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PRESS RELEASE

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FOR IMMEDIATE RELEASE

October 11, 2018

VELAN INC. REPORTS ITS SECOND QUARTER 2018/19 FINANCIAL RESULTS

MONTREAL, QUEBEC

Velan Inc. (TSX: VLN) (the "Company"), a world-leading manufacturer of industrial valves, announced today its financial results for its second quarter ended August 31, 2018.

Highlights

- **Sales of US$91.4 million for the quarter**
- **Net loss[1] of US$2.4 million for the quarter**
- **EBITDA[2] of US$1.4 million for the quarter**
- **Net new orders ("Bookings") of US$103.5 million for the quarter**
- **Order backlog of US$469.0 million at the end of the quarter, of which US$163.0 million is scheduled for delivery beyond the next 12 months**
- **Net cash of US$51.3 million at the end of the quarter**

(millions of U.S. dollars, excluding per share amounts)	Three-month periods ended August 31		Six-month periods ended August 31	
	2018	2017	2018	2017
Sales	$91.4	$76.5	$169.2	$147.6
Gross Profit[3]	19.3	15.7	37.1	29.6
Gross profit[3] %	*21.1%*	*20.5%*	*21.9%*	*20.1%*
EBITDA[2]	1.4	(4.2)	(0.1)	(6.7)
EBITDA[2] per share – basic and diluted	*0.06*	*(0.19)*	*(0.01)*	*(0.31)*
Net loss[1]	(2.4)	(5.6)	(6.2)	(9.9)
Net loss[1] per share – basic and diluted	*(0.11)*	*(0.26)*	*(0.28)*	*(0.46)*

Second Quarter Fiscal 2019 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the second quarter of fiscal 2018):

- Sales amounted to $91.4 million, an increase of $14.9 million or 19.5% from the prior year. Sales were positively impacted by an increase in improved MRO business and in shipments of large project orders that were ordered in the prior fiscal year for the Company's North American operations. This increase was partially offset by decreased shipments from the Company's Italian operations which was caused by the lower order bookings by the subsidiary in the prior year.

- Net loss[1] amounted to $2.4 million or $0.11 per share compared to $5.6 million or $0.26 per share last year. The improvement is primarily due to the higher volume of shipments that occurred in the quarter compared to last year. Despite a higher sales volume and improved margins, fierce competition and weakness in the Company's North American operating markets continued to apply pressure on the Company's overall results, highlighting the need to accelerate its global cost reduction and transformation initiatives.
- EBITDA[2] amounted to $1.4 million or $0.06 per share compared to a negative $4.2 million or $0.19 per share last year. The $5.6 million improvement in EBITDA[2] is primarily attributable to a higher sales volume and a higher gross profit percentage.
- Gross profit percentage increased by 60 basis points from 20.5% to 21.1%. The increase in the gross profit percentage is mainly attributable to the higher sales volume, which helped to cover the Company's fixed production overheads, as well as a product mix with a higher proportion of higher margin product sales. However, the continued pressure on pricing continues to affect the Company's margins, particularly in its North American operations.
- Net new orders received ("bookings") amounted to $103.5 million, an increase of $11.0 million or 11.9% compared to last year. This increase is due primarily to new orders booked by the Company's Italian operations, which was partially offset by a decrease in orders booked in the Company's North American operations, which had recorded significant large project orders in the prior year.
- The Company ended the quarter with net cash of $51.3 million, a decrease of $0.3 million or 0.0% since the beginning of the quarter. The Company's net cash remained stable over the course of the current quarter
- The increase in bookings and the improved sales performance was achieved thanks to the recovery observed in the oil and gas markets benefitting mainly MRO and upstream valve bookings, and also in part by the realignment in the prior year of the global sales force along vertical market lines rather than geographic lines.

Results for the six-month period ended August 31, 2018

- Sales amounted to $169.2 million, an increase of $21.6 million or 14.6% from the prior year. Sales were positively impacted by an increase in shipments from the Company's North American and French subsidiaries, which were partially offset by decreased shipments from the Company's German operations. Sales were positively impacted by an increase in shipments from the Company's North American operations resulting from the improved MRO business and the large project orders that were booked in the prior fiscal year, although, delays in the shipments of certain large project orders in both the German and North American operations of the Company caused by various customer-related, supply chain and internal operational issues are still present.
- Net loss[1] amounted to $6.2 million or $0.28 per share compared to $9.9 million or $0.46 per share last year. The $3.7 million improvement is primarily attributable to a higher gross profit percentage, partially offset by an increase of administration costs. At the current sales level, the Company was not able to generate a gross margin sufficient to cover all its fixed administration and other costs.
- Gross profit percentage increased by 180 basis points from 20.1% to 21.9%. This improvement is due to a higher sales volume and a product mix with a greater proportion of higher margin product sales.
- EBITDA[2] amounted to a negative $0.1 million or $0.01 per share compared to a negative $6.7 million or $0.31 per share last year. The $6.6 million improvement in EBITDA[2] is primarily attributable to a higher sales volume and a higher gross profit percentage.

- Bookings amounted to $189.7 million, an increase of $25.0 million or 15.2% compared to last year. This increase is due primarily to higher orders booked by the Company's Italian and North American subsidiaries, particularly in the oil and gas sector. The bookings of the Italian operations of the Company were negatively affected by the cancellation of a significant order in the prior fiscal year. Furthermore, the Company noted a significant increase of its non-project valve order bookings in its North American operations for the current year. Even with the positive bookings figure, the Company still believes it is necessary to accelerate the assessment of its global manufacturing footprint, supply chain and cost structure as per its Velocity 2020 strategic plan. Consequently, the Company has begun a global cost reduction and efficiency transformation initiative with the goal of reducing annual supply chain, production and overhead costs.
- As a result of bookings outpacing sales in the period, the Company ended the period with a backlog of $469.0 million, an increase of $4.5 million or 1.0% since the beginning of the current fiscal year. The positive book-to-bill ratio was in part negatively impacted by the weakening of the euro spot rate against the U.S. dollar at quarter end.
- Administration costs amounted to $43.7 million, an increase of $2.5 million or 6.1% compared to last year. This increase is primarily attributable to an increase in sales commissions and freight to certain overseas project customers due to the increased sales volume in the Company's North American operations as well as the investment in the sales force that was announced at this time last year. The increase of administration costs was partially offset by the reduction of the costs recognized in connection with the Company's ongoing asbestos litigation. The fluctuation in asbestos costs for the period is due more to the timing of settlements in these two periods rather than to changes in long-term trends.
- The Company ended the period with net cash of $51.3 million, a decrease of $13.2 million or 20.5% since the beginning of the year. This decrease is primarily attributable to cash used by operations, investment in property, plant and equipment, long-term debt repayments, as well as distributions to shareholders via dividends. Net cash was also negatively impacted by the weakening of the euro spot rate against the U.S. dollar over the course of the current year.
- Foreign currency impacts:
    - In spite of the drop of the euro spot rate at quarter end, the average exchange rates of the euro strengthened 6.4% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's net profits and bookings from its European subsidiaries being reported as higher U.S. dollar amounts in the current period.
    - Based on average exchange rates, the Canadian dollar strengthened 1.6% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's Canadian dollar expenses being reported as higher U.S. dollar amounts in the current period.
    - The net impact of the above currency swings was generally favourable on the Company's results.

"Our second quarter was an improvement in several respects on our first quarter, in terms of sales, margins, expenses, Net Income and order bookings, all of which showed positive signs in the quarter compared both to last year and our first quarter. We recorded an EBITDA profit for the quarter and conserved our cash," said John Ball, CFO of Velan Inc. "These improvements notwithstanding, we continue to actively seek ways to improve our competitive position and profitability for the future."

Yves Leduc, President and CEO of Velan Inc., said, “As I stated earlier this year, we are working to make important changes to improve our operating results. We are happy with the improved performance on several fronts in this quarter, but the need to transform remains as strong, as we are slowed down by our complexity and must realign our business and global supply chain to markets where we can drive faster and more profitable growth and achieve greater pricing power through our engineering and design capabilities.”

Dividend

The Board declared an eligible quarterly dividend of CDN$0.03 per share, payable on December 28, 2018, to all shareholders of record as at December 14, 2018.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the second quarter conference call to be held on Friday, October 12, 2018, at 11:00 a.m. (EDT). The toll free call-in number is 1-877-221-8474, access code 21896631. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21896631.

About Velan

Founded in Montreal in 1950, Velan Inc. (www.velan.com) is one of the world’s leading manufacturers of industrial valves, with sales of US$338 million in its last reported fiscal year. The Company employs over 1,800 people and has manufacturing plants in 9 countries. Velan Inc. is a public company with its shares listed on the Toronto Stock Exchange under the symbol VLN.

Safe harbour statement

This news release may include forward-looking statements, which generally contain words like “should”, “believe”, “anticipate”, “plan”, “may”, “will”, “expect”, “intend”, “continue” or “estimate” or the negatives of these terms or variations of them or similar expressions, all of which are subject to risks and uncertainties, which are disclosed in the Company’s filings with the appropriate securities commissions. While these statements are based on management’s assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that it believes are reasonable and appropriate in the circumstances, no forward-looking statement can be guaranteed and actual future results may differ materially from those expressed herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise, except as required by the applicable securities laws. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Non-IFRS measures

In this press release, the Company presented measures of performance and financial condition that are not defined under International Financial Reporting Standards (“non-IFRS measures”) and are therefore unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company. In addition, they provide readers of the Company’s consolidated financial statements with enhanced understanding of its results and financial condition, and increase transparency and clarity into the operating results of its core business.

The term “EBITDA” is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. Refer to the “Reconciliations of Non-IFRS Measures” section in the Company’s Management Discussion and Analysis included in its Interim Report for the quarter ended August 31, 2018 for a detailed calculation of this measure. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

[1] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*

[2] *Non-IFRS measures – see explanation above.*

[3] *In accordance with the current fiscal year's presentation, the comparative figures were adjusted in order to reflect a more accurate allocation of cost of sales and administration costs.*

Velan Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(in thousands of U.S. dollars)

As At	August 31, 2018 $	February 28, 2018 $
Assets		
Current assets		
Cash and cash equivalents	70,114	85,391
Short-term investments	158	647
Accounts receivable	129,735	137,382
Income taxes recoverable	11,848	8,012
Inventories	167,357	170,790
Deposits and prepaid expenses	3,946	4,222
Derivative assets	76	604
	383,234	407,048
Non-current assets		
Property, plant and equipment	87,860	89,864
Intangible assets and goodwill	21,693	20,210
Deferred income taxes	18,487	22,034
Other assets	400	1,037
	128,440	133,145
Total assets	511,674	540,193
Liabilities		
Current liabilities		
Bank indebtedness	18,780	20,848
Short-term bank loans	2,059	1,074
Accounts payable and accrued liabilities	62,038	63,441
Income taxes payable	1,430	2,186
Dividend payable	497	1,678
Customer deposits	43,762	48,963
Provisions	9,526	10,798
Accrual for performance guarantees	32,089	32,655
Derivative liabilities	1,492	1,615
Current portion of long-term debt	7,474	8,151
	179,147	191,409
Non-current liabilities		
Long-term debt	12,658	13,978
Income taxes payable	2,033	2,078
Deferred income taxes	2,590	2,889
Other liabilities	8,547	8,222
	25,828	27,167
Total liabilities	204,975	218,576
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,090	73,090
Contributed surplus	6,066	6,057
Retained earnings	249,554	256,668
Accumulated other comprehensive loss	(26,525)	(19,790)
	302,185	316,025
Non-controlling interest	4,514	5,592
Total equity	306,699	321,617
Total liabilities and equity	511,674	540,193

Velan Inc.

Condensed Interim Consolidated Statements of Income (Loss)

(Unaudited)

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

	Three-month periods ended August 31		Six-month periods ended August 31	
	2018 $	2017 $	2018 $	2017 $
Sales	91,375	76,531	169,249	147,618
Cost of sales[1]	72,032	60,817	132,169	117,978
Gross profit	19,343	15,714	37,080	29,640
Administration costs[1]	21,460	21,652	43,684	41,226
Other expense (income)	(8)	1,223	(24)	1,519
Operating loss	(2,109)	(7,161)	(6,580)	(13,105)
Finance income	220	240	362	368
Finance costs	770	214	944	366
Finance income (costs) – net	(550)	26	(582)	2
Loss before income taxes	(2,659)	(7,135)	(7,162)	(13,103)
Recovery of income taxes	(104)	(1,694)	(933)	(3,076)
Net loss for the period	(2,555)	(5,441)	(6,229)	(10,027)
Net loss attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**(2,438)**	**(5,591)**	**(6,165)**	**(9,895)**
Non-controlling interest	(117)	150	(64)	(132)
	(2,555)	(5,441)	(6,229)	(10,027)
Net loss per Subordinate and Multiple Voting Share				
Basic	(0.11)	(0.26)	(0.28)	(0.46)
Diluted	(0.11)	(0.26)	(0.28)	(0.46)
Dividends declared per Subordinate and Multiple Voting Share	0.02 (CA$0.03)	0.08 (CA$0.10)	0.05 (CA$0.06)	0.15 (CA$0.20)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic	21,621,935	21,646,695	21,621,935	21,642,740
Diluted	21,621,935	21,646,695	21,621,935	21,642,740

[1] **In accordance with the current fiscal year's presentation, the comparative figures were adjusted in order to reflect a more accurate allocation of cost of sales and administration costs.**

Velan Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended August 31		Six-month periods ended August 31	
	2018 $	2017 $	2018 $	2017 $
Comprehensive income (loss)				
Net loss for the period	(2,555)	(5,441)	(6,229)	(10,027)
Other comprehensive income (loss)				
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	(1,390)	5,538	(6,822)	11,811
Comprehensive income (loss)	(3,945)	97	(13,051)	1,784
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(3,732)	(30)	(12,900)	1,896
Non-controlling interest	(213)	127	(151)	(112)
	(3,945)	97	(13,051)	1,784

Other comprehensive income (loss) is composed solely of items that may be reclassified subsequently to the consolidated statement of loss.

Velan Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of U.S. dollars, excluding number of shares)

	Equity attributable to the Subordinate and Multiple Voting shareholders							
	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interest	Total equity
Balance - February 28, 2018	21,667,235	73,090	6,057	(19,790)	256,668	316,025	5,592	321,617
Net loss for the period	-	-	-	-	(6,165)	(6,165)	(64)	(6,229)
Other comprehensive loss	-	-	-	(6,735)	-	(6,735)	(87)	(6,822)
	21,667,235	73,090	6,057	(26,525)	250,503	303,125	5,441	308,566
Effect of share-based compensation	-	-	9	-	-	9	-	9
Dividends								
Multiple Voting Shares	-	-	-	-	(685)	(685)	-	(685)
Subordinate Voting Shares	-	-	-	-	(264)	(264)	-	(264)
Non-controlling interest	-	-	-	-	-	-	(927)	(927)
Balance - August 31, 2018	21,667,235	73,090	6,066	(26,525)	249,554	302,185	4,514	306,699
Balance - February 28, 2017	21,667,235	73,584	6,017	(35,550)	281,343	325,394	6,517	331,911
Net loss for the period	-	-	-	-	(9,895)	(9,895)	(132)	(10,027)
Other comprehensive income	-	-	-	11,791	-	11,791	20	11,811
	21,667,235	73,584	6,017	(23,759)	271,448	327,290	6,405	333,695
Effect of share-based compensation	-	-	20	-	-	20	-	20
Share repurchase	(38,700)	(422)	-	-	(114)	(536)	-	(536)
Dividends								
Multiple Voting Shares	-	-	-	-	(2,394)	(2,394)	-	(2,394)
Subordinate Voting Shares	-	-	-	-	(973)	(973)	-	(973)
Balance - August 31, 2017	21,628,535	73,162	6,037	(23,759)	267,967	323,407	6,405	329,812

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Condensed Interim Consolidated Statements of Cash Flow

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended August 31		Six-month periods ended August 31	
	2018 $	2017 $	2018 $	2017 $
Cash flows from				
Operating activities				
Net loss for the period	(2,555)	(5,441)	(6,229)	(10,027)
Adjustments to reconcile net loss to cash provided by operating activities	3,453	3,120	7,003	8,465
Changes in non-cash working capital items	2,225	11,125	(3,980)	263
Cash provided (used) by operating activities	3,123	8,804	(3,206)	(1,299)
Investing activities				
Short-term investments	438	61	489	(463)
Additions to property, plant and equipment	(3,278)	(1,328)	(5,290)	(2,915)
Additions to intangible assets	(3)	(258)	(99)	(405)
Proceeds on disposal of property, plant and equipment, and intangible assets	115	2	125	61
Net change in other assets	51	(3)	578	52
Cash used by investing activities	(2,677)	(1,526)	(4,197)	(3,670)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	(488)	(1,638)	(2,130)	(3,269)
Dividends paid to non-controlling interest	-	-	(927)	-
Shares issued under Share Option Plan	-	-	-	-
Repurchase of shares	-	(502)	-	(536)
Short-term bank loans	1,020	482	985	227
Increase in long-term debt	-	-	607	-
Repayment of long-term debt	(1,268)	(821)	(1,930)	(1,559)
Cash used by financing activities	(736)	(2,479)	(3,395)	(5,137)
Effect of exchange rate differences on cash	(3)	2,629	(2,411)	5,927
Net change in cash during the period	(293)	7,428	(13,209)	(4,179)
Net cash – Beginning of the period	51,627	64,620	64,543	76,227
Net cash – End of the period	51,334	72,048	51,334	72,048
Net cash is composed of:				
Cash and cash equivalents	70,114	90,562	70,114	90,562
Bank indebtedness	(18,780)	(18,514)	(18,780)	(18,514)
	51,334	72,048	51,334	72,048
Supplementary information				
Interest received (paid)	(132)	140	(168)	121
Income taxes paid	(2,421)	(1,207)	(4,354)	(2,759)