



# **INVENTRONICS LIMITED**

## **2023 ANNUAL FINANCIAL REPORT**

### **MANAGEMENT DISCUSSION & ANALYSIS**

**For the year ended December 31, 2023**

# 2023 Annual and Fourth Quarter Financial Report – December 31, 2023

## Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) is dated March 28, 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 three and twelve month periods ended December 31, 2023. This MD&A should be read in conjunction with the Corporation’s 2023 audited annual financial statements which consist of the Corporation’s Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity, Notes to the Financial Statements and the Auditors’ Report thereon (collectively referred to as the “Financial Statements”). The Financial Statements and other information relating to the Corporation are available under Inventronics’ profile on the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca). The Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, and all dollar amounts within this report are expressed in Canadian dollars 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 conditions and the related impact on the Corporation’s customers and/or demand for the Corporation’s products; the broadband build-out completion time and related forecasts in Canada and the USA; the Corporation’s future revenue; interest rates and installation rates moderating in 2024 as a result of customer inventory levels normalizing; the intent that the sales team will monitor build-out incentives and all customer accounts to remain positioned to respond as enclosure demand begins to recover; that recovering revenue levels throughout 2024 would result in cost of sales getting back to break even or above; that cost saving measures will be maintained; the Corporation’s working capital position and its sufficiency to support the Corporation’s operations; the rapid expansion of the metaverse playing a significant part in the demand for the Corporation’s products; the Corporation’s balance sheet cushioning any future variability in demand; normal seasonal purchasing patterns occurring through the spring and summer periods of 2024; backlog of orders in 2024 not reaching the highs achieved in 2022; the pace of installations and resulting enclosure sales levelling off between the recent low and high points; management’s ability to preserve working capital; and Canada and the USA prioritizing broadband access in their remote regions. 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, power and cable industries. The forward-looking information contained in this report reflects several material factors and expectations and assumptions of Inventronics including, without limitation: that Inventronics will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax and regulatory regimes; and the continued availability of adequate debt financing and cash flow from operations to fund its operations. 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 and manufactures protective enclosures for use in utility-type infrastructures. The Corporation’s products are typically found in telecommunication, cable, electric distribution, energy, and other industries 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. A significant portion of Inventronics’ revenues are generated from the sale of Inventronics-branded standard products which are sold directly to utilities, original equipment manufacturers and/or through distributors. Additionally, for customers with specialty requirements, the Corporation designs and manufactures products that have been custom designed 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 completely 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	6,094	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

Revenue in 2023 declined 38% from the level achieved in 2022 primarily as a result of customers focussing on normalizing their inventory levels and adjusting their purchases to their planned project installation pace. The broadband build-out, which has driven the Corporation's revenue increases for the past couple of years, is continuing albeit at a significantly slower pace. The interest rate increases coupled with certain regulatory issues have had an impact on capital spending. Indications being received from significant industry participants are that the broadband build-out is expected to continue at a slower pace and take longer to complete throughout Canada and the USA. Overall, the Corporation remains in a solid financial position with year end working capital of \$2,253,000 compared to \$2,394,000 at the end of the prior year.

### Selected Quarterly Financial Information

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

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	959	1,463	3,103	3,334	2,739	3,450	4,269	3,787
Cost of sales as a percentage of revenue	109%	97%	73%	73%	77%	72%	67%	69%
EBITDA <sup>1</sup>	(146)	(33)	563	550	533	841	1,204	749
Net earnings (loss)	(207)	(94)	346	325	252	536	803	502
Basic earnings per share	(4.2)¢	(1.9)¢	7.1¢	6.7¢	5.2¢	11.1¢	16.7¢	10.4¢

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

## 4. Results of Operations

### Revenue

Revenue for the year ended December 31, 2023 of \$8,859,000 was 38% less than the \$14,245,000 achieved in 2022. Fourth quarter revenue of \$959,000 was 65% lower than the \$2,739,000 reported for the same quarter of 2022. The first and second quarter revenue of 2023 was somewhat lower than the quarterly levels achieved in the comparable periods of 2022. As interest rates continued to climb through 2023 and installation rates lagged behind expectations, customers began slowing their purchases in favour of consuming the inventories that had been accumulating through late 2022 and early 2023. These conditions are anticipated to moderate in 2024 as the customer inventory levels normalize to align with the pace of installations.

The build-out of communications infrastructure is expected to continue in Canada and the USA in support of the demand for bandwidth to address the growth in video streaming, online gaming and remote work connectivity. These investments are forecast to be made at a slower pace and for a longer period of time in both countries to improve communication services throughout the more remote regions. The Corporation's sales team is monitoring the build-out incentives and all customer accounts to remain positioned to respond as enclosure demand begins to recover.

### Cost of Sales

Cost of sales for the year ended December 31, 2023 was \$7,163,000 (81% of revenue) compared to \$10,125,000 (71% of revenue) in 2022. The 2023 fourth quarter total was \$1,050,000 (109% of revenue) compared to \$2,115,000 (77% of revenue) for the same period of 2022. The rapid decline in revenues through the latter half of 2023 reduced profitability below breakeven. Actions were taken to align labour and overhead costs to the revenue levels, although the fixed cost base prevented those actions from maintaining a breakeven for the fourth quarter of 2023. Recovering revenue levels through 2024 are expected to allow the Corporation to get back to breakeven or above.

## Selling and Administration Expense

Selling and administration expense for the 2023 fiscal year was \$1,032,000 compared to \$1,078,000 in 2022. These expenses for the fourth quarter of 2023 were \$125,000 compared to \$186,000 for the same period of 2022. These expenses are carefully monitored in relation to the revenues being generated. Cost saving measures will be maintained until clear indications are received that revenue levels are recovering on a sustained basis.

## Interest

Interest expense for the three and twelve month periods ended December 31, 2023 of \$36,000 and \$117,000, respectively, were higher than the \$26,000 and \$114,000 reported for the comparative periods of 2022. The equipment financing arranged near the end of the third quarter increased interest costs for the fourth quarter of 2023.

## Net Earnings

For the year ended December 31, 2023, the Corporation reported net earnings of \$369,000, or 7.6 cents per share, compared to net earnings of \$2,093,000, or 43.4 cents per share, for 2022. The fourth quarter net loss of \$207,000, or 4.2 cents per share, was below the net earnings of \$252,000, or 5.2 cents per share, reported for the fourth quarter of 2022. This decreased profitability for the year and the quarter were a result of the significant decline in revenue experienced in the latter half of 2023.

## 5. Income Taxes

For the year ended December 31, 2023, the Corporation's income tax expense was \$178,000 compared to an income tax expense of \$835,000 in 2022.

## 6. Liquidity and Capital Resources

### Cash Flow from Operations

The following table details the cash flow from operations for both the 2023 fourth quarter and the fiscal year as compared to the same periods in 2022.

#### Cash Flow from Operations

(in thousands of dollars)

	Three months		Twelve months	
	2023	2022	2023	2022
<b>For the periods ended September 30</b>				
Net earnings (loss)	(207)	252	369	2,093
Add: Interest on long-term debt <sup>1</sup>	38	26	118	112
Add: Depreciation	48	35	188	134
Add: Option expense	21	61	82	151
Add: Deferred income tax	233	4	233	515
Cash flow from Operations	133	378	990	3,005

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

### Working Capital Position

As at December 31, 2023, the Corporation reported a working capital balance of \$2,253,000, which was slightly lower than the prior year value of \$2,394,000. The year end working capital ratio of 4.71:1 is sufficient to support the projected operating requirements of the business.

#### Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Current assets	2,860	2,921	2,983	3,758	3,536	5,085	4,513	4,182
Current liabilities	607	768	1,176	1,477	1,142	2,885	1,229	2,037
Working capital	2,253	2,153	1,807	2,281	2,394	2,200	3,284	2,145
Working capital ratio	4.71 :1	3.80 :1	2.54 :1	2.54 :1	3.10 :1	1.76 :1	3.67 :1	2.05 :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. The Corporation's unmarginated operating credit facility limit is \$1,200,000. The credit facility is secured against trade accounts receivable and inventories (see "Borrowing Arrangements and Covenants" 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>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
Outstanding, beginning of the period	4,838,145	\$ 1,266	4,805,145	\$ 1,191
Options exercised	33,000	71	33,000	75
Authorized, issued and outstanding common shares	4,871,145	\$ 1,337	4,838,145	\$ 1,266

### 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. In the twelve months ended December 31, 2023, there were no options granted to senior management and directors. In the first quarter of 2023, 33,000 options were exercised at an exercise price of \$1.65 per share, leaving 384,000 options outstanding at year end (2022 – 417,000). The exercised options contributed to share capital \$55 plus \$16 of reclassified contributed surplus in relation to the option expense previously recognized. Subsequent to year end, a total of 334,000 options were rescinded and no additional options were granted to employees or directors of the Corporation.

<b>Stock Options Outstanding</b>				
<b>For the periods ended December 31</b>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Opening balance	384,000	417,000	417,000	-
Options granted	-	-	-	450,000
Options exercised	-	-	(33,000)	(33,000)
Ending balance	384,000	417,000	384,000	417,000

The following table summarizes the issued and outstanding common shares of the Corporation along with stock options convertible into common shares.

<b>Diluted Common Shares Outstanding</b>				
<b>As at</b>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Number of shares</b>	<b>Weighted average</b>	<b>Number of shares</b>	<b>Weighted average</b>
		<b>number of shares</b>		<b>number of shares</b>
Issued and outstanding common shares	4,871,145	4,865,796	4,838,145	4,817,565
Stock options outstanding <sup>(1)</sup>	384,000	103,362	417,000	150,261
Diluted common shares outstanding	5,255,145	4,969,158	5,255,145	4,967,826

*Note 1: For the purposes of calculating the diluted weighted average number of shares outstanding, only those options which are considered "in the money" (strike price below the Corporation's annual average common share price) are considered.*

### Dividend

In the second quarter of 2023, the Corporation's Board of Directors ("Board") declared a special dividend of \$0.12 per share payable on June 7, 2023 in the amount of \$584,000 (2022 - \$0.35 per share payable on November 4, 2022 in the amount of \$1,694,000). 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.

## 8. Borrowing Arrangements and Covenants

### Operating credit

The Corporation maintains a demand operating credit facility in the form of an overdraft lending account, which provides an authorized limit of \$1,200,000 and an interest rate of prime plus 0.90% (2022 – prime plus 0.90%). At December 31, 2023, an amount of \$1,200,000 under this facility was available, of which \$Nil was drawn (2022 - \$1,200,000 available and \$Nil drawn). The demand operating credit facility is unmarginated although the lender does retain a general security agreement over the Corporation's accounts receivable and inventory balances.

### Long-term debt

The Corporation has a long-term lending agreement in the form of a fixed rate mortgage maturing in 2043; bearing interest at 5.25% (2022 – 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 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. The Corporation also has an equipment financing facility in the amount of \$3,000,000, to be used when necessary to finance equipment additions. In 2023, an amount of \$650,000 was drawn from the equipment financing facility with a fixed interest rate of 7.5%. 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.

### **9. Foreign Currency Exposure**

Foreign currency risk pertains to the number and value of transactions denominated in US dollars. The Corporation did not engage in any derivative hedging activities during the years ended December 31, 2023 and 2022 other than a natural hedge that occurs by carrying US dollar denominated cash, receivable and payable balances simultaneously.

### **10. Collective Bargaining Agreement**

The Corporation's production labour force is organized under a collective bargaining agreement with the United Steel Workers that has an expiry date of December 31, 2026.

### **11. Related Party Transactions**

The four-person senior management team are members of the 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 twelve months ended December 31, 2023, the Corporation expensed \$116,000 (2022 - \$137,000) and \$1,074,000 (2022 - \$1,109,000), respectively, related to those compensation arrangements. In addition, the senior management team was granted 400,000 stock options in 2022 that were valued at \$247,000 using the Black Scholes model (see Note 11 Share Capital in the Financial Statements). For the year ended December 31, 2023, the Corporation expensed \$82,500 (2022 - \$151,000) related to those options.

### **12. 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.

### **13. Non-IFRS Measures**

#### **EBITDA**

Earnings before interest, tax, depreciation and amortization ("EBITDA") is not a recognized measure under 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 are 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 (loss)**

*(in thousands of dollars)*

<b>For the periods ended December 31</b>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
EBITDA	(146)	533	934	3,327
Less: Depreciation and amortization	69	96	270	285
Less: Interest expense	36	26	117	114
Less: Income tax	(44)	159	178	835
<b>Net earnings (loss)</b>	<b>(207)</b>	<b>252</b>	<b>369</b>	<b>2,093</b>

#### **14. 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 communications and control infrastructures in North America which are essential in supporting the video streaming, online gaming, and remote work environment that has been established. The Corporation's enclosures house the electronics and control systems necessary to support these services. 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 key risks in this uncertain environment are changes in government support programs and regulation, employee availability, customer spending patterns, and supply chain challenges. These risks are being addressed and mitigated to the extent possible but are largely beyond the Corporation's control. The Corporation's balance sheet remains solid, which is expected to cushion any potential future variability in demand.

2023 was a challenging year as revenues in the first half declined somewhat and then in the second half of the year they declined significantly due to a changing market attributed to the pace of installations and a resultant customer inventory correction. As the third quarter unfolded, indications began to emerge that the threat of a recession and rising interest rates were having a significant impact on the capital spending patterns of the major communications companies. Another factor in Canada for the slowing of installations relates to the major internet providers reducing their capital spending in the wake of the Canadian Radio-television and Telecommunications Commission's decision to force them to open their networks to smaller competitors at prescribed wholesale rates. These shifting conditions are expected to moderate in 2024 and more normal seasonal purchasing patterns are anticipated through the spring and summer periods.

The Corporation's operations have been right sized for the current downturn in activity. The backlog of orders to start 2024 is recovering from the lows experienced in the last half of 2023, and they are not expected to reach the highs achieved in 2022. The pace of installations and thus enclosure sales, is expected to level off between these recent low and high points. Capital investments in excess of \$1,250,000 have been made over the past two years to better position the Corporation to respond to the expected medium-term demand for enclosures.

The major providers of internet bandwidth and other communication technologies are continuing to make significant infrastructure investments that are being called for in both Canada and the USA, albeit at a slower pace and in some circumstances at a lower level of spending. The governments in both countries are continuing to prioritize the need and demand for broadband access in their more remote regions. Notwithstanding these commitments, management is carefully monitoring the order pace and inflationary pressures to ensure appropriate actions continue to be taken to preserve working capital and respond to the impact of these factors.