



Velan Inc.

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PRESS RELEASE
FOR IMMEDIATE RELEASE

VELAN INC. REPORTS FIRST QUARTER RESULTS FOR FISCAL 2025

Strong sales, margin and profitability gains year-over-year combined with growing order backlog¹

MONTREAL, Quebec, July 11, 2024 – Velan Inc. (TSX: VLN) (“Velan” or the “Company”), a world-leading manufacturer of industrial valves, announced today financial results for its first quarter ended May 31, 2024. All amounts are expressed in U.S. dollars unless indicated otherwise.

FIRST-QUARTER HIGHLIGHTS AND RECENT EVENTS

- Order backlog of \$528.3 million, up \$36.8 million from the beginning of the year.
- Bookings¹ of \$109.8 million compared to \$91.8 million in the first quarter of fiscal 2024.
- Book-to-bill ratio¹ of 1.42 versus 1.36 in the same period last year.
- Sales of \$77.5 million, up 14.5% from \$67.7 million in the first quarter of fiscal 2024.
- Gross profit of \$23.8 million, or 30.7% of sales, versus \$15.1 million, or 22.2% of sales, in the same period last year.
- Net loss² of \$1.1 million compared to a net loss of \$8.3 million in the first quarter of 2024.
- Net cash and cash equivalents of \$34.0 million.
- On July 8, Velan announced a CA\$50-million alliance agreement with Bruce Power to provide valve and valve support over the next 10 years.

FINANCIAL RESULTS (‘000s of U.S. dollars, excluding per share amounts)	Three-month periods ended	
	May 31, 2024	May 31, 2023
Sales	\$77,500	\$67,659
Gross profit	\$23,812	\$15,052
Gross margin	30.7%	22.2%
Net income (loss)	(\$1,104)	(\$8,284)
per share - basic and diluted	(\$0.05)	(\$0.38)
Adjusted EBITDA ¹	\$3,862	(\$3,290)
Adjusted net income ¹ (loss)	(\$1,015)	(\$7,910)
per share - basic and diluted	(\$0.05)	(\$0.37)
Weighted average share outstanding (‘000s)	21,586	21,586

“Velan opened fiscal 2025 with a robust performance across its core markets, generating double-digit year-over-year sales growth, an order backlog of \$528 million, and a gross margin above 30% in the first quarter,” said James A. Mannebach, Chairman and CEO of Velan. “We are particularly excited about expanded opportunities in the nuclear sector based on heightened interest in small modular reactors that are gaining traction in Europe and North America. As a whole, nuclear power deployments, which are critical to reducing greenhouse gas emissions, were recently fast-tracked by a bipartisan bill in the U.S. Senate. In Canada, we strengthened our position in the nuclear market by signing a 10-year strategic agreement with Bruce Power earlier this week to supply industrial valves for asset management and life-extension projects. Looking ahead, we anticipate a nuclear power growth cycle for at least the next decade on a global basis.”

¹ Non-IFRS and supplementary financial measure. 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.



“We significantly improved our gross margin in the first quarter, driven by increased sales volume and a favourable mix delivering substantial growth year-over-year in Adjusted EBITDA,” said Rishi Sharma, Chief Financial and Administrative Officer of Velan. “Based on a net cash position of \$34.0 million at the end of the quarter, Velan has the financial strength to maintain investments in key growth areas and build long-term shareholder value.”

BACKLOG (‘000s of U.S. dollars, excluding ratio)	As at	
	May 31, 2024	Feb. 29, 2024
Backlog	\$528,278	\$491,525
for delivery within the next 12 months	\$372,250	\$360,669

BOOKINGS (‘000s of U.S. dollars, excluding ratio)	Three-month periods ended	
	May 31, 2024	May 31, 2023
Bookings	\$109,768	\$91,811
Book-to-bill ratio	1.42	1.36

As at May 31, 2024, the backlog stood at \$528.3 million, up \$36.8 million, or 7.5%, from \$491.5 million at the beginning of the fiscal year, reflecting solid first quarter bookings. As at May 31, 2024, 70.5% of the backlog, representing orders of \$372.3 million, is deliverable within the next 12 months versus 73.4% of last year’s backlog. Currency movements had a positive effect of \$1.1 million on the backlog during the period.

Bookings in the first quarter of fiscal 2025 amounted to \$109.8 million, up 19.6% over bookings of \$91.8 million last year. This growth mainly reflects higher bookings in North America driven by new projects and the MRO business, along with higher bookings for oil refinery projects in Germany and for the nuclear power market in France. These factors were partially offset by reduced oil and gas orders in Italy given large orders recorded in the fourth quarter of fiscal 2024. Currency movements had a positive effect of \$1.1 million on bookings in the quarter.

As bookings outpaced sales, the Company’s book-to-bill ratio was 1.42 in the first quarter of fiscal 2025 compared to 1.36 in the corresponding period of fiscal 2024.

FIRST QUARTER RESULTS

Sales reached \$77.5 million in the first quarter of fiscal 2025, up 14.5% from the same period last year. The growth is mainly attributable to an increase in shipments from Velan’s North American operations, including important project deliveries and a solid performance from its MRO business, as well as from Italian operations which delivered on a solid backlog despite shipment delays due to supply-chain issues. Currency movements had a \$0.6 million negative effect on sales in the quarter.

Gross profit totaled \$23.8 million in the first quarter of 2025, up significantly from \$15.1 million last year. The increase is primarily due to the higher sales volume, which positively impacted the absorption of fixed production overhead costs, a more favorable product mix compared to last year, and production efficiency gains. Currency movements had a \$0.1 million negative effect on gross profit in the first quarter of 2025. As a percentage of sales, gross profit reached 30.7% compared to 22.2% last year.

Administration costs totaled \$21.8 million, or 28.1% of sales, in the first quarter of fiscal 2025 compared to \$21.5 million, or 31.8% of sales, a year ago. This year’s administration costs included \$0.1 million in restructuring expenses, mainly consisting of severance payments, while last year’s costs included \$0.5 million in expenses related to the proposed transaction with Flowserve Corporation. Excluding these items, administration costs amounted to \$21.7 million, or 28.0% of sales, in the first quarter of fiscal 2025 versus \$21.0 million, or 31.0% of sales, last year. The year-over-year decrease mainly reflects cost-containment initiatives throughout the Company’s operations and leverage from higher sales.



EBITDA amounted to \$3.7 million in the first quarter of fiscal 2025 compared to negative \$3.8 million last year. Excluding this year's restructuring costs and last year's expenses related to the proposed Flowserve transaction, adjusted EBITDA reached \$3.9 million, up from a negative \$3.3 million last year. The year-over-year increase was mainly driven by higher sales volume combined with the significant improvement in gross profit and cost containment initiatives.

Net loss totaled \$1.1 million, or \$0.05 per share, in the first quarter of fiscal 2025 compared to a net loss of \$8.3 million, or \$0.38 per share, last year. Excluding the after-tax effect of restructuring costs and expenses related to the proposed transaction, adjusted net loss was \$1.0 million, or \$0.05 per share, versus an adjusted net loss of \$7.9 million, or \$0.37 per share, last year. The year-over-year variation can be attributed to higher adjusted EBITDA in the first quarter of 2025, partially offset by greater net finance costs and income tax expense.

FINANCIAL POSITION

As at May 31, 2024, the Company held cash and cash equivalents of \$35.8 million and short-term investments of \$5.7 million, while long-term debt, including the current portion, amounted to \$24.8 million.

OUTLOOK

Velan delivered strong first quarter results, highlighted by a growing order backlog of \$528.3 million and a book-to-bill ratio of 1.42. As at May 31, 2024, orders amounting to \$372.3 million, which represents 70.5% of the total backlog, are expected to be delivered within the next 12 months. Given these orders, the Company is reiterating its expectations to deliver sales growth in fiscal 2025.

DIVIDEND

The Company opted to declare no dividend this quarter.

CONFERENCE CALL NOTICE

Financial analysts, shareholders, and other interested individuals are invited to attend the first quarter conference call to be held on Friday, July 12, 2024, at 8:00 a.m. (EDT). The toll-free call-in number is 1-800-836-8184 or by RapidConnect URL: <https://empportal.ink/3z8pLbF>. 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 1-289-819-1450 or 1-888-660-6345, access code 87075.

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\$346.8 million in its last reported fiscal year. The Company employs 1,654 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. The Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

Adjusted net income (loss), Adjusted net income (loss) per share, Earnings before interest, taxes, depreciation and amortization (“EBITDA”) and Adjusted EBITDA

<i>(in thousands, except amount per shares)</i>	Three-month periods ended	
	May 31, 2024	May 31, 2023
	\$	\$
Reconciliation of net income (loss) to adjusted net income (loss) & adjusted net income (loss) per share		
Net income (loss)	(1,104)	(8,284)
<i>Adjustment for:</i>		
Restructuring costs	89	-
Proposed transaction related costs	-	374
Adjusted net income (loss)	(1,015)	(7,910)
per share - basic and diluted	(0.05)	(0.37)
Reconciliation of net income (loss) to Adjusted EBITDA		
Net income (loss)	(1,104)	(8,284)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	1,685	2,066
Amortization of intangible assets and financing costs	771	563
Finance costs – net	1,341	1,205
Income taxes	1,048	651
EBITDA	3,741	(3,799)
<i>Adjustments for:</i>		
Restructuring costs	121	-
Proposed transaction related costs	-	509
Adjusted EBITDA	3,862	(3,290)

The term “Adjusted net income (loss)” is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus adjustment, net of income taxes, for costs related to restructuring and to the proposed transaction. The terms “Adjusted net income (loss) per share” is obtained by dividing Adjusted net income (loss) 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.

The term “EBITDA” is defined as adjusted net income plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs, plus income tax provision. The term “Adjusted EBITDA” is defined as EBITDA plus adjustment for costs related to restructuring and to the proposed transaction. 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.

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Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	May 31, 2024 \$	February 29, 2024 \$
Assets		
Current assets		
Cash and cash equivalents	35,798	36,445
Short-term investments	5,735	5,271
Accounts receivable	105,661	119,914
Income taxes recoverable	6,374	6,132
Inventories	220,235	208,702
Deposits and prepaid expenses	9,443	10,421
Derivative assets	202	125
	383,448	387,010
Non-current assets		
Property, plant and equipment	69,978	69,918
Intangible assets and goodwill	16,960	16,543
Deferred income taxes	6,021	5,193
Other assets	729	729
	93,688	92,383
Total assets	477,136	479,393
Liabilities		
Current liabilities		
Bank indebtedness	1,779	-
Accounts payable and accrued liabilities	86,149	88,230
Income taxes payable	1,453	1,568
Customer deposits	35,649	30,396
Provisions	13,909	14,129
Derivative liabilities	-	26
Current portion of long-term lease liabilities	1,568	1,607
Current portion of long-term debt	5,317	24,431
	145,823	160,387
Non-current liabilities		
Long-term lease liabilities	11,115	11,036
Long-term debt	19,494	4,346
Income taxes payable	1,912	2,325
Deferred income taxes	3,938	3,462
Customer deposits	34,364	35,082
Provisions	72,929	74,058
Other liabilities	5,216	5,438
	148,968	135,747
Total liabilities	294,791	296,134
Total equity	182,345	183,259
Total liabilities and equity	477,136	479,393

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



Consolidated Statements of Loss

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

	Three-month periods ended	
	May 31, 2024 \$	May 31, 2023 \$
Sales	77,500	67,659
Cost of sales	53,688	52,607
Gross profit	23,812	15,052
Administration costs	21,807	21,499
Other expense (income)	776	(13)
Operating income (loss)	1,229	(6,434)
Finance income	111	135
Finance costs	(1,452)	(1,340)
Finance costs – net	(1,341)	(1,205)
Income (loss) before income taxes	(112)	(7,639)
Income tax expense	1,048	651
Net loss for the period	(1,160)	(8,290)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(1,104)	(8,284)
Non-controlling interest	(56)	(6)
Net loss for the period	(1,160)	(8,290)
Net loss per Subordinate and Multiple Voting Share		
Basic and diluted	(0.05)	(0.38)
Dividends declared per Subordinate and Multiple Voting Share		
	- (CA\$ -)	0.02 (CA\$ 0.03)
Total weighted average number of Subordinate and Multiple Voting Shares		
Basic and diluted	21,585,635	21,585,635

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



Consolidated Statements of Comprehensive Loss

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2024 \$	May 31, 2023 \$
Comprehensive loss		
Net loss for the period	(1,160)	(8,290)
Other comprehensive income		
Foreign currency translation	246	1,408
Comprehensive loss	(914)	(6,882)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(858)	(6,876)
Non-controlling interest	(56)	(6)
Comprehensive loss	(914)	(6,882)

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

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



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, 2023	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the period	-	-	-	(8,284)	(8,284)	(6)	(8,290)
Other comprehensive loss	-	-	1,408	-	1,408	-	1,408
Comprehensive loss	-	-	1,408	(8,284)	(6,876)	(6)	(6,882)
Dividends							
Multiple Voting Shares	-	-	-	(346)	(346)	-	(346)
Subordinate Voting Shares	-	-	-	(134)	(134)	-	(134)
Balance - May 31, 2023	72,695	6,260	(39,800)	153,378	192,533	940	193,473
Balance - February 29, 2024	72,695	6,260	(38,692)	141,914	182,177	1,082	183,259
Net loss for the period	-	-	-	(1,104)	(1,104)	(56)	(1,160)
Other comprehensive income	-	-	246	-	246	-	246
Comprehensive income (loss)	-	-	246	(1,104)	(858)	(56)	(914)
Balance - May 31, 2024	72,695	6,260	(38,446)	140,810	181,319	1,026	182,345

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31,	May 31,
	2024	2023
	\$	\$
Cash flows from		
Operating activities		
Net income (loss) for the period	(1,160)	(8,290)
Adjustments to reconcile net income (loss) to cash provided by operating activities	(175)	834
Changes in non-cash working capital items	6,235	18,150
Cash provided by operating activities	4,900	10,694
Investing activities		
Short-term investments	(456)	19
Additions to property, plant and equipment	(1,673)	(1,109)
Additions to intangible assets	(952)	(384)
Proceeds on disposal of property, plant and equipment, and intangible assets	8	14
Net change in other assets	5	28
Cash provided (used) by investing activities	(3,068)	(1,432)
Financing activities		
Short-term bank loans	(1)	-
Repayment of long-term debt	(3,816)	(926)
Repayment of long-term lease liabilities	(383)	(362)
Cash used by financing activities	(4,200)	(1,288)
Effect of exchange rate differences on cash	(58)	403
Net change in cash during the period	(2,426)	8,377
Net cash – Beginning of the period	36,445	50,253
Net cash – End of the period	34,019	58,630
Net cash is composed of:		
Cash and cash equivalents	35,798	58,842
Bank indebtedness	(1,779)	(212)
Net cash – End of the period	34,019	58,630
Supplementary information		
Interest paid	30	(49)
Income taxes paid	(1,744)	(2,610)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial