Supremex

PRESS RELEASE

SUPREMEX ANNOUNCES Q2 2019 RESULTS AND DECLARES REGULAR QUARTERLY DIVIDEND

Montreal, Quebec, August 2, 2019 – Supremex Inc. ("Supremex" or the "Company") (TSX: SXP), a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions, today announced its results for the second quarter ended June 30, 2019, and declared a regular quarterly dividend.

Second Quarter 2019 Highlights and Recent Events

- Revenue up by 1.7% to $47.6 million, from $46.8 million in the second quarter of 2018.
- Revenue from Canadian and U.S. envelope sales up by 7.4% to $34.0 million from $31.6 million.
- Revenue from packaging and specialty products down by 10.2% to $13.6 million from $15.2 million.
- Net Earnings of $1.8 million (or $0.06 per share) compared with Net Earnings of $3.1 million (or $0.11 per share).
- EBITDA[1] for the quarter was $6.6 million compared to $6.5 million in the previous year. IFRS 16 accounting standard was adopted on January 1, 2019 resulting in a reduction of $1.3 million in operating lease expenses for the quarter. Supremex Adjusted EBITDA[1] was $5.5 million compared with $6.1 million in the second quarter of 2018.
- Purchased 115,762 shares for cancellation under the Company's Normal Course Issuer Bid, for total consideration of $330,101.
- Concluded a new four-year senior secured credit facility of $115 million with improved terms and conditions.
- Approval of a quarterly dividend of $0.065 per share, equivalent to the same period of last year.

"We are buoyed by the strong showing and growth of our Envelope business in the second quarter. Revenue growth in the second quarter was driven primarily by higher envelope prices to reflect increased input costs and to a lesser extent the contribution of our early Q2 2018 acquisition of G2 Printing. The continued ramp-up of the new Durabox corrugate facility and the effect of the early Q3 2018 loss of volume with a single e-commerce packaging customer, offset the positive effects of higher average selling prices and of our fourth quarter 2018 restructuring initiative. Under the guidance of a new leadership team, we produced in excess of 50% more corrugate in Q2 than the previous quarter and looking ahead, we are confident in our ability to bring this business unit to its full potential," said Stewart Emerson, President and CEO.

"Our operating activities continued to generate healthy cash flows which we are in turn dedicating to debt repayment, dividend payments and shares repurchases. We remain focused on shareholder value creation and profitably executing our growth and diversification strategy." concluded Mr. Emerson.

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[1] Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings in section Non-IFRS Measures. The adoption of IFRS 16 had a material impact on the Company's statement of financial position and its statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while the rent expense was replaced by the depreciation of the right-of-use assets, and interest accretion expense from the liabilities was recorded.

Summary of three-month period ended June 30, 2019

Revenue for the three-month period ended June 30, 2019, increased by 1.7% or $0.8 million, reaching $47.6 million compared with $46.8 million during the three-month period ended June 30, 2018. Revenue growth comes from Canadian and U.S. Envelope sales. Revenue from packaging and specialty products was lower in the second quarter of 2019 and accounted for 28.7% of the Company's revenues in the quarter.

Revenue from the Canadian envelope market stood at $23.3 million, an increase of 6.2% or $1.4 million from $21.9 million recorded during the second quarter of 2018. Higher average selling prices, which increased by 15.5% to offset inflationary pressures on input costs, more than compensated for the reduction in volume of 8.1%. For reference, Canada Post Transactional Mail volumes were down 8.1% during their first quarter ended March 31, 2019[2].

Revenue from the U.S. envelope market stood at $10.7 million, an increase of 10.2% or $1.0 million from $9.7 million in the second quarter of 2018. The volume of units sold was down by 1.9% while average selling prices increased by 12.4%, of which approximately 3.6% comes from a positive currency conversion and the balance from increased selling prices to offset input cost inflation and a more favourable mix. For reference, the U.S. Postal Service First Class Mail volumes were down 3.9% during their second quarter ended March 31, 2019[3].

Revenue from packaging products was $13.6 million, a decrease of 10.2% or $1.6 million from $15.2 million during the second quarter of the prior year. Greater than 100% of the revenue decline came from lower volume from a single e-commerce packaging customer depleting accumulated inventory to facilitate a packaging re-design slated to launch in August of 2019, which was in part mitigated by increased folding carton sales from the 2018 packaging acquisitions of G2 Printing Inc. and Pharmaflex Labels Inc. (''G2'') in May 2018.

EBITDA was $6.6 million, compared with $6.5 million in the second quarter of 2018, an increase of $0.1 million or 2.6%. The adoption of IFRS 16 had a material impact on the Company's statement of financial position and its statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while operating expenses were reduced by $1.3 million. The Adjusted EBITDA was $5.5 million compared with $6.1 million during the second quarter of 2018. The decrease of $0.6 million in Adjusted EBITDA is mainly attributable to costs related to the start-up of the new Durabox facility and the reduced contribution from the lower sales volume in packaging and related products. Adjusted EBITDA margins stood at 11.6% of revenues, down from 13.1% in the equivalent quarter of 2018.

Net Earnings amounted to $1.8 million (or $0.06 per share) for the three-month period ended June 30, 2019, compared with $3.1 million (or $0.11 per share) for the equivalent period in 2018. Adjusted Net Earnings reached $1.9 million (or $0.07 per share) for the three-month period ended June 30, 2019, compared with $3.0 million (or $0.10 per share) for the equivalent period in 2018.

Summary of six-month period ended June 30, 2019

Revenue for the six-month period ended June 30, 2019 increased by 1.6% or $1.5 million, reaching $97.3 million compared to $95.8 million during the six-month period ended June 30, 2018. Revenue growth from U.S. envelope sales was mitigated by lower packaging and specialty product sales and slightly lower Canadian envelope sales.

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[2] Canada Post Reports First Quarter 2019 Results

[3] U.S. Postal Service Reports Second Quarter Fiscal 2019 Results

Revenue from the Canadian envelope market stood at $47.5 million, a decrease of 0.7% or $0.3 million from $47.8 million recorded during the six-month period ended June 30, 2018. Volume declined by 11.2%, primarily from the combined effects of the industry-wide secular decline and first quarter 2019 customer and contract movements. Average selling prices increased by 11.7% to offset input cost inflation.

Revenue from the U.S. envelope market grew to $22.0 million, an increase of 10.8% or $2.1 million from revenue of $19.9 million in the equivalent period of 2018. The volume of units sold decreased by 2.2% and average selling prices increased by 13.3%, of which approximately 4.4% comes from a positive currency conversion effect. The balance results from a combination of a more favourable product mix and increased customer selling prices implemented to mitigate rising input costs.

Revenue from packaging products stood at $27.8 million, a decrease of 1.0% or $0.3 million from $28.1 million in the equivalent period of the prior year. The reduction in sales resulted from lower volume from a single e-commerce packaging customer depleting accumulated inventory to facilitate a packaging re-design slated to launch in August of 2019, which was in part mitigated by increased folding carton sales from the 2018 packaging acquisition of G2.

EBITDA was $13.1 million for the first six months of 2019 compared to $12.8 million for the same period of 2018. The adoption of IFRS 16 had a material impact on the Company's statement of financial position and its statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while operating expenses were reduced by $2.6 million. The Adjusted EBITDA stood at $10.7 million compared with $12.8 million during the first half of 2018. The decrease of $2.1 million in Adjusted EBITDA is mainly attributable to costs related to the start-up of the new Durabox facility and the reduced contribution from a single e-Commerce packaging customer. Adjusted EBITDA margins stood at 11.0% of revenues, down from 13.3% in the equivalent period of 2018.

Due to the explanations mentioned above, net earnings stood at $3.6 million (or $0.13 per share) for the six-month period ended June 30, 2019, compared with net earnings of $6.5 million (or $0.23 per share) in the equivalent period in 2018. Adjusted net earnings stood at $3.8 million (or $0.13 per share) in the first six months of 2019, compared with $6.6 million (or $0.23 per share) for the equivalent period in 2018.

Net cash flows from operating activities increased to $8.6 million during the six-month period ended June 30, 2019, up from $7.3 million in the equivalent period of 2018. Excluding the impact of IFRS 16, net cash flows from operating activities would have been $6.0 million, a $1.3 million decrease when compared to the equivalent period in 2018.

Declaration of Dividend

On August 1, 2019, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on October 16, 2019, to the shareholders of record at the close of business on September 30, 2019. This dividend is designated as an "eligible" dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

Non-IFRS Performance Measures

Reconciliation of Net Earnings to Adjusted EBITDA
(In thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2019	**2018**	**2019**	**2018**
Net Earnings	**1,815**	3,135	**3,623**	6,480
Income tax expense	**884**	1,392	**1,556**	2,626
Financing charges, net	**942**	443	**1,775**	807
Depreciation of property, plant and equipment	**1,282**	1,007	**2,691**	1,974
Depreciation of right-of-use assets	**1,170**	—	**2,343**	—
Amortization of intangible assets	**544**	494	**1,090**	943
EBITDA(1)	**6,637**	6,471	**13,078**	12,830
Loss (gain) on disposal of property, plant and equipment	**138**	(587)	**174**	(574)
Expense for contingent remuneration related to business combination	**—**	256	**—**	512
Rent expenses included in the measurement of lease obligations (*adjusted for IFRS 16*)	**(1,273)**	—	**(2,557)**	—
Adjusted EBITDA(1)	**5,502**	6,140	**10,695**	12,768
Adjusted EBITDA Margin (%)	**11.6**	13.1	**11.0**	13.3

(1) Refer to “Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures”

Reconciliation of Net Earnings to Adjusted Net Earnings
(In thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2019	**2018**	**2019**	**2018**
Net Earnings	**1,815**	3,135	**3,623**	6,480
Adjustment, net of income taxes				
Loss (gain) on disposal of property, plant and equipment	**102**	(434)	**129**	(424)
Expense for contingent remuneration related to business combination	**—**	256	**—**	512
Adjusted Net Earnings (1)	**1,917**	2,957	**3,752**	6,568

(1) Refer to “Definition of Adjusted Net Earnings in section Non-IFRS measures”

Non-IFRS measures: Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings

References to “EBITDA” are to earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. References to “Adjusted EBITDA” are to EBITDA adjusted to remove items of significance that are not in the normal course of operations and to exclude the impact of IFRS 16, where rent expense was replaced by an interest charge and amortization of the right-of-use assets while the lease payments on lease liabilities are excluded from standard EBITDA. The items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with business combinations, new facility start-up costs and losses (gains) on disposal of property, plant and equipment. Supremex believes that EBITDA or Adjusted EBITDA is a measurement commonly used by readers of financial statements to evaluate a company’s operational cash-generating capacity and ability to discharge its financial obligations.

Adjusted EBITDA allows readers to appreciate the Company's earnings without effect of non-recurring items making it valuable to assess ongoing operations and to better evaluate the Company's operating profitability when compared to previous year since 2018 comparatives were not restated under the adopted modified retrospective approach permitted by IFRS 16.

References to "Adjusted net earnings" are to net earnings adjusted to remove items of significance that are not in the normal course of operations, as mentioned above, net of income taxes.

EBITDA, Adjusted EBITDA, Adjusted EBITDA or Adjusted net earnings are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA or Adjusted net earnings may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA and Adjusted net earnings should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance.

Conference Call

A conference call to discuss the Company's results for the second quarter ended June 30, 2019 will be held on August 2, 2019 at 10:00 a.m. (Eastern Time). A live broadcast of the conference call will be available on the Company's website, in the Investors section under Webcast.

To participate (professional investment community only) or to listen to the live conference call:

- Local participants (Montreal area), dial into 514 807-9895
- North-American participants, dial toll-free 1 888 231-8191
- A replay of the conference call will be available on the Company's website in the Investors section under Webcast.

Forward-Looking Information

This press release contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this press release. Such assumptions, expectations and estimates are discussed throughout our MD&A for the year ended December 31, 2018.

Forward-looking information is subject to certain risks and uncertainties, and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuations, raw material increases, credit risks with respect to trade receivables, interest rates fluctuations and potential risk of litigation. Such risks and uncertainties are discussed throughout our MD&A for the year ended December 31, 2018 and in particular, in "Risk Factors". Consequently, we cannot guarantee that any forward-looking information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The Management Discussion and Analysis and Financial Statements can be found on www.sedar.com and on Supremex' website.

About Supremex

Supremex Inc. is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates 12 facilities across seven provinces in Canada and three facilities in the United States employing approximately 800 people. Supremex' growing footprint allows it to efficiently manufacture and distribute paper and packaging solutions designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers. For more information, please visit www.supremex.com.

-30-

Contact:
Stewart Emerson
President and CEO
investors@supremex.com
514 595-0555, extension 2316