

## SUPREMEX ANNOUNCES STRONG Q3 2020 RESULTS

**Montreal, Quebec, November 13, 2020** – 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, 2020.

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### Third Quarter 2020 Highlights and Recent Event

- Total revenue increased by 10.4% to \$49.9 million, from \$45.2 million in the third quarter of 2019.
  - EBITDA<sup>1</sup> was up 49.3% to \$8.1 million, an increase of \$2.7 million, from \$5.4 million in the third quarter of 2019. EBITDA includes a \$0.9 million of assistance from the Canadian Emergency Wage Subsidy (“CEWS”) program.
  - Net Earnings increased to \$2.7 million (or \$0.10 per share), from \$1.2 million (or \$0.04 per share) in the third quarter of 2019.
  - Packaging and Specialty Products segment revenue increased by 18.9% to \$15.8 million, up from \$13.3 million in the third quarter of 2019.
  - Envelope segment revenue increased by 6.9% to \$34.1 million, up from \$31.9 million in the third quarter of 2019.
  - Net cash flows from operating activities increased to \$7.2 million, up from \$3.7 million in the third quarter of 2019.
  - The TSX approved the renewal of the Company’s NCIB allowing for the purchase, for cancellation, of up to 5.0% of its issued and outstanding common shares for a period of twelve months. During the third quarter, the Company purchased 152,900 shares under this program for a total consideration of \$200,841.
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“We are pleased with our operational and financial results in the third quarter and wish to thank all our employees who continue to work with dedication in these challenging times”, said Stewart Emerson, President & CEO.

“Revenues in the quarter increased 10.4% through a combination of the Royal Envelope acquisition, sustained growth in our U.S. Envelope business and growing e-commerce packaging sales. EBITDA grew by 49.3% notably from synergies generated in our envelope operations, higher e-commerce packaging sales and cost mitigation measures implemented in the context of the ongoing pandemic.”

“Although there remains uncertainty with regards to the full impact of the pandemic on customers and the economy, these results demonstrate the resiliency of our business model and the benefits of our growth and diversification strategy. Looking ahead, we are focused on extracting operational leverage, profitably grow our packaging platform and creating shareholder value,” concluded Mr. Emerson.

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<sup>1</sup> Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA and Adjusted EBITDA in section “Non-IFRS measures”.

### Summary of three-month period ended September 30, 2020

Total revenue for the three-month period ended September 30, 2020, was \$49.9 million, representing an increase of 10.4% from the equivalent quarter of 2019.

Revenue from the envelope segment increased by 6.9% to \$34.1 million compared to \$31.9 million in the equivalent quarter of 2019.

- Revenue from the Canadian envelope market was \$21.7 million, up 6.9% or \$1.4 million from \$20.3 million in the third quarter of 2019. Volume increased by 13.4% primarily from the acquisition of Royal Envelope which more than compensated for the effect of the secular decline on the Company's legacy envelope sales and from the effect of the COVID-19 pandemic on non-essential envelope demand. Average selling prices were lower by 5.7% from last year's comparable period primarily as a result of changes in the envelope mix sold during the COVID-19 pandemic. Canada Post's latest published financial results indicated that Transaction Mail volumes were down 14.7% during their second quarter ended June 27, 2020<sup>2</sup> due to the COVID-19 pandemic.
- Revenue from the U.S. envelope market was \$12.4 million, an increase of 6.8% or \$0.8 million from \$11.6 million in the third quarter of 2019. The volume of units sold increased by 15.0% from market share gains and to a lesser extent demand related to the vote-by-mail initiative ahead of the 2020 US elections, while average selling prices decreased by 7.1% primarily as a result of changes in the product mix sold during the COVID-19 pandemic. Average selling prices include a positive foreign exchange translation effect of 0.8%. For comparison, the U.S. Postal Service's last published results indicated that the First Class Mail volumes were down 8.4% during their third quarter ended June 30, 2020<sup>3</sup> due to the COVID-19 pandemic.

Revenue from the packaging and specialty products segment was \$15.8 million, an increase of 18.9% or \$2.5 million compared to the equivalent quarter of 2019. Revenue growth came from the Company's e-commerce packaging business which on boarded new customer accounts in 2020. Packaging and specialty products represented 31.6% of the Company's revenue in the quarter, up from 29.3% during the equivalent period of last year.

EBITDA and Adjusted EBITDA was \$8.1 million, compared with \$5.4 million in the equivalent period of last year, representing an increase of 49.3% primarily from the contribution from the Royal Envelope acquisition, higher e-commerce sales, growth in the U.S. envelope businesses and \$0.9 million from the CEWS program. Adjusted EBITDA margins increased to 16.2% of revenue compared to 12.0% in the equivalent quarter of 2019. Excluding the contribution of the CEWS, Adjusted EBITDA margins were at 14.3% of revenue.

- Envelope segment Adjusted EBITDA was \$5.8 million, up \$0.6 million from \$5.2 million in the third quarter of 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which, in addition to higher sales volume, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 16.9%, up from 16.3% in the equivalent period of 2019.
- Packaging and specialty products segment Adjusted EBITDA was \$2.9 million, up \$2.3 million from \$0.6 million in the third quarter of 2019 primarily from higher e-commerce sales and efficiency

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<sup>2</sup> [Canada Post Second Quarter Results Press Release dated August 21, 2020](#)

<sup>3</sup> [U.S. Postal Service Reports Third Quarter 2020 Results Press Release dated August 7, 2020](#)

gains in the folding carton division. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 18.5% compared with 4.5% in the equivalent period of 2019.

- The balance of the variance results primarily from an unfavorable adjustment on foreign exchange translation in the third quarter versus a gain in the comparable period of 2019, and higher non-allocated corporate expenses which were offset by the contribution of the CEWS.

Net Earnings were \$2.7 million (or \$0.10 per share) for the three-month period ended September 30, 2020, compared with \$1.2 million (or \$0.04 per share) for the equivalent period in 2019.

### **Summary of the nine-month period ended September 30, 2020**

Total revenue for the nine-month period ended September 30, 2020 reached \$150.0 million, a 5.3% increase from \$142.5 million for the nine-month period ended September 30, 2019.

Revenue from the envelope segment increased by 4.6% to \$106.0 million, from \$101.4 million in the comparable period of 2019.

- Revenue from the Canadian envelope market was \$70.1 million, an increase of 3.5% or \$2.3 million from \$67.8 million recorded during the nine-month period ended September 30, 2019. Volume increased by 9.4% primarily from the acquisition of Royal envelope which more than compensated for the effect of the secular decline on the Company's legacy envelope sales and from the effect of the COVID-19 pandemic on non-essential envelope demand in the second and third quarters of 2020. Average selling prices decreased by 5.4% as a result of changes in the envelope mix sold during the COVID-19 pandemic.
- Revenue from the U.S. envelope market was \$35.9 million, representing an increase of 6.8% or \$2.3 million from \$33.6 million in the equivalent period of 2019, resulting from market share gains and to a lesser extent demand related to the vote-by-mail initiative ahead of the 2020 U.S. elections. The volume of units sold increased by 9.0% and average selling prices decreased by 2.1% primarily as a result of changes in the product mix sold during the COVID-19 pandemic. Average selling prices include a positive foreign exchange translation effect of 1.9%.

Revenue from packaging and specialty products was \$44.0 million, an increase of 6.9% or \$2.9 million from \$41.1 million in the equivalent period of the prior year and result from higher e-commerce packaging sales during the second and third quarters of 2020.

EBITDA increased by 22.5% or \$4.1 million, to \$22.6 million in the first nine months of 2020, up from \$18.5 million in the equivalent period of 2019 primarily from the acquisition of Royal Envelope, higher e-commerce sales, growth of the U.S. envelope businesses and \$0.9 million from the CEWS program. Adjusted EBITDA was \$23.2 million compared with \$18.7 million during the first three quarters of 2019. Adjusted EBITDA margins stood at 15.5% of revenues, up from 13.1% in the equivalent period of 2019. Excluding the contribution of the CEWS, Adjusted EBITDA margins stood at 14.9% of revenue.

- Envelope segment Adjusted EBITDA was \$18.4 million, up \$1.8 million from \$16.6 million in the equivalent period of 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which, in addition to additional revenues, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 17.4%, up from 16.4% in the equivalent period of 2019.

- Packaging and specialty products segment Adjusted EBITDA increased to \$6.2 million, up \$2.4 million from \$3.8 million in the comparable period of 2019 primarily from higher e-commerce sales in the second and third quarters and efficiency gains in the folding carton division. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations increased to 14.1% compared with 9.3% in the equivalent period of 2019.
- The variance in corporate and unallocated expenses is the result of a gain on foreign exchange translation in the first nine months of 2020 compared with a loss in the equivalent period of 2019, the contribution of the CEWS in the third quarter of 2020 and, to a lesser extent, a positive adjustment for the mark-to-market value of the Deferred Share Units (DSUs) which are partially offset by a decrease in the corporate expenses allocated to the segments.

Net earnings stood at \$7.2 million (or \$0.26 per share) for the nine-month period ended September 30, 2020, compared with net earnings of \$4.8 million (or \$0.17 per share) in the equivalent period in 2019.

Net cash flows from operating activities stood at \$26.1 million during the nine-month period ended September 30, 2020, compared with \$11.7 million in the equivalent period of 2019. The improvement is mainly attributable to higher net earnings and to a \$7.6 million positive net change in working capital adjustments.

### **Normal Course Issuer Bid (“NCIB”)**

On August 13, 2020, the Company announced the renewal of its NCIB after its approval by the TSX, to purchase for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020. Purchases under the NCIB are made through the facilities of the TSX or alternative trading facilities in Canada, if eligible, in accordance with applicable securities laws and regulations, over a maximum period of 12 months beginning on August 17, 2020 and ending on August 16, 2021.

During the third quarter of 2020, the Company purchased 152,900 shares, for a total consideration of \$200,841. As of November 11, 2020, an additional 85,900 shares were purchased for cancellation.

### **Financial Position and Capital Resources Summary**

In light of the recent COVID-19 pandemic, it can be reasonably assumed that demand for certain of the Company's product categories will continue to be negatively affected. Furthermore, it is impossible at this time for the Company to estimate the duration and scope of the pandemic's ensuing economic impact. In order to mitigate the effect of the COVID-19 pandemic on the Company's operations and financial results, management tightly controlled its operating expenses and working capital and reduced all non-critical capital expenditures. Taking a prudent approach, the Company further negotiated and obtained a more favorable Debt to EBITDA covenant ratio for the second and third quarter of fiscal year 2020, and, on May 15, 2020, the Company's Board of Directors also announced the suspension of the quarterly dividend until further notice. In the third quarter of 2020, the Company recorded a \$0.9 million subsidy from the CEWS program. Based on current and anticipated market conditions and management's projections, the Company expects to have sufficient liquidity to meet its currently anticipated needs.

The Company has a secured credit facility consisting of a \$80 million revolving facility [\$80 million as at December 31, 2019] and a \$30.6 million term credit facility [\$33.3 million as at December 31, 2019]. No principal repayments are required on the revolving operating facility prior to maturity. As at September 30, 2020, the Company was in compliance with its banking covenants and had an additional borrowing capacity of \$29.9 million under these covenants.

## 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	
	2020	2019	2020	2019
<b>Net Earnings</b>	<b>2,733</b>	1,176	<b>7,186</b>	4,799
Income tax expense	<b>1,134</b>	607	<b>2,758</b>	2,163
Net financing charges	<b>694</b>	844	<b>2,454</b>	2,619
Depreciation of property, plant and equipment	<b>1,243</b>	1,046	<b>3,747</b>	3,737
Depreciation of right-of-use assets	<b>1,379</b>	1,182	<b>4,030</b>	3,525
Amortization of intangible assets	<b>882</b>	546	<b>2,471</b>	1,636
<b>EBITDA<sup>(1)</sup></b>	<b>8,065</b>	5,401	<b>22,646</b>	18,479
Loss on disposal of property, plant and equipment	—	—	—	174
Value adjustment on acquired inventory	—	—	<b>555</b>	—
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>8,065</b>	5,401	<b>23,201</b>	18,653
<b>Adjusted EBITDA Margin (%)</b>	<b>16.2%</b>	12.0%	<b>15.5%</b>	13.1%

<sup>(1)</sup> 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. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, new facility start-up costs, value adjustment on inventory acquired and losses (gains) on disposal of property, plant and equipment and right-of-use assets. Supremex believes that EBITDA and Adjusted EBITDA are measurements 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 the previous years.

EBITDA and Adjusted EBITDA are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and 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, 2020 will be held on Friday, November 13, 2020 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
- Toronto participants, dial: 647 427-7450
- 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 MD&A 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 MD&A. Such assumptions, expectations and estimates are discussed throughout this MD&A for the quarter ended September 30, 2020. Supremex cautions that such assumptions may not materialize and that current economic conditions, including all of the current uncertainty resulting from the ongoing COVID-19 health crisis and its broader repercussions on the global economy, render such assumptions, although believed reasonable at the time they were made, subject to greater uncertainty.

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: global health crisis, economic cycles, decline in envelope consumption, increase of competition, growth by acquisition, reliance on key personnel, raw material price increases, exchange rate fluctuation, concerns about protection of the environment, availability of capital, credit risks with respect to trade receivables, interest rate fluctuation, potential risk of litigation, contributions to employee benefits plans, cyber security and data protection, no guarantee to pay dividends and past cash payments. In addition, risks and uncertainties arising as a result of the COVID-19 pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. Such risks and uncertainties are discussed throughout the MD&A for the year ended December 31, 2019 and the Company's Annual Information Form dated March 30, 2020, and, in particular, in "Risk Factors" in both these documents. Consequently, the Company 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](http://www.sedar.com) and on Supremex' website.

**About Supremex**

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates 13 facilities across six provinces in Canada and three facilities in the United States employing approximately 850 people. Supremex' growing footprint allows it to efficiently manufacture and distribute envelope 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](http://www.supremex.com).

-30-

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