Canadian Equipment Rentals Corp Announces 2016 Second Quarter Results

CALGARY, ALBERTA – August 18, 2016: Canadian Equipment Rentals Corp. (the “Company”) (TSX VENTURE: CFL) today announced its financial and operating results for the three and six months ended June 30, 2016.

HIGHLIGHTS

Amounts in the following tables are presented in thousands of dollars, except for per share amounts and percentages.

	Three months ended June 30		Six months ended June 30	
(in $ 000s)	**2016**	**2015**	**2016**	**2015**
Revenue	7,072	9,292	15,612	26,953
Adjusted EBITDA [1,2]	294	1,273	1,426	6,961
Adjusted EBIT [1,2]	(5,011)	(1,654)	(6,925)	1,197
Net (loss) income	(4,775)	(1,966)	(8,877)	(723)
Net (loss) income per share				
Basic	(0.12)	(0.05)	(0.22)	(0.02)
Diluted	(0.12)	(0.05)	(0.22)	(0.02)
Dividends declared	–	2,178	–	4,353

[1] Adjusted for severances and business acquisition costs, [2] See Non-IFRS Measures Reconciliations below

SELECT FINANCIAL RESULTS

- On February 2, 2016, the Company acquired all the outstanding common and preferred shares of Zedcor Oilfield Rentals Ltd., a private oilfield equipment rental company with operations in Western Canada. This transaction added premier equipment rental assets with an average age of approximately three years and expanded the Company's geographic footprint and customer base. The acquisition was financed through a combination of the issuance of $4.7 million common and preferred shares, the payout of $12.8 million in debt and the issuance of a subordinated vendor take-back note with a fair value of $3.7 million.
- On May 6, 2016, the Company completed the acquisition of all the assets used in the business of Summit Star Energy Services Inc. ("Summit Star"). The Company issued 1,713,318 common shares for the assets of Summit Star, which when multiplied by the volume weighted average price of the common shares of the Company over the 30 preceding trading days resulted in a stated purchase price of $0.8 million. The market closing price of $0.40 per share on the acquisition date was used to value the 1,713,318 common shares, resulting in the recorded purchase price of $0.7 million.
- Revenues for the quarter ended June 30, 2016 decreased by $2.2 million or 24% from $9.3 million to $7.1 million compared to the same quarter in 2015. Reduced drilling activity and pricing pressure decreased Energy Services revenue by $0.9 million. Lower commercial and residential construction due to the continued economic downturn and increased competition reduced both utilization and pricing causing General Rentals revenue to decrease by $1.7 million. Waste Management revenue increased by $0.4 million from the addition of two municipal contracts in early 2016.
- Net loss for the quarter ended June 30, 2016 was $4.8 million, down $2.8 million or 1.4 times from a loss of $2.0 million compared to the same period in 2015. The increased loss is from $3.3 million decrease in gross margin due to the lower revenue and $2.4 million higher depreciation expense, $0.7 million increase in general & administrative expenses mainly from severance and $0.3 million additional finance costs. These were offset by the bargain purchase gain of $0.6 million and other gain of $0.8 million.
- Adjusted EBITDA for the quarter ended June 30, 2016 decreased by $1.0 million from $1.3 million in the same quarter in 2015 to $0.3 million in the current period. Energy Services adjusted EBITDA decreased by $0.9 million and General Rentals adjusted EBITDA decreased by $0.8 million quarter over quarter. Waste Management increased its adjusted EBITDA by $0.6 million compared to the same quarter in 2015.

SELECT OPERATING RESULTS

Energy Services Division

For the quarter ended June 30, 2016, Energy Services revenue of $1.5 million declined by $0.9 million compared to the similar period in 2015. Gross margin of negative $1.5 million decreased $0.7 million compared to the three months ended June 30, 2015. The addition of the Zedcor equipment fleet increased depreciation expense by $0.7 million compared to the same period in the prior year.

Energy Services identified under-utilized equipment during the quarter ended June 30, 2016 which was sold along with some of the Assets Held for Sale as identified in the quarter ended March 31, 2016. The surplus equipment was not reclassified to Assets Held for Sale in the current quarter and had proceeds of $2.2 million, resulting in a net loss on disposal of $1.8 million.

Although commodity price declines appear to have bottomed out and stability has improved compared to prior quarters, crude oil and natural gas prices were significantly lower year over year and this continues to have a negative impact on the oil and gas sector. The Energy Services segment has however increased its market share, but historically low equipment day rates and no meaningful increase in drilling activity after spring breakup due to weather and customer program suspensions have adversely affected its earnings.

General Rentals Division

The combination of the continued economic downturn in Alberta, excess idle equipment from existing competitors and the entry of new competitors into the Alberta market have created less demand and an oversupply of rental equipment in the general rentals market. As a result of the lower equipment utilization and reduced rental pricing, General Rentals segment revenue decreased by $1.3 million compared to the same quarter in 2015.

Gross margin decreased by $0.4 million from the reduced revenue, however, General Rentals was able to maintain a positive gross margin percentage of 40%, excluding depreciation, in the current period compared to 43% for the three months ended June 30, 2015. The General Rentals segment continues to assess its cost structure and competitors' activities to preserve its margin and customer base.

Waste Management Division

The Waste Management segment's addition of two long-term contracts awarded in the quarter ended March 31, 2016 and cost control measures have made positive contributions to gross margin in the year.

Waste Management's revenue of $3.8 million increased by $0.4 million compared to the same quarter in the prior year due to the two new municipal contracts. However, this was partially offset by the year over year decrease in waste volumes due to less commercial and residential construction activity resultant from the economic downturn, which resulted in lower commercial and residential collections revenue.

Gross margin of $0.8 million in the current period increased by $0.6 million from the three months ended June 30, 2015 from the increased revenue, better management of repairs and maintenance of equipment and using less subcontractors.

OUTLOOK

The continued uncertain and challenging economic environment resulting from the decline and instability of commodity prices currently shows no signs of significantly improving. This environment has caused the Company's customers to reduce their 2016 capital expenditure programs and delay investment decisions which has directly impacted the utilization and day rates of equipment in the Company's Energy Services and General Rentals segments.

Management continues to actively manage costs and refine the strategy to ensure maximum equipment utilization. In the first half of 2016, management reduced headcount, including many senior positions, reduced labor hours, consolidated operating facilities and made reductions in discretionary spending to align the cost structure to the level of activity currently experienced.

The start of the third quarter of 2016 has seen improvements in equipment utilization, albeit at historically low rental rates. It is too early to assess if the recent increase in drilling activity is a temporary bump following spring break-up or if it represents the start of a longer term trend in increased demand. Currently management expects activity levels and pricing for Energy Services to remain low until such time that commodity prices stabilize at a level that results in increased producer spending.

The Company's operational performance, service quality and best-in-class equipment rental fleet are instrumental to maintain and grow its market share. Management believes the meaningful actions taken in the first half of 2016 have positioned the Company to weather the current oilfield services downturn and maintain the Company's strong customer base and reputation. The recent sale of under-utilized equipment has resulted in the Company now having the newest fleet of oilfield accommodation and power generation units in the energy services industry.

The Waste Management segment continues to provide steady cash flows from its several government-owned waste facility contracts. While the economic downturn has had a negative impact on disposal volumes for both municipal waste and soil tonnage levels, the steps taken by management in the second quarter to streamline operations has helped to mitigate these volume reductions. The two new major contracts that commenced in the first half of 2016 will assist in delivering year over year EBITDA growth for the segment.

The Company continues to expand its market reach and customer base from beyond its traditional energy services and general commercial customers to new industry segments including industrial facilities and pipeline construction. The assets acquired in the Summit Star acquisition this quarter are experiencing full utilization and are the first steps to adding more diverse revenue streams. It is anticipated that the deployment of such equipment will also increase the utilization of existing rental equipment in these new market segments that are less affected by the current economic downturn.

SELECTED QUARTERLY FINANCIAL INFORMATION

	June	Mar	Dec	Sept	June	Mar	Dec	Sept

(in $ 000s)	30 2016	31 2016	31 2015	30 2015	30 2015	31 2015	31 2014	30 2014
Revenue	7,072	8,540	8,829	10,686	9,292	17,660	20,522	15,006
Net income (loss)	(4,775)	(4,102)	(16,689)	(12,639)	(1,966)	1,242	2,036	1,293
Adjusted EBITDA[1]	294	1,131	649	2,991	1,273	5,687	6,861	5,039
Adjusted EBITDA per share								
– basic[1] ($)	0.01	0.03	0.00	0.08	0.03	0.15	0.19	0.20
Net income (loss) per share								
Basic ($)	(0.12)	(0.11)	(0.46)	(0.35)	(0.05)	0.03	0.06	0.05
Diluted ($)	(0.12)	(0.11)	(0.46)	(0.35)	(0.05)	0.03	0.06	0.05
Dividend per share ($)	—	—	0.02	0.02	0.06	0.06	0.06	0.06
Adjusted free cash flow [1]	3,090	3,014	422	3,423	685	4,017	4,031	3,385
Dividend declared	—	—	728	727	2,178	2,175	2,173	2,130
Annualized payout ratio[1]	n/a	n/a	59%	55%	53%	65%	72%	76%

1 See Financial Measures Reconciliations below

LIQUIDITY AND CAPITAL RESOURCES

On April 28, 2016, the Company's Syndicated Bank Credit Facility was amended under the Third Amending Agreement to amend the Debt to EBITDA and Interest Coverage ratios as follows.

	Mar 31	June 30	Sept 30	Dec 31	Mar 31

Third Amending Agreement	2016	2016	2016	2016	2017	Thereafter
Debt/EBITDA	5.75:1	5.50:1	5.50:1	4.00:1	3.50:1	3.00:1
Interest Coverage	3.25:1	3.25:1	2.50:1	2.75:1	3.25:1	3.50:1

NON-IFRS MEASURES RECONCILIATION

The Company uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards (“IFRS”). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

Investors are cautioned that EBITDA, adjusted EBITDA and adjusted EBITDA per share, adjusted free cash flow and payout ratio are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA refers to net income before finance costs, income taxes, depreciation, amortization, and gains or losses on disposal of property and equipment. Adjusted EBITDA is calculated as EBITDA before costs associated with business acquisition costs and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities. “Adjusted EBITDA per share – basic” refers to Adjusted EBITDA divided by the weighted average basic number of shares outstanding during the relevant periods.

A reconciliation of net income to Adjusted EBITDA is provided below:

(in $000s)	Three months ended June 30		Six months ended >June 30	
	2016	2015	2016	2015
Net income	(4,775)	(1,966)	(8,877)	(723)
Add:				
Finance costs	762	422	1,414	868
Depreciation	5,295	2,891	8,347	5,687
Amortization of intangibles	220	474	497	975
Impairment of property and equipment	257	—	5,409	—
Bargain purchase gain	(556)	—	(2,664)	—
Other gain	(766)	—	(766)	—
Income taxes	(852)	(611)	(3,223)	(118)
EBITDA	(415)	1,210	137	6,689
Add:				
Stock based compensation	10	36	4	77
Severance costs	620	18	863	171
Business acquisition costs	79	9	422	24
Adjusted EBITDA	294	1,273	1,426	6,961

Adjusted EBIT

Adjusted EBIT refers to earnings before interest and finance charges, taxes, amortization and impairment of intangibles and business acquisition costs.

A reconciliation of net income to Adjusted EBIT is provided below:

	Three months ended June 30		Six months ended June 30	
(in $000s)	**2016**	**2015**	**2016**	**2015**
Net income	(4,775)	(1,966)	(8,877)	(723)
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Other Gain	(766)	—	(766)	—
Income Taxes	(852)	(611)	(3,223)	(118)
Severance costs	620	18	863	171
Business acquisition costs	79	9	422	24
Adjusted EBIT	(5,011)	(1,654)	(6,925)	1,197

Annualized payout ratio

Annualized payout ratio is a non-IFRS measure and is defined by management as dividends declared in the current and preceding 3 quarters divided by adjusted free cash flow generated in the current and preceding three quarters.

Management believes that the payout ratio gives readers an indication of the sustainability of dividends. The payout ratio depends on the adjusted free cash flow and the amount of dividends declared payable.

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three and six months ended June 30, 2106 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.cerfcorp.com.

About CERF Incorporated

Canadian Equipment Rentals Corp. is a Canadian public corporation with three operating divisions: Energy Services, General Rentals and Waste Management. The Energy Services division is engaged in the rental of surface rentals, downhole equipment and accommodations to the Western Canadian Oil and Gas Industry. The General Rentals division is engaged in the rental of industrial and construction equipment. And the Waste Management division is engaged in waste facilities management and collections. The Company trades on the TSX Venture Exchange under the symbol "CFL".

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this press release constitute forward-looking statements or forward-looking information, including management's assessment of expected activity levels continuing through 2016, and expected decrease in demand for rental equipment over the next year as well as forecasted economic measures for the Province of Alberta and oil and natural gas prices and the effect on drilling programs as a result of the decline in oil prices. Forward-looking statements or information may contain statements with the words "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "should", "project", "would have realized', "may have been" or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that demand for industrial rental equipment, will remain relatively constant or grow marginally through 2016, that the economic downturn caused by the low oil price environment will not affect the performance of the waste management segment, that the Company's proactive cost cutting measures currently being implemented will protect future margins and that the Company's diverse operations will protect against profound down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will be proved to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this press release are made as of the date hereof and the Company assumes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new contrary information, future events or any other reason, unless it is required by any applicable securities laws. The forward-looking statements or information contained in this press release are expressly qualified by this cautionary statement.

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