UNISYNC Reports Fiscal 2023 Financial Results

Toronto, ON January 2, 2024: Unisync Corp. (“Unisync") (TSX:"UNI") (OTC:“USYNF”) announces its audited financial results for the fourth quarter and fiscal year ended September 30, 2023. Unisync operates through two business units: Unisync Group Limited (“UGL”) with operations throughout Canada and the USA and 90% owned Peerless Garments LP (“Peerless”), a domestic manufacturing operation based in Winnipeg, Manitoba. UGL is a leading customer--focused provider of corporate apparel, serving many leading Canadian and American iconic brands. Peerless specializes in the production and distribution of highly technical protective garments, military operational clothing, and accessories for a broad spectrum of Federal, Provincial and Municipal government departments and agencies.

Results for Fiscal 2023 versus Fiscal 2022

Revenue for the year ended September 30, 2023 of $103.6 million increased by $7.3 million or 7.6% from the prior year due to an impressive 13.9% improvement in the UGL segment revenue, which followed an 18.0% improvement in fiscal 2022 revenues over fiscal 2021.

Gross profit before depreciation, amortization and one-time non-cash charges fell to a disappointing $18.6 million or 18.0% of revenue, from $23.5 million or 24.4% of revenue in the prior year. The UGL segment reported a decline to $16.1 million or 17.4% of segment revenue compared to $20.1 million or 24.7%, notwithstanding lower revenue in the previous fiscal year. The Peerless segment’s gross profit margin, before a $0.4 million raw material non-cash inventory adjustment, remained consistent with the prior year at 22.1%.

UGL segment gross profit was affected by a $3.4 million non-cash revaluation of the weighted average cost of inventory in the current year to adjust for the sharp drop in offshore container delivery costs since the peak experienced in June 2022, and a non-cash $2.0 million increase in the inventory obsolescence reserve to adjust PPE and other inventory to net realizable value. Margins were also adversely affected by the absorption of higher delivery costs caused by an unprecedented increase in shipping volumes combined with much lower per shipment value as airlines reduced employee allotments to meet the demand for new hires, as well as costs associated with the startup of the new Guelph satellite 40,000 sq. ft. distribution facility which opened in July 2023. In addition, UGL’s limited ability to immediately pass on the broadly based increases in input and overhead costs experienced since the onset of COVID has culminated in a major deterioration in customer contribution margins.

Depreciation and amortization expense rose by $0.8 million from fiscal 2022 to $4.9 million in the current year on account of the amortization of the lease on the new Guelph distribution facility and a full year’s amortization of the Company’s new Enterprise Resource Planning (“ERP”) software that was completed in fiscal 2022.

At $16.3 million, total general and administrative expenses for the year ended September 30, 2023 were down $2.3 million or 12% from fiscal 2022 on a reduction in senior management and customer service staff levels and with the sale of the New Jersey operation.

Interest expense of $3.5 million in the current year doubled from $1.7 million in the prior year due to higher interest rates on the Company’s short-term borrowings and the amortization of interest on the new Guelph distribution facility lease.

A restructuring charge of $0.9 million was recognized for employee severance costs, legal fees, lease termination and inventory relocation costs on the shutdown of distribution and sewing activities at the Company’s Carleton Place, Ontario and Montreal locations which commenced in

September 2023. A $0.3 million gain was realized on the sale of the assets of the New Jersey operation in December 2022.

The Company reported a net loss of $9.2 million for the year ended September 30, 2023 against a loss of $1.3 million in the year before.

Adjusted EBITDA after normalization for non-cash inventory revaluations of $5.8 million and one-time net restructuring costs of $0.6 million, was $1.5 million versus $4.9 million for the corresponding period last year.

Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation nor as a substitute for financial information reported under IFRS. Unisync uses non-IFRS measures, including Adjusted EBITDA, to provide shareholders with supplemental measures of its operating performance. Unisync believes adjusted EBITDA is a widely accepted indicator of an entity's ability to incur and service debt and commonly used by the investing community to value businesses.

Results for Q4 2023 versus Q4 2022

Revenue for the three months ended September 30, 2023 of $20.7 million decreased by $4.6 million or 18% over the three months ended September 30, 2022. The decline was attributable to the drop in the UGL segment revenue to $17.3 million due to a $2.4 million or 26% slowdown in airline customer sector demand compared to the dramatic post pandemic growth experienced in the same period last year, lost revenue from the December 2022 sale of the New Jersey operation and a temporary dip in sales to customers of the Montreal location during the September relocation of inventory to the Guelph distribution center.

Gross profit for the three months ended September 30, 2023 before depreciation, amortization and one-time non-cash charges of $4.0 million, came in at $1.9 million compared to $6.3 million reported the same period last year. Apart from the lower absorption of fixed costs caused by the 18% drop in revenues, the remaining difference resulted from a lower margin sales mix and year-end inventory adjustments being reflected in the fourth quarter results. The Peerless segment's gross profit margin, before a $0.4 million raw material non-cash inventory adjustment in the quarter, remained consistent with the prior year at 22%.

Depreciation and amortization expense rose by $0.5 million over the same quarter last year to $1.1 million due to the reasons stated above.

At $3.7 million, total general and administrative expenses for the three months ended September 30, 2023 were down $1.5 million or 29% from the three months ended September 30, 2022 on a reduction in senior management and customer service staff levels and with the sale of the New Jersey operation.

Interest expense of $1.1 million for the current quarter was up $0.5 million from the same period last year due to higher interest rates on the Company's short-term borrowings and the amortization of interest on the new Guelph distribution facility lease.

The restructuring charge of $0.9 million as referenced above in the fiscal 2023 results, was recognized in the fourth quarter of fiscal 2023.

The Company reported a net loss of $6.7 million in the quarter ended September 30, 2023 compared to a net loss of $0.5 million in the same quarter last year for the reasons cited above.

More detailed information is contained in the Company's Consolidated Financial Statements for the fiscal year ended September 30, 2023 and Management Discussion and Analysis dated December 28, 2023 which may be accessed at www.sedar.com.

THREE PILLAR APPROACH TO IMPROVED MARGINS AND PROFITABILITY AT UGL

Immediately following the corporate leadership changes announced on Feb 25, 2022, UGL began a major downsizing and restructuring that began with the immediate elimination of two redundant Vice President positions followed shortly thereafter by the elimination of three additional Vice President and one Senior Management positions. This restructuring continued into 2023 with the appointment of Director Tim Gu to Chairman of the Board on April 2, 2023 and the commencement of a major operational consolidation endeavor announced in August, integrating its Carleton Place, Ontario and its St. Laurent, Quebec based distribution and small-lot product manufacturing and embellishment facilities into its recently expanded 140,000 square foot main facility in Guelph, Ontario. Driven by a vision of a stronger and more unified company poised for an enhanced service offering and sustainable profitability and growth, these operational adjustments are expected to yield improvements in operational efficiency and future annual savings in direct and administrative labour costs due to a net reduction of about 20% in the UGL division's headcount.

Based on the nature of Company's long-term contracts and weighted average costing of inventory, there is a lag effect before the Company can realize the benefits from customer price increases and reductions in input pricing as production is renegotiated and/or moved to lower cost jurisdictions. Both these processes are now well underway with most clients understanding the need for changes in offshore production and aggressive price increases. Onboarding of new account wins such as Via Rail and the award to our PG subsidiary of a $13.2 million 5 year contract with the DND for the supply of protective combat uniforms, combined with the return to more normal offshore container rates, are all additional positive developments affecting future performance.

BUSINESS OUTLOOK

There has been an unprecedented buildup in large managed image wear opportunities that came to market in 2023 and many more scheduled to go to the market RFP stage throughout 2024/25. Some competitors have had performance issues during the economic turmoil experienced in recent years and/or have signalled withdrawing from this marketplace, leaving UGL well positioned for accelerated organic growth in both Canada and the USA. Our demonstrated capability to manage large complicated operational uniform programs, combined with a base of credible referenceable clients provides the opportunity for near-term accelerated growth.

The Company continues to place strong focus on the US market. UGL is in advanced discussions with several major corporations with respect to their image wear programs totaling close to US$100 million annually in potential new business. Additionally, UGL has been added as an approved supplier to an extensive list of major customers that are also scheduled to come to market in 2024 and into 2025.

The Peerless business segment is positioned to maintain its current level of revenues and profitability over the balance of fiscal 2024 barring further delays in the receipt of technical fabric and/or the exercise of contract options.

Due to the size and imminent nature of the opportunities in front of us, it is important that we restore our capital base that has eroded from a multitude of global disruptions ranging from COVID to major wars. To this end, the Company's Board will be pursuing various capital raising opportunities to effectively capitalize on the growth opportunities in front of us.

As we move out of this platform building phase, management and your Board are committed to achieving continued future growth and the development of an improved level of profitability to enhance shareholder value.

CORPORATE DEVELOPMENTS

Following the decision earlier in the year by the Company's CFO, Richard Smith, to retire, the Company embarked on a search for his ultimate replacement which resulted in the hiring of Parvinder Shergill, as Vice President Finance of UGL on September 6, 2023. Effective December 31, 2023 Mr. Smith has retired as CFO, and is replaced by Ms. Shergill who will assume the additional role of VP Finance for the Company. Mr. Smith has agreed to continue with the Company until the end of February 2024 to assist in the transition, thereafter moving to a part time advisory role. We would like to take this opportunity to thank Richard for the dedication and hard work he has exhibited throughout his thirteen-year career with Unisync and wish him good health and happiness in his retirement.

Parvinder obtained a Graduate Diploma in Law in 1995 followed by an MBA from De Montfort University, UK, in 1996 and began her business career as a Tax Consultant with KPMG in Jan 1997. During the following four and a half years she gained valuable international experience in US, UK and Canadian taxation matters. Parvinder obtained her CPA designation from the Illinois Board of Examiners in 2008. She has held positions ranging from Business Analyst with Microsoft Canada, Director of Finance for Hill Street Beverage, Founder and CFO of a small business, and more recently operating as a consultant to a number of businesses - all while raising her young family. We look forward to Parvinder's collaborative nature and strong coaching skills fostering a positive team dynamic in her new role.

In addition, the Board advises that C Scott Shepherd has for personal reasons resigned his Vice Chairman role and the directorship he held from July 16, 2020 to December 1, 2023. The Board would like to thank Scott for the valuable contributions he has made to the Company in those roles.

On Behalf of the Board of Directors

Douglas F Good
Director & CEO

Investor relations contact:
Douglas F Good, Director & CEO at 778-370-1725 Email: dgood@unisyncgroup.com