Zedcor

# Zedcor Inc. Announces First Quarter Results for 2023 With 39% Increase in Year Over Year Revenue, $2.1 Million in Adjusted EBITDA and Positive Earnings per Share

CALGARY, ALBERTA – May 24, 2023: Zedcor Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three months ended March 31, 2023.

Q1 2023 revenues were $6.4 million and the Company had net income before income taxes of $0.8 million or $0.01 per share. This represented a 39% increase in revenues compared to Q1 2022 and a 75% increase in net income for March 31, 2023.

Zedcor recorded $2.1 million of adjusted EBITDA for the three months ended March 31, 2023. This compares to $1.4 million of adjusted EBITDA for the three months ended March 31, 2022.

During the quarter, the Company has allocated approximately 18% of its MobileyeZ security tower fleet to Ontario. These towers are being utilized at construction and automotive customer sites. Zedcor has continued to allocate security towers to Eastern Canada as it expands its service capabilities in Eastern Canada.

Todd Ziniuk, President & CEO said: "We continue to see strong demand for our MobileyeZ security towers. We believe our integrated model of security tower rentals, coupled with uncompromising service is truly unique. We have had preliminary conversations with customers in the United States and believe there is an opportunity to expand our services to the USA. We have started to spend time researching the market and believe there is an opportunity to grow revenue. We plan to expand to the US in the second half of 2023 while continuing to expand in Canada, with a focus on Eastern Canada. We are also seeing demand for our services across different industry verticals that we are excited about. In April, we launched a pilot project with a large home improvement retailer. We are enthusiastic about this opportunity and will use it to expand our service offering to other retailers as well."

**Financial and Operating Results for the three months ended March 31, 2023:**

| | Three months ended March 31 | |
|---|---|---|
| **(in $000s, except per share amounts)** | **2023** | **2022** |
| **Revenue** | 6,443 | 4,631 |
| **Adjusted EBITDA[1,2]** | 2,135 | 1,373 |
| **Adjusted EBIT[2]** | 1,088 | 651 |
| **Net income** | 752 | 428 |
| **Net income per share** | | |
| **Basic** | 0.01 | 0.01 |
| **Diluted** | 0.01 | 0.01 |

[1] *Adjusted for stock based compensation and foreign exchange loss*

[2] *See Financial Measures Reconciliations below*

Zedcor recorded revenue of $6,443 and $2,135 of adjusted EBITDA for the three months ended March 31, 2023. This compares to revenue of $4,631 and $1,373 of adjusted EBITDA from continuing operations for the three months ended March 31, 2022. The revenue growth of 39% and EBITDA growth of 55% shows steady year over year growth for the Company as it continues to execute on its strategy of sustained, profitable growth across North America.

The Company's security and surveillance services saw increased revenues and EBITDA for the quarter ended March 31, 2023 compared to 2022 due to robust customer demand of its larger fleet of MobileyeZ security towers. Zedcor exited the period with 564 MobileyeZ security towers which was an increase of 58 when compared to December 31, 2022 and 273 units when compared to March 31, 2022. While the Company placed orders for equipment with plenty of lead time and anticipated exiting the quarter with more than 564 units, supply chain disruptions continue. The Company is actively looking for ways to manage supply chain disruptions, including continued investment in research and development and optimizing is MobileyeZ assembly operations.

Zedcor is actively managing the increased customer demand for security solutions by adding to its fleet of towers, expanding its geographic footprint across North America and continuing to expand into new industry verticals such as big box retail stores, car dealerships and utilities.

Financial and operational highlights for the three months ended March 31, 2023 include:

- Revenue for the quarter ended March 31, 2023 increased by $1,812 from $4,631 to $6,443. This increase was driven by a larger fleet of MobileyeZ security towers and high utilization of the Company's fleet of security towers. Zedcor maintained double digit quarter over quarter revenue growth.
- Net income from continuing operations was $752 for the three months ended March 31, 2023. This compares to net income of $428 for the three months ended March 31, 2022. The increased income is due to a larger fleet of security towers which drove revenue and higher gross margins offset by higher general and administrative costs as the Company expanded across Canada.
- Continued traction across Ontario. The Company expanded to Ottawa in Q2 2022 and Toronto in Q3 2022. As at March 31, 2023, approximately 18% of the Company's MobileyeZ security tower fleet is located in Ontario. We are seeing strong demand for the Company's services in Eastern Canada and additional security towers will be delivered to Ontario and Manitoba in 2023.
- Continued expansion in the Manitoba market. Zedcor opened its equipment and services center in Winnipeg in December 2022. In Q1 2023, the Company secured a work with a Manitoba based construction company for up to 18 electric MobileyeZ security towers across 8 locations in Manitoba. This contract will last up to 10 months with the possibility to extend indefinitely or be relocated to the customer's other construction sites.
- Diversification away from the Company's core pipeline construction customers. Zedcor's services are customer and industry agonistic and we continued to see that in Q1 2023 as we obtained customers across the construction industry and launched a pilot program with a big box retailer subsequent to Q1 2023.
- Preliminary market research and assessment on US expansion. Zedcor believes there is significant demand for its integrated, technology enabled security services in the United States and has started conversations with potential customers on service offerings.

## SELECTED QUARTERLY FINANCIAL INFORMATION

| (Unaudited – in $000s) | Mar 31 2023 | Dec 31 2022 | Sept 30 2022 | June 30 2022 | Mar 31 2022 | Dec 31 2021 | Sept 30 2021 | Jun 30 2021 |
|---|---|---|---|---|---|---|---|---|
| **Revenue from continuing operations** | 6,443 | 6,415 | 5,797 | 5,256 | 4,631 | 4,076 | 3,684 | 3,103 |
| **Net income (loss) from continuing operations** | 752 | 3,076 | 966 | 1,528 | 428 | (535) | 296 | (935) |
| **Adjusted EBITDA[1]** | 2,135 | 2,380 | 2,121 | 1,694 | 1,373 | 961 | 1,353 | 1,492 |
| **Adjusted EBITDA per share - basic[1]** | 0.03 | 0.04 | 0.03 | 0.02 | 0.02 | 0.02 | 0.02 | 0.03 |
| **Net income (loss) per share from continuing operations** | | | | | | | | |
| **Basic** | 0.01 | 0.05 | 0.01 | 0.02 | 0.01 | (0.01) | 0.01 | (0.02) |
| **Diluted** | 0.01 | 0.04 | 0.01 | 0.02 | 0.01 | (0.01) | 0.01 | (0.02) |
| **Adjusted free cash flow[1]** | 978 | 2,076 | (292) | 1,216 | 345 | 2,068 | 198 | (284) |

[1] *See Financial Measures Reconciliations below*

## LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Cash

The following table shows a summary of the Company's cash flows by source or (use) for the three months ended March 31, 2023 and 2022:

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| **(in $000s)** | **2023** | **2022** | **$ Change** | **% Change** |
| **Cash flow from operating activities** | 1,104 | 1,386 | (282) | (20%) |
| **Cash flow used in continuing investing activities** | (1,622) | (1,550) | (72) | (5%) |
| **Cash flow from financing activities** | 196 | 1,684 | (1,488) | (88%) |

The following table presents a summary of working capital information:

| | As at March 31 | | | |
|---|---|---|---|---|
| **(in $000s)** | **2023** | **2022** | **$ Change** | **% Change** |
| **Current assets** | 8,366 | 6,299 | 2,067 | 33% |
| **Current liabilities *** | 8,946 | 5,968 | 2,978 | 50% |
| **Working capital** | (580) | 331 | (887) | (268%) |

*Includes $3.2 million of debt and $1.8 million of lease liabilities in 2023 and $1.7 million of debt and $1.4 million of lease liabilities in 2022*

The primary uses of funds are operating expenses, maintenance and growth capital spending, interest and principal payments on debt facilities. The Company has a variety of sources available to meet these liquidity needs, including cash generated from operations. In general, the Company funds its operations with cash flow generated from operations, while growth capital and acquisitions are typically funded by issuing new equity or debt.

**Principal Credit Facility**

| | Interest rate | Final maturity | Facility maximum | Outstanding as at March 31, 2023 | Outstanding as at December 31, 2022 |
|---|---|---|---|---|---|
| Term Loan | 5.15% | Oct 2026 | 6,100 | 4,465 | 4,748 |
| Revolving Equipment Financing | Prime + 2.00% | Revolving | 3,000 | 5,551 | 5,799 |
| Authorized Overdraft | Prime + 1.50% | Revolving | 3,000 | 937 | — |
| | | | | 10,953 | 10,547 |
| Current portion | | | | (3,145) | (2,198) |
| Long term debt | | | | 7,808 | 8,349 |

On October 18, 2021, the Company repaid its existing credit facilities and entered into a new financing agreement ("Financing Agreement") which consists of:

1. A $6.1 million term loan that is fully committed for five years ("Term Loan"). The Term Loan bears interest at 5.15% and will have monthly blended principal and interest payments of $116. $4.4 million of the proceeds of the term loan was used to repay the Company's outstanding Loan and Security Facility.
2. A $3.0 million revolving equipment financing facility ("Revolving Equipment Financing"). The Company is able to draw on this facility at any time for up to 75% of new equipment purchases. The draws bear interest at Prime + 2.0% and each draw will be amortized over 5 years with blended principal and interest payments. As at December 31, 2022 the Prime Interest Rate was 6.45% and the interest rate on the Revolving Equipment Financing was 8.45%. As the Company pays down the debt, it can borrow back up to the facility maximum of $3.0 million.
3. An authorized overdraft facility ("Authorized Overdraft") up to $3.0 million, secured by the Company's accounts receivable, up to 75%, less priority payables which are GST payable, income taxes payable, employee remittances payable and WCB payables. The Authorized Overdraft is due on demand and any outstanding overdraft bears interest at Prime + 1.5%. As at December 31, 2022 the Prime Interest Rate was 6.45% and the interest rate on the Revolving Equipment Financing was 7.95%.

On April 27, 2022, the Company entered into an amended financing agreement with its lender (the "Amended Financing Agreement") which expanded the Revolving Equipment Financing from $3.0 million to $6.0 million.

The Amended Financing Agreement is secured with a first charge over the Company's current and after acquired equipment, a general security agreement, a subordination and postponement agreement with a director of the Company with respect to a note payable, and other standard non-financial security.

The agreement has the following annual financial covenant requirements for the fiscal year ends December 31, 2022 and onwards:

- a debt servicing covenant of no less than 1.25 to 1.00; and
- a funded debt to EBITDA covenant of no more than 3.00 to 1.00.

As at March 31, 2023, the Company did not have quarterly financial covenant requirements that it had to comply with.

## OUTLOOK

Zedcor continues to execute its long-term strategy of growing its technology enabled security services across North America. While there were supply chain delays throughout Q1 which slowed down the Company's ability to build security towers, we continue to effectively use a mix of cash flow and debt to build additional MobileyeZ security towers to provide surveillance services to our expanding customer base. In addition, there are inflationary pressures that the Company is actively monitoring to maintain margins and this remains a priority for management.

Utilization of the Company's surveillance towers fitted with high resolution cameras and supported by live verified, 24/7 remote monitoring, continues to be high and remained steady in Q1 2023. While we expect the utilization rates to remain strong going forward, there was a drop in utilization rates at the start of Q2 2023 as the Trans Mountain Pipeline Expansion project comes to an end and equipment is redeployed to other customers throughout the Company's operating regions. The Company has grown its salesforce across Canada in order to obtain contracts for its MobileyeZ and continue to expand its service offering to different industries. With the anticipated completion of the Trans Mountain Expansion Pipeline in the first half of 2024 the Company is now situated with a growing salesforce and expanded geographical footprint to be able to diversify its customer base while maintaining utilization rates. This was evidenced in Q2 as Zedcor was able to redeploy a significant portion of the MobileyeZ returned from Trans Mountain to new customers, including starting a pilot project with a major home improvement retailer.

Priorities that the Company intends to focus on for the remainder of 2023 include:

1) Obtaining more customers, with a focus on enterprise level customers, and diversifying customer base including geographically and across different industry verticals. The Company is seeing strong demand for its MobileyeZ across Canada and has plans to expand to the United States in the second half of 2023. Based on preliminary research, there is a large market for Zedcor's integrated solution of MobileyeZ security towers with monitoring services. Due to significant spending on infrastructure in the USA, the Company believes its products, coupled with Zedcor's commitment to customer service, are perfectly situated for this market. Zedcor also intends to grow its presence in Eastern Canada.

2) Continued expansion across Canada. The Company expanded to Ontario with equipment and service centers in Ottawa and Toronto. The Company has secured customers in Ontario and Quebec and intends to allocate a sizable portion of its 2023 capital spending to expand its Eastern Canada operations and fleet size. The Company has also hired salespeople and branch managers for all of its equipment and service centers across Canada.

3) Maintaining margin levels by increasing operational efficiency and continuing to invest in technology. Zedcor has investigated a number of artificial intelligence options that will reduce the number of alarms in its monitoring center. We will be investing in technological solutions to help us exploit this and are actively testing options.

4) Building new, innovative products based on customer demand. As the Company has obtained customers in different industry verticals, it has seen an increasing number of use cases for its MobileyeZ. This includes a need for additional sensor technology in both the retail and construction industries. As a result, the Company intends to increase its product offering in sensor technology to help customers solve issues around asset security. As the Company expands into different geographies, we intend to continue to develop additional types of MobileyeZ security towers, including a full solar security tower.

5) The Company intends to continue to generate customer and shareholder value and positive earnings per share. By effectively managing its growth, executing on the above noted strategies and increasing its capital markets presence, Zedcor will be able to continue to generate positive earnings per share, grow its shareholder base and increase share price.

## NON-IFRS MEASURES RECONCILIATION

Zedcor Inc. 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, adjusted EBITDA per share, adjusted EBIT and adjusted free cash flow 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 and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with foreign exchange gains or losses, gains and losses on sale of equipment and stock 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 March 31 2023 | 2022 |
|---|---|---|
| **Net income** | 752 | 428 |
| Add (less): | | |
| Finance costs | 336 | 223 |
| Depreciation of property & equipment | 738 | 520 |
| Depreciation of right-of-use assets | 254 | 196 |
| (Gain) on sale of equipment | — | (26) |
| **EBITDA** | 2,080 | 1,341 |
| Add: | | |
| Stock based compensation | 54 | 16 |
| Foreign exchange loss | 1 | 16 |
| | 55 | 32 |
| **Adjusted EBITDA** | 2,135 | 1,373 |

### *Adjusted EBIT*

Adjusted EBIT refers to earnings before interest and finance charges, and taxes.

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

| (in $000s) | Three months ended March 31 2023 | 2022 |
|---|---|---|
| **Net income** | 752 | 428 |
| Add: | | |
| Finance costs | 336 | 223 |
| **Adjusted EBIT** | 1,088 | 651 |

### *Adjusted free cash flow*

Adjusted free cash flow is defined by management as net income plus non-cash expenses, plus or minus the net change in non-cash working capital, less maintenance capital. Maintenance capital is also a non-IFRS term. Management defines maintenance capital as the amount of capital expenditure required to keep its operating assets functioning at the same level of efficiency. Management believes that adjusted free cash flow reflects the cash generated from the ongoing operation of the business. Adjusted free cash flow is a non-IFRS measure generally used as an indicator of funds available for re-investment and debt payment. There is no standardized method of determining free cash flow, adjusted free cash flow or maintenance capital prescribed under IFRS and therefore the Company's method of calculating these amounts is unlikely to be comparable to similar terms presented by other issuers.

Adjusted free cash flow from continuing operations is calculated as follows:

| (in $000s) | Three months ended March 31 2023 | 2022 |
|---|---|---|
| **Net income** | 752 | 428 |
| **Add non-cash expenses:** | | |
| Depreciation of property & equipment | 738 | 520 |
| Depreciation of right-of-use assets | 254 | 196 |
| Stock based compensation | 54 | 16 |
| Finance costs (non-cash portion) | 24 | 36 |
| | 1,822 | 1,196 |
| Change in non-cash working capital | (844) | 20 |
| **Adjusted free cash flow** | 978 | 1,216 |

### 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 months ended March 31, 2023 and 2022 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.zedcor.ca.

### About Zedcor Inc.

Zedcor Inc. is a Canadian public corporation and is currently the parent company to Zedcor Security Solutions Corp. Zedcor is a technology enabled business that is changing how physical security services are provided to businesses. Zedcor operates throughout Canada with branches in British Columbia, Alberta, Manitoba and Ontario. The Company has three main service offerings to customers across all market segments: 1) surveillance and live monitoring through its proprietary MobileyeZ security towers; 2) surveillance and live monitoring of fixed site locations; and 3) security personnel.

The Company operates a fleet of over 500 proprietary MobileyeZ security towers, equipped with high resolution, technology-based cameras, and monitors over 80 fixed site locations for customers across various industries. Video from security towers and fixed site locations is streamed to the Company's central monitoring station where video alarms are live verified and responded to based on customer requirements. Zedcor also offers high level security guard services to enterprise level customers who are looking to supplement video-based security for valuable, high risk, or mission critical operational assets.

**FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information, including management's belief that streamlining rental assets with newer equipment will drive improvements in equipment rental rates and utilization, and that the expanded market reach and customer base will lead to more diversity in the Company's revenue stream and increase utilization. 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 the Company's new solar hybrid light tower and related security and surveillance service offerings will lead to more diversity in revenue streams and protect against future down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will prove 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 MD&A 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 MD&A are expressly qualified by this cautionary statement.

This MD&A also makes reference to certain non-IFRS measures, which management believes assists in assessing the Company's financial performance. Readers are directed to the section above entitled "Financial Measures Reconciliations" for an explanation of the non-IFRS measures used.

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