Supremex

PRESS RELEASE

SUPREMEX ANNOUNCES Q3 2019 RESULTS AND DECLARES REGULAR QUARTERLY DIVIDEND

Montreal, Quebec, November 14, 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 third quarter ended September 30, 2019, and declared a regular quarterly dividend.

Third Quarter 2019 Highlights and Recent Events

- Revenue of $45.2 million, consistent with the third quarter of 2018.
- Revenue from Canadian envelope was down 4.5% to $20.3 million from $21.2 million in the third quarter of 2018.
- Revenue from U.S. envelope was up 6.1% to $11.6 million from $11.0 million in the third quarter of 2018.
- Revenue from packaging and specialty products was up 2.4% and now account for 29.3% of sales, up from 28.7% in the third quarter of 2018.
- Net Earnings of $1.2 million (or $0.04 per share), in line with the third quarter of 2018.
- EBITDA[1] stood at $5.4 million, up from $4.1 million in the third quarter of 2018. Excluding the impact of IFRS 16, Supremex Adjusted EBITDA[1] stood at $4.1 million, down from $5.1 million in the third quarter of 2018. 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.
- New state-of-the-art printing press installed successfully in folding carton.
- Durabox passes milestone of being totally self-sufficient for corrugated board production.
- Approved a quarterly dividend of $0.065 per share, equivalent to the same period of last year.
- Purchased 26,038 shares under the NCIB program for total considerations of $68,008.

“Revenue in the third quarter was in line with last year as a result of our diversification strategy. U.S. operations delivered organic growth and envelope cost recovery increases helped us mitigate some of the effects of the secular decline in the Canadian envelope market,” said Stewart Emerson, President & CEO of Supremex. “Over the last three years, we dedicated significant resources to diversifying our activities in packaging through several investment projects that expand our capacity and capabilities.”

“At our Durabox operation we quadrupled production capacity and while it has come on line slower than expected, we are beginning to see year over year improvements in our top line.” Mr. Emerson continued, “Additionally, Q2 saw the decommissioning of our primary printing press in folding carton and the subsequent commissioning of a brand new state-of-the-art press. While this is a positive long-term development, the impact of not having a functioning press for approximately 50% of the quarter created a significant drag on earnings. The new press is fully functioning and operating at the manufacturer’s

[1] Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA and Adjusted EBITDA 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.

recommended efficiencies. In the coming quarters, our mandate is to leverage the investments to organically grow packaging revenues while strengthening our envelope platform to drive performance," added Mr. Emerson.

Summary of three-month period ended September 30, 2019

Revenue for the three-month period ended September 30, 2019, reached $45.2 million and in-line with the three-month period ended September 30, 2018. Packaging and specialty products now represents 29.3% of the Company's revenues in the quarter.

Revenue from the Canadian envelope market was $20.3 million, a decrease of 4.5% or $0.9 million from $21.2 million in the third quarter of 2018. Volume declined by 14.0%, primarily as a result of the combined effects of industry-wide secular decline, customer movement and the Company's strategy to maintain a disciplined market approach with price leadership and differentiation. Average selling prices increased by 11.1% to mitigate the effect of significant input cost inflation that occurred throughout 2018 and in the first half of 2019. For reference, Canada Post Transactional Mail volumes were down 5.7% during their second quarter ended June 29, 2019[2].

Revenue from the U.S. envelope market was $11.6 million, an increase of 6.1% or $0.6 million from revenue of $11.0 million in the third quarter of 2018. The volume of units sold increased by 1.5% while average selling prices increased by 4.5%. Average selling prices were positively impacted by a foreign exchange translation effect of approximately 1.0% from a weaker Canadian dollar when compared to the equivalent period of last year. For reference, the U.S. Postal Service First Class Mail volumes were down 2.7% during their third quarter ended June 30, 2019[3].

Revenue from packaging products was $13.3 million, an increase of 2.4% or $0.3 million compared to the equivalent quarter of the prior year. This variance comes from growth in specialty products which offset weaker revenue in folding carton.

EBITDA stood at $5.4 million, compared with $4.1 million in the third quarter of 2018, representing an increase of $1.3 million. In the third quarter of 2018, EBITDA included a $1.1 million provision for contingent remuneration. 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 in the third quarter of 2019. Adjusted EBITDA for the third quarter of 2019 stood at $4.1 million compared with $5.1 million in the equivalent quarter of 2018. The decrease of $1.0 million in Adjusted EBITDA stems from lower contribution from the envelope business and underperformance of packaging. Third quarter 2019 Adjusted EBITDA margins stood at 9.1% of revenues compared with 11.4% in the equivalent quarter of 2018.

Net Earnings were $1.2 million (or $0.04 per share) for the three-month period ended September 30, 2019, in line with $1.2 million (or $0.04 per share) for the equivalent period in 2018.

Summary of the nine-month period ended September 30, 2019

Revenue for the nine-month period ended September 30, 2019, increased by 1.1% or $1.6 million, reaching $142.5 million compared to $140.9 million during the nine-month period ended September 30, 2018. Revenue growth comes from U.S. envelope sales.

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[2] Canada Post Reports 2019 Second Quarter Results

[3] US Postal Service Reports Third Quarter Fiscal 2019 Results

Revenue from the Canadian envelope market was $67.8 million, a decrease of 1.9% or $1.2 million from $69.0 million during the nine-month period of 2018. This variance comes from a reduction of 12.0% in the volume of units sold primarily from the combined effects of industry-wide secular decline, customer movement and the Company's strategy to maintain a disciplined market approach with price leadership and differentiation. Average selling prices increased by 11.5% in order to mitigate input cost inflation.

Revenue from the U.S. envelope market stood at $33.6 million, an increase of 9.1% or $2.8 million from revenue of $30.8 million recorded during the equivalent nine-month period of 2018. The volume of units sold decreased by 1.0% while average selling prices increased by 10.2% to offset rising input costs. Average selling prices were impacted by a positive foreign exchange translation effect of approximately 3.2% from a weaker Canadian dollar when compared to the equivalent period of last year.

Revenue from packaging products stood at $41.1 million, an increase of 0.1% compared to the prior year. Higher folding carton sales from the acquisition of G2 Printing and organic growth of the Company's other packaging offering was mitigated by the negative effect of the loss of volume from a single e-commerce packaging customer.

EBITDA stood at $18.5 million for the nine-month period ended September 30, 2019, compared with $16.9 million for the equivalent period in 2018, representing an increase of 9.4%. 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 $3.8 million. Adjusted EBITDA stood at $14.8 million compared with $17.9 million during the equivalent period of 2018. The decrease of $3.1 million in Adjusted EBITDA is mainly attributable to higher costs and inefficiencies related to the new Durabox facility, loss of volume with an e-commerce customer, operating inefficiencies in folding carton and from the effect of the secular decline affecting the envelope business. Adjusted EBITDA margins stood at 10.4% of revenues, down from 12.7% in the equivalent period of 2018.

Net Earnings stood at $4.8 million (or $0.17 per share) for the nine-month period ended September 30, 2019, compared with $7.6 million (or $0.27 per share) for the equivalent period in 2018.

Net cash flows from operating activities stood at $12.6 million during the nine-month period ended September 30, 2019, compared with $9.0 million in the equivalent period of 2018. The variance is mainly attributable to the impact of IFRS 16 where repayment of lease liabilities is now presented under financing activities.

Declaration of Dividend

On November 13, 2019, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on January 16, 2020, to the shareholders of record at the close of business on December 31, 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 September 30		Nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Net Earnings	**1,176**	1,153	**4,799**	7,633
Income tax expense	**607**	842	**2,163**	3,468
Financing charges, net	**844**	477	**2,619**	1,284
Depreciation of property, plant and equipment	**1,046**	1,035	**3,737**	3,009
Depreciation of right-of-use assets	**1,182**	—	**3,525**	—
Amortization of intangible assets	**546**	557	**1,636**	1,500
EBITDA(1)	**5,401**	4,064	**18,479**	16,894
(Gain) loss on disposal of property, plant and equipment and right-of-use assets	—	(203)	**174**	(777)
New Durabox facility start-up costs	—	153	—	153
Expense for contingent remuneration related to business combination	—	1,111	—	1,623
Rent expenses included in the measurement of lease obligations (adjusted for IFRS 16)	**(1,290)**	—	**(3,847)**	—
Adjusted EBITDA(1)	**4,111**	5,125	**14,806**	17,893
Adjusted EBITDA Margin (%)	9.1%	11.4%	10.4%	12.7%

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

Non-IFRS measures: Definition of EBITDA and Adjusted EBITDA

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 on lease liabilities and amortization of the right-of-use assets while the lease repayments on lease liabilities are now excluded from EBITDA. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with certain business combinations, new facility start-up costs and losses (gains) on disposal of property, plant and equipment and right-of-use assets. 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.

EBITDA or Adjusted EBITDA are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA or Adjusted EBITDA may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA and Adjusted EBITDA 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 third quarter ended September 30, 2019 will be held on November 14, 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.

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