AGI Announces First Quarter 2020 Results

Winnipeg, MB, May 7, 2020 – Ag Growth International Inc. (TSX: AFN) (“AGI”, the “Company”, “we” or “our”) today announced its financial results for the three-months ended March 31, 2020.

Overview of Results

	Three-months Ended March 31	
[thousands of dollars except per share amounts]	**2020** **$**	**2019** **$**
Trade sales [1][2]	228,875	216,198
Adjusted EBITDA [1][3]	25,650	30,637
(Loss) Profit	(48,844)	13,222
Diluted (loss) profit per share	(2.61)	0.70
Adjusted profit [1][4]	7,281	4,991
Diluted adjusted profit per share [1][4]	0.38	0.27

[1] See “Non-IFRS Measures”.
[2] See “OPERATING RESULTS – THREE-MONTHS ENDED MARCH 31, 2020 – Trade Sales” in our Management’s Discussion and Analysis for the period ended March 31, 2020 ("MD&A").
[3] See “OPERATING RESULTS – THREE-MONTHS ENDED MARCH 31, 2020 – EBITDA and Adjusted EBITDA” in our MD&A.
[4] See “Diluted (loss) profit per share and diluted adjusted profit per share”.

AGI results in Q1 2020 were impacted by the COVID-19 crisis as government or internally mandated production suspensions resulted in temporary plant closures in Italy, France, Brazil and India. In addition, prior to the emergence of COVID-19, management anticipated first quarter adjusted EBITDA would be lower than the prior year due largely to a Commercial backlog weighted towards the second half of 2020. Notwithstanding, AGI trade sales in the quarter increased $12.7 million or 6% over Q1 2019 due to strong Farm sales in the U.S. and the recent acquisition of Milltec in India. The Company’s adjusted EBITDA margin decreased to 11.2% (2019 – 14.2%) in a seasonally weak quarter due to the production, supply chain and delivery inefficiencies caused by COVID-19 as well as the impact of lower Commercial sales volumes in the quarter and AGI’s continued investment in its technology platform. Loss and loss per share were negatively impacted by non-cash losses on foreign exchange translation and the Company’s equity compensation swap, while adjusted profit and adjusted profit per share increased over the prior year.

“The tail end of our first quarter was impacted by the COVID crisis however Q1 results were resilient after accounting for the COVID impact and the weighting of our backlog toward the second half of 2020”, said Tim Close, President and CEO of AGI. “Following temporary production interruptions in our international locations and a number of short disruptions in the US, all operations are currently in production. COVID will have an impact on our second quarter and the remainder of the year due to production suspensions and supply chain and delivery disruptions, as well as the impact COVID may have on our customers, but backlogs and new order intake remain solid allowing us to mitigate the impact in the second quarter and into the second half of the year. There has been outstanding work done by the AGI team to respond to the COVID crisis. This work has enabled us to continue to operate, to minimize production disruption and minimize the impact on our business. In North America, the essential services declaration granted us the right to work however the actions of the AGI team allowed us to operate safely, responsibly and to retain the confidence of all team members."

Diluted (loss) profit per share and diluted adjusted profit per share

The Company's diluted loss per share for the three-month period ended March 31, 2020 was $2.61 versus profit of $0.70 in 2019. (Loss) profit per share in 2020 and 2019 has been impacted by the items enumerated in the table below, which reconciles (loss) profit to adjusted profit. Most significantly, in Q1 2020 a sharp drop in the Canadian dollar resulted in non-cash foreign exchange translation losses and the decline in the Company's share price late in the quarter led to a non-cash loss on AGI's equity compensation swap, which in the table below is included in the Loss on financial instruments.

	Three-months Ended March 31	
	2020	**2019**
[thousands of dollars except per share amounts]	**$**	**$**
(Loss) Profit	(48,844)	13,222
Diluted (loss) profit per share	(2.61)	0.70
Loss (gain) on foreign exchange	22,090	(2,524)
Fair value of inventory from acquisition [2]	-	24
(Recovery of) M&A expenses	(226)	2,137
Other transaction and transitional costs [3]	4,740	2,624
Loss (gain) on financial instruments	24,264	(10,438)
Loss (gain) on sale of PP&E	57	(54)
Equipment rework [4]	4,000	-
Share of associate's net loss	1,200	-
Adjusted profit [1][5]	**7,281**	**4,991**
Diluted adjusted profit per share [1][5]	0.38	0.27

[1] See "Non-IFRS Measures".
[2] Non-cash expenses related to the sale of inventory that acquisition accounting required be recorded at a value higher than manufacturing cost.
[3] Includes restructuring and other acquisition related transition costs, as well as the accretion and other movement in contingent consideration and amounts due to vendors.
[4] To record the pre-tax charge for the estimated cost of rework for equipment supplied to two distinct projects. The charge relates to additional time, material and services.

OUTLOOK

COVID-19

The emergence of COVID-19 is having an adverse impact on AGI's business, including the disruption of production, its supply chain and product delivery. The extent, duration and ultimate impact of COVID-19 and governmental and societal responses thereto is unknown, and accordingly management is unable to provide specific guidance on its impact on AGI. We can comment on the business fundamentals as they stand today to provide context to the continuing uncertainty going forward. To date, we have experienced temporary production suspensions in Italy, France, Brazil, India and the United States. Engineering, design and quoting activity continued at all of these businesses during the suspension periods and all plants have resumed production. AGI operations were captured as essential services in many regions throughout North America highlighting the important role we play in the global food supply chain. Although AGI's business is being substantially impacted by the COVID-19 related disruptions, management believes that post crisis demand will be positively impacted as the world builds additional redundancy into the global food infrastructure to account for similar events in the future.

Q2 2020

International production suspensions due to COVID-19 lasted between 2 and 4 weeks and impacted part of Q1 and into Q2. Manufacturing activity resumed after the suspensions were lifted at different points in April, and AGI is currently manufacturing at 50%-80% capacity at these locations. In the United States, internal safety protocols required AGI to temporarily suspend production on several occasions in Q2, and these plant closures have generally lasted three to ten days. To date, there have been no production suspensions in Canada.

Prior to the COVID-19 crisis, management expected adjusted EBITDA in Q2 2020 to fall slightly below the record results of Q2 2019, for 2020 adjusted EBITDA to be weighted to the second half and for annual growth in fiscal 2020 over 2019. Early in Q2, with all production facilities currently operating, and a backlog that is 9% over this point in 2019, we expect the COVID-19 impact to be significant but relatively contained assuming no additional extended lockdowns are required. The impact on the second half remains subject to COVID-19 impacts on our markets and customers.

CURRENT FUNDAMENTALS

Farm

Dealer pull through for portable grain handling equipment in 2020 has been very strong and based on current conditions management anticipates robust demand for Farm products to continue as we progress through the 2020 growing season. With AGI's recent expansion into the U.S., permanent grain storage system space management believes conditions are favourable to grow our relatively small market share in 2020 and going forward. Overall, management anticipates strong demand for Farm products in 2020 based on the following factors, assuming limited additional COVID-19 impact on farm operations:

- Planted corn acres in the United States are expected to approximate 95-97 million acres, a significant increase over the 89 million acres planted in 2019. Importantly, planting conditions are significantly better than in 2019 when widespread and historic flooding severely impacted farming operations.
- In western Canada, cool weather has delayed seeding in most areas. Conditions have recently improved, and the late spring is not expected to significantly impact crop volumes. The timing of order intake for Farm products in Canada has likewise been impacted by the late spring.
- Total Farm new order intake in April 2020 is similar to 2019 levels.
- As at April 30, 2020, our Farm backlog in the United States was 10% higher than at the same time in 2019, while in Canada the backlog is flat to the prior year.

Commercial North America

In the United States, Commercial Grain handling activity has been stable but for the last number of years has been restrained by depressed agricultural markets and international trade disputes. In addition, the emergence of COVID-19 has delayed decisions with respect to capital deployment. Nonetheless, largely due to higher backlogs of Fertilizer and Food projects, our sales order backlog is 27% higher than the relatively low backlog of a year ago.

In Canada, the Commercial market was very active over the last several years due to increased investment in grain infrastructure, however our Canadian Commercial backlog has decreased compared to the high levels of a year ago.

Commercial new order intake is subject to monthly fluctuation as the business is generally comprised of a relatively small number of higher dollar value projects. As at April 30, 2020, our Commercial backlog in North America was 2% lower than at the same time in 2019.

Commercial International

Global trade uncertainties in 2019 created an environment of uncertainty that lasted through much of the year. Capital projects were largely put on hold as our customers paused to assess what facilities they needed by geography to account for the changes in trade flows. This pause in spending started to impact our sales intake in the first quarter of 2019 and persisted until the fourth quarter. The late pickup in project activity in 2019 impacted the timing of our backlog once it did pick up, pushing project deliveries out to the back half of 2020.

The increased pace of new order intake experienced in Q4 2019 continued in 2020 and in the first four months of 2020 new international orders, excluding Milltec (acquired March 29, 2019) increased 21% compared to the prior year. As a result of increased new orders in late 2019 and YTD in 2020, our international sales order backlog at April 30, 2020, excluding Milltec, is 42% higher compared to the same time in 2019. Backlog increases are most significant in EMEA, Southeast Asia (excluding India) and Brazil.

Performance at Milltec, our platform acquisition in India, met expectations in Q1 2020 and is well positioned for long-term growth. New orders and backlog at Milltec in April 2020 have been impacted by the government mandated country-wide closure of businesses, however the impact is expected to be transient and new orders jumped dramatically with a partial reopening of certain businesses late in the month.

Capital decisions related to Commercial projects, particularly in international markets, appear to be slowing due to the uncertainty surrounding COVID-19. Management anticipates these delays will impact Commercial sales in Q3 2020 and Q4 2020, however the extent and duration of the crisis will determine the extent of the impact on the pace of project pipeline development and the subsequent timing of revenue recognition.

Technology

In 2019, AGI demonstrated the success of its AGI SureTrack subscription model as demand exceeded our capacity and we increased retail equivalent sales by 70%. In the first quarter of 2020, retail sales increased by over 200% compared to the prior year and management anticipates the recent release of AGI SureTrack version 2.0 will facilitate continued growth. In addition, AGI added ERP functionality to the platform via the acquisition of Affinity and its Compass product suite in January 2020. AGI SureTrack will move to a new facility in Lenexa, Kansas, in Q2 2020 to accommodate the rapid increase in demand. Continued growth in the SureTrack platform is expected to deepen AGI's relationships with processors, merchandisers, grain buyers and producers throughout North America and provide a significant opportunity for equipment cross-sales.

Summary

As it stands today, planting conditions in North America are substantially better than a year ago, our Farm backlog is higher than it was at this time in 2019 and Farm new order intake in April 2020 is consistent with the prior year. Likewise, our Commercial backlogs are significantly higher than the prior year, with particular strength internationally. Our adjusted EBITDA margin for the balance of 2020 will be influenced by sales product mix and investments in our technology business and internal projects. COVID-19 related production suspensions and related expenses have impacted Q2 2020 and we expect continuing impacts as we move through the balance of Q2 and H2 2020. Commercial order intake for the balance of the year is uncertain as the world continues to respond to the COVID-19 pandemic. Overall, our total sales order backlog is 9% higher than a year ago and we are positive on the resilience of the business in a difficult period.

See also, "Risks and Uncertainties" and "Forward-Looking Information".

EQUIPMENT REWORK

In the quarter ended March 31, 2020 the Company added $4 million to the estimate of total costs related to the previously disclosed equipment rework. The revised estimate is based on new information obtained as the project progresses towards completion. Initial estimates were based on extensive investigation using the preliminary information that was available, and additional costs have now been identified as we fully assessed the site and progressed through the rehabilitation work. We have substantially completed the design and engineering work and material fabrication, we have factored in increased labour and material cost and management is satisfied that this increased amount is a comprehensive estimate of the entire project.

MD&A and Financial Statements

AGI's financial statements and management's discussion and analysis (the "MD&A") for the three-months ended March 31, 2020 can be obtained at https://www.newswire.ca/news-releases/ and will also be available electronically on SEDAR (http://www.sedar.com) and on AGI's website (http://www.aggrowth.com).

Conference Call

Management will hold a conference call on Thursday May 7, 2020, at 8:00 a.m. EDT to discuss AGI's results for the three-months ended March 31, 2020. To participate in the conference call, please dial 1-888-390-0546 or for local access dial 416-764-8688. An audio replay of the call will be available for seven days. To access the audio replay, please dial 1-888-390-0541 or for local access dial 416-764-8677. Please quote passcode 487649# for the audio replay.

Company Profile

AGI is a leading provider of equipment solutions for agriculture bulk commodities including seed, fertilizer, grain, feed and food processing systems. AGI has manufacturing facilities in Canada, the United States, the United Kingdom, Brazil, France, Italy and India, and distributes its product globally.

Further information can be found in the disclosure documents filed by AGI with the securities regulatory authorities, available at www.sedar.com and on AGI's website www.aggrowth.com.

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NON-IFRS MEASURES

In analyzing our results, we supplement our use of financial measures that are calculated and presented in accordance with International Financial Reporting Standards (“IFRS”) with a number of non-IFRS financial measures including “trade sales”, “EBITDA”, “Adjusted EBITDA”, “gross margin”, “funds from operations”, “payout ratio”, “adjusted profit”, and “diluted adjusted profit per share”. A non-IFRS financial measure is a numerical measure of a company's historical performance, financial position or cash flow that excludes [includes] amounts, or is subject to adjustments that have the effect of excluding [including] amounts, that are included [excluded] in the most directly comparable measures calculated and presented in accordance with IFRS. Non-IFRS financial measures are not standardized; therefore, it may not be possible to compare these financial measures with other companies' non-IFRS financial measures having the same or similar businesses. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

We use these non-IFRS financial measures in addition to, and in conjunction with, results presented in accordance with IFRS. These non-IFRS financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our IFRS results and the accompanying reconciliations to corresponding IFRS financial measures, may provide a more complete understanding of factors and trends affecting our business.

In this press release, we discuss the non-IFRS financial measures, including the reasons that we believe that these measures provide useful information regarding our financial condition, results of operations, cash flows and financial position, as applicable, and, to the extent material, the additional purposes, if any, for which these measures are used. Reconciliations of non-IFRS financial measures to the most directly comparable IFRS financial measures are contained in our MD&A.

Management believes that the Company's financial results may provide a more complete understanding of factors and trends affecting our business and be more meaningful to management, investors, analysts and other interested parties when certain aspects of our financial results are adjusted for the gain (loss) on foreign exchange and other operating expenses and income. These measurements are non-IFRS measurements. Management uses the non-IFRS adjusted financial results and non-IFRS financial measures to measure and evaluate the performance of the business and when discussing results with the Board of Directors, analysts, investors, banks and other interested parties.

References to “EBITDA” are to profit before income taxes, finance costs, depreciation, amortization and share of associate’s net loss. References to “adjusted EBITDA” are to EBITDA before the gain or loss on foreign exchange, non-cash share based compensation expenses, gain or loss on financial instruments, M&A expenses, other transaction and transitional costs, gain or loss on the sale of property, plant & equipment, gain or loss on disposal of assets held for sale and fair value of inventory from acquisitions, equipment rework costs and impairment. Management believes that, in addition to profit or loss, EBITDA and adjusted EBITDA are useful supplemental measures in evaluating the Company’s performance. Management cautions investors that EBITDA and adjusted EBITDA should not replace profit or loss as indicators of performance, or cash flows from operating, investing, and financing activities as a measure of the Company's liquidity and cash flows. See "Operating Results – EBITDA and Adjusted EBITDA" in our MD&A for the reconciliation of EBITDA and Adjusted EBITDA to profit before income taxes.

References to "trade sales" are to sales net of the gain or loss on foreign exchange. Management cautions investors that trade sales should not replace sales as an indicator of performance. See "Operating Results - Trade Sales" in our MD&A for the reconciliation of trade sales to sales.

References to "gross margin" are to trade sales less cost of inventories, and thereby exclude depreciation, amortization, fair value of inventory from acquisitions and equipment rework from cost of sales. Management believes that gross margin provides a useful supplemental measure in evaluating its performance. See "Operating Results – Gross Margin" in our MD&A for the calculation of gross margin.

References to "funds from operations" are to adjusted EBITDA less IFRS 15 adjustment, interest expense, non-cash interest, cash taxes and maintenance capital expenditures. Management believes that, in addition to cash provided by (used in) operating activities, funds from operations provide a useful supplemental measure in evaluating its performance. References to "payout ratio" are to dividends declared as a percentage of funds from operations. See "Funds from Operations and Payout Ratio" in our MD&A for the calculation of funds from operations and payout ratio.

References to "adjusted profit" and "diluted adjusted profit per share" are to profit for the period and diluted profit per share for the period adjusted for the gain or loss on foreign exchange, fair value of inventory from acquisitions, M&A expenses or recoveries, other transaction and transitional costs, gain or loss on financial instruments, gain or loss on sale of property, plant and equipment impairment charges, cost of equipment rework and share of associate's net loss. See "Diluted (loss) profit per share and diluted adjusted profit per share" in our MD&A for the reconciliation of diluted profit per share and diluted adjusted profit per share to profit.

FORWARD-LOOKING INFORMATION

This press release contains forward-looking statements and information [collectively, "forward-looking information"] within the meaning of applicable securities laws that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. All information and statements contained herein that are not clearly historical in nature constitute forward-looking information, and the words "anticipate", "believe", "continue", "could", "expects", "intend", "plans", "postulates", "predict", "will" or similar expressions suggesting future conditions or events or the negative of these terms are generally intended to identify forward-looking information. Forward-looking information involves known or unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. In addition, this press release may contain forward-looking information attributed to third party industry sources. Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. In particular, the forward-looking information in this press release includes information relating to our business and strategy, including our outlook for our financial and operating performance including our expectations for our future financial results including sales, EBITDA and adjusted EBITDA including our expectations for adjusted EBITDA in Q2 2020, industry demand and market conditions, the anticipated impacts of the coronavirus (COVID-19) outbreak on our business, operations and financial results; the sufficiency of our liquidity; the launch of V2.0 of our AGI SureTrack platform and the impact thereof; long term fundamentals and growth drivers of our business; future payment of dividends and the amount thereof; and with respect to our ability to achieve the expected benefits of recent acquisitions and the contribution therefrom. Such forward-looking information reflects our current beliefs and is based on information currently available to us, including certain key expectations and assumptions concerning: the anticipated impacts of the COVID-19 outbreak on our business, operations and financial results; anticipated grain production in our market areas; financial performance; the financial and operating attributes of recently acquired businesses and the anticipated future performance thereof and contributions therefrom; business prospects; strategies; product and input pricing; regulatory developments; tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; political events; currency exchange and interest rates; the cost of materials; labour and services; the value of businesses and assets and liabilities assumed pursuant to recent acquisitions; the impact of competition; the general stability of the economic and regulatory environment in which the Company operates; the timely receipt of any required regulatory and third party approvals; the ability of the Company to obtain and retain qualified staff and services in a timely and cost efficient manner; the timing and payment of dividends; the ability of the Company to obtain financing on acceptable terms; the regulatory framework in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its products and services. Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking information, including the effects of global outbreaks of pandemics or contagious diseases or the fear of such outbreaks, such as the recent COVID-19 pandemic, including the effects on the Company's operations, personnel, and supply chain, the demand for its products and services, its ability to expand and produce in new geographic markets or the timing of such expansion efforts, and on overall economic conditions and customer confidence and spending levels, changes in international, national and local macroeconomic and business conditions, as well as sociopolitical conditions in certain local or regional markets, weather patterns, crop planting, crop yields, crop conditions, the timing of harvest and conditions during harvest, the ability of management to execute the Company's business plan, seasonality, industry cyclicality, volatility of production costs, agricultural commodity prices, the cost and availability of capital, currency exchange and interest rates, the availability of credit for customers, competition, AGI's failure to achieve the expected benefits of recent acquisitions including to realize anticipated synergies and margin improvements; and changes in trade relations between the countries in which the Company does business including between Canada and the United States. These risks and uncertainties are described under "Risks and Uncertainties" in our MD&A, our annual MD&A and in our most recently filed Annual Information Form, all of which are available under the Company's profile on SEDAR [www.sedar.com]. These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking information. We cannot assure readers that actual results will be consistent with this forward-looking information. Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. These estimates may change, having either a negative or positive effect on profit, as further information becomes available and as the economic environment changes. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information included in this press release is made as of the date of this press release and AGI undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.