



## Badger Daylighting Ltd. Announces Record Second Quarter Financial Results

CALGARY, Alberta, Aug. 13, 2018 -- Badger Daylighting Ltd. (the "Company" or "Badger") (TSX:BAD) announced today financial and operating results for the three and six months ended June 30, 2018.

### Second Quarter 2018 Highlights

- Adjusted EBITDA was \$38.5 million or \$1.04 per share for the second quarter of 2018, a 20% increase over the prior year comparative quarter with revenue for the second quarter of \$147.6 million, a 19% increase over the prior year comparative quarter. Adjusted EBITDA and revenue for the second quarter were both record levels for Badger.
- Net profit for the second quarter of 2018 was \$10.6 million or \$0.29 per share compared to net profit of \$14.7 million or \$0.40 per share in the prior year comparative quarter. Net profit was positively impacted by higher Adjusted EBITDA, offset by an \$8.5 million or \$0.23 per share increase in share-based compensation expense due to an increase in the market value of Badger's shares during the second quarter and higher income tax expense.
- Badger added 36 net incremental hydrovacs in the second quarter of 2018 and reaffirmed its anticipated hydrovac build rate for 2018. Badger had 1,190 hydrovacs in operation at June 30, 2018.
- Badger commenced a comprehensive update to its legacy information technology systems into a single standardized enterprise resource planning ("ERP") system in conjunction with its ongoing business process standardization initiatives.

"Throughout the second quarter, we remained focused on operational efficiencies and managing direct operating costs, which contributed to an increase in gross profit margin to 31.2% for the quarter compared to 29.6% in the prior year. We are pleased with the increase in gross profit margin, revenue and revenue per truck ("RPT") in the second quarter in light of the strong comparable quarter from the prior year. Badger continues to profitably place new hydrovacs into service, adding an incremental 36 net new hydrovacs into its operations during the second quarter while increasing RPT by 4%, to \$30,300. The strong operational and financial performance this quarter is due to a combination of continued strength in customer demand and leveraging Badger's fleet and broad network to drive operational efficiencies," said Paul Vanderberg, President and Chief Executive Officer.

"With another strong quarter, combined with the significant progress realized in fiscal 2017, Badger is making substantial strides towards its strategic milestones. In particular, the 23% increase in year-to-date revenue in our U.S. business continues to drive strong financial performance. We continue to invest in all aspects of our business to facilitate profitable growth, as these investments will ultimately drive revenue, operational and margin improvements," stated Mr. Vanderberg.

"During the second quarter, we commenced a twenty-four month project to standardize business processes and upgrade our information technology systems. This project will provide Badger with the necessary foundation to realize our strategic milestones and growth objectives with the potential to support additional operational improvements," said Mr. Vanderberg.

The operational improvements Badger realized throughout the first half of 2018 and fiscal 2017 are a testament to the strength of Badger's unique business model. Badger continues to anticipate that the macro-economic environment in both the U.S. and Canada will continue to support ongoing infrastructure, construction and oil and gas activity levels for the remainder of 2018," continued Mr. Vanderberg.

### Financial Highlights

(\$ thousands, except revenue per truck per month, per share and share information)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue:				
Hydrovac service revenue	123,188	106,432	225,397	191,660
Other service revenue	23,844	16,982	42,082	31,781
Truck placement revenue	518	282	642	402
Total revenue	147,550	123,696	268,121	223,843
Revenue per truck per month ("RPT") <sup>(1)</sup> - quarterly	30,300	29,141	n/a	n/a
Adjusted EBITDA <sup>(1)</sup>	38,461	32,104	62,904	51,961
Adjusted EBITDA per share, basic and diluted <sup>(1)(2)</sup>	1.04	0.87	1.70	1.40

Adjusted EBITDA margin <sup>(1)</sup>	<b>26.1%</b>	26.0%	<b>23.5%</b>	23.2%
Profit before tax	<b>19,559</b>	21,651	<b>30,641</b>	27,182
Net profit	<b>10,586</b>	14,718	<b>18,660</b>	18,416
Net profit per share, basic and diluted <sup>(2)</sup>	<b>0.29</b>	0.40	<b>0.50</b>	0.50
Cash flow from operating activities before working capital adjustments	<b>38,710</b>	31,671	<b>63,389</b>	51,368
Cash flow from operating activities before working capital adjustments per share, basic and diluted <sup>(2)</sup>	<b>1.04</b>	0.85	<b>1.71</b>	1.38
Dividends paid	<b>4,749</b>	3,673	<b>8,978</b>	7,346
Weighted average common shares outstanding	<b>37,100,681</b>	37,100,681	<b>37,100,681</b>	37,100,681

<sup>(1)</sup> See “Non-IFRS Financial Measures” and “Key Financial Metrics” for additional details on the definition of Adjusted EBITDA, Adjusted EBITDA margin and revenue per truck per month. See Badger’s second quarter 2018 management’s discussion and analysis (“MD&A”) for detailed reconciliations of Non-IFRS financial measures.

<sup>(2)</sup> Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

### Comparable IFRS Financial Information <sup>(1)</sup>

(\$ thousands, except per share information)	Three months ended June		Six months ended June	
	2018	30, 2017	2018	30, 2017
Cash flow from operating activities	<b>12,867</b>	10,775	<b>45,185</b>	28,525
Cash flow from operating activities per share, basic and diluted <sup>(2)</sup>	<b>0.35</b>	0.29	<b>1.22</b>	0.77

<sup>(1)</sup> Cash flow from operating activities is provided as a comparable measure to cash flow from operating activities before working capital adjustments.

<sup>(2)</sup> Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

### Operational Overview

Badger continues to actively manage its direct operating costs, in particular, direct labour, resulting in an improvement in Badger’s gross profit margin to 31.2% in the second quarter of 2018 compared to 29.6% in the prior year comparative quarter. The improvement in gross profit margin is a testament to the focus of Badger’s operations team throughout the second quarter, which can be a challenging quarter to manage direct costs as a result of the variability in the seasonal uptick in activity levels in certain North American construction markets.

In the second quarter of 2018, Badger placed 36 net incremental hydrovacs into service, consisting of 55 new and 19 retired hydrovacs. Badger had 1,190 hydrovacs in operation at the end of the second quarter compared to 1,056 in the prior year comparative quarter and 1,109 as at December 31, 2017.

To date, Badger has not seen a material impact on the cost to build or key component order lead times related to its hydrovac manufacturing operations as a result of recent trade tariffs imposed by the U.S. During the first half of the year, Badger contracted the majority of its material purchasing commitments for the remainder of 2018.

During the second quarter, Badger commenced a process to upgrade and standardize its legacy information technology systems into a single ERP system in conjunction with Badger’s business process standardization initiatives, collectively the (“Common Business Platform”). The Common Business Platform will enhance Badger’s operational and financial reporting processes, providing the business tools and information technology foundation to facilitate future growth. The Common Business Platform will ensure the consistency of operations across all aspects of the Company and allow for the implementation and integration of new technologies.

The Common Business Platform project commenced during the second quarter of 2018. Badger anticipates the project will be implemented over a two-year period. The project has an initial estimated total cost of \$20 to \$25 million, of which approximately 85% is anticipated to be capital (intangible asset) and 15% anticipated to be included in operating costs. Total expenditures associated with the project are expected to be incurred as follows: 25% in 2018; 60% in 2019 and 15% in 2020. Due to the timing and nature of the allocation of the total expenditures between capital and operating expenses it is not practical to provide an estimated allocation of the breakdown of expenditures between operating expenses and capital by year.

### Financial Overview

Adjusted EBITDA for the second quarter was \$38.5 million compared to \$32.1 million for the same period in 2017. Adjusted EBITDA margin for the second quarter was 26.1% compared to 26.0% for the same period in 2017. Adjusted EBITDA and Adjusted EBITDA margin were driven by revenue growth, higher hydrovac utilization and direct operating expense management, offset by higher general and administrative costs (“G&A”). Direct costs as a percentage of revenue for the quarter were 69%, compared to 70% for the same period in 2017. The improvement in direct costs was driven largely by active

management of variable labour and related costs. G&A expenses for the second quarter of 2018 were \$7.6 million compared to \$4.5 million in the prior year comparative quarter. As a percentage of revenue, G&A expenses were 5.2% in the second quarter of 2018 compared to 3.7% in the prior year comparative quarter. G&A expenses increased as a result of ongoing investments in Badger's business to facilitate current and future growth of the business. As discussed in the first quarter of 2018, Badger anticipates that G&A expenses will trend above 4% on an annualized basis for fiscal 2018. Badger's long-term target for G&A expenses on an annualized basis remains at 4% of revenue (excluding costs associated with the Common Business Platform project).

Revenue for the quarter was \$147.6 million, 19% higher compared to \$123.7 million for the same period in 2017. Revenue growth in the U.S. was 23% to \$111.5 million, with revenue in Canada increasing 8% to \$36.0 million. Revenue growth in both markets, in particular, the U.S. market, was due to an increase in overall activity levels, the ongoing recovery in oil and gas markets, a solid start to the North American construction season, and continued growth in the adoption of hydrovac technology. Badger's investment in business development continues to generate ongoing revenue growth, due in part to increased market penetration in both new and existing markets. Average hydrovac rates for the quarter were consistent to modestly higher across both the Canadian and U.S. markets compared to the same period in 2017.

Revenue per truck per month ("RPT") was \$30,300 in the quarter compared to \$29,141 for the same period in 2017. The year-over-year quarterly improvement in RPT was driven by a combination of revenue growth and improved fleet utilization. Optimization of the hydrovac fleet is driven through Badger's broad network of local branches, allowing for the transfer of hydrovacs to locations with stronger activity levels.

Net profit for the quarter was \$10.6 million or \$0.29 per share compared to \$14.7 million or \$0.40 per share in the prior year comparative quarter. Net profit was positively impacted by higher Adjusted EBITDA, offset by an \$8.5 million or \$0.23 per share increase in share-based compensation plan expense due to an increase in the market value of Badger's shares during the second quarter and higher income tax expense. Total income tax expense was impacted by a \$3.6 million one-time expense as a result of the finalization of a negotiated settlement between the relevant taxation bodies in Canada and the United States in relation to the previously disclosed transfer pricing activities, which more than offset the positive impact of reduced U.S. federal income taxes due to updated U.S. tax legislation.

Badger continues to maintain a strong balance sheet and currently has no amounts drawn on its syndicated revolving credit facility, providing the flexibility to facilitate ongoing growth in the business. Badger's total debt less cash and cash equivalents was \$61.5 million at June 30, 2018, with a corresponding total debt less cash and cash equivalents to Compliance EBITDA ratio of 0.5X.

## **Outlook**

Badger continues to realize and anticipates ongoing growth in the use of hydrovac for non-destructive excavation as a result of continued customer adoption, particularly in its U.S. markets. Badger expects to see improvements in revenue as a result of investments in developing its branch network and its business development function. The overall macro-economic environment in both the U.S. and Canada is anticipated to be supportive of ongoing infrastructure, construction and oil and gas activity levels for the remainder of 2018. In particular, after several years of reduced market opportunities, Badger is realizing renewed and welcome growth in its oil and gas markets.

Continued growth in Badger's end use markets and geographic areas throughout 2017 and the first half of 2018 has resulted in an increase in revenue and improved fleet utilization as evidenced by a higher realized RPT. Based on existing and forecasted activity levels, Badger anticipates that its total hydrovac build for fiscal 2018 will be approximately 160 to 200 units with anticipated retirements of 60 to 80 units, both of which are unchanged from Badger's disclosure in the first quarter of 2018. Consistent with prior years, Badger actively manages both its build rate and retirements based on current and future customer demand, in addition to the ongoing assessment of the cost of repairing and maintaining a hydrovac versus retiring and replacing a unit.

Badger is focused on leveraging its core hydrovac business to generate profitable long-term growth and remains committed to achieving the following strategic milestones: (1) double our U.S. business from fiscal 2016 levels over a period of 3 to 5 years; (2) grow Adjusted EBITDA by a minimum of 15% per year; (3) target annualized Adjusted EBITDA margins of 28% to 29%; and (4) drive fleet utilization and revenue per truck per month above \$30,000.

## **Normal Course Issuer Bid**

During the second quarter, Badger did not purchase any of its common shares under its previously disclosed normal course issuer bid ("NCIB"). Under the NCIB, Badger may acquire up to 2,000,000 common shares on or before May 14, 2019. Any common shares purchased pursuant to the NCIB will be cancelled.

## **Conference Call to Discuss 2018 Second Quarter Earnings**

A conference call and webcast for investors, analysts, brokers and media representatives to discuss the 2018 second quarter earnings is scheduled for 9:00 a.m. MT on Monday, August 13, 2018. Internet users can listen to the call live, or as an archived call, on Badger's website at [www.badgerinc.com](http://www.badgerinc.com) under the "Events and Presentations" section. To participate in the call, dial: 1-844-740-2014 and enter Passcode 8193659. A playback of the call will be available until 11:59 p.m. ET on Monday, August 27, 2018. To access the playback, dial: 1-855-859-2056 and enter passcode 8193659.

## **2018 Second Quarter Disclosure Documents**

Badger's 2018 second quarter MD&A and unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2018, along with all previous public filings of Badger Daylighting Ltd. may be found on SEDAR at [www.SEDAR.com](http://www.SEDAR.com).

## Non-IFRS Financial Measures

This press release contains references to certain financial measures, including some that do not have any standardized meaning prescribed by IFRS and that may not be comparable to similar measures presented by other companies or entities. These financial measures are identified and defined below:

"Adjusted EBITDA" is earnings before interest, taxes, depreciation and amortization, share-based compensation, gains and losses on sale of property, plant and equipment, and gains and losses on foreign exchange. Adjusted EBITDA is a measure of the Company's operating profitability and is therefore useful to management and investors as it provides improved continuity with respect to the comparison of operating results over time. Adjusted EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, the results are taxed in various jurisdictions, and assets are amortized. In addition, Adjusted EBITDA excludes gains and losses on sale of property, plant and equipment as these gains and losses are considered incidental and secondary to the principal business activities, it excludes gains and losses on foreign exchange as such gains and losses can vary significantly based on factors beyond the Company's control and it excludes share-based compensation as these expenses can vary significantly with changes in the price of the Company's common shares.

"Adjusted EBITDA margin" is Adjusted EBITDA as defined above, expressed as a percentage of revenues.

"Compliance EBITDA" is earnings before interest, taxes, depreciation, amortization, calculated on a 12-month trailing basis, and is used by Badger to calculate compliance with its debt covenants and other credit information.

## Key Financial Metrics

"Revenue per truck per month" (RPT) is a measure of hydrovac fleet utilization. It is calculated using hydrovac revenue only. RPT is calculated by combining monthly Canadian and U.S. dollar hydrovac revenue for a respective period, without converting foreign currency revenues into a Canadian dollar equivalent, dividing the total mixed currency hydrovac revenue for the period by the cumulative number of hydrovacs at the end of each month, calculated cumulatively, for the same period.

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements and information contained in this press release and other continuous disclosure documents of the Company referenced herein, including statements related to the Company's outlook, capital expenditures, projected growth, view and outlook toward margins, cash dividends, customer demand and pricing, future market opportunities, benefits, applicability and implications associated with changes to U.S. income tax legislation, the timing benefits and costs associated with the Common Business Platform project, and statements and information that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions relating to matters that are not historical facts, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Company believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this press release should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this press release.

In particular, forward looking information and statements in this press release include, but are not limited to the following:

- Badger anticipates continued growth in its Canadian and U.S. markets and that the overall macro-economic environment in both Canada and the U.S. is anticipated to be supportive of this growth;
- Badger continues to see customer demand as a result of increased usage of hydrovac for non-destructive excavation;
- Badger expects to see improvements in revenue as a result of investments in developing its branch network and business development function;
- Badger anticipates that the number of new hydrovac builds for 2018 will be approximately 160 units to 200 units and that hydrovac retirements for 2018 will be in the range of 60 to 80 units;
- Badger anticipates that recent changes to U.S. income tax legislation will positively impact current income taxes;
- The timing, benefits and costs associated with Badger's Common Business Platform project;
- The ability and benefits of Badger to purchase and subsequently cancel up to 2,000,000 of its common shares under its NCIB; and
- Badger's estimate of general and administrative expenses for 2018 and that the long-term target for general and administrative expenses remains at 4% of revenue on an annualized basis.

The forward-looking information and statements made in this press release rely on certain expected economic conditions and overall demand for Badger's services and are based on certain assumptions. The assumptions used to generate this forward-looking information and statements are, among other things, that:

- There will be customer demand for hydrovac services from infrastructure, construction, and oil and gas activity in North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;

- Badger will collect customer payments in a timely manner;
- Badger will be able to compete effectively for the demand for its services;
- There will not be significant changes in profit margins due to pricing changes driven by market conditions, competition, regulatory factors or other unforeseen factors;
- The overall market for Badger's services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badger's control;
- Badger will execute its growth strategy including attracting and retaining key personnel;
- The recent changes to U.S. federal income tax legislation will be maintained; and
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build at the costs expected; and
- Badger will be able to complete and implement the Common Business Platform project within the expected time frame and in accordance with the expected budget.

Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements include, but are not limited to: price fluctuations for oil and natural gas and related products and services; political and economic conditions; industry competition; Badger's ability to attract and retain key personnel; Badger's ability to complete and implement the Common Business Platform project, the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; extreme or unsettled weather patterns; and fluctuations in foreign exchange or interest rates.

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results is included in reports on file with securities regulatory authorities in Canada and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or at the Company's website. The forward-looking statements and information contained in this press release are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

#### **About Badger Daylighting Ltd.**

[Badger Daylighting Ltd.](#) (TSX:BAD) is North America's largest provider of non-destructive excavating services. Badger traditionally works for contractors and facility owners in a broad range of infrastructure industries. The Company's key technology is the Badger Hydrovac, which is used primarily for safe digging in congested grounds and challenging conditions. The Badger Hydrovac uses a pressurized water stream to liquefy the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. Badger manufactures its truck-mounted hydrovac units.

#### **For further information:**

Paul Vanderberg, *President and CEO*  
 Gerald Schiefelbein, *Vice President, Finance and CFO*  
 Jay Bachman, *Vice President, Financial Operations and Investor Relations*

#### **Badger Corporate Office**

ATCO Building II  
 4<sup>th</sup> Floor, 919 11<sup>th</sup> Avenue, SW  
 Calgary, Alberta T2R 1P3  
 Telephone (403) 264-8500  
 Fax (403) 228-9773

#### **Media**

Bayfield Strategy Inc.  
 (416) 855-0238  
[info@bayfieldstrategy.com](mailto:info@bayfieldstrategy.com)

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