



Velan Inc.

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PRESS RELEASE
FOR IMMEDIATE RELEASE

VELAN INC. REPORTS ITS FISCAL 2024 THIRD QUARTER FINANCIAL RESULTS

MONTREAL, Quebec, January 11, 2024 – 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, 2023. All amounts are expressed in U.S. dollars unless indicated otherwise.

THIRD QUARTER RESULTS:

- Sales of \$80.9 million, down \$14.3 million or 15.0% compared to last year, but up \$0.6 million or 0.8% from the second quarter of the current fiscal year.
- Gross profit of \$16.4 million, or 20.2% of sales, compared to \$29.0 million, or 30.4% of sales, last year.
- Net loss¹ of \$7.3 million compared to net income¹ of \$2.7 million last year.
- Net new orders (“bookings”)² of \$78.3 million, compared to \$99.2 million last year.
- Order backlog² of \$485.0 million at quarter end, up \$20.7 million or 4.5% since the beginning of the year.
- Net cash of \$26.4 million at the end of Q3, versus \$39.4 million three months ago. Liquidity remains strong with \$97.5 million of available cash-on-hand and credit facilities.
- Following the termination of the arrangement agreement with Flowserve, after an eight-month interim period, the Company resumes its objectives as an independent organization with a renewed focus on profitable growth.

FINANCIAL RESULTS (‘000s of U.S. dollars, excluding per share amounts)	Three-month periods ended		Nine-month periods ended	
	Nov. 30, 2023	Nov. 30, 2022	Nov. 30, 2023	Nov. 30, 2022
Sales	\$80,945	\$95,229	\$228,922	\$255,288
Gross profit	\$16,386	\$28,965	\$54,823	\$72,520
Gross margin	20.2%	30.4%	23.9%	28.4%
EBITDA ²	(\$2,337)	\$6,135	(\$3,176)	\$4,622
Net income (loss) ¹	(\$7,250)	\$2,739	(\$17,654)	(\$8,289)
Net income (loss) ¹ per share - basic and diluted	(\$0.34)	\$0.13	(\$0.82)	(\$0.38)
Weighted average share outstanding (‘000s)	21,586	21,586	21,586	21,586

“Velan’s third quarter results reflect reduced revenue in North American operations, which contrasted with the shipment of large orders during the same period last year,” said James A. Mannebach, Interim CEO and Chairman of Velan Inc. “Our global presence, however, represents a significant competitive advantage and bookings have been robust in Europe, particularly for nuclear orders in France and oil and gas contracts at our Italian operations. As a result, our backlog has increased 4.5% to \$485.0 million since the beginning of the fiscal year, and we expect shipments to accelerate in the fourth quarter driven by the execution of these projects.”

“Velan is resuming its focus on growth and is confident about its future opportunities worldwide. Our short-term priority is to strengthen the organization following the termination of the acquisition agreement with Flowserve Corporation. Supported by an agile workforce, global presence, and solid brand reputation, we are well positioned to expand our reach in the flow control industry. As a supplier of critical equipment to essential industries, we expect sustained demand for our products steered by energy transition trends, while maintenance and repair activity should continue to provide a steady revenue stream. Over the longer term, we are committed to building shareholder value through sales and cash flow growth,” concluded Mr. Mannebach.

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. Refer to the Non-IFRS and supplementary financial measures section for definitions and reconciliations.



FISCAL 2024 THIRD QUARTER RESULTS

Sales amounted to \$80.9 million, down \$14.3 million or 15.0% compared to the same quarter last year. The variation is essentially attributable to a reduction in North American sales due to last year's shipment of a large order for the oil and gas industry and to lower maintenance, repair and overhaul ("MRO") orders as a result of extended transit times for orders going through the Panama Canal. These elements were partially offset by a \$1.9 million positive impact on sales from the strengthening of the euro average rate against the U.S. dollar in the quarter.

Gross profit was \$16.4 million, down from \$29.0 million last year. The variation is due to lower business volume which impacted the absorption of fixed production overhead costs and to the execution of a low margin project from the backlog. These factors were partially offset by favourable unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and the Canadian dollar when compared to similar movements in the previous year. As a percentage of sales, gross profit was 20.2% compared to 30.4% last year.

Administration costs amounted to \$21.6 million, a decrease of \$3.9 million or 15.2% compared to last year. The variation reflects the recording in last year's third quarter of a \$3.0 million provision for potential settlement value of future unknown asbestos-related claims and lower freight costs due to a lower sales volume.

EBITDA¹ was negative \$2.3 million compared to \$6.1 million last year. The variation is primarily attributable to the previously explained decrease in gross profit, partially offset by a decrease in administration costs.

Net loss² amounted to \$7.3 million, or \$0.34 per share, compared to net income of \$2.7 million, or \$0.13 per share, last year. The variation reflects lower EBITDA¹ and higher finance costs.

NINE MONTH RESULTS

For the nine-month period ended November 30, 2023, sales reached \$228.9 million, down from \$255.3 million last year. Gross profit amounted to \$54.8 million, or 23.9% of sales, compared to \$72.5 million, or 28.4% of sales, last year. EBITDA¹ stood at negative \$3.2 million, versus \$4.6 million in the previous year. Net loss² was \$17.7 million, or \$0.82 per share, compared to a net loss² of \$8.3 million, or \$0.38 per share, a year ago.

BOOKINGS¹ AND BACKLOG¹

Bookings¹ amounted to \$78.3 million, a decrease of \$20.9 million or 21.1% compared to the third quarter of last year. The variation reflects lower marine orders for the Company's North American operations following large orders recorded in the third quarter of last year. This factor was partially offset by higher oil and gas bookings¹ recorded by Italian operations and by the strengthening of the euro average rate against the U.S. dollar on bookings¹ for European operations which resulted in a favorable impact of \$2.0 million in the third quarter. The book-to-bill¹ ratio stood at 0.97 in the third quarter of fiscal 2024, compared to 1.04 a year earlier. Commercial activity remains strong particularly at the Company's Italian operations.

For the nine-month period ended November 30, 2023, bookings¹ reached \$241.6 million, representing a book-to-bill¹ ratio of 1.06, compared to bookings¹ of \$266.1 million, representing a book-to-bill¹ ratio of 1.04 for the corresponding period a year earlier.

¹ Non-IFRS and supplementary financial measures. Refer to the Non-IFRS and supplementary financial measures section for definitions and reconciliations.

² Net income or loss refer to net income or loss attributable to Subordinate and Multiple voting shares.



As at November 30, 2023, order backlog¹ stood at \$485.0 million, up \$20.7 million or 4.5% since the beginning of the fiscal year. The increase is primarily attributable to changes in the profile of scheduled backlog¹ shipment dates. The increase is also due to the strengthening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year which represented \$7.9 million.

FINANCIAL POSITION

As at November 30, 2023, Velan's financial position remained solid with cash and cash equivalents, net of bank indebtedness of \$26.4 million, compared to \$50.3 million at the beginning of the fiscal year. Considering unused credit facility, the Company had total available liquidity of \$97.5 million as at November 30, 2023, compared with \$140.9 million as at February 28, 2023. The reduction reflects the use of cash and borrowings on the revolving credit facility to fund temporary working capital requirements.

CONFERENCE CALL NOTICE

Financial analysts, shareholders, and other interested individuals are invited to attend the third quarter conference call to be held on Friday, January 12, 2024, at 8:00 a.m. (EDT). The toll-free call-in number is 1-800-954-1053, access code 22028877. 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). A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 22028877.

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\$370.4 million in its last reported fiscal year. The Company employs approximately 1,630 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

¹ Non-IFRS and supplementary financial measures. Refer to the Non-IFRS and supplementary financial measures section for definitions and reconciliations.



financial condition of the Company and are reconciled with the performance measures defined under IFRS. The Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

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

('000s of U.S. dollars, excluding per share amounts)	Three-month periods ended		Nine-month periods ended	
	Nov. 30, 2023	Nov. 30, 2022	Nov. 30, 2023	Nov. 30, 2022
Net loss ¹	(7,250)	2,739	(17,654)	(8,289)
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	2,238	2,086	6,458	6,270
Amortization of intangible assets and financing costs	569	540	1,646	1,664
Finance costs – net	1,395	420	3,991	1,034
Income taxes	711	350	2,383	3,943
EBITDA	(2,337)	6,135	(3,176)	4,622

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 and financing costs, plus net finance costs plus income tax provision. 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 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.

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¹ Net income or loss refer to net income or loss attributable to Subordinate and Multiple voting shares.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	November 30, 2023 \$	February 28, 2023 \$
Assets		
Current assets		
Cash and cash equivalents	30,295	50,513
Short-term investments	15	37
Accounts receivable	97,432	121,053
Income taxes recoverable	7,066	6,195
Inventories	227,295	202,649
Deposits and prepaid expenses	8,926	7,559
Derivative assets	135	107
	371,164	388,113
Non-current assets		
Property, plant and equipment	69,122	68,205
Intangible assets and goodwill	16,118	16,153
Deferred income taxes	5,320	4,663
Other assets	654	723
	91,214	89,744
Total assets	462,378	477,857
Liabilities		
Current liabilities		
Bank indebtedness	3,933	260
Accounts payable and accrued liabilities	74,879	79,408
Income taxes payable	1,599	2,832
Customer deposits	29,329	28,201
Provisions	18,348	16,485
Derivative liabilities	27	299
Current portion of long-term lease liabilities	1,551	1,298
Current portion of long-term debt	8,191	8,177
	137,857	136,960
Non-current liabilities		
Long-term lease liabilities	11,098	9,458
Long-term debt	19,292	21,719
Income taxes payable	519	933
Deferred income taxes	4,209	3,966
Customer deposits	32,986	27,937
Provisions	65,056	70,924
Other liabilities	5,295	5,125
	138,455	140,062
Total liabilities	276,312	277,022
Total equity	186,066	200,835
Total liabilities and equity	462,378	477,857



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, 2023	November 30, 2022	November 30, 2023	November 30, 2022
	\$	\$	\$	\$
Sales	80,945	95,229	228,922	255,288
Cost of sales	64,559	66,264	174,099	182,768
Gross profit	16,386	28,965	54,823	72,520
Administration costs	21,553	25,428	65,623	75,918
Other expense (income)	27	2	539	(132)
Operating income (loss)	(5,194)	3,535	(11,339)	(3,266)
Finance income	124	59	395	227
Finance costs	(1,519)	(479)	(4,386)	(1,261)
Finance costs – net	(1,395)	(420)	(3,991)	(1,034)
Income (loss) before income taxes	(6,589)	3,115	(15,330)	(4,300)
Income tax expense	711	350	2,383	3,943
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(7,250)	2,739	(17,654)	(8,289)
Non-controlling interest	(50)	26	(59)	46
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Net income (loss) per Subordinate and Multiple Voting Share				
Basic and diluted	(0.34)	0.13	(0.82)	(0.38)
Dividends declared per Subordinate and Multiple Voting Share				
	-	-	0.02	0.02
	(CA\$ -)	(CA\$ -)	(CA\$0.03)	(CA\$0.03)
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 Income (Loss)

(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30,	November 30,	November 30,	November 30,
	2023	2022	2023	2022
	\$	\$	\$	\$
Comprehensive income (loss)				
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Other comprehensive income (loss)				
Foreign currency translation	131	3,183	3,235	(10,408)
Comprehensive income (loss)	(7,169)	5,948	(14,478)	(18,651)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(7,119)	5,922	(14,419)	(18,697)
Non-controlling interest	(50)	26	(59)	46
Comprehensive income (loss)	(7,169)	5,948	(14,478)	(18,651)

Other comprehensive income (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, 2022	72,695	6,260	(32,126)	217,995	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)
Other	-	-	(97)	97	-	-	-
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
Balance - February 28, 2023	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the period	-	-	-	(17,654)	(17,654)	(59)	(17,713)
Other comprehensive income	-	-	3,235	-	3,235	-	3,235
Comprehensive income (loss)	-	-	3,235	(17,654)	(14,419)	(59)	(14,478)
Acquisition of non-controlling interests	-	-	-	-	-	200	200
Dividends							
Multiple Voting Shares	-	-	-	(354)	(354)	-	(354)
Subordinate Voting Shares	-	-	-	(137)	(137)	-	(137)
Balance - November 30, 2023	72,695	6,260	(37,973)	143,997	184,979	1,087	186,066



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,
	2023	2022	2023	2022
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Adjustments to reconcile net income (loss) to cash used by operating activities	1,618	2,857	1,620	11,850
Changes in non-cash working capital items	800	(9,000)	745	(21,574)
Cash used by operating activities	(4,882)	(3,378)	(15,348)	(17,967)
Investing activities				
Short-term investments	2	64	22	(1,117)
Additions to property, plant and equipment	(1,190)	(1,449)	(3,904)	(2,985)
Additions to intangible assets	(385)	(107)	(1,159)	(1,316)
Proceeds on disposal of property, plant and equipment, and intangible assets	29	4	82	44
Net change in other assets	(3)	2	30	30
Cash used by investing activities	(1,547)	(1,486)	(4,929)	(5,344)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	-	(491)	(497)
Acquisition of non-controlling interests	200	-	200	-
Net change in revolving credit facility	-	5,357	5,000	5,373
Increase in long-term debt	-	-	-	2,160
Repayment of long-term debt	(5,989)	(1,038)	(7,693)	(3,715)
Repayment of long-term lease liabilities	(540)	(359)	(1,292)	(1,091)
Cash provided (used) by financing activities	(6,329)	3,960	(4,276)	2,230
Effect of exchange rate differences on cash	(252)	490	662	(3,073)
Net change in cash during the period	(13,010)	(414)	(23,891)	(24,154)
Net cash – Beginning of the period	39,372	29,725	50,253	53,465
Net cash – End of the period	26,362	29,311	26,362	29,311
Net cash is composed of:				
Cash and cash equivalents	30,295	31,354	30,295	31,354
Bank indebtedness	(3,933)	(2,043)	(3,933)	(2,043)
Net cash – End of the period	26,362	29,311	26,362	29,311
Supplementary information				
Interest paid	(327)	(242)	(429)	(450)
Income taxes paid	(636)	(2,802)	(4,185)	(6,799)