



# **INVENTRONICS LIMITED**

## **2024 THIRD QUARTER FINANCIAL REPORT**

### **MANAGEMENT'S DISCUSSION & ANALYSIS**

**For the period ended September 30, 2024**

## 2024 Third Quarter Financial Report – September 30, 2024

### Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated November 21, 2024 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 nine month period ended September 30, 2024. 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, 2023, 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 of the Corporation 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, electric power distribution networks and energy industry installations where they are utilized in both outdoor and indoor applications to house and protect passive and/or active electrical and electronic components. The Corporation's products have been primarily placed in service throughout North America. Most 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 intended 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. The Corporation is incorporated in the Province of Alberta, Canada, has no subsidiaries and its shares are publicly traded on the TSX Venture Exchange under the symbol IVX.

## 2. Selected Annual Financial Information

### Selected Annual Financial Information

(in thousands of dollars, except per share amounts)

For the years ended December 31	2023	2022	2021
Revenue	8,859	14,245	9,985
EBITDA <sup>1</sup>	934	3,327	1,665
Net earnings	369	2,093	1,890
Total assets	6,095	6,027	5,228
Long-term debt, excluding current portion	2,437	1,989	2,049
Basic earnings per share	7.6¢	43.4¢	41.0¢

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 limit the volume of projects that can be completed during these periods.

### Selected Quarterly Financial Information

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

	2024			2023				2022
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	1,604	1,945	1,432	959	1,463	3,103	3,334	2,739
Cost of sales as a percentage of revenue	87%	78%	87%	109%	97%	73%	73%	77%
EBITDA <sup>1</sup>	123	276	85	(146)	(33)	563	550	533
Net earnings (loss)	31	141	8	(207)	(94)	346	325	252
Basic earnings per share	0.6¢	2.9¢	0.2¢	(4.2)¢	(1.9)¢	7.1¢	6.6¢	5.2¢

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

## 4. Results of Operations

### Revenue

Revenue for the third quarter of 2024 of \$1,604,000 was 10% higher than the \$1,463,000 reported for the comparative quarter of 2023. Revenue for the nine months of 2024 totalling \$4,981,000 was 37% lower than the \$7,900,000 reported for the same period of 2023. The modest increase in revenue for the third quarter indicates that the customer absorption of excess inventories purchased in prior periods is nearing an end. The pace of the broadband buildout throughout Canada and the USA also appears to have been aligned to the available installation resources. These factors are expected to keep the demand for enclosure products at current levels for the foreseeable future.

### Cost of Sales

Cost of sales as a percentage of revenue of 87% for the three months ended September 30, 2024, is an improvement over the result achieved in the same period last year. The second half of 2023 was negatively impacted by certain cost reduction initiatives driven by the rapid decline in revenue for the period. The Corporation's cost structure has been aligned to its future revenue expectations. The fixed cost structure requires revenue of approximately \$1,500,000 per quarter to remain near breakeven. Management is closely monitoring the order pace and other supply chain variations to further adjust the cost structure, where and when necessary.

### Selling and Administration Expense

Selling and administrative expenses for the third quarter were \$133,000 for 2024 compared to \$150,000 for the same period of 2023. The year-to-date expenses of \$488,000 in 2024 are substantially lower than the \$907,000 incurred for the same period in 2023. As mentioned previously, cost reductions have been implemented to align costs with the lower revenue levels.

### Interest

Interest expense for the three and nine months ended September 30, 2024 of \$26,000 and \$84,000, respectively, were consistent with the \$27,000 and \$81,000 reported for the comparative periods of the prior year.

### Net Earnings

Net earnings for the third quarter of 2024 of \$31,000, or 0.6 cents per share, was an improvement over the third quarter loss of \$94,000, or 1.9 cents per share, incurred in the same period last year. Net earnings for the nine months ended September 30, 2024 of \$180,000, or 3.7 cents per share, was lower than what was earned in the same period of 2023 due to the reduced revenue.

## 5. Liquidity and Capital Resources

### Cash Flow from Operations

For the three months ended September 30, 2024, the Corporation's operations generated cash flow of \$118,000 compared to \$2,000 for the same period last year. The year-to-date cash generation of \$440,000 was lower than the \$857,000 for the same period of 2023.

#### Cash Flow from Operations

(in thousands of dollars)

For the periods ended September 30	Three months		Nine months	
	2024	2023	2024	2023
Net earnings (loss)	31	(94)	180	576
Add: Interest on long-term debt <sup>1</sup>	33	26	107	80
Add: Depreciation	54	50	152	139
Add: Option expense	-	20	1	62
Cash flow from Operations	118	2	440	857

Note 1. Interest on long-term debt is 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, 2024, the Corporation reported a working capital balance of \$1,775,000, which equates to a working capital ratio of 2.94:1. It is management's belief that the Corporation's current working capital position is sufficient to support the operating requirements of the business.

#### Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2024			2023				2022
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Current assets	2,689	3,169	3,067	2,860	2,921	2,983	3,758	3,536
Current liabilities	914	1,340	862	607	768	1,176	1,477	1,142
Working capital	1,775	1,829	2,205	2,253	2,153	1,807	2,281	2,394
Working capital ratio	2.94 :1	2.36 :1	3.56 :1	4.71 :1	3.80 :1	2.54 :1	2.54 :1	3.10 :1

### Working Capital Liquidity

Working capital liquidity for operating purposes has been provided through positive cash flow from operations and the Corporation's operating credit facility. At September 30, 2024, the Corporation's unmarginated operating credit facility limit was \$1,200,000 and is secured by a general assignment of trade accounts receivable and inventory (see "Borrowing Arrangements" below).

## 6. 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.

#### Share Capital

(dollar amounts in thousands)

As at	September 30, 2024		December 31, 2023	
	Shares	Amount	Shares	Amount
Outstanding, beginning of the period	4,871,145	\$ 1,337	4,838,145	\$ 1,266
Options exercised	-	-	33,000	71
Authorized, issued and outstanding common shares	4,871,145	\$ 1,337	4,871,145	\$ 1,337

### Stock option plan

Inventronics maintains a stock option plan providing the Corporation with the ability to grant options to employees and directors to purchase one common share of the Corporation per option. At September 30, 2024, there were 50,000 options outstanding with an exercise price of \$1.65 per share (December 31, 2023 – 384,000). In the first quarter of 2024, there were 334,000 options rescinded. There has been no activity related to the Corporation's stock option plan since September 30, 2024.

### Dividend

In the second quarter of 2024, the Corporation's Board of Directors ("Board") declared a special dividend of \$0.10 per share payable on July 11, 2024 in the amount of \$487,000 (2023 - \$0.12 per share payable on June 7, 2023 in the amount of \$585,000). The Corporation has no set policy for dividends, but the Board and management consider dividends from time to time based on cash balances, working capital, and capital asset requirements.

## 7. Borrowing Arrangements

### Credit facilities

The Corporation maintains a demand operating credit facility in the form of an overdraft lending account with an interest rate of prime plus 0.90% (December 31, 2023 – prime plus 0.90%) for an effective rate of 7.35% (December 31, 2023 – 8.10%). At September 30, 2024, the facility had an unmarginated authorized limit of \$1,200,000 that was fully available, and \$Nil was drawn (December 31, 2023 - \$1,200,000 available and \$Nil drawn). The credit facility does not contain any financial covenants and is secured by a general security agreement over trade accounts receivable and inventory. The Corporation also has an equipment financing facility in the amount of \$1,500,000 (December 31, 2023 - \$3,000,000), to be used when necessary to finance equipment additions.

### 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 2022. The facility is 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. In 2023, an amount of \$650,000 was drawn from the equipment financing facility with a fixed interest rate of 7.5% for 60 months.

Although containing general performance conditions, these agreements do not contain any financial covenants that must be periodically tested. The Corporation is in compliance with all obligations pertaining to its credit and lending facilities.

## 8. Foreign Currency Exposure

For the September 30, 2024 reporting periods, the Corporation had an exposure to foreign currency risk as the proportion of sales denominated in US dollars ("USD") was approximately 28%. This exposure is currently unhedged, and management carefully monitors this exposure on an ongoing basis.

## 9. Related Party Transactions

The four-person 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, 2024, the Corporation expensed \$118 (2023 - \$165) and \$352 (2023 - \$947), respectively, related to those compensation arrangements.

## 10. Governance

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

## 11. 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	
	2024	2023	2024	2023
EBITDA	123	(33)	484	1,080
Less: Interest expense	(26)	(26)	(84)	(81)
Less: Depreciation and amortization	(54)	(70)	(153)	(201)
Less: Income tax	(12)	35	(67)	(222)
Net earnings (loss)	31	(94)	180	576

## **12. Outlook**

In addition to other sections of this MD&A, this outlook contains forward-looking information and actual outcomes may differ materially from those expressed or implied herein. 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 communications and control infrastructures in North America which are essential in supporting the video streaming, online gaming, and remote work environments. The Corporation's enclosures house the electronics and control systems necessary to sustain these services. The continuing digitization of the economy and the expansion of digital services are expected to play a significant part in the demand for the Corporation's products well into the future.

The 2024 year to date revenues of \$4,981,000 were well below the \$7,900,000 achieved in the same period of 2023. Based on Management's market assessment coupled with customer feedback, revenue levels appear to have leveled off. Activity is anticipated to remain subdued throughout 2025 based on the installation resource constraints most customers are operating under. Efforts are continuing to secure new customer relationships to expand revenue in both Canada and the USA, but the period for these relationships to develop is often quite extended.

The major providers of internet bandwidth and other communication technologies are continuing to confirm their commitment to the buildout of the infrastructure necessary to connect all parts of Canada and the USA. Governments in both countries are maintaining programs designed to support broadband access in their more remote regions. Notwithstanding these commitments, management is carefully monitoring the order pace to ensure appropriate actions are taken to preserve working capital and respond to the affect that any market changes may have on profitability.