



CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended September 30, 2020



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Second quarter ended September 30, 2020

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DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2020 AND 2019

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation for the quarters ended September 30, 2020 and 2019 have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, and are the responsibility of the Corporation's management.

The Corporation's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of financial statements by the external auditors of an entity.

November 12, 2020

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	September 30, 2020	March 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		\$ 78,719	\$ 45,841
Accounts receivable		93,091	112,558
Income tax receivable		1,634	1,291
Inventories		253,464	241,119
Derivative financial instruments	9	588	28
Other current assets		20,427	21,213
		447,923	422,050
Property, plant and equipment, net		246,688	259,641
Finite-life intangible assets, net	4	55,353	64,047
Derivative financial instruments	9	466	3,498
Deferred income tax assets		15,505	19,698
Goodwill		118,191	120,773
Other long-term assets		8,964	9,141
Total assets		\$ 893,090	\$ 898,848
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 113,759	\$ 126,488
Provisions		31,151	27,679
Customer advances and progress billings		41,001	34,885
Income tax payable		3,092	1,403
Derivative financial instruments	9	2,338	9,321
Current portion of long-term debt	10	16,969	16,857
		208,310	216,633
Long-term debt	10	277,864	272,760
Provisions		20,101	19,527
Derivative financial instruments	9	3,071	14,667
Deferred income tax liabilities		8,618	8,812
Other liabilities		18,566	17,001
		536,530	549,400
Shareholders' equity			
Issued capital	11	79,757	79,757
Contributed surplus		6,360	5,792
Accumulated other comprehensive income	12	12,714	7,160
Retained earnings		256,196	255,221
Total equity attributable to the equity holders of the parent		355,027	347,930
Non-controlling interests		1,533	1,518
		356,560	349,448
Total liabilities and shareholders' equity		\$ 893,090	\$ 898,848

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of Canadian dollars, except per share data) (Unaudited)

	Notes	Three months ended September 30,		Six months ended September 30,	
		2020	2019	2020	2019
Sales	3	\$ 137,063	\$ 145,516	\$ 265,398	\$ 288,943
Cost of sales	4, 5	115,998	123,302	223,787	242,504
Gross profit		21,065	22,214	41,611	46,439
Selling and administrative expenses	4, 5	11,277	11,695	24,393	24,934
Non-recurring items	6	2,668	—	8,713	615
Operating income		7,120	10,519	8,505	20,890
Net financial expenses	7	2,479	2,837	5,409	5,473
Income before income tax expense		4,641	7,682	3,096	15,417
Income tax expense		803	1,375	571	2,667
Net income		\$ 3,838	\$ 6,307	\$ 2,525	\$ 12,750
Attributable to:					
Equity holders of the parent		\$ 3,906	\$ 6,566	\$ 2,510	\$ 13,108
Non-controlling interests		(68)	(259)	15	(358)
		\$ 3,838	\$ 6,307	\$ 2,525	\$ 12,750
Earnings per share – basic and diluted	8	\$ 0.11	\$ 0.18	\$ 0.07	\$ 0.36

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars) (Unaudited)

	Note	Three months ended September 30,		Six months ended September 30,	
	12	2020	2019	2020	2019
Other comprehensive income (loss):					
Items that may be reclassified to net income					
Gains (losses) arising from conversion of the financial statements of foreign operations		\$ 1,544	\$ (3,118)	\$ (10,631)	\$ (12,421)
Cash flow hedges:					
Net gains (losses) on valuation of derivative financial instruments		6,404	(3,744)	16,802	(1,754)
Net losses on derivative financial instruments transferred to net income		765	69	3,723	480
Deferred income taxes		(1,915)	980	(5,484)	373
		5,254	(2,695)	15,041	(901)
Gains (losses) on hedge of net investments in foreign operations		(1,644)	1,072	1,289	2,348
Deferred income taxes		226	(486)	(145)	(557)
		(1,418)	586	1,144	1,791
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains (losses) from remeasurement		1,534	(1,816)	(2,099)	(3,470)
Deferred income taxes		(395)	466	564	917
		1,139	(1,350)	(1,535)	(2,553)
Other comprehensive income (loss)		\$ 6,519	\$ (6,577)	\$ 4,019	\$ (14,084)
Comprehensive income (loss)					
Net income		\$ 3,838	\$ 6,307	\$ 2,525	\$ 12,750
Other comprehensive income (loss)		6,519	(6,577)	4,019	(14,084)
Comprehensive income (loss)		\$ 10,357	\$ (270)	\$ 6,544	\$ (1,334)
Attributable to:					
Equity holders of the parent		\$ 10,425	\$ (11)	\$ 6,529	\$ (976)
Non-controlling interests		(68)	(259)	15	(358)
		\$ 10,357	\$ (270)	\$ 6,544	\$ (1,334)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars) (Unaudited)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Equity attributable to the equity holders of the parent	Non-Controlling interests	Shareholders' equity
Balance as at March 31, 2020		\$ 79,757	\$ 5,792	\$ 7,160	\$ 255,221	\$ 347,930	\$ 1,518	\$ 349,448
Stock-based compensation expense	11	—	568	—	—	568	—	568
Net income		—	—	—	2,510	2,510	15	2,525
Other comprehensive income (loss)	12	—	—	5,554	(1,535)	4,019	—	4,019
Balance as at September 30, 2020		\$ 79,757	\$ 6,360	\$ 12,714	\$ 256,196	\$ 355,027	\$ 1,533	\$ 356,560

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Equity attributable to the equity holders of the parent	Non-Controlling interests	Shareholders' equity
Balance as at March 31, 2019		\$ 79,676	\$ 4,707	\$ 10,502	\$ 307,101	\$ 401,986	\$ 2,112	\$ 404,098
Stock-based compensation expense	11	—	519	—	—	519	—	519
Purchase of minority interests in Tekalia		—	—	—	—	—	(544)	(544)
Net income (loss)		—	—	—	13,108	13,108	(358)	12,750
Other comprehensive loss	12	—	—	(11,531)	(2,553)	(14,084)	—	(14,084)
Balance as at September 30, 2019		\$ 79,676	\$ 5,226	\$ (1,029)	\$ 317,656	\$ 401,529	\$ 1,210	\$ 402,739

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

	Notes	Three months ended September 30,		Six months ended September 30,	
		2020	2019	2020	2019
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		\$ 3,838	\$ 6,307	\$ 2,525	\$ 12,750
Items not requiring an outlay of cash:					
Amortization expense	5	11,445	10,991	22,373	21,514
Deferred income taxes		(363)	26	(1,121)	(919)
Gains on sale of property, plant and equipment		—	—	—	(221)
Net non-cash financial expenses	7	713	1,210	2,019	2,144
Stock-based compensation expense	11	288	300	568	519
Cash flows from operations		15,921	18,834	26,364	35,787
Net change in non-cash items	13	(494)	(6,330)	4,536	(19,588)
Cash flows related to operating activities		15,427	12,504	30,900	16,199
Investing activities					
Cash payment related to business acquisition		—	—	—	(17,149)
Net additions to property, plant and equipment		(3,378)	(4,291)	(9,507)	(8,155)
Net change in finite-life intangible assets		1,326	(965)	2,214	(2,384)
Proceeds on disposal of property, plant and equipment		—	—	—	4,025
Cash flows related to investing activities		(2,052)	(5,256)	(7,293)	(23,663)
Financing activities					
Proceeds from long-term debt		1,752	124	63,351	23,044
Repayment of long-term debt		(51,300)	(24,725)	(54,187)	(30,355)
Increase in deferred financing costs		—	(4)	—	(348)
Cash flows related to financing activities		(49,548)	(24,605)	9,164	(7,659)
Effect of changes in exchange rates on cash and cash equivalents		485	22	107	(375)
Change in cash and cash equivalents during the periods		(35,688)	(17,335)	32,878	(15,498)
Cash and cash equivalents at beginning of periods		114,407	36,965	45,841	35,128
Cash and cash equivalents at end of periods		\$ 78,719	\$ 19,630	\$ 78,719	\$ 19,630
Interest and income taxes reflected in operating activities:					
Interest paid		\$ 1,985	\$ 1,647	\$ 3,827	\$ 3,383
Interest received		\$ 219	\$ 20	\$ 437	\$ 54
Income taxes paid (refunded)		\$ 860	\$ 1,798	\$ (114)	\$ 3,821

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarters and six-month periods ended September 30, 2020 and 2019
(In thousands of Canadian dollars, except per share data) (Unaudited)

NOTE 1. NATURE OF ACTIVITIES AND CORPORATE INFORMATION

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 600, West Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries (the "Corporation") specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic and electromechanical actuators, custom ball screws and fracture-critical components.

The Corporation only operates in one reporting segment, which is the Aerospace segment.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "HRX".

NOTE 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the quarter ended September 30, 2020 were prepared in accordance with IAS 34, *Interim Financial Reporting*, therefore certain information and disclosures have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual audited consolidated financial statements and notes thereto included in the Corporation's Annual Report for the fiscal year ended March 31, 2020.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on November 12, 2020.

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The disaggregation of the Corporation's revenue from contracts with customers was as follows :

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Geographic markets				
Canada	\$ 15,479	\$ 13,065	\$ 26,047	\$ 26,827
United States of America	68,595	79,567	137,677	153,670
United Kingdom	12,386	14,457	25,069	30,775
Spain	13,048	10,555	23,120	21,743
Rest of Europe	18,909	15,367	34,328	29,664
Other countries	8,646	12,505	19,157	26,264
	\$ 137,063	\$ 145,516	\$ 265,398	\$ 288,943
Sectors				
Civil	47,084	64,921	\$ 97,025	\$ 132,362
Defence ⁽¹⁾	89,979	80,595	168,373	156,581
	\$ 137,063	\$ 145,516	\$ 265,398	\$ 288,943

⁽¹⁾ Includes defence sales to civil customers and governments.

NOTE 4. GOVERNMENT ASSISTANCE

Government assistance was deducted from the cost of related assets or recognized as a reduction of expenses as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Finite-life intangible assets	\$ 222	\$ 174	\$ 466	\$ 393
Cost of sales and selling and administrative expenses	5,261	453	9,527	1,306

Government assistance includes mainly research and development tax credits, other credits and grants.

During the quarter and six-month period ending September 30, 2020, government assistance accounted for in cost of sales and selling and administrative expenses was largely comprised of the Canadian Emergency Wage Subsidy.

NOTE 5. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Raw materials and purchased parts	\$ 54,208	\$ 54,485	\$ 96,670	\$ 104,374
Employee costs	39,565	48,057	85,816	97,057
Amortization of property, plant and equipment and finite-life intangible assets	11,445	10,991	22,373	21,514
Others	22,057	21,464	43,321	44,493
	\$ 127,275	\$ 134,997	\$ 248,180	\$ 267,438
Including:				
Foreign exchange losses (gains) upon conversion of net monetary items	227	(492)	1,130	66
Amortization of customer relationships	1,451	1,941	2,711	3,782

NOTE 6. NON-RECURRING ITEMS

Non-recurring items in operating income comprise the following:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Restructuring charges	\$ 2,668	\$ —	\$ 8,713	\$ —
Acquisition-related costs	—	—	—	615
	\$ 2,668	\$ —	\$ 8,713	\$ 615

Restructuring charges

On May 5, 2020, Héroux-Devtek announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives will affect 10% of the workforce, or approximately 225 employees, and will include the closure of the business unit formerly known as Alta Précision.

To date, \$8,713 of related costs have been recorded as restructuring charges, mainly comprised of employee-related charges and costs to dismantle and relocate machinery. 70% of staff reductions have been completed, with most of the remaining related to Alta Précision. These employees will remain until the closure of the facility near the end of the fiscal year in order to complete an orderly transition of work packages.

NOTE 7. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Interest accretion on governmental authorities loans	\$ 828	\$ 783	\$ 1,619	\$ 1,263
Interest on net defined benefit obligations	102	65	203	124
Amortization of deferred financing costs	189	215	404	474
Other interest accretion and discount rate adjustments	(406)	147	(207)	283
Net non-cash financial expenses	713	1,210	2,019	2,144
Interest expense	1,985	1,647	3,827	3,383
Interest income on cash and cash equivalents	(219)	(20)	(437)	(54)
	\$ 2,479	\$ 2,837	\$ 5,409	\$ 5,473

NOTE 8. EARNINGS PER SHARE

The following table sets forth the elements used to compute basic and diluted earnings per share:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Weighted-average number of common shares outstanding	36,367,210	36,362,210	36,367,210	36,362,210
Dilutive effect of stock options	11,387	382,444	23,708	340,510
Weighted-average number of common diluted shares outstanding	36,378,597	36,744,654	36,390,918	36,702,720
Options excluded from diluted earnings per share calculation	1,497,595	—	1,497,595	—

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

As at September 30, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$293,946 (\$404,728 at March 31, 2020) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$210,440 (US\$266,355 at March 31, 2020) convertible into Canadian dollars at an average rate of 1.3253 (1.3243 at March 31, 2020). These contracts mature at various dates between October 2020 and March 2025, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at September 30, 2020, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 80,768 in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

Equity swap agreement

As at September 30, 2020 and March 31, 2020, the Corporation had entered into an equity swap agreement fixing 300,000 common shares of the Corporation at a price of \$13.52. This agreement manages the Corporation's exposure to fluctuations of its share price and resulting effect on the value of outstanding Performance Share Units and Deferred Share Units. It is a derivative that is not part of a designated hedging relationship and matures in June 2021.

NOTE 10. LONG-TERM DEBT

As at	September 30, 2020	March 31, 2020
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 90,828	\$ 96,472
Governmental authorities loans	91,276	88,590
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	60,000
Lease liabilities	40,425	44,665
Balance of sale - Acquisitions	—	2,983
Deferred financing costs, net	(2,696)	(3,093)
	294,833	289,617
Less: current portion	16,969	16,857
Long-term debt	\$ 277,864	\$ 272,760

Revolving Facility

The revolving facility matures in December 2024, has a limit of \$250,000, of which \$90,828 or US\$68,000 is drawn, and bears interest at a weighted average of 1.6% (\$96,472 or US\$68,000 at 2.5% at March 31, 2020).

Term Loan Facility

The term loan facility matures in September 2025, is fully drawn and bears interest at a weighted average interest rate of 5.2%.

Lease liabilities

Lease liabilities bear fixed interest rates between 2.8% and 7.0% as at September 30, 2020 (2.8% and 7.0% as at March 31, 2020), maturing from November 2020 to May 2039.

NOTE 11. ISSUED CAPITAL

A. Share capital

36,367,210 of common shares issued were fully paid as at September 30, 2020 and as at March 31, 2020.

B. Stock option plan

The Corporation grants stock options at a subscription price representing the average closing price of the Corporation's common shares on the Toronto Stock Exchange for the five trading days preceding the grant date. Options granted under the plan mainly vest over a period of four years. The options are exercisable over a period not exceeding seven years after the grant date.

For the quarters ended September 30, variances in stock options outstanding and related compensation expense were as follows:

	2020		2019	
	Number of stock options	Weighted- average exercise price	Number of stock options	Weighted- average exercise price
Opening balance	1,846,595	\$ 13.10	1,508,595	\$ 13.87
Closing balance	1,846,595	\$ 13.10	1,508,595	\$ 13.87
Stock-based compensation expense		\$ 288		\$ 300

For the six-month periods ended September 30, variances in stock options outstanding and related compensation expense were as follows:

	2020		2019	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,497,595	\$ 13.86	1,167,095	\$ 13.23
Granted	349,000	9.83	341,500	16.03
Closing balance	1,846,595	\$ 13.10	1,508,595	\$ 13.87
Stock-based compensation expense		\$ 568		\$ 519

2,808,257 common share are reserved for issuance under the stock option plan, of which 2,752,507 had not been issued yet at September 30, 2020 and March 31, 2020).

C. Deferred Share Unit ("DSU") and Performance Share Unit ("PSU") plans

Movements in outstanding DSUs and PSUs and related expenses were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
DSUs				
<i>In number of DSUs</i>				
Opening balance	154,950	166,334	154,950	166,334
Issued	34,214	21,671	34,214	21,671
Settled	—	(33,055)	—	(33,055)
Closing balance of DSUs outstanding	189,164	154,950	189,164	154,950
DSU expense for the periods	\$ 107	\$ 17	\$ 80	\$ 645
Fair value of vested outstanding DSUs, end of periods	\$ 1,678	\$ 2,568	\$ 1,678	\$ 2,568

	Quarters ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
PSUs				
<i>In number of PSUs</i>				
Opening balance	397,550	331,750	278,450	212,450
Issued	—	—	119,100	119,300
Cancelled/Forfeited	(2,500)	—	(2,500)	—
Closing balance of PSUs outstanding	395,050	331,750	395,050	331,750
PSU expense for the periods	\$ 50	\$ 233	\$ 173	\$ 1,243
Fair value of vested outstanding PSUs, end of periods	\$ 2,489	\$ 3,093	\$ 2,489	\$ 3,093

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at June 30, 2020	\$ 22,670	\$ (4,115)	\$ (11,221)	\$ 7,334
Other comprehensive income (loss)	1,544	5,254	(1,418)	5,380
Balance as at September 30, 2020	\$ 24,214	\$ 1,139	\$ (12,639)	\$ 12,714
Balance as at March 31, 2020	\$ 34,845	\$ (13,902)	\$ (13,783)	\$ 7,160
Other comprehensive income (loss)	(10,631)	15,041	1,144	5,554
Balance as at September 30, 2020	\$ 24,214	\$ 1,139	\$ (12,639)	\$ 12,714

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at June 30, 2019	\$ 9,963	\$ 22	\$ (5,787)	\$ 4,198
Other comprehensive income (loss)	(3,118)	(2,695)	586	(5,227)
Balance as at September 30, 2019	\$ 6,845	\$ (2,673)	\$ (5,201)	\$ (1,029)
Balance as at March 31, 2019	\$ 19,266	\$ (1,772)	\$ (6,992)	\$ 10,502
Other comprehensive income (loss)	(12,421)	(901)	1,791	(11,531)
Balance as at September 30, 2019	\$ 6,845	\$ (2,673)	\$ (5,201)	\$ (1,029)

NOTE 13. NET CHANGE IN NON-CASH ITEMS

The net change in non-cash items were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Accounts receivable	\$ (15,300)	\$ 332	\$ 19,467	\$ 14,955
Income tax receivable	(794)	(104)	(343)	(191)
Inventories	5,626	(12,611)	(12,346)	(23,330)
Other assets	58	2,125	904	(1,120)
Accounts payable, accrued and other liabilities	593	5,995	(9,069)	(3,043)
Provisions	674	(1,297)	4,047	(2,345)
Customer advances and progress billings	8,042	732	5,394	155
Income tax payable	868	155	1,689	(88)
Effect of changes in exchange rates	(261)	(1,657)	(5,207)	(4,581)
	\$ (494)	\$ (6,330)	\$ 4,536	\$ (19,588)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended September 30, 2020

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OVERVIEW

The purpose of this management discussion and analysis (“MD&A”) is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (“Héroux-Devtek”, the “Corporation” or “Management”) evolved between March 31, 2020 and September 30, 2020. It also compares the operating results and cash flows for the quarter and six-month period ended September 30, 2020 to those of the same periods of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended September 30, 2020, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2020, all of which are available on the Corporation’s website at www.herouxdevtek.com and on SEDAR at www.sedar.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated. This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on November 12, 2020.

IFRS and non-IFRS financial measures

This MD&A contains both IFRS and non-IFRS financial measures. Non-IFRS financial measures are defined and reconciled to the most comparable IFRS measures in the *Non-IFRS Financial Measures* section under *Operating Results*.

Materiality for disclosures

Management determines whether information is material based on whether they believe a reasonable investor’s decision to buy, sell or hold securities of the Corporation would likely be influenced or changed should the information be omitted or misstated, and discloses material information accordingly.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Corporation’s actual performance to differ materially from those expressed in or implied by such statements. These statements are provided for the purpose of assisting the reader in understanding the Corporation’s financial performance and prospects and to present management’s assessment of future plans and operations. The reader is cautioned that such statements may not be appropriate for other purposes.

They may be impacted by factors including, but not limited to: the effect of the ongoing COVID-19 pandemic on Héroux-Devtek’s operations, customers, supply chain, the aerospace industry and the economy in general; the impact of other worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. For further details, please see the Risk Management section of the Corporation’s MD&A for the fiscal year ended March 31, 2020. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although management believes the expectations conveyed by these statements, and while they are based on information available on the date such statements were made, there can be no assurance that such expectations will prove to be correct and readers are advised that actual results may differ from expected results. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

HIGHLIGHTS

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Sales	\$ 137,063	\$ 145,516	\$ 265,398	\$ 288,943
Operating income	7,120	10,519	8,505	20,890
Adjusted operating income ⁽¹⁾	9,788	10,519	17,218	21,505
Adjusted EBITDA ⁽¹⁾	21,233	21,510	39,591	43,019
Net income	3,838	6,307	2,525	12,750
Adjusted net income ⁽¹⁾	6,118	6,307	9,500	13,266
Cash flows related to operating activities	15,427	12,504	30,900	16,199
Free cash flow ⁽¹⁾	13,375	7,248	23,607	5,660
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.11	\$ 0.18	\$ 0.07	\$ 0.36
Adjusted EPS ⁽¹⁾	0.17	0.18	0.26	0.37
<i>As at</i>			September 30, 2020	March 31, 2020
Funded backlog ⁽²⁾			\$ 764,000	\$ 810,000

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

⁽²⁾ Represents firm orders

- All of our facilities remain open and the Corporation continues to have a strong financial position with available liquidity totaling \$228.7 million as at September 30, 2020 (\$192.8 million as at March 31, 2020).
- During the quarter ended September 30, 2020, the Corporation achieved consolidated sales of \$137.1 million, compared to \$145.5 million a year earlier, representing a decrease of 5.8%. The defence sector accounted for 66% of sales this quarter compared to 54% last fiscal year, and this share is expected to increase as a result of growth in Héroux-Devtek's defence programs while the commercial sector will still be affected by the pandemic for some time.
- Operating income stood at \$7.1 million, reflecting \$2.7 million of restructuring charges as described below, compared to \$10.5 million last fiscal year, while Adjusted EBITDA reached \$21.2 million, or 15.5% of sales, compared to \$21.5 million or 14.8%.
- Héroux-Devtek generated cash flows related to operating activities totaling \$15.4 million and free cash flow of \$13.4 million during the quarter compared to \$12.5 million and \$7.2 million, respectively, during the same period last year.
- Backlog remained stable at \$764 million, compared to \$772 million as at June 30, 2020, as an increase in defence orders offset the decrease in demand for large commercial programs.
- In September, Héroux-Devtek delivered the first main landing gears for Boeing's F/A-18E/F Super Hornet under the contract announced in July 2018.
- Subsequent to the end of the quarter, on October, Héroux-Devtek announced that its CESA subsidiary in Spain has been awarded a major multi-year contract by Boeing to manufacture new actuation components for several commercial aircraft platforms. The contract scope will include the supply of production requirements and spare parts for the 787, 777, 777X, 767 (including the Tanker version), and 747.
- The restructuring initiatives announced in May 2020 are progressing as planned, with approximately 70% of planned workforce reductions completed to date. In October, management made the decision to also close Héroux-Devtek's Wichita facility as a result of decreasing business volume. The business unit's repair and overhaul activities will be consolidated in other Héroux-Devtek facilities, while manufacturing activities will be terminated. This decision will affect 37 additional employees, and the net cost of the closure will fit within the initially estimated \$12.0 million of restructuring charges. \$8.7 million of related restructuring charges have been incurred to date this fiscal year. Refer to the *Non-Recurring Items* section under *Operating Results* for further details.

OPERATING RESULTS

	Three months ended September 30,			Six months ended September 30,		
	2020	2019	Variance	2020	2019	Variance
Sales	\$ 137,063	\$ 145,516	\$ (8,453)	\$ 265,398	\$ 288,943	\$ (23,545)
Gross profit	21,065	22,214	(1,149)	41,611	46,439	(4,828)
Selling and administrative expenses	11,277	11,695	(418)	24,393	24,934	(541)
Adjusted operating income ⁽¹⁾	9,788	10,519	(731)	17,218	21,505	(4,287)
Non-recurring items	2,668	—	2,668	8,713	615	8,098
Operating income	7,120	10,519	(3,399)	8,505	20,890	(12,385)
Net financial expenses	2,479	2,837	(358)	5,409	5,473	(64)
Income tax expense	803	1,375	(572)	571	2,667	(2,096)
Net income	\$ 3,838	\$ 6,307	\$ (2,469)	\$ 2,525	\$ 12,750	\$ (10,225)
Adjusted net income ⁽¹⁾	\$ 6,118	\$ 6,307	\$ (189)	\$ 9,500	\$ 13,266	\$ (3,766)
<i>As a percentage of sales</i>						
Gross profit	15.4%	15.3%	10 bps	15.7%	16.1%	-40 bps
Selling and administrative expenses	8.2%	8.0%	20 bps	9.2%	8.6%	60 bps
Operating income	5.2%	7.2%	-200 bps	3.2%	7.2%	-400 bps
Adjusted operating income ⁽¹⁾	7.1%	7.2%	-10 bps	6.5%	7.4%	-90 bps
<i>In dollars per share</i>						
Earnings per share - basic and diluted	\$ 0.11	\$ 0.18	\$ (0.07)	\$ 0.07	\$ 0.36	\$ (0.29)
Adjusted EPS ⁽¹⁾	\$ 0.17	\$ 0.18	\$ (0.01)	\$ 0.26	\$ 0.37	\$ (0.11)

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section for definitions and reconciliations to the most comparable IFRS measures.

Sales

Sales by sector were as follows:

	Three months ended September 30,				
	2020	2019	FX impact	Net variance	
Defence ⁽¹⁾	\$ 89,979	\$ 80,595	\$ 1,488	\$ 7,896	9.8 %
Civil	47,084	64,921	744	(18,581)	(28.6)%
Total	\$ 137,063	\$ 145,516	\$ 2,232	\$ (10,685)	(7.3)%

	Six months ended September 30,				
	2020	2019	FX impact	Net variance	
Defence ⁽¹⁾	\$ 168,373	\$ 156,581	\$ 3,350	\$ 8,442	5.4 %
Civil	97,025	132,362	1,930	(37,267)	(28.2)%
Total	\$ 265,398	\$ 288,943	\$ 5,280	\$ (28,825)	(10.0)%

⁽¹⁾ Includes defence sales to civil customers and governments.

The following explanations relate to sales variations compared to last fiscal year excluding the impact of foreign exchange fluctuations :

Defence

Compared to last year, defence sales increased by \$7.9 million and \$8.4 million, or 9.8% and 5.4% for the quarter and year to date respectively, as a result of:

- The ramp-up of deliveries under new programs for Héroux-Devtek such as the Boeing F-18, MQ-25 and SAAB Gripen E;
- Growth in existing OEM platforms such as the Lockheed F-35; and,
- Strong aftermarket deliveries for proprietary programs.

Civil

The effect of COVID-19 on the aerospace market drove \$18.6 million and \$37.3 million reductions in civil sales for the quarter and six-month periods ended September 30, 2020 respectively. These decreases were the result of lower deliveries for large commercial programs, where twin-aisle deliveries decreased 44%, reflecting lower OEM demand.

Gross Profit

Gross profit for the quarter decreased from \$22.2 million last year to \$21.1 million, and from \$46.4 million to \$41.6 million for the six-month period, as a result of the reduction in civil sales caused by COVID-19, partly offset by growth in the defence sector. The pandemic also caused additional costs and production inefficiencies which were partly offset by the Canadian Emergency Wage Subsidy ("CEWS").

For the quarter, gross profit increased to 15.4% of sales from 15.3% last year as a better sales mix offset the impact of lower volume without a corresponding decrease in fixed costs such as depreciation, which represented a negative year over year impact of 0.5% of sales.

For the six-month period, gross profit decreased from 16.1% to 15.7% as a percentage of sales mainly as a result of lower volume without a corresponding decrease in fixed costs such as depreciation, which represented a year over year impact of 0.7% of sales. This factor was partly offset by better sales mix.

Selling and Administrative Expenses

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Selling and Administrative Expenses	\$ 11,277	\$ 11,695	\$ 24,393	\$ 24,934
Less: Net loss (gain) on conversion of net monetary items	227	(492)	1,130	66
	\$ 11,050	\$ 12,187	\$ 23,263	\$ 24,868
<i>As a percentage of sales</i>	8.1%	8.4%	8.8%	8.6%

When excluding gains and losses on translation of net monetary items, selling and administrative expenses represented 8.1% of sales for the quarter, compared to 8.4% for the same period last fiscal year. The decrease is mainly explained by lower stock-based compensation expense and travel-related costs.

Over the six-month period, the increase from 8.6% to 8.8% mainly relates to a reduction in sales partly offset by the factors described above.

Non-recurring items

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Non-recurring items in operating income				
Restructuring charges	\$ 2,668	\$ —	\$ 8,713	\$ —
Acquisition-related costs	—	—	—	615
	\$ 2,668	\$ —	\$ 8,713	\$ 615

Restructuring charges

On May 5, 2020, Héroux-Devtek announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives will affect 10% of the workforce, or approximately 225 employees, and will include the closure of the business unit formerly known as Alta Précision.

To date, \$8.7 million of related costs (\$2.7 million in the second quarter) have been recorded as restructuring charges, mainly comprised of employee-related charges and costs to dismantle and relocate machinery. 70% of staff reductions have been completed, with most of the remaining related to Alta Précision. These employees will remain until the closure of the facility near the end of the fiscal year in order to complete an orderly transition of work packages.

Operating Income

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Operating income	\$ 7,120	\$ 10,519	\$ 8,505	\$ 20,890
Non-recurring items	2,668	—	8,713	615
Adjusted operating income	\$ 9,788	\$ 10,519	\$ 17,218	\$ 21,505
<i>As a percentage of sales</i>				
Operating income	5.2%	7.2%	3.2%	7.2%
Adjusted operating income	7.1%	7.2%	6.5%	7.4%

Operating income decreased from 7.2% to 5.2% of sales reflecting non recurring charges totaling \$2.7 million this quarter, with none during the same period last year. Excluding these items, adjusted operating income remained relatively stable.

For the six-month period, operating income decreased from 7.2% to 3.2% of sales reflecting non-recurring charges totaling \$8.7 million compared to \$0.6 million last year. Excluding these items, adjusted operating income decreased from 7.4% to 6.5% of sales.

Operating income during the quarter and six-month period reflected negative foreign exchange impacts totaling \$0.3 million and \$0.8 million respectively year over year, or 0.2% and 0.3% of sales.

Net Financial Expenses

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Interest on long-term debt	\$ 1,985	\$ 1,647	\$ 3,827	\$ 3,383
Net financial expense related to government loans	828	783	1,619	1,263
Interest income on cash and cash equivalents	(219)	(20)	(437)	(54)
Other interest expense	(115)	427	400	881
	\$ 2,479	\$ 2,837	\$ 5,409	\$ 5,473

For the quarter and six-month period, the higher interest on long-term debt relate to a higher average outstanding debt balance due to the \$60.0 million of drawings on credit facilities made during the first quarter.

The decrease in other interest expense during both periods is the result of positive discount rate adjustments during the second quarter.

Income Tax Expense

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Income before income tax expense	\$ 4,641	\$ 7,682	\$ 3,096	\$ 15,417
Income tax expense	803	1,375	571	2,667
Effective tax rate	17.3%	17.9%	18.4%	17.3%
Canadian blended statutory income tax rate	26.5%	26.6%	26.5%	26.6%

For the quarter ended September 30, 2020, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.2 million (\$1.1 million in Fiscal 2020) and favourable adjustments related to prior years of \$0.3 million (none in fiscal 2020), partially offset by non-deductible expenses totaling \$0.1 million (\$0.1 million in Fiscal 2020).

For the six-month period ended September 30, 2020, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.3 million (\$2.0 million in Fiscal 2020) and favourable adjustments related to prior years of \$0.2 million (none in Fiscal 2020), partially offset by non-deductible expenses totaling \$0.2 million (\$0.3 million in Fiscal 2020).

Net Income

Net income decreased from \$6.3 million to \$3.8 million during the quarter (or decreased from \$6.3 million to \$6.1 million excluding non-recurring items net of taxes) and decreased from \$12.8 million to \$2.5 million (or decreased from \$13.3 million to \$9.5 million excluding non-recurring items net of taxes) during the six-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

This MD&A is based on earnings in accordance with IFRS and the following non-IFRS financial measures:

Adjusted operating income:	Operating income excluding non-recurring items.
Adjusted EBITDA:	Operating income excluding amortization expense and non-recurring items
Adjusted net income:	Net income excluding non-recurring items net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities less additions to property, plant and equipment and net increase or decrease in finite-life intangible assets.

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Management considers these metrics to be information which may assist investors in evaluating the Corporation's profitability and enable better comparability of the results from one period to another and with peers who may employ similar measures.

These measures are not considered by management to be a substitute for IFRS measures, nor to be superior as they often do not fully reflect periodic costs, the long-term costs of investing or financing decisions or the impact of events which are not a result of operations.

The following are reconciliations of these items to their most comparable IFRS measures as well as additional information on what they represent, excluding free cash flow. For the reconciliation of free cash flow to cash flows related to operating activities, refer to *Liquidity and Capital Resources*.

The Corporation's adjusted operating income is calculated as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Operating income	\$ 7,120	\$ 10,519	\$ 8,505	\$ 20,890
Non-recurring items	2,668	—	8,713	615
Adjusted operating income	\$ 9,788	\$ 10,519	\$ 17,218	\$ 21,505

Management believes adjusted operating income provides investors with a figure that provides an alternative assessment of the Corporation's future profitability by excluding from operating income the impact of events which are not in the expected course of future operations, or which are not a result of operations.

The Corporation's adjusted EBITDA is calculated as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Operating income	\$ 7,120	\$ 10,519	\$ 8,505	\$ 20,890
Amortization expense	11,445	10,991	22,373	21,514
Non-recurring items	2,668	—	8,713	615
Adjusted EBITDA	\$ 21,233	\$ 21,510	\$ 39,591	\$ 43,019

Management believes adjusted EBITDA provides valuable insight into the Corporation's day-to-day operations as they exclude from earnings factors that are more reflective of long-term financing or investing decisions than of current performance.

Adjusted EBITDA, in addition, provides an alternative assessment of future operating results as it excludes the impact of events which are not in the expected course of future operations, or which are not a result of operations. Adjusted EBITDA is also used by management to assess operational performance and is a component of certain performance-based employee remuneration.

The Corporation's adjusted net income and adjusted earnings per share are calculated as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Net income	\$ 3,838	\$ 6,307	\$ 2,525	\$ 12,750
Non-recurring items, net of taxes	2,280	—	6,975	516
Adjusted net income	\$ 6,118	\$ 6,307	\$ 9,500	\$ 13,266
Non-controlling interests	(68)	(259)	15	(358)
Adjusted net income attributable to the equity holders of the parent	6,186	6,566	\$ 9,485	\$ 13,624
<i>In dollars per share</i>				
Earnings per share - basic and diluted	0.11	0.18	\$ 0.07	\$ 0.36
Non-recurring items, net of taxes	0.06	—	0.19	0.01
Adjusted earnings per share	0.17	0.18	\$ 0.26	\$ 0.37

Management believes adjusted net income and adjusted earnings per share provide investors with an alternative assessment of the Corporation's current period results and future earnings prospects as they exclude from earnings the impact of events which are of a non-recurring nature or do not reflect current operations.

Free cash flow is explained and reconciled in *Liquidity and Capital Resources*.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITIES AND NET DEBT POSITION

Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility”)

The Corporation has a Revolving Facility with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This facility, which matures in December 2024, allows the Corporation and its subsidiaries to borrow up to \$250.0 million, with an accordion feature to increase available credit by an additional \$100.0 million during the term of this agreement, subject to the approval of the lenders.

As at September 30, 2020, the Corporation had drawn US\$68.0 million against the facility, worth \$90.8 million, down from \$96.5 million as at March 31, 2020 due to fluctuations in the USD/CAD exchange rate.

Unsecured Subordinated Term Loan Facility (“Term Loan Facility”)

The Corporation has a Term Loan Facility with *Fonds de Solidarité FTQ* for an amount of up to \$75.0 million. Following a \$15.0 million drawing made in April 2020 as a precaution in case of liquidity needs resulting from the impact of COVID-19, this facility is fully drawn and bears interest at a weighted average rate of 5.2%.

The Term Loan Facility is repayable at maturity on September 30, 2025 and, starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees.

Net Debt Position

As at	September 30, 2020	March 31, 2020
Long-term debt ⁽¹⁾	\$ 297,529	\$ 292,710
Less: Cash and cash equivalents	78,719	45,841
Net debt position	\$ 218,810	\$ 246,869
Adjusted EBITDA ⁽²⁾ - trailing 12 months	92,763	96,191
Net debt to adjusted EBITDA ratio	2.4:1	2.6:1

⁽¹⁾ Excluding net deferred financing costs of \$2.7 million and \$3.1 million as at September 30, 2020 and March 31, 2020, respectively.

⁽²⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section for definitions and reconciliations to the most comparable IFRS measures.

Net debt decreased by \$28.1 million over the six-month period mainly as a result of cash flow generation.

Considering the Corporation’s cash and cash equivalents position, its available credit facilities and level of expected capital investments and results, the Corporation’s management does not expect any significant liquidity risk in the foreseeable future.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Cash and cash equivalents at beginning of periods	\$ 114,407	\$ 36,965	\$ 45,841	\$ 35,128
Cash flows related to operating activities	15,427	12,504	30,900	16,199
Cash flows related to investing activities	(2,052)	(5,256)	(7,293)	(23,663)
Cash flows related to financing activities	(49,548)	(24,605)	9,164	(7,659)
Effect of changes in exchange rates on cash and cash equivalents	485	22	107	(375)
Cash and cash equivalents at end of periods	\$ 78,719	\$ 19,630	\$ 78,719	\$ 19,630

Operating Activities

The Corporation generated cash flows from operations and used cash and cash equivalents for its operating activities as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Cash flows from operations	\$ 15,921	\$ 18,834	\$ 26,364	\$ 35,787
Net change in non-cash items	(494)	(6,330)	4,536	(19,588)
Cash flows related to operating activities	\$ 15,427	\$ 12,504	\$ 30,900	\$ 16,199

The decrease in cash flows from operations over the quarter and six-month period mainly relate to restructuring charges. See *Non-Recurring Items* under *Operating Results* for further details.

The net change in non-cash items is summarized as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Accounts receivable	\$(15,300)	\$ 332	\$ 19,467	\$ 14,955
Inventories	5,626	(12,611)	(12,346)	(23,330)
Other current assets	58	2,125	904	(1,120)
Accounts payable and accrued liabilities	593	5,995	(9,069)	(3,043)
Income taxes payable and receivable	74	51	1,346	(279)
Customer advances and progress billings	8,042	732	5,394	155
Provisions	674	(1,297)	4,047	(2,345)
Effect of changes in exchange rates	(261)	(1,657)	(5,207)	(4,581)
	\$ (494)	\$ (6,330)	\$ 4,536	\$(19,588)

For the quarter ended September 30, 2020, the negative net change in non-cash items mainly reflects an increase in accounts receivable following higher quarter-over-quarter sales, partly offset by an increase in customer advances and progress billings and a decrease in civil inventories resulting from lower expected volume.

For the six-month period ended September 30, 2020, the positive net change in non cash items mainly reflects a seasonal decrease in accounts receivable and payable related to a lower level of activity than during the fourth quarter of fiscal 2020 as well as an increase in inventory related to growth in the F-18 and MQ-25 programs.

For the quarter ended September 30, 2019, the negative net change in non-cash items mainly reflected an increase in inventory due to upcoming organic growth on the Boeing F-18 and MQ-25 programs, partially offset by an associated increase in accounts payable at the end of the quarter when compared to June 30, 2019.

For the six-month period ended September 30, 2019, the negative net change in non-cash items mainly reflected:

- An increase in inventory due to the above-mentioned upcoming organic growth;
- A lower number of days payables outstanding at the end of September when compared to March 31, 2019; and
- The negative effect of changes in exchange rates.

These factors were partially offset by the seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Cash payment related to business acquisition	\$ —	\$ —	\$ —	\$ (17,149)
Net additions to property, plant and equipment	(3,378)	(4,291)	(9,507)	(8,155)
Net change in finite-life intangible assets	1,326	(965)	2,214	(2,384)
Proceeds on disposal of property, plant and equipment	—	—	—	4,025
Cash flows related to investing activities	\$ (2,052)	\$ (5,256)	\$ (7,293)	\$ (23,663)

The \$17.1 million of cash payments related to business acquisitions in fiscal 2020 related to the acquisition of Alta Précision.

This table reconciles additions to property, plant and equipment to the additions as per the statements of cash flows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Additions to property, plant and equipment	\$ 4,010	\$ 5,294	\$ 8,718	\$ 14,455
Variation in unpaid additions included in Accounts payable - other and other liabilities	(589)	(580)	976	309
Non-cash additions made through leasing agreements	(43)	(423)	(187)	(6,609)
Additions, as per statements of cash flows	\$ 3,378	\$ 4,291	\$ 9,507	\$ 8,155

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Increase in long-term debt	\$ 1,752	\$ 124	\$ 63,351	\$ 23,044
Repayment of long-term debt	(51,300)	(24,725)	(54,187)	(30,355)
Increase in deferred financing costs	—	(4)	—	(348)
Cash flows related to financing activities	\$ (49,548)	\$ (24,605)	\$ 9,164	\$ (7,659)

The \$63.4 million increase in long-term debt during the six-month period ended September 30, 2020 mainly relates to \$60.0 million of drawings on credit facilities during the first quarter comprised of \$45.0 million from revolving facility and \$15 million from the term loan facility. These drawings were made as a precaution in case of liquidity needs resulting from the impact of COVID-19.

Repayments of long-term debt during the quarter and six-month period ended September 30, 2020 are mainly comprised of the repayment of the \$45 million drawing on the revolving facility described above during the second quarter and lease payments.

The increase in long term debt during the six-month period ending September 30, 2019 mainly related to a \$22.1 million of drawings on credit facilities made to finance the acquisition of Alta Précision.

Repayments during the quarter and six-month period ended September 30, 2019 were mainly comprised of a \$15.9 million repayment of the revolving facility and lease payments.

As at September 30, 2020, the Corporation was in compliance with all of its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

FREE CASH FLOW⁽¹⁾

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Cash flows related to operating activities	\$ 15,427	\$ 12,504	\$ 30,900	\$ 16,199
Net additions to property, plant and equipment	(3,378)	(4,291)	(9,507)	(8,155)
Net change in finite-life intangible assets	1,326	(965)	2,214	(2,384)
Free cash flow	\$ 13,375	\$ 7,248	\$ 23,607	\$ 5,660

⁽¹⁾ *Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for the definition of this metric.*

Management considers free cash flow to be a good indicator of financial strength and profitability because it shows how much cash generated by operations is available for distribution, to repay debt or fund other investments.

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEETS

Working capital

As at	September 30, 2020	March 31, 2020	Variance	
Current assets	\$ 447,923	\$ 422,050	\$ 25,873	6.1 %
Current liabilities	208,310	216,633	(8,323)	(3.8)%
Working capital	\$ 239,613	\$ 205,417	\$ 34,196	16.6 %
Working capital ratio	2.15	1.95		

The \$25.9 million increase in current assets is mainly due to a \$32.9 million increase in cash and cash equivalents resulting from free cash flow generation.

Long-term assets, Long-term liabilities and Shareholders' Equity

The Corporation's long-term assets and liabilities were as follows, as at:

	September 30, 2020	March 31, 2020	Variance	
Long-term assets	\$ 445,167	\$ 476,798	\$ (31,631)	(6.6)%
Long-term liabilities	328,220	332,767	\$ (4,547)	(1.4)%
Shareholders' equity	\$ 356,560	\$ 349,448	\$ 7,112	2.0 %
Net debt-to-equity ratio ⁽¹⁾	0.61:1	0.71:1		

⁽¹⁾ Defined as total long-term debt, including the current portion but excluding deferred financing costs, less cash and cash equivalents over shareholders' equity.

The \$31.6 million decrease in long-term assets mainly relates amortization and the negative impact of foreign exchange on the conversion of assets denominated in foreign currencies.

ADDITIONAL INFORMATION

FOREIGN EXCHANGE (“FX”)

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars, in British pounds (“GBP”) and in Euros (“EUR”). Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, excluding the impact of forward foreign exchange contracts (“FFEC”), while the statement of income of foreign operations is translated at the average exchange rate for the period.

The foreign exchange rates used to translate assets and liabilities into Canadian dollars were as follows, as at:

	September 30, 2020	March 31, 2020
USD (Canadian equivalent of US\$1.0)	1.3339	1.4187
GBP (Canadian equivalent of £1.0)	1.7199	1.7604
EUR (Canadian equivalent of €1.0)	1.5631	1.5584

The foreign exchange rates used to translate revenues and expenses into Canadian dollars were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
USD (Canadian equivalent of US\$1.0)	1.3316	1.3206	1.3588	1.3291
GBP (Canadian equivalent of £1.0)	1.7212	1.6280	1.7208	1.6735
EUR (Canadian equivalent of €1.0)	1.5579	1.4677	1.5418	1.4855

The Corporation manages its exposure to fluctuations in FX rates using FFEC. Therefore, the variances in the rates presented above may not be representative of the actual impact of FX on financial results.

DERIVATIVES

Forward foreign exchange contracts

As at September 30, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$293.9 million (\$404.7 million at March 31, 2020) denominated in USD, EUR and and GBP. This amount includes contracts with nominal value of US\$210.4 million (US\$266.4 million at March 31, 2020) convertible into Canadian dollars at an average rate of 1.3253 (1.3243 at March 31, 2020). These contracts mature at various dates between October 2020 and March 2025, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at September 30, 2020, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 80.8 million in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

Equity swap agreement

As at September 30, 2020 and March 31, 2020, the Corporation had entered into an equity swap agreement fixing 300,000 common shares of the Corporation at a price of \$13.52. This agreement manages the Corporation’s exposure to fluctuations of its share price and resulting effect on the value of outstanding Performance Share Units and Deferred Share Units. It is a derivative that is not part of a designated hedging relationship and matures in June 2021.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Regulation 52-109, the Corporation has filed certifications signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on disclosure controls and procedures and the design of internal controls over financial reporting.

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the interim and annual filings.

The CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made to the Corporation's internal controls over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2021		2020				2019	
	Second Quarter	First Quarter	Fourth quarter	Third Quarter	Second Quarter	First Quarter	Fourth quarter	Third Quarter
Sales	\$ 137,063	\$ 128,335	\$ 166,800	\$ 157,253	\$ 145,516	\$ 143,427	\$ 157,914	\$ 144,528
Operating income (loss)	7,120	1,385	(64,426)	13,466	10,519	10,371	15,190	11,904
Adjusted operating income ⁽¹⁾	9,788	7,430	17,577	13,466	10,519	10,986	16,208	13,973
Adjusted EBITDA ⁽¹⁾	21,233	18,358	28,609	24,563	21,510	21,509	25,910	22,883
Net income (loss)	3,838	(1,313)	(72,113)	8,705	6,307	6,443	11,958	7,390
Adjusted Net Income ⁽¹⁾	6,118	3,382	13,695	8,705	6,307	6,959	12,794	9,367
<i>In dollars per share</i>								
Earnings (loss) per share - Basic & Diluted	\$ 0.11	\$ (0.04)	\$ (1.98)	\$ 0.24	\$ 0.18	\$ 0.18	\$ 0.34	\$ 0.20
Adjusted earnings per share ⁽¹⁾	0.17	0.09	0.38	0.24	0.18	0.19	0.36	0.26
<i>In millions of shares</i>								
Weighted-average number of common diluted shares outstanding	36.4	36.4	36.4	36.7	36.7	36.6	36.5	36.4
Backlog (in millions)	\$ 764	\$ 772	\$ 810	\$ 839	\$ 769	\$ 747	\$ 624	\$ 629

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

Seasonal trends

Héroux-Devtek's first semester is usually slower than the last one due to seasonality such as plant shutdowns and summer vacations.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry sectors that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 2020. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes to be immaterial may also adversely affect its business.

SHAREHOLDER INFORMATION

ISSUED CAPITAL

Common shares issued and outstanding	36,367,210
Stock options issued and outstanding	1,846,595

EXPECTED ISSUANCE OF FINANCIAL RESULTS

Fiscal 2021

Third quarter	February 5, 2021
Fourth quarter	May 20, 2021

Fiscal 2022

First quarter	August 10, 2021
Second quarter	November 10, 2021

Contact information

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November 12, 2020



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