \$255.3 million, a decrease of \$31.1 or 10.86% compared to the last fiscal year.
- The negative effect of the weakening of the euro average rate against the U.S. dollar on sales for the quarter amounted to \$4.9 million, and \$15.9 million for the nine-month period compared to the third quarter and first nine-month of last fiscal year.
- The decrease in sales for both periods is also attributable to the delivery of significant orders by the Company's Italian operations destined to the upstream oil and gas sector in the prior fiscal year combined with lower bookings and also the timing effect thereof.
- Finally, the decrease for the quarter was partially offset by the recognition of a \$10.9 million order which could not be recorded in the previous quarter due to logistics delays.



Gross Profit

- Gross profit for the quarter amounted to \$29.0 million, a decrease of \$6.9 million or 19.2% compared to the same quarter last year. Gross profit for the nine-month period amounted to \$72.5 million, a decrease of \$14.7 million or 16.9% compared to the same period last year. The gross profit percentage for the quarter of 30.4% was a decrease of 220 basis points compared to last year's third quarter, while the gross profit percentage for the nine-month period of 28.4% represented a decrease of 210 basis points compared to the same period last year.
- The gross profit in the prior year was positively impacted by the recording of \$1.1 million for the nine-month period of Covid-19 subsidies, which when removed, resulted in gross profit of 30.1% for the nine-month period.
- The decrease in gross profit percentage for both periods is primarily attributable to the lower sales volume which impacted the absorption of fixed production overhead costs. The decrease in gross profit percentage was also due to the unfavorable effect of the product mix delivered. Additionally, The Company's gross profit for the quarter was negatively impacted by unfavorable foreign exchange movements, when compared to similar movements from the previous year, which were primarily made up of unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and Canadian dollar. These foreign exchange movements were favorable in the nine-month period.

Administration Costs

- Administration costs for the quarter amounted to \$25.4 million, a decrease of \$1.0 million or 3.8%. Administration costs for the nine-month period amounted to \$75.9 million, an increase of \$1.7 million or 2.3%. Administration costs for both periods were negatively affected by an increase in the Company's long-term asbestos provision as well as higher outbound freight costs caused by the current global supply chain issues which are impacting freight costs and shipping delays.
- The administration costs in the prior year benefited from the recording of \$0.9 million for the nine-month period of CEWS. The movement for both periods were favorably impacted by lower sales commissions recorded on the delivery of large orders and a general reduction in remaining administration costs.

EBITDA²

- EBITDA² for the quarter amounted to \$6.1 million or \$0.28 per share compared to \$13.3 million or \$0.62 per share last year. EBITDA² for the nine-month period amounted to \$4.6 million or \$0.21 per share compared to \$23.0 million or \$1.07 per share last year. The unfavorable movements in EBITDA² for both periods are primarily attributable to the previously explained decrease in gross profit combined with an increase in administration costs for the nine-month period.
- The decrease in EBITDA² for the quarter was partially offset by a reduction in administration costs. A portion of the effects on the EBITDA² caused by the weakening of the euro against the U.S. dollar were hedged by the company.



Net Income

- Net income¹ amounted to \$2.7 million or \$0.13 per share compared to \$4.5 million or \$0.21 per share last year. Net loss for the nine-month period amounted to \$8.3 million or \$0.38 per share compared to a net income of \$4.4 million or \$0.21 per share last year.
- The negative movement in the Company's results was primarily attributable to the same factors as explained in the EBITDA section, partially offset by favorable movements in income taxes and in finance costs for both periods.

Dividend

For the current quarter, no dividend will be declared. The Company will revisit the declaration of dividends in subsequent quarters.

Conference call

The company will hold an analyst call on **Thursday, January 12, 2023 at 11:00 A.M. (EST)** to discuss the results. The call may be accessed by dialing **1-800-954-0599** and quoting the reservation number **22024886**. The material that will be referenced during the conference call will be made available shortly before the event on the company's website under the *Investor Relations* section (https://www.velan.com/en/company/investor_relations). There will be PostView available for 7 days following this conference call. The numbers are as follows: **1-416-626-4100** or **1-800-558-5253**. Enter reservation number **22024886** then follow the system prompts.

About Velan

Founded in Montreal in 1950, Velan Inc. (www.velan.com) is one of the world's leading manufacturers of industrial valves, with sales of US\$411.2 million in its last reported fiscal year. The Company employs 1,664 people and has manufacturing plants in 9 countries. Velan Inc. is a public company with its shares listed on the Toronto Stock Exchange under the symbol VLN.

Safe harbour statement

This news release may include forward-looking statements, which generally contain words like "should", "believe", "anticipate", "plan", "may", "will", "expect", "intend", "continue" or "estimate" or the negatives of these terms or variations of them or similar expressions, all of which are subject to risks and uncertainties, which are disclosed in the Company's filings with the appropriate securities commissions. While these statements are based on management's assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that it believes are reasonable and appropriate in the circumstances, no forward-looking statement can be guaranteed and actual future results may differ materially from those expressed herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise, except as required by the applicable securities laws. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Non-IFRS and supplementary financial measures

In this press release, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS.



Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found on the next page.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

	Three-month periods ended		Nine-month periods ended	
	November 30, 2022 \$	November 30, 2021 \$	November 30, 2022 \$	November 30, 2021 \$
<i>(thousands, except amount per shares)</i>				
Net income (loss) ¹	6,136	4,507	(8,289)	4,449
Adjustments for:				
Depreciation of property, plant and equipment	2,086	2,382	6,270	7,190
Amortization of intangible assets	540	556	1,664	1,565
Finance costs – net	422	619	1,036	1,674
Income taxes	349	5,227	3,942	8,129
EBITDA	6,136	13,291	4,623	23,007
EBITDA per share				
- Basic and diluted	0.28	0.62	0.21	1.07

The term "EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. The terms "EBITDA per share" is obtained by dividing EBITDA by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

Definitions of supplementary financial measures

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "book-to-bill" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

¹ Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares.

² Non-IFRS and supplementary financial measures – See explanation above.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	November 30, 2022 \$	February 28, 2022 \$
Assets		
Current assets		
Cash and cash equivalents	31,354	54,015
Short-term investments	9,410	8,726
Accounts receivable	114,247	115,834
Income taxes recoverable	7,389	2,955
Inventories	217,697	223,198
Deposits and prepaid expenses	7,348	6,877
Derivative assets	341	553
	387,786	412,158
Non-current assets		
Property, plant and equipment	68,548	73,906
Intangible assets and goodwill	15,604	16,693
Deferred income taxes	4,581	4,774
Other assets	652	897
	89,385	96,270
Total assets	477,171	508,428
Liabilities		
Current liabilities		
Bank indebtedness	2,043	550
Accounts payable and accrued liabilities	78,812	80,503
Income taxes payable	1,784	3,806
Customer deposits	40,782	41,344
Provisions	14,941	18,444
Derivative liabilities	302	560
Current portion of long-term lease liabilities	1,221	1,360
Current portion of long-term debt	13,333	8,111
	153,218	154,678
Non-current liabilities		
Long-term lease liabilities	9,673	11,073
Long-term debt	20,970	22,927
Income taxes payable	1,079	1,244
Deferred income taxes	4,074	4,025
Customer deposits	19,593	30,139
Provisions	16,626	13,101
Other liabilities	5,576	5,731
	77,591	88,240
Total liabilities	230,809	242,918
Total equity	246,362	265,510
Total liabilities and equity	477,171	508,428



Consolidated Statements of Income (loss)

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

	Three-month periods ended		Nine-month periods ended	
	November 30	November 30	November 30	November 30
	2022	2021	2022	2021
	\$	\$	\$	\$
Sales	95,229	109,971	255,288	286,393
Cost of sales	66,264	74,110	182,768	199,147
Gross profit	28,965	35,861	72,520	87,246
Administration costs	25,428	26,436	75,918	74,192
Other expense (income)	2	(579)	(132)	(537)
Operating profit (loss)	3,535	10,004	(3,266)	13,591
Finance income	59	77	227	367
Finance costs	(479)	(696)	(1,261)	(2,041)
Finance costs – net	(420)	(619)	(1,034)	(1,674)
Income (loss) before income taxes	3,115	9,385	(4,300)	11,917
Income tax expense	350	5,227	3,943	8,129
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	2,739	4,507	(8,289)	4,449
Non-controlling interest	26	(349)	46	(661)
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Net income (loss) per Subordinate and Multiple Voting Share				
Basic and diluted	0.13	0.21	(0.38)	0.21
Dividends declared per Subordinate and Multiple Voting Share				
	-	-	0.02	-
	(CA\$ -)	(CA\$ -)	(CA\$0.03)	(CA\$-)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic and diluted	21,585,635	21,585,635	21,585,635	21,585,635



Consolidated Statements of Comprehensive Loss

(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30	November 30	November 30	November 30
	2022	2021	2022	2021
	\$	\$	\$	\$
Comprehensive loss				
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Other comprehensive loss				
Foreign currency translation	3,183	(6,080)	(10,408)	(9,502)
Comprehensive loss	5,948	(1,922)	(18,651)	(5,714)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	5,922	(1,559)	(18,697)	(5,007)
Non-controlling interest	26	(363)	46	(707)
Comprehensive loss	5,948	(1,922)	(18,651)	(5,714)

Other comprehensive loss is composed solely of items that may be reclassified subsequently to the consolidated statement of income (loss).



Consolidated Statements of Changes in Equity

(in thousands of U.S. dollars, excluding number of shares)

	Equity attributable to the Subordinate and Multiple Voting shareholders					Non-controlling interest	Total equity
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total		
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net income (loss) for the period	-	-	-	4,449	4,449	(661)	3,788
Other comprehensive loss	-	-	(9,456)	-	(9,456)	(46)	(9,502)
Comprehensive income (loss)	-	-	(9,456)	4,449	(5,007)	(707)	(5,714)
Balance - November 30, 2021	72,695	6,260	(30,463)	243,585	292,077	2,430	294,507
Balance - February 28, 2022	72,695	6,260	(32,223)	218,092	264,824	686	265,510
Net income (loss) for the period	-	-	-	(8,289)	(8,289)	46	(8,243)
Other comprehensive loss	-	-	(10,408)	-	(10,408)	-	(10,408)
Comprehensive income (loss)	-	-	(10,408)	(8,289)	(18,697)	46	(18,651)
Dividends							
Multiple Voting Shares	-	-	-	(366)	(366)	-	(366)
Subordinate Voting Shares	-	-	-	(131)	(131)	-	(131)
Balance - November 30, 2022	72,695	6,260	(42,631)	209,306	245,630	732	246,362



Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30	November 30	November 30	November 30
	2022	2021	2022	2021
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities	(1,558)	4,918	2,759	10,975
Changes in non-cash working capital items	(4,585)	(1,512)	(12,483)	(4,771)
Cash provided (used) by operating activities	(3,378)	7,564	(17,967)	9,992
Investing activities				
Short-term investments	64	(268)	(1,117)	(1,686)
Additions to property, plant and equipment	(1,449)	(1,379)	(2,985)	(4,948)
Additions to intangible assets	(107)	(520)	(1,316)	(1,330)
Proceeds on disposal of property, plant and equipment	4	10,597	44	13,729
Net change in other assets	2	2	30	(25)
Cash used by investing activities	(1,486)	8,432	(5,344)	5,740
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	-	(497)	-
Net change in revolving credit facility	5,357	(11,872)	5,373	(5,624)
Increase in long-term debt	-	-	2,160	5,889
Repayment of long-term debt	(1,038)	(1,522)	(3,715)	(6,068)
Repayment of long-term lease liabilities	(359)	(427)	(1,091)	(1,284)
Cash provided (used) by financing activities	3,960	(13,786)	2,230	(7,052)
Effect of exchange rate differences on cash	490	(2,360)	(3,073)	(3,652)
Net change in cash during the period	(414)	(2,294)	(24,154)	2,884
Net cash – Beginning of the period	29,725	68,131	53,465	62,953
Net cash – End of the period	29,311	65,837	29,311	65,837
Net cash is composed of:				
Cash and cash equivalents	31,354	66,687	31,354	66,687
Bank indebtedness	(2,043)	(850)	(2,043)	(850)
Net cash – End of the period	29,311	65,837	29,311	65,837
Supplementary information				
Interest paid	(242)	(526)	(450)	(1,360)
Income taxes paid	(2,802)	(1,782)	(6,799)	(3,366)