Aegion Corporation Reports 2019 Fourth Quarter and Full Year Financial Results

February 26, 2020

Achieved FY'19 adjusted earnings targets set at the start of the year; Projecting strong top- and bottom-line growth in 2020

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A PDF accompanying this announcement is available at http://ml.globenewswire.com/Resource/Download/fdcf933e-5984-46b4-a781-221833c9be4f

- Q4'19 loss per diluted share was $0.47 compared to a loss per diluted share of $0.08 in Q4'18. Q4'19 adjusted (non-GAAP)[1] earnings per diluted share were $0.39 compared to $0.27 in Q4'18, an increase of 44%.
- FY'19 loss per diluted share was $0.67 compared to earnings per diluted share of $0.09 in FY'18. FY'19 adjusted (non-GAAP)[1] earnings per diluted share were $1.21 compared to $1.19 in FY'18, a modest increase despite the lack of large project contributions that benefited prior year results.
- Full-year operating cash flows of $79 million nearly doubled the prior year, enabling continued investment in $29 million of capital expenditures, $35 million of debt paydown and $30 million of share repurchases.
- Management targeting adjusted earnings per share of $1.30 to $1.50 in 2020. Consolidated revenues are expected to increase 1 to 3%, or an increase of 6 to 8% when excluding exited or to-be-exited businesses.

[1]Adjusted (non-GAAP) results exclude certain charges related to the Company's restructuring activities, acquisition and divestiture-related activities, goodwill impairment, definite-lived intangible asset impairment, impairment of assets held for sale, project warranty accruals, credit facility amendment fees and impacts from the Tax Cuts and Jobs Act. In Q4'19, adjusted results excluded $26 million of pre-tax charges, $18 million of which were non-cash related. Reconciliation of adjusted results is included below.

2019 HIGHLIGHTS

- Revenues for FY'19 were $1.2 billion. Excluding exited or to-be-exited operations, revenues declined from the prior year primarily due to the expected reduction in large coating project contributions from Corrosion Protection.
- FY'19 adjusted gross margins increased 40 basis points to 20.8%, bolstered by significant productivity improvements within Infrastructure Solutions that drove segment adjusted gross margins above 25%.
- FY'19 adjusted operating margins grew 40 basis points to 5.3%, aided by restructuring activities and strong cost containment across all businesses that resulted in an $18 million, or 9%, reduction in adjusted operating costs.
- Contract backlog as of December 31, 2019 was $658 million. Excluding the impacts of exited or to-be-exited businesses, backlog increased 3% compared to prior year, supporting an outlook for revenue growth in 2020.

"2019 was a turning point for Aegion. After several years of earnings volatility, we achieved the adjusted earnings targets we laid out at the start of the year, which included modest growth in adjusted earnings per share and improved profitability margins. Our results reaffirm the effectiveness of the multi-year restructuring efforts to reshape Aegion into a more streamlined and focused company.

Looking to 2020, we enter the year with a strong backlog position and expect to capitalize on growth opportunities from market tailwinds in each of our three core segments. We are targeting solid top-line growth and a significant increase in adjusted earnings per share in 2020, driven by the successful commercialization of several new technology offerings within Infrastructure Solutions and a robust Middle East project funnel within Corrosion Protection."

Charles R. Gordon, President and Chief Executive Officer

Selected Consolidated Financial Highlights

	Year Ended December 31, 2019			Year Ended December 31, 2018		
(in thousands, except earnings per share)	As Reported (GAAP)	Adjustments (1)	As Adjusted (Non-GAAP)	As Reported (GAAP)	Adjustments (2)	As Adjusted (Non-GAAP)
Revenues	$ 1,213,935	$ —	$ 1,213,935	$ 1,333,568	$ —	$ 1,333,568
Cost of revenues	967,700	(6,767)	960,933	1,066,642	(4,670)	1,061,972
Gross profit	246,235	6,767	253,002	266,926	4,670	271,596
Operating expenses	199,430	(10,806)	188,624	219,823	(13,183)	206,640
Goodwill impairment	—	—	—	1,389	(1,389)	—
Definite-lived intangible asset impairment	—	—	—	2,169	(2,169)	—
Impairment of assets held for sale	23,427	(23,427)	—	—	—	—
Acquisition and divestiture expenses	3,375	(3,375)	—	7,004	(7,004)	—

Restructuring and related charges	9,030	(9,030)	—	6,894	(6,894)	—
Operating income	10,973	53,405	64,378	29,647	35,309	64,956
Other income (expense)	(23,857)	10,230	(13,627)	(26,692)	13,197	(13,495)
Income (loss) before taxes on income	(12,884)	63,635	50,751	2,955	48,506	51,461
Taxes (benefit) on income (loss)	6,564	4,329	10,893	(132)	12,003	11,871
Non-controlling interests income	(1,444)	(51)	(1,495)	(159)	(261)	(420)
Net Income (loss) *(attributable to Aegion Corporation)*	(20,892)	59,255	38,363	2,928	36,242	39,170
Diluted earnings (loss) per share	$ (0.67)	$ 1.88	$ 1.21	$ 0.09	$ 1.10	$ 1.19

Net income (loss) and diluted earnings (loss) per share includes non-controlling interest

(1)2019 Non-GAAP pre-tax adjustments:

- **Restructuring:** Charges for cost of revenues of $2,338 primarily related to inventory write offs; charges for operating expenses of $10,743 primarily related to wind-down expenses, fixed asset disposals and other restructuring-related charges; charges of $9,030 related to employee severance, extension of benefits, employment assistance programs and early lease and contract termination costs; charges for other expense of $10,230 related to the release of cumulative currency translation adjustments and net losses on disposal of certain restructured operations.
- **Acquisition and Divestiture Expenses:** Charges of $23,427 related to the impairment of held for sale operations (CIPP operations in Australia, Spain and the Netherlands, Corrpower and United Mexico and parcels of land located near the Company's corporate headquarters); and expenses of $3,375 incurred primarily in connection with the Company's planned divestiture of its held for sale operations.
- **Project Warranty Accruals:** Charges of $4,429 for estimated project remediation charges related to a cured-in-place pipe project in the North American operations of Infrastructure Solutions.
- **Tax Cuts and Jobs Act:** Expenses of $63 related to professional fees resulting from the Tax Cuts and Jobs Act.

(2)2018 Non-GAAP pre-tax adjustments:

- **Restructuring:** Charges for cost of revenues of $1,881 primarily related to inventory write offs; charges for operating expenses of $13,183 primarily related to wind-down expenses, reserves for potentially uncollectible receivables, fixed asset disposals and other restructuring-related charges; charges for goodwill and definite-lived intangible asset impairment of $1,389 and $2,169, respectively, related to the restructured operations in Denmark and Corrpro Middle East; charges of $6,894 related to employee severance, extension of benefits, employment assistance programs and early contract termination costs; and charges of $3,970 related to losses on disposal of certain restructured entities and the release of cumulative currency translation adjustments.
- **Acquisition and Divestiture Expenses:** Expenses of $7,004 incurred in connection with the Company's divestiture of Bayou, small acquisitions in both Corrosion Protection and Energy Services, and the divestitures of the CIPP operations in Australia and Denmark; and a $7,048 loss on the divestiture of Bayou.
- **Inventory Obsolescence:** Expenses of $2,789 related to non-cash charges for estimates of inventory obsolescence in the Company's cathodic protection operations.
- **Credit Facility Fees:** Expenses of $2,179 related to certain out-of-pocket expenses and acceleration of certain unamortized fees associated with amending the Company's credit facility.
- **Tax Cuts and Jobs Act:** Income tax reversals of $1,917 resulting from the Tax Cuts and Jobs Act.

Selected Segment Financial Highlights
(in thousands)

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	As Reported (GAAP)	**Adjustments (1)**	**As Adjusted (Non-GAAP)**	**As Reported (GAAP)**	**Adjustments (2)**	**As Adjusted (Non-GAAP)**
Revenues:						
Infrastructure Solutions	$ 590,797	$ —	$ 590,797	$ 604,121	$ —	$ 604,121
Corrosion Protection	295,090	—	295,090	393,740	—	393,740
Energy Services	328,048	—	328,048	335,707	—	335,707
Total Revenues	$ 1,213,935	$ —	$ 1,213,935	$ 1,333,568	$ —	$ 1,333,568
Gross Profit:						
Infrastructure Solutions	$ 144,074	$ 4,898	$ 148,972	$ 132,411	$ 1,281	$ 133,692

Gross Profit Margin	*24.4%*		*25.2%*	*21.9%*		*22.1%*
Corrosion Protection	60,927	1,869	62,796	92,968	3,389	96,357
Gross Profit Margin	*20.6%*		*21.3%*	*23.6%*		*24.5%*
Energy Services	41,234	—	41,234	41,547	—	41,547
Gross Profit Margin	*12.6%*		*12.6%*	*12.4%*		*12.4%*
Total Gross Profit	$ 246,235	$ 6,767	$ 253,002	$ 266,926	$ 4,670	$ 271,596
Gross Profit Margin	*20.3%*		*20.8%*	*20.0%*		*20.4%*
Operating Income (Loss):						
Infrastructure Solutions	$ 42,079	$ 30,647	$ 72,726	$ 37,509	$ 16,484	$ 53,993
Operating Margin	*7.1%*		*12.3%*	*6.2%*		*8.9%*
Corrosion Protection	(5,635)	10,754	5,119	16,283	12,822	29,105
Operating Margin	*(1.9)%*		*1.7%*	*4.1%*		*7.4%*
Energy Services	9,740	1,661	11,401	9,638	262	9,900
Operating Margin	*3.0%*		*3.5%*	*2.9%*		*2.9%*
Corporate	(35,211)	10,343	(24,868)	(33,783)	5,741	(28,042)
Operating Margin	*(2.9)%*		*(2.0)%*	*(2.5)%*		*(2.1)%*
Total Operating Income	$ 10,973	$ 53,405	$ 64,378	$ 29,647	$ 35,309	$ 64,956
Operating Margin	*0.9%*		*5.3%*	*2.2%*		*4.9%*

(1) Includes non-GAAP adjustments related to:

- **Infrastructure Solutions** - (i) pre-tax restructuring charges associated with severance and benefit related costs, early contract termination costs, fixed asset disposals and other restructuring charges; (ii) acquisition and divestiture expenses; (iii) project warranty accrual; and (iv) impairment of assets held for sale.
- **Corrosion Protection** - (i) pre-tax restructuring charges associated with severance and benefit related costs, early lease and contract termination costs, inventory write offs and other restructuring charges; (ii) acquisition and divestiture expenses; and (iii) impairment of assets held for sale.
- **Energy Services** - pre-tax restructuring charges associated with severance and benefit related costs and other restructuring charges.
- **Corporate** - (i) pre-tax restructuring charges primarily associated with severance and benefit related costs, legal expenses and other restructuring charges; (ii) divestiture expenses related to held for sale entities; and (iii) impairment of assets held for sale.

(2) Includes non-GAAP adjustments related to:

- **Infrastructure Solutions** - (i) pre-tax restructuring charges associated with severance and benefit related costs, early contract termination costs, fixed asset disposals, goodwill and definite-lived intangible asset impairments and other restructuring charges; and (ii) expenses incurred in connection with the divestitures of the CIPP businesses in Australia and Denmark.
- **Corrosion Protection** - (i) pre-tax restructuring charges associated with severance and benefit related costs, early contract termination costs, inventory write offs, definite-lived intangible asset impairments and other restructuring charges; (ii) non-cash charges related to estimates for inventory obsolescence; and (iii) expenses incurred in connection with the acquisition of Hebna and divestiture of the Bayou business.
- **Energy Services** - pre-tax restructuring charges associated with severance and benefit related costs and other restructuring charges.
- **Corporate** - (i) pre-tax restructuring charges primarily associated with severance and benefit related costs and legal expenses; and (ii) divestiture expenses primarily incurred in connection with the divestitures of Australia, Denmark and Bayou.

About Aegion Corporation (NASDAQ: AEGN)

Aegion combines innovative technologies with market-leading expertise to maintain, rehabilitate and strengthen infrastructure around the world. For nearly 50 years, the Company has played a pioneering role in finding innovative solutions to rehabilitate aging infrastructure, primarily pipelines in the wastewater, water, energy, mining and refining industries. Aegion also maintains the efficient operation of refineries and other industrial facilities.

Aegion is committed to Stronger. Safer. Infrastructure.® More information about Aegion can be found at www.aegion.com.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Aegion's forward-looking statements in this news release represent its beliefs or expectations about future events or financial performance. These forward-looking statements are based on information currently available to Aegion and on management's beliefs, assumptions, estimates or projections and are not guarantees of future events or results. When used in this document, the words "anticipate," "estimate," "believe," "plan," "intend," "may," "will" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Such statements are subject to known and unknown risks, uncertainties and assumptions, including those referred to in the "Risk Factors" section of Aegion's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 1, 2019, and in subsequently filed documents. In light of these risks, uncertainties and assumptions, the forward-looking events may not occur. In addition, Aegion's actual results may vary materially from those anticipated, estimated, suggested or projected. Except as required by law, Aegion does not assume a duty to update forward-looking statements, whether as a result of new information, future events or otherwise. Investors should, however, review additional disclosures made by Aegion from time to time in Aegion's filings with the Securities and Exchange Commission. Please use caution and do not place reliance on forward-looking statements. All forward-looking statements made by Aegion in this news release are qualified by these cautionary statements.

Information regarding the impact of the Tax Cuts and Jobs Act consists of estimates which are forward looking and subject to change. We anticipate additional guidance, both at the federal and state level, to be forthcoming. As such, the impacts of the legislation may differ from our current estimates, interpretations and assumptions, possibly materially, and the amount of the impact on the Company may accordingly be adjusted over the course of 2020.

About Non-GAAP Financial Measures

Aegion has presented certain information in this release excluding certain items that impacted income, expense and earnings per share. The adjusted earnings per share in the quarters and years ended December 31, 2019 and 2018, respectively, exclude charges related to the Company's restructuring activities, goodwill impairment, definite-lived intangible asset impairment, acquisition and divestiture-related activities, impairment of assets held for sale, project warranty accruals, credit facility amendment fees and impacts related to the Tax Cuts and Jobs Act.

Aegion management uses such non-GAAP information internally to evaluate financial performance for Aegion's operations because Aegion's management believes such non-GAAP information allows management to more accurately compare Aegion's ongoing performance across periods. As such, Aegion's management believes that providing non-GAAP financial information to Aegion's investors is useful because it allows investors to evaluate Aegion's performance using the same methodology and information used by Aegion management.

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