



Badger Daylighting Ltd. Announces 2020 Second Quarter Results

CALGARY, Alberta, Aug. 05, 2020 -- Badger Daylighting Ltd. ("Badger", the "Company", "we", "our" or "us") (TSX:BAD) reported second quarter results today. All results are in Canadian dollar unless otherwise stated.

2020 Second Quarter Financial and Operational Highlights

- Gross margins improved to 32.5% and Adjusted EBITDA margins improved to 26.0% as compared to 31.4% and 24.3% respectively for the same period in 2019. All figures exclude government assistance (\$5.2 million) received and restructuring costs (\$4.6 million) incurred in the quarter.
- The margin improvements resulted in an Adjusted EBITDA of \$35.6 million or approximately 91% of the \$39.2 million in Adjusted EBITDA recorded for the same period in 2019.
- Despite the severe economic impact resulting from COVID-19, second quarter revenue was 83% of the revenue level achieved in the same period in 2019. Early third quarter revenue is tracking at approximately 85 to 90% of the revenue level experienced in the same period in 2019. However, the North American economic recovery is in its early stage presenting considerable uncertainty. The durability of our revenue is a testament to Badger's business model, which focuses on providing essential services to North America's critical infrastructure.
- Direct costs and G&A expenses benefited from cost reduction initiatives completed in the quarter. We anticipate that moving forward, our annualized direct cost savings will be approximately \$15 million and our annualized G&A costs savings will be approximately \$10 million relative to the run rate exiting fiscal 2019.
- Late in the first quarter, we implemented COVID-19 operational plans to ensure the safety of our employees, customers and communities. Our plans will continue to evolve as the risks of COVID-19 are better understood.

"The second quarter of 2020 was a time of unprecedented economic and operational uncertainty. In response, Badger made proactive moves to mitigate the impact of COVID-19 on its business, focusing on employee and customer safety, addressing operating costs, curtailing the production of hydrovacs and capital spending, and, strengthening Badger's financial position. I am pleased with how the Badger team acted to strengthen the Company," said Paul Vanderberg, President and Chief Executive Officer.

"The 2020 second quarter improvement in gross profit margin and Adjusted EBITDA margin reinforces the flexibility of Badger's proven business model. We continue to see improvements in customer activity levels with July and early August revenues trending at approximately 85% to 90% of the prior year's levels. Higher activity levels, combined with a lower cost structure, position Badger well for the second half of 2020," Mr. Vanderberg added.

"While economic uncertainty remains, work that existed prior to the COVID-19 related shutdowns will be completed as the economy transitions towards more normalized activity levels in the future. We believe that heightened safety awareness will be a societal by-product of this crisis, further supporting demand for Badger's services. We have not seen anything to change our view of the long-term market opportunity for non-destructive excavation," said Mr. Vanderberg.

Financial Highlights

(\$ thousands, except revenue per truck per month ("RPT"), per share and share information)

	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Revenue:				
Hydrovac service revenue	128,346	154,355	258,553	295,569
Other revenue	6,138	6,855	12,609	12,255
Total revenue	134,484	161,210	271,162	307,824
RPT - Consolidated (mixed currency) ⁽¹⁾	23,458	32,265	n/a	n/a
RPT - U.S. (U.S. dollars) ⁽¹⁾	25,621	34,910	n/a	n/a
RPT - Canada (Canadian dollars) ⁽¹⁾	17,782	25,667	n/a	n/a

Adjusted EBITDA ⁽¹⁾	35,559	39,224	53,698	72,498
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	\$1.02	\$1.09	\$1.54	\$2.02
Adjusted EBITDA margin ⁽¹⁾	26.4%	24.3%	19.8%	23.6%
Profit before income tax	2,263	15,279	9,101	23,649
Net profit	1,701	11,949	6,769	17,980
Net profit per share, basic and diluted ⁽²⁾	\$0.05	\$0.33	\$0.19	\$0.50
Cash flow from operating activities before working capital adjustments	34,841	39,284	53,015	71,916
Cash flow from operating activities before working capital adjustments per share, basic and diluted ⁽²⁾	\$1.00	\$1.10	\$1.52	\$2.00
Dividends paid	5,229	5,112	10,201	9,997
Weighted average common shares outstanding ⁽²⁾⁽³⁾	34,853,838	35,854,547	34,878,025	35,937,865

(1) See “Non-IFRS Financial Measures” and “Key Financial Metrics and Other Operational Metrics” for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA margin, and RPT.

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

(3) See “Share Capital” in the Company’s second quarter 2020 management’s discussion and analysis (“MD&A”) for additional details.

Comparable IFRS Financial Information⁽¹⁾

(\$ thousands, except per share information)	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Cash flow from operating activities	49,724	13,351	75,512	49,540
Cash flow from operating activities per share, basic and diluted ⁽²⁾	\$1.43	\$0.37	\$2.17	\$1.38

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

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

Business Restructuring Activities

For the three months ended June 30, 2020, the Company recognized the following non-recurring items related to a combination of business restructuring activities and government specific programs.

	Direct costs	G&A	Total Restructuring Costs Included in Adjusted EBITDA	Non-Cash Impairments ⁽¹⁾	Total Business Restructuring Costs
General business restructuring	1,594	2,706	4,300	563	4,863
Exit Alberta-based oil field tank cleaning business	316	-	316	1,140	1,456
Total business restructuring costs	1,910	2,706	4,616	1,703	6,319
Canada Emergency Wage Subsidy benefit	(4,649)	(556)	(5,205)	-	(5,205)
Total net non-recurring expense (benefit)	(2,739)	2,150	(589)	1,703	1,114

(1) Non-cash impairments of \$1.7 million have been included as a component of: Loss (gain) on sale and impairment of property, plant and equipment in the Company’s unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020.

The Company does not anticipate incurring additional material non-recurring restructuring costs in the third and fourth quarters of 2020. The Company will continue to participate and monitor its eligibility for any government support programs.

2020 Second Quarter Financial and Operational Overview

Revenues in the second quarter of \$134.5 million were 17% lower than the prior year comparative quarter. U.S. operations generated US\$79.1 million of revenue, which was 17% lower than the prior year's comparative quarter, with the Canadian operations generating \$25.1 million of revenue, which was 25% lower than the prior year's comparative quarter.

Revenues in both the U.S. and Canadian operations were impacted by the onset of COVID-19, which resulted in a broad based slowdown of the North American economy during the second quarter of 2020. Revenue and underlying customer activity levels varied on a regional basis, largely due to the variability in the impact of COVID-19 on economic and construction activity levels. Revenues in Western Canada and in oil and gas producing regions within the U.S. were also impacted by an ongoing reduction in oil and gas customer demand. Average hydrovac customer rates were consistent across the majority of the U.S. and Canadian markets compared to the prior year comparative quarter.

Despite the impact of the broad based slowdown in economic activity levels due to COVID-19, Badger continues to see ongoing opportunities for future revenue growth, particularly in its U.S. markets, from both new and existing customers across its geographic and end use market segments as the benefits and potential uses for hydrovac technology continue to be understood by existing and new customers.

Consolidated RPT for the second quarter of 2020 was \$23,458 compared to \$32,265 in the prior year's comparative quarter. RPT in the U.S. operations in the second quarter of 2020 was US\$25,621 compared to US\$34,910 in the prior year comparative quarter, and for the Canadian operations was \$17,782 in the second quarter compared to \$25,667 in the prior year's comparative quarter. The reduction in RPT in both the U.S. and Canadian operations was due to reduced customer activity levels due to a combination of the impact of COVID-19 and the slowdown in oil and gas specific activity levels as noted above. RPT, as compared to the prior year comparative quarter, also reflects growth in the hydrovac fleet over the trailing twelve months. As of June 30, 2020, Badger had 1,401 hydrovacs in its fleet compared to 1,290 as of June 30, 2019.

During the second quarter of 2020, 12 new hydrovacs were placed into service with 13 hydrovacs being retired. As previously noted, due to the onset of COVID-19, the Company has curtailed the production of new hydrovacs. Badger continues to focus its efforts on relocating its trucks across the entire branch network to optimize asset utilization. The Company is uniquely positioned to be able to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network.

Gross profit for the second quarter of 2020 was \$46.4 million compared to \$50.6 million in the prior year comparative quarter, with a corresponding gross profit margin of 34.5% for the second quarter compared to 31.4% in the prior year's comparative quarter. Gross profit margin in the U.S. operations was 33.3% for the second quarter of 2020, compared to 32.7% for the prior year's comparative quarter, with gross profit margin in the Canadian operations of 39.8% for the second quarter of 2020 compared to 26.6% in the prior year's comparative quarter.

Gross profit margins in the U.S. and Canadian operations were positively impacted by business restructuring and cost reduction initiatives implemented throughout the first and second quarters of 2020, improved labour efficiency and a reduction in non-labour related costs such as training and travel. In addition, improvements in the Canadian gross profit margin was further driven by a \$4.6 million benefit related to the CEWS program. As previously noted, average hydrovac customer rates were generally consistent across the majority of the U.S. and Canadian markets compared to the prior year's comparative quarter, and as such, did not have a significant impact on gross profit. Badger continues to focus on the execution of strategic pricing initiatives, ensuring service rates are reflective of the total value proposition Badger's services provide and local market conditions.

General and administrative ("G&A") expense for the second quarter of 2020 was \$10.9 million compared to \$11.4 million in the prior year's comparative quarter. As a percentage of revenue, G&A expense was 8.1% in the second quarter of 2020, compared to 7.0% in the prior year comparative quarter. As previously disclosed, included in G&A expense for the second quarter of 2020, is \$2.2 million in net non-recurring costs associated with business restructuring activities. Excluding the impact of the \$2.2 million in net non-recurring restructuring costs, G&A expense as a percentage of revenue, would have been 6.5% in the current year quarter.

G&A expense in the second quarter of 2020 was positively impacted by the implementation of cost reduction initiatives, the absence of certain ERP specific expenditures incurred in the prior year's quarter and the benefit of the CEWS program, all of which was largely offset by \$2.7 million in non-recurring restructuring costs.

As previously disclosed, Badger has executed a number of business restructuring activities which are anticipated to result in annualized run rate G&A expense reductions of \$10 million, the benefit of which is anticipated to be fully realized throughout the second half of 2020. As a result of completing these activities, combined with the wind down in post ERP go live support activities, the Company estimates that its G&A expense for 2021 will be approximately \$40 million. The 2021 anticipated G&A expense also includes the benefit of cost reduction initiatives, offset, in part, by approximately \$8 million of information technology related licensing fees associated with Badger's ERP that were eligible to be capitalized in fiscal 2018 and 2019 as part of the overall ERP implementation project but will be fully expensed going forward. Due to the ongoing uncertainty and the potential impact that COVID-19 may have on the business, it is not currently possible to provide an estimate or details on the

2020 annualized run rate of G&A expense as a percentage of revenue. However, Badger continues to focus on achieving its long-term target of G&A expense being 4% of revenue.

Adjusted EBITDA for the second quarter of 2020 was \$35.6 million, compared to \$39.2 million in the prior year's comparative quarter, with a corresponding Adjusted EBITDA margin of 26.4% compared to 24.3% in the prior year's quarter. Adjusted EBITDA and Adjusted EBITDA margin were impacted by reduced revenues, offset in part, by improved gross profit margins due to reduced direct costs and lower G&A expense.

Included in Adjusted EBITDA for the second quarter of 2020 is \$4.6 million in non-recurring business restructuring costs (\$1.9 million recognized as a component of direct costs and \$2.7 million recognized as a component of G&A expense). Also included in Adjusted EBITDA for the second quarter of 2020 is a \$5.2 million benefit in respect of the CEWS program (\$4.6 million recognized as a component of direct costs and \$0.6 million recognized as a component of G&A expense).

Net profit for the second quarter of 2020 was \$1.7 million or \$0.05 per share compared to \$11.9 million or \$0.33 per share in the prior year comparative quarter. Net profit for the second quarter of 2020 was impacted by the same items as Adjusted EBITDA and by higher depreciation and amortization expense, higher share-based plan expense, losses and impairments on property, plant and equipment, offset in part by reduced income taxes. Net profit per share on a quarter-over-quarter basis benefitted from a 3% reduction in the weighted average common shares outstanding as a result of common shares repurchased under the Company's normal course issuer bid ("NCIB") program.

Normal Course Issuer Bid

During the second quarter of 2020, the Company did not purchase and cancel any of its common shares under its NCIB program. The Company's NCIB program, allowing the repurchase of up to 2,000,000 common shares, expired in the normal course on May 20, 2020.

On a cumulative basis, since May 21, 2019, to the period ended May 20, 2020, the Company purchased and cancelled 1,025,600 common shares at a weighted average price per share of \$41.40 under the expired NCIB. On a cumulative basis, since the fourth quarter of 2018, to the period ended June 30, 2020, the Company has purchased and cancelled 2,287,668 common shares at a weighted average price per share of \$36.61.

Long-term Business Outlook

Badger remains focused on generating profitable long-term sustainable growth to drive total shareholder returns. The Company does not expect that the impact of the COVID-19 related economic slowdown will impact the long-term growth potential for non-destructive excavation. Badger's long-term strategic financial and operational milestones, which are unchanged from those disclosed with the Company's 2020 first quarter earnings release, consist of:

1. doubling the U.S. business revenue from fiscal 2019 levels over a period of 3 to 5 years;
2. targeting annualized Adjusted EBITDA growth of 15% on average over a period of 3 to 5 years;
3. targeting annualized Adjusted EBITDA margins of 28% to 29%; and
4. targeting revenue per truck per month over \$30,000.

As disclosed on April 1, 2020, as a result of the ongoing disruptions to the North American economies and heightened uncertainties due to the COVID-19 pandemic, and the volatility in commodity markets, the Company withdrew its 2020 financial outlook for Adjusted EBITDA and hydrovac builds.

2020 Second Quarter Results and Conference Call

A conference call and webcast for investors, analysts, brokers and media representatives to discuss the 2020 second quarter results is scheduled for 7:00 a.m. MT on Thursday, August 6, 2020. Internet users can listen to the call live, or as an archived call from Badger's website at www.badgerinc.com under *Investor Relations: Events, Webcasts & Presentations*. To participate in the call, dial: 1-844-740-2014 and enter passcode 5649156. A playback of the call will be available until Thursday, August 20, 2020. To access the playback, dial: 1-855-859-2056 and enter passcode 5649156.

2020 Second Quarter Disclosure Documents

Badger's second quarter 2020 Management's Discussion and Analysis and unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020, along with all previous public filings of Badger Daylighting Ltd. may be found on SEDAR at 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. See "Non-IFRS Financial Measures" in the Company's second quarter 2020 MD&A for detailed reconciliations of Non-IFRS financial measures.

"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.

Key Financial Metrics and Other Operational Metrics

"Revenue per truck per month" ("RPT") is a measure of hydrovac fleet utilization. It is calculated using hydrovac and hydrovac related revenue only. RPT is calculated on both a consolidated basis and for each geographic segment by dividing hydrovac and hydrovac related revenue for each segment, in the respective local currency, by the average number of hydrovacs in the segment during the period.

See "Key Financial Metrics and Other Operational Metrics" in the Company's second quarter 2020 MD&A for additional details on RPT.

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 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:

- The anticipated benefit of the continual review of all aspects of Badger's operations, including the execution of cost reduction initiatives, as it relates to Badger's financial results and financial position, including the impact on revenues, pricing, operating costs, margins and the optimization of its fleet;
- Anticipated revenue, RPT and customer activity levels for the third and fourth quarters of 2020;
- The expectation that no material non-recurring restructuring costs will be incurred in the third and fourth quarters of 2020;
- The expectation that restructuring activities and cost reduction initiatives undertaken will result in annualized run rate savings of approximately \$10 million related to G&A expense and \$15 million related to direct costs generated by restructuring activities;
- The expectations for 2020 and 2021 G&A expense, including the ability to reduce G&A expense through restructuring activities and cost reduction initiatives, and the ability to achieve the long-term target of G&A expense of 4% of revenue;
- Badger's expectation to continue to optimize asset utilization;
- The monitoring of potential impacts of COVID-19 on all aspects of Badger's business, including the impact on the demand for Badger's services;
- Badger's intention to participate in all applicable government programs for employees, as well as at the corporate level;
- The timing, and the impact on the business, if any, of achieving Badger's long-term strategic financial and operational milestones;
- The expectation that Badger's business model, operating scale and financial position will enable it to manage effectively through the current uncertain economic environment as a result of COVID-19, and that the long-term growth potential of non-destructive excavation will not be adversely impacted by the same;
- The expectation of an increase in demand for Badger's services as a result of the heightened safety awareness resulting from COVID-19;
- Badger's ability to continue to grow its business, including revenue, as a result of capitalizing on the long-term growth opportunity in the North American hydrovac business; and
- The benefits, if any, that Badger's operational scale creates related to financial and operating performance.

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:

- Badger will maintain its financial position and financial resources will continue to be available to Badger;
- The actions taken by Badger to protect the health and safety of its employees, customers and communities, and to mitigate the operational and financial effects of the COVID-19, will have the intended effects;
- The overall market for Badger's services will not be adversely affected in the long-term by COVID-19, economic disruption, or other factors beyond Badger's control such as weather, natural disasters, global events, legislation changes and technological advances;
- There will be long-term sustained customer demand for hydrovac services from a broad range of end use markets 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; and
- Badger will realize and continue to realize the efficiencies of the ERP implementation, shared services center and other business improvement initiatives.

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: the magnitude and length of the global, national and regional economic and social disruption being caused as a result of the global COVID-19 pandemic; national, regional and local governmental laws, regulations and orders relating to the COVID-19 pandemic that may materially adversely impact the Company's ability to continue operations; political and economic conditions; industry competition; price fluctuations in commodity markets and related products and services; Badger's ability to attract and retain key personnel; 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) 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*
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