



Algoma Steel Group Reports Fiscal 2024 First Quarter Financial Results

August 10, 2023

First Quarter Results Ahead of Previously Announced Expectations

Solid Performance from Operations Resulted in Strong Cash Flow Generation

Reiterated Outlook on Transformative EAF Project with \$74 Million Invested in Quarter

SAULT STE. MARIE, Ontario, Aug. 10, 2023 (GLOBE NEWSWIRE) -- Algoma Steel Group Inc. (NASDAQ: ASTL; TSX: ASTL) ("Algoma" or "the Company"), a leading Canadian producer of hot and cold rolled steel sheet and plate products, today announced results for its fiscal first quarter ended June 30, 2023.

Unless otherwise specified, all amounts are in Canadian dollars.

Business Highlights and Fiscal 2024 to Fiscal 2023 First Quarter Comparisons

- Consolidated revenue of \$827.2 million, compared to \$934.1 million in the prior-year quarter.
- Consolidated income from operations of \$164.3 million, compared to \$328.9 million in the prior-year quarter.
- Net income of \$130.9 million, compared to \$301.4 million in the prior-year quarter.
- Adjusted EBITDA of \$191.2 million and Adjusted EBITDA margin of 23.1%, compared to \$357.7 million and 38.3% in the prior-year quarter (See "Non-IFRS Measures" below).
- Cash flows generated from operations of \$163.9 million, compared to \$276.6 million in the prior-year quarter.
- Shipments of 569,433 tons, compared to 537,524 tons in the prior-year quarter.
- Declared quarterly dividend of US\$0.05/share.

Michael Garcia, the Company's Chief Executive Officer, commented, "Thanks to the dedicated efforts of our employees, we delivered results that were modestly ahead of our previously disclosed outlook. We also made substantial progress on our transformative EAF project, deploying the next \$74 million in the quarter to bring the cumulative total invested at June 30, 2023, to \$341 million, or roughly 40% of the total expected cost, funded from existing excess cash from operations, as well as draws on committed project loan facilities. We expect to fund the remainder of the project with a combination of cash on hand, availability under our federal Strategic Innovation Fund (SIF) loan, drawdown of excess working capital, and expected cash flows from operations. We are uniquely positioned to simultaneously deliver strong financial results from our existing portfolio while advancing towards EAF commissioning, expected at the end of 2024."

First Quarter Fiscal 2024 Financial Results

First quarter revenue totaled \$827.2 million, compared to \$934.1 million in the prior year quarter. As compared with the prior year quarter, steel revenue was \$754.5 million, compared to \$877.4 million, and revenue per ton of steel sold was \$1,453, compared to \$1,738.

Income from operations was \$164.3 million, compared to \$328.9 million in the prior-year quarter. The year over year decrease was primarily due to a decrease in the selling price of steel, higher costs due to increases in the purchase price of key inputs such as metallurgical coke, coal and ore pellets and higher usage of purchased coke. Net income in the first quarter was \$130.9 million, compared to net income of \$301.4 million in the prior-year quarter. The decrease was driven primarily by the factors described above under income from operations.

Adjusted EBITDA in the first quarter was \$191.2 million, compared with \$357.7 million for the prior-year quarter. This resulted in an Adjusted EBITDA margin of 23.1%. Average realized price of steel net of freight and non-steel revenue was \$1,323 per ton, compared to \$1,632 per ton in the prior-year quarter. Cost per ton of steel products sold was \$950, compared to \$920 in the prior-year quarter. Shipments for the first quarter increased by 5.9% to 569,433 tons, compared to 537,524 tons in the prior-year quarter. See "Non-IFRS Measures" below for an explanation of Adjusted EBITDA and a reconciliation of net income to Adjusted EBITDA.

Electric Arc Furnace

The Company has made substantial progress on the construction of two new state-of-the-art electric arc furnaces (“EAF”) to replace its existing blast furnace and basic oxygen steelmaking operations. The project timing and budget remain consistent with the outlook provided in the fiscal fourth quarter 2023 earnings release. As of June 30, 2023, the cumulative investment was approximately \$341 million of the total projected cost of \$825 million to \$875 million, including approximately \$74 million during the fiscal first quarter. Following the transformation to EAF steelmaking, Algoma’s facility is expected to reach an annual raw steel production capacity of approximately 3.7 million tons, matching its downstream finishing capacity, and to generate an approximate 70% reduction in the Company’s annual carbon emissions.

Quarterly Dividend

The Board has declared a regular quarterly dividend in the amount of US\$0.05 on each common share outstanding, payable on September 29, 2023, to holders of record of common shares of the Corporation as of the close of business on August 25, 2023. This dividend is designated as an “eligible dividend” for Canadian income tax purposes.

Conference Call and Webcast Details

A webcast and conference call will be held on Friday, August 11, 2023 at 11:00 a.m. EDT to review the Company’s fiscal first quarter results, discuss recent events, and conduct a question-and-answer session.

The live webcast and archived replay of the conference call can be accessed on the Investors section of the Company’s website at www.algoma.com. For those unable to access the webcast, the conference call will be accessible domestically or internationally by dialing 877-425-9470 or 201-389-0878, respectively. Upon dialing in, please request to join the Algoma Steel First Quarter Conference Call. To access the replay of the call, dial 844-512-2921 (domestic) or 412-317-6671 (international) with passcode 13740289.

Consolidated Financial Statements and Management's Discussion and Analysis

The Company’s unaudited interim consolidated financial statements for the three months ended June 30, 2023, and Management’s Discussion & Analysis thereon are available under the Company’s profile on the U.S. Securities and Exchange Commission’s (“SEC”) EDGAR website at www.sec.gov and under the Company’s profile on SEDAR+ at www.sedarplus.ca.

Cautionary Statement Regarding Forward-Looking Statements

This news release contains “forward-looking information” under applicable Canadian securities legislation and “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively, “forward-looking statements”), including statements regarding trends in the pricing of steel and other key inputs in the steelmaking process, Algoma’s expectation to continue to pay a quarterly dividend, Algoma’s transition to EAF steelmaking, including the progress, costs and timing of completion of the Company’s EAF project, Algoma’s future as a leading producer of green steel, Algoma’s modernization of its plate mill facilities, transformation journey, ability to deliver greater and long-term value, ability to offer North America a secure steel supply and a sustainable future, and investment in its people, and processes, statements regarding the Company’s intended use of cash on hand, cash from operations and proceeds from the Company’s credit facilities, and the Company’s strategy, plans or future financial or operating performance. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “design,” “pipeline,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are predictions, projections and other statements about future events that are based on current expectations and assumptions. Many factors could cause actual future events to differ materially from the forward-looking statements in this document. Readers should also consider the other risks and uncertainties set forth in the section entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Information” in Algoma’s Annual Information Form, filed by Algoma with applicable Canadian securities regulatory authorities (available under the company’s SEDAR+ profile at www.sedarplus.ca) and with the SEC, as part of Algoma’s Annual Report on Form 40-F (available at www.sec.gov), as well as in Algoma’s current reports with the Canadian securities regulatory authorities and SEC. Forward-looking statements speak only as of the date they are made. Readers are cautioned not to put undue reliance on forward-looking statements, and Algoma assumes no obligation and does not intend to update or revise these forward-looking statements, whether as a result of new information, future events, or otherwise.

Non-IFRS Financial Measures

To supplement our financial statements, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”), we use certain non-IFRS measures to evaluate the performance of Algoma. These terms do not have any standardized meaning prescribed within IFRS and, therefore, may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of our financial performance from management’s perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

Adjusted EBITDA, as we define it, refers to net income before amortization of property, plant, equipment and amortization of intangible assets, finance costs, interest on pension and other post-employment benefit obligations, income taxes, foreign exchange loss (gain), finance income, carbon tax, changes in fair value of warrant, earnout and share-based compensation liabilities, and share-based compensation related to performance share units. Adjusted EBITDA margin is calculated by dividing

Adjusted EBITDA by revenue for the corresponding period. Adjusted EBITDA is not intended to represent cash flow from operations, as defined by IFRS, and should not be considered as alternatives to net profit from operations, or any other measure of performance prescribed by IFRS. Adjusted EBITDA, as we define and use it, may not be comparable to Adjusted EBITDA as defined and used by other companies. We consider Adjusted EBITDA to be a meaningful measure to assess our operating performance in addition to IFRS measures. It is included because we believe it can be useful in measuring our operating performance and our ability to expand our business and provide management and investors with additional information for comparison of our operating results across different time periods and to the operating results of other companies. Adjusted EBITDA is also used by analysts and our lenders as a measure of our financial performance. In addition, we consider Adjusted EBITDA margin to be a useful measure of our operating performance and profitability across different time periods that enhance the comparability of our results. However, these measures have limitations as analytical tools and should not be considered in isolation from, or as alternatives to, net income, cash flow from operations or other data prepared in accordance with IFRS. Because of these limitations, such measures should not be considered as measures of discretionary cash available to invest in business growth or to reduce indebtedness. We compensate for these limitations by relying primarily on our IFRS results using such measures only as supplements to such results. See the financial tables below for a reconciliation of net income (loss) to Adjusted EBITDA.

About Algoma Steel Group Inc.

Based in Sault Ste. Marie, Ontario, Canada, Algoma is a fully integrated producer of hot and cold rolled steel products including sheet and plate. Driven by a purpose to build better lives and a greener future, Algoma is positioned to deliver responsive, customer-driven product solutions to applications in the automotive, construction, energy, defense, and manufacturing sectors. Algoma is a key supplier of steel products to customers in North America and is the only producer of discrete plate products in Canada. Its state-of-the-art Direct Strip Production Complex ("DSPC") is one of the lowest-cost producers of hot rolled sheet steel (HRC) in North America.

Algoma is on a transformation journey, modernizing its plate mill and adopting electric arc technology that builds on the strong principles of recycling and environmental stewardship to significantly lower carbon emissions. Today Algoma is investing in its people and processes, working safely, as a team to become one of North America's leading producers of green steel.

As a founding industry in their community, Algoma is drawing on the best of its rich steelmaking tradition to deliver greater value, offering North America the comfort of a secure steel supply and a sustainable future as your partner in steel.

Algoma Steel Group Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

As at,	June 30, 2023	March 31, 2023
<i>expressed in millions of Canadian dollars</i>		
Assets		
Current		
Cash	\$300.6	\$247.4
Restricted cash	3.9	3.9
Taxes receivable	8.3	-
Accounts receivable, net	302.1	291.2
Inventories	759.3	722.7
Prepaid expenses and deposits	99.5	94.4
Other assets	6.5	6.7
Total current assets	\$1,480.2	\$1,366.3
Non-current		
Property, plant and equipment, net	\$1,139.1	\$1,081.3
Intangible assets, net	0.9	0.9
Other assets	7.6	7.1
Total non-current assets	\$1,147.6	\$1,089.3
Total assets	\$2,627.8	\$2,455.6
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	\$1.2	\$1.9
Accounts payable and accrued liabilities	271.5	204.6
Taxes payable and accrued taxes	52.8	14.4
Current portion of other long-term liabilities	0.5	0.4
Current portion of governmental loans	11.9	10.0
Current portion of environmental liabilities	4.1	4.5

Warrant liability	38.7	57.3
Earnout liability	14.4	16.8
Share-based payment compensation liability	28.8	33.5
Total current liabilities	\$423.9	\$343.4
Non-current		
Long-term governmental loans	\$115.1	\$110.4
Accrued pension liability	199.9	184.0
Accrued other post-employment benefit obligation	225.5	222.9
Other long-term liabilities	3.9	3.7
Environmental liabilities	32.9	32.3
Deferred income tax liabilities	87.7	96.7
Total non-current liabilities	\$665.0	\$650.0
Total liabilities	\$1,088.9	\$993.4
Shareholders' equity		
Capital stock	\$958.8	\$958.4
Accumulated other comprehensive income	265.7	313.6
Retained earnings	335.5	211.6
Contributed deficit	(21.1)	(21.4)
Total shareholders' equity	\$1,538.9	\$1,462.2
Total liabilities and shareholders' equity	\$2,627.8	\$2,455.6

Algoma Steel Group Inc.
Condensed Interim Consolidated Statements of Net Income
(Unaudited)

Three month period ended	June 30, 2023	June 30, 2022
<i>expressed in millions of Canadian dollars, except for per share amounts</i>		
Revenue	\$827.2	\$934.1
Operating expenses		
Cost of sales	\$639.5	\$576.8
Administrative and selling expenses	23.4	28.4
Income from operations	\$164.3	\$328.9
Other (income) and expenses		
Finance income	(\$3.3)	(\$1.9)
Finance costs	5.1	4.7
Interest on pension and other post-employment benefit obligations	4.8	3.4
Foreign exchange loss (gain)	11.0	(11.7)
Change in fair value of warrant liability	(17.5)	(38.4)
Change in fair value of earnout liability	(2.0)	(4.1)
Change in fair value of share-based compensation liability	(4.0)	(9.4)
	(\$5.9)	(\$57.4)
Income before income taxes	\$170.2	\$386.3
Income tax expense	39.3	84.9
Net income	\$130.9	\$301.4

Net income per common share		
Basic	\$1.21	\$1.98
Diluted	\$0.85	\$1.49

Algoma Steel Group Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

Three month period ended	June 30, 2023	June 30, 2022
<i>expressed in millions of Canadian dollars</i>		
Operating activities		
Net income	\$130.9	\$301.4
Items not affecting cash:		
Depreciation of property, plant and equipment and intangible assets	23.3	22.6
Deferred income tax benefit	(7.0)	(0.6)
Pension funding below (in excess) of expense	1.2	(0.3)
Post-employment benefit funding in excess of expense	(1.9)	(2.1)
Unrealized foreign exchange loss (gain) on accrued pension liability	4.1	(4.0)
Unrealized foreign exchange loss (gain) on post-employment benefit obligations	4.9	(7.3)
Finance costs	5.1	4.7
Interest on pension and other post-employment benefit obligations	4.8	3.4
Accretion of governmental loans and environmental liabilities	3.6	3.1
Unrealized foreign exchange loss (gain) on government loan facilities	2.6	(2.9)
Decrease in fair value of warrant liability	(17.5)	(38.4)
Decrease in fair value of earnout liability	(2.0)	(4.1)
Decrease in fair value of share-based payment compensation liability	(4.0)	(9.4)
Other	1.5	(1.4)
	\$149.6	\$264.7
Net change in non-cash operating working capital	14.9	12.2
Environmental liabilities paid	(0.6)	(0.2)
Cash generated by operating activities	\$163.9	\$276.6
Investing activities		
Acquisition of property, plant and equipment	(\$106.4)	(\$80.1)
Cash used in investing activities	(\$106.4)	(\$80.1)
Financing activities		
Bank indebtedness (repaid) advanced, net	(\$0.7)	\$0.2
Transaction costs on bank indebtedness	(1.0)	-
Governmental loans received	18.5	-
Governmental loans benefit on below-market rate of interest loans	(12.2)	-
Repayment of governmental loans	(2.5)	(2.5)
Interest paid	(0.1)	(0.1)
Common shares repurchased and cancelled	-	(3.7)
Cash generated by (used in) financing activities	\$2.0	(\$6.1)
Effect of exchange rate changes on cash	(\$6.3)	\$31.2
Cash		
Increase in cash	53.2	221.6
Opening balance	247.4	915.3
Ending balance	\$300.6	\$1,136.9

Algoma Steel Group Inc.
Reconciliation of Net Income to Adjusted EBITDA

<i>millions of dollars</i>	Three months ended June 30, 2023	Three months ended June 30, 2022
Net income	\$130.9	\$301.4
Depreciation of property, plant and equipment and amortization of intangible assets	23.3	22.6
Finance costs	5.1	4.7
Interest on pension and other post-employment benefit obligations	4.8	3.4
Income taxes	39.3	84.9
Foreign exchange loss (gain)	11.0	(11.7)
Finance income	(3.3)	(1.9)
Inventory write-downs (<i>depreciation on property, plant and equipment in inventory</i>)	0.4	0.3
Carbon tax	2.5	3.0

Decrease in fair value of warrant liability	(17.5)	(38.4)
Decrease in fair value of earnout liability	(2.0)	(4.1)
Decrease in fair value of share-based payment compensation liability	(4.0)	(9.4)
Share-based compensation	0.7	2.9
Adjusted EBITDA (i)	\$191.2	\$357.7
Net income Margin	15.8%	32.3%
Net income / ton	\$229.9	\$560.7
Adjusted EBITDA Margin (ii)	23.1%	38.3%
Adjusted EBITDA / ton	\$335.8	\$665.4

(i) See "Non-IFRS Financial Measures" in this Press Release for information regarding the limitations of using Adjusted EBITDA.

(ii) Adjusted EBITDA Margin is Adjusted EBITDA as a percentage of revenue.

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