



# **INVENTRONICS LIMITED**

**2022 THIRD QUARTER**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**For the period ended September 30, 2022**

## 2022 Third Quarter Financial Report – September 30, 2022

### Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated October 27, 2022 and was prepared based on information available to Inventronics Limited (referred to herein as "Inventronics" or the "Corporation") as of this date to help readers interpret Inventronics' financial results for the three month period ended September 30, 2022. This financial report, including the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity, and Notes to the Financial Statements (collectively referred to as the "financial statements") and this MD&A, should be read in conjunction with the Corporation's audited annual financial statements and accompanying MD&A for the year ended December 31, 2021, which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) under the Inventronics profile. All dollar amounts within this report are expressed in Canadian dollars ("CAD") unless otherwise stated.

**Forward-looking information advisory.** Certain statements contained in this report, including this MD&A, contain forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, the Corporation's expectations, perceptions and/or beliefs with respect to: economic and/or political conditions and the related impact on the Corporation's customers and/or demand for the Corporation's products; how its customers plan and execute their purchasing decisions and what factors might impact those decisions; its working capital position and its sufficiency to support the Corporation's current operations; and its forecast financial results. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. These risks and uncertainties include but are not limited to: general economic conditions; foreign currency fluctuations; actions by government authorities; competitor activity; indebtedness of the Corporation; availability of future financing; customer concentration risks; changes in the price of raw materials; interest rates; and changes in the communications, cable, power and energy industries. Although management believes such statements are reasonable, undue reliance should not be placed on forward-looking information as the Corporation can give no assurance that such assumptions will prove to be correct. The forward-looking information has been included herein to provide shareholders with a more complete outlook on the Corporation's future business and operations and this information may not be appropriate for other purposes. The Corporation does not undertake to update the forward-looking information contained herein except as required by applicable laws.

#### **1. Corporation Overview**

Founded in 1970 in Brandon, Manitoba, Canada, Inventronics designs, manufactures and markets protective enclosures for use in utility-type infrastructures. The Corporation's products are typically found in telecommunication networks, cable networks, power distribution networks and energy installations where they are utilized in both outdoor and indoor applications to house and protect passive and/or active electrical and electronic components. Although the Corporation's products have been primarily placed in service throughout North America, it is not uncommon to find Inventronics enclosures in other international infrastructures as well. The majority of Inventronics' revenues are generated from the sale of standard products which are sold directly to utilities, original equipment manufacturers and/or through distributors. For customers with specialty requirements, the Corporation designs and manufactures products to suit the customer's particular needs. This can range from the modification of an existing Inventronics cabinet to the conceptualization and manufacture of a new enclosure.

Inventronics operates from its ISO 9001:2015 certified facility located in Brandon, Manitoba where product design, manufacturing, corporate administration and sales functions are performed. The Corporation's production employees are organized under the United Steelworkers Union ("USW"). The Corporation is incorporated in the Province of Alberta, Canada, has no subsidiaries, and its shares are publicly listed under the symbol IVX on the TSX Venture Exchange.

## 2. Selected Annual Financial Information

### Selected Annual Financial Information

(in thousands of dollars, except per share amounts)

#### For the years ended December 31

	2021	2020	2019
Revenue	9,843	5,640	5,656
EBITDA <sup>1</sup>	1,662	930	452
Net earnings	1,890	684	195
Total assets	5,228	3,742	3,292
Long-term debt, excluding current portion	2,049	2,079	2,108
Basic and diluted earnings per share	41.0¢	15.5¢	4.4¢

Note 1. See "Non-IFRS Measures" below.

## 3. Summary of Financial Results

The following table illustrates the historic seasonal fluctuations of the Corporation's revenues. The variability of weather conditions in the first and fourth quarters often limits the volume of projects that can be completed during these periods. Growing revenue levels in the United States of America (USA) are helping to reduce the impact of these quarterly fluctuations as noted in the 2022 results.

### Selected Quarterly Financial Information

(in thousands of dollars, except percentage and per share amounts)

	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	3,400	4,219	3,755	1,919	3,348	2,776	1,800	955
Cost of sales as a percentage of Revenue	72%	67%	69%	81%	78%	72%	76%	91%
EBITDA <sup>1</sup>	841	1,204	749	272	646	504	243	41
Net earnings (loss)	536	803	501	302	967	440	181	(15)
Basic and diluted earnings (loss) per share	11.1¢	16.7¢	10.4¢	6.6¢	20.8¢	9.8¢	4.0¢	(0.4)¢

Note 1. See "Non-IFRS Measures" below.

## 4. Results of Operations

### Revenue

Revenue for the third quarter of 2022 of \$3,400,000 was slightly higher than the \$3,348,000 reported for the comparative quarter of 2021. Revenue for the year to date of 2022 totalling \$11,374,000 was \$3,450,000, or 44%, higher than the \$7,924,000 reported for the same period of 2021. The continuing buildout of broadband services across Canada and the USA is driving the revenue and profitability gains. These projects are with a number of key customers improving their networks to address consumer demand for increased bandwidth and changing technology requirements.

### Cost of Sales

Cost of sales as a percentage of revenue for the three months ended September 30, 2022 of 72% was lower than the 78% reported for the same quarter of 2021. Year to date cost of sales of \$7,878,000, or 69% of revenue, reflects the positive impact that higher production volumes is having on labour and overhead efficiencies. Material cost escalation earlier in 2022 is beginning to moderate and these changes are expected to start impacting the fourth quarter results as the inventories of higher priced material are depleted. Management is closely monitoring supply chain challenges and is taking action wherever necessary to minimize their impact and implement price adjustments, when required.

### Selling and Administration Expense

Selling and administrative expenses for the third quarter of 2022 of \$177,000 was \$59,000 higher than the \$118,000 for the comparative period of 2021. This brings the 2022 nine-month total to \$891,000 compared to \$641,000 in the same period of 2021. The third quarter and year to date increases are attributable to the increased volume requiring additional staff, increased variable compensation and the amortization of option expenses.

### Interest

Interest expense for the three and nine months ended September 30, 2022 of \$27,000 and \$88,000, respectively were slightly lower than the \$31,000 and \$97,000 reported for the comparative periods of 2021. The interest rates locked in on the long-term debt and the minimal operating borrowings in 2022 accounted for these reductions.

## Net Earnings

Net earnings for the third quarter of 2022 of \$536,000, or 11.1 cents per share, was lower than the \$967,000, or 20.8 cents per share, earned in the same period last year. Net earnings for the nine months ended September 30, 2022 of \$1,841,000, or 38.3 cents per share, was stronger than the \$1,587,000, or 34.9 cents per share, earned in the same period last year.

Earnings before income tax more than doubled to \$2,516,000 in the nine months ended September 30, 2022 compared to \$1,193,000 in the same period of 2021. In 2021, the recognition of the deferred tax benefit of non-capital loss carryforwards increased net earnings for the three and nine month periods by \$389,000 or 8.4 cents per share. These losses were recognized under IFRS reporting guidelines due to revenue and profit growth over the past few years and management's anticipation of continuing profitability.

## 5. Income Taxes

At December 31, 2021, the Corporation had Canadian non-capital losses of \$1,457,000 (2020 - \$2,640,000). There were no Canadian non-capital losses that expired in 2021 (2020 - \$0) and the remaining non-capital losses are scheduled to expire as follows:

2037	229,000
2038	828,000
2039	400,000
<u>Total</u>	<u>\$ 1,457,000</u>

At September 30, 2022, all non-capital losses have been depleted and the Corporation will be in a cash taxable position for the fiscal year ended December 31, 2022.

## 6. Liquidity and Capital Resources

### Cash Flow from Operations

The Corporation considers a more useful measure of cash flow from operations to be cash flow from operating activities before changes in non-cash working capital balances. For the three months ended September 30, 2022, the Corporation's operations generated cash flow of \$673,000 compared to \$646,000 for the comparative quarter of the prior year. This brings the year to date cash generated from operations to a total of \$2,627,000, which is well in excess of typical operating requirements.

### Cash Flow from Operations

(in thousands of dollars)

For the periods ended September 30	Three months		Nine months	
	2022	2021	2022	2021
Net earnings	\$ 536	\$ 967	\$ 1,841	\$ 1,587
Interest on long-term debt <sup>1</sup>	27	31	86	92
Depreciation	34	35	99	99
Option amortization	45	2	90	3
Deferred tax expense	31	(389)	511	(389)
<u>Cash flow from Operations</u>	<u>\$ 673</u>	<u>\$ 646</u>	<u>\$ 2,627</u>	<u>\$ 1,392</u>

Note 1. Interest on long-term debt considered a component of financing and therefore added back to net earnings to determine cash flow from operations.

### Working Capital Position

As at September 30, 2022, the Corporation reported a working capital balance of \$2,200,000, which is net of the \$1,693,000 special dividend announced on September 27, 2022. Management is confident that the Corporation's working capital position at September 30, 2022 is sufficient to support the current operating requirements of the business.

### Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2022			2021				2020
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Current assets	5,085	4,513	4,182	2,419	3,478	2,886	2,801	1,432
Current liabilities	2,885	1,229	2,037	892	2,134	1,201	1,565	354
Working capital	2,200	3,284	2,145	1,527	1,344	1,685	1,236	1,078
Working capital ratio	1.76 :1	3.67 :1	2.05 :1	2.71 :1	1.63 :1	2.40 :1	1.79 :1	4.05 :1

### Working Capital Liquidity

Working capital liquidity for operating purposes has generally been provided through positive cash flow from operations and the Corporation's operating credit facility. At September 30, 2022, the Corporation's unmarginated operating credit facility limit was \$1,200,000 and is secured by a general assignment of trade accounts receivables and inventories (see "Borrowing Arrangements" below).

## 7. Share Capital

An unlimited number of common shares are authorized for issue. The following table summarizes the authorized, issued and outstanding common shares of the Corporation.

<b>Share Capital</b>				
<i>(dollar amounts in thousands)</i>				
<b>As at</b>	<b>September 30, 2022</b>		<b>December 31, 2021</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
Outstanding, beginning of the period	4,805,145	\$ 1,191	4,405,145	\$ 2,276
Reduction of stated capital	-	-	-	(1,153)
Options exercised	33,000	55	400,000	68
Authorized, issued and outstanding common shares	4,838,145	\$ 1,246	4,805,145	\$ 1,191

### Reduction of stated capital

At the Corporation's annual general meeting held on August 18, 2021, shareholder approval was received to reduce the stated capital of the Corporation by \$1,153,000. The purpose of reducing the stated capital of the Common Shares is to increase the difference between the realizable value of the Corporation's assets and the aggregate of the Corporation's liabilities and the stated capital of the Common Shares, thereby providing the Corporation with additional financial flexibility.

### Stock option plan

Inventronics maintains a stock option plan providing the Corporation the ability to grant options to employees and directors to purchase one common share of the Corporation per option. At September 30, 2022, there were 417,000 options granted and outstanding with an average exercise price of \$1.65 (December 31, 2021 - Nil). These options were granted on February 28, 2022 with vesting provisions over two years and an expiry of five years from the date of grant. There were 33,000 options exercised in the third quarter and there has been no further activity related to the Corporation's stock option plan since September 30, 2022.

## 8. Borrowing Arrangements

### Operating credit

The Corporation maintains a demand operating credit facility in the form of an overdraft lending account with an interest rate of prime plus 0.9% (December 31, 2021 – prime plus 1.75%). At September 30, 2022, the facility had an unmarginated authorized limit of \$1,200,000 that was fully available, and \$Nil was drawn (December 31, 2021 - \$850,000 available and \$Nil drawn). The credit facility is secured by a general security agreement over the Corporation's accounts receivable and inventory balances. Although containing general performance conditions, the loan agreement does not contain any financial covenants that must be periodically tested. The Corporation is in compliance with all obligations pertaining to this agreement.

### Long-term debt

The Corporation has a long-term lending agreement in the form of a fixed rate mortgage maturing in 2043; bearing interest of 5.25%; repayable monthly in blended principal and interest installments of \$14,000; secured by a mortgage on the Corporation's production facility and land in Brandon, Manitoba, which was valued at \$4,400,000 by a professional appraiser in July of 2022. The facility is also secured by a general security agreement providing a security interest in all of the Corporation's present and after acquired personal property but accepting a subordinate position to all existing registered charges. Although containing general performance conditions, the mortgage agreement does not contain any financial covenants that must be periodically tested. The Corporation is in compliance with all covenants and obligations pertaining to this agreement.

## 9. Foreign Currency Exposure

For the three and nine month periods ended September 30, 2022, the Corporation had an increasing exposure to foreign currency risk as the proportion of sales denominated in US dollars ("USD") has increased to approximately 50%. This exposure is currently unhedged, and management is carefully monitoring this exposure on an ongoing basis.

## 10. Related Party Transactions

The members of the senior management team are members of Inventronics' Board of Directors ("Board") and receive no compensation for their service as Board members. The Corporation pays fixed and variable compensation to its senior management team for their employment services. For the three and nine months ended September 30, 2022, the Corporation expensed \$137 (2021 - \$253) and \$962 (2021 - \$766), respectively, related to those compensation arrangements.

## 11. Governance

The Corporation's Board is comprised of the four members of the Corporation's senior management team and two independent members. The Corporation's Chief Executive Officer and the two independent members comprise the Corporation's Audit Committee.

## 12. Non-IFRS Measures

### EBITDA

Earnings before interest, tax, depreciation and amortization ("EBITDA") is not a recognized measure under International Financial Reporting Standards ("IFRS"). However, management believes that EBITDA is a useful supplementary measure to net earnings, as it provides investors with an indication of cash earnings prior to debt service, capital expenditure, income tax and non-cash items. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Corporation's performance or to cash flows from operating, investing and financing activities as a measure of liquidity or cash flows. The Corporation's method of calculating EBITDA may differ from the methods by which other companies calculate EBITDA and, accordingly, the EBITDA used herein may not be comparable to measures used by other companies.

### Reconciliation of EBITDA to Net earnings

(in thousands of dollars)

For the periods ended September 30	Three months		Nine months	
	2022	2021	2022	2021
EBITDA	\$ 841	\$ 646	\$ 2,794	\$ 1,392
Interest expense	(27)	(31)	(88)	(92)
Depreciation	(34)	(35)	(99)	(99)
Option amortization	(45)	(2)	(90)	(3)
Income tax expense	(199)	389	(676)	389
Net earnings	\$ 536	\$ 967	\$ 1,841	\$ 1,587

## 13. Outlook

In addition to other sections of this MD&A, this section contains forward-looking information and actual outcomes may differ materially from those expressed or implied therein. Please see the forward-looking information advisory included in the opening section of this MD&A.

The Corporation is a part of the supply chain to the construction and maintenance of broadband infrastructures in North America which are essential in supporting the video streaming, online gaming, and remote work environment that has been established. The continuing digitization of the economy and the rapid expansion of the metaverse are expected to play a significant part in the demand for the Corporation's products for the foreseeable future.

The 2022 quarterly and year to date performance of the Corporation has continued the trend of increased revenue and profitability achieved throughout 2021. The demand for internet bandwidth and changing communication technologies is driving significant infrastructure investments by various service providers in Canada and the USA. These investments, which include the Corporation's enclosures to house the related electronics and control systems necessary to support the video streaming, gaming and work from home capabilities, are projected to continue for the foreseeable future. The current inflationary pressures coupled with supply shortages are being monitored carefully to ensure uninterrupted production and supply of products to customers. The Corporation is also paying close attention to the possible impacts of recession on the multi-year infrastructure buildouts that are driving revenue and profitability. To date there have not been any negative effects experienced and there are no indications from customers that their long-term plans are being impacted.