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Celestica Announces Fourth Quarter and Fiscal Year 2016 Financial Results

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TORONTO, Canada - Celestica Inc. (NYSE, TSX: CLS), a global leader in the delivery of end-to-end product lifecycle solutions, today announced financial results for the fourth quarter and fiscal year ended December 31, 2016.

Fourth Quarter 2016 Highlights

- Revenue: $1.62 billion, above our previously provided guidance range of $1.5 to $1.6 billion, increased 4% sequentially and 7% compared to the fourth quarter of 2015
- Revenue dollars from our diversified end market were relatively flat compared to the fourth quarter of 2015, and represented 27% of total revenue for the fourth quarter of 2016, compared to 30% of total revenue for the fourth quarter of 2015 as a result of the overall increase in revenue
- IFRS EPS: $0.15 per share, compared to $0.08 per share for the fourth quarter of 2015. IFRS EPS for the fourth quarter of 2016 included a net benefit of $0.07 per share related to income taxes, as well as a negative $0.17 per share impact resulting from higher than anticipated restructuring charges (discussed below)
- Adjusted EPS (non-IFRS): $0.41 per share, above our previously provided guidance range of $0.29 to $0.35 per share, compared to $0.27 per share for the fourth quarter of 2015. Adjusted EPS for the fourth quarter of 2016 would have been $0.34, towards the high end of our guidance range, without the $0.07 per share net benefit related to income taxes
- Operating margin (non-IFRS): 3.8%, consistent with the mid-point of our expectations, compared to 3.5% for the fourth quarter of 2015. Operating earnings (non-IFRS) increased 16% compared to the fourth quarter of 2015
- Adjusted ROIC (non-IFRS): 22.7%, compared to 21.4% for the fourth quarter of 2015
- Free cash flow (non-IFRS): $69.3 million, compared to $76.0 million for the fourth quarter of 2015
- Recorded restructuring charges of $24.4 million, or $0.17 per share, pertaining primarily to our exit from the solar panel manufacturing business (discussed below)
- Acquired the business assets of Karel Manufacturing for $14.9 million in November 2016 (see note 4, “Acquisition”, to our Interim Financial Statements (defined below))

Fiscal Year 2016 Highlights

- Revenue: $6.0 billion, increased 7% compared to $5.6 billion for 2015
- Revenue from our diversified end market grew 11% to represent 30% of total revenue, compared to 29% of total revenue for 2015
- IFRS EPS: $0.95 per share, compared to $0.42 per share for 2015. Both years were impacted by tax-related items (discussed below). IFRS EPS would have been $0.73 per share for 2016, compared to $0.50 per share for 2015 without these tax-related items.
- Adjusted EPS (non-IFRS): $1.40 per share, compared to $0.92 per share in 2015. Both years were impacted by tax-related items (discussed below). Adjusted EPS would have been $1.18 per share for 2016, compared to $1.00 per share for 2015 without these tax-related items.
- Operating margin (non-IFRS): 3.7%, compared to 3.5% for 2015. Operating earnings (non-IFRS) increased 14% compared to 2015
- Adjusted ROIC (non-IFRS): 20.8%, compared to 19.8% for 2015
- Free cash flow (non-IFRS): $110.2 million, compared to $113.2 million for 2015
- Repurchased and cancelled 3.2 million subordinate voting shares for $34.3 million through a Normal Course Issuer Bid launched in February 2016

"Celestica delivered a strong fourth quarter, with growth in revenue of 7% and growth in operating earnings of 16%, compared to the fourth quarter of 2015," said Rob Mionis, Celestica's President and Chief Executive Officer. "Celestica's strong close to the year helped deliver full-year 2016 revenue growth of 7%, 14% growth in operating earnings and over $100 million of free cash flow. Among the many highlights for 2016, we achieved our highest level of operating margins since 2001 and the highest revenue levels since 2012."

"We are proud of our many accomplishments this year. I am pleased with the progress we have made in setting the foundation for our strategy and delivering on our priorities and I am excited about the momentum we are building as we continue to drive profitable growth and increase shareholder value."

Fourth Quarter and Year-to-Date Summary

	Three months ended December 31		Year ended December 31	
	2015	2016	2015	2016
Revenue (in millions)	$ 1,514.9	$ 1,623.7	$ 5,639.2	$ 6,016.5
IFRS net earnings (in millions)(i)	$ 12.1	$ 20.9	$ 66.9	$ 136.3
IFRS EPS(i)	$ 0.08	$ 0.15	$ 0.42	$ 0.95
Non-IFRS adjusted net earnings (in millions) (i) (ii)	$ 38.9	$ 59.5	$ 145.0	$ 200.9
Non-IFRS adjusted EPS(i) (ii)	$ 0.27	$ 0.41	$ 0.92	$ 1.40
Non-IFRS adjusted return on invested capital (adjusted ROIC)(ii)	21.4%	22.7%	19.8%	20.8%
Non-IFRS operating margin(ii)	3.5%	3.8%	3.5%	3.7%

i. International Financial Reporting Standards (IFRS) earnings per share (EPS) for the fourth quarter of 2016 included an aggregate charge of $0.25 (pre-tax) per share for employee stock-based compensation expense, amortization of intangible assets (excluding computer software) and restructuring charges. This aggregate charge is above the range we provided on October 20, 2016 of an aggregate charge of between $0.09 to $0.14 per share for these items (see the tables in Schedule 1 attached hereto for per-item charges), due to higher than anticipated restructuring charges related to our exit from the solar panel manufacturing business (discussed below).

IFRS EPS and adjusted EPS (non-IFRS) for the fourth quarter of 2016 were favorably impacted by a $0.07 per share net benefit related to income taxes, comprised of a $0.10 per share income tax recovery attributable to the resolution of certain previously disputed tax matters in Canada (including related refund interest income) and a $0.03 per share favorable deferred tax recovery, offset in part by a $ 0.06 per share income tax expense related to taxable foreign exchange resulting from the weakening of the Malaysian ringgit and Chinese renminbi relative to the U.S. dollar. See notes 12 and 14 to our December 31, 2016 unaudited interim condensed consolidated financial statements (Interim Financial Statements). The foregoing items arose in the fourth quarter of 2016, and were therefore not factored into our guidance for adjusted EPS (non-IFRS) for that period. Non-IFRS adjusted EPS for the fourth quarter of 2016 would have been towards the high end of our guidance range for the quarter without the net income tax benefits referred to above.

IFRS EPS and adjusted EPS (non-IFRS) for full year 2016 were favorably impacted by an aggregate $0.22 per share net benefit related to income taxes, comprised of a $0.34 per share income tax recovery attributable to the resolution in the second half of 2016 of certain previously disputed tax matters in Canada (including related refund interest income), offset in part by an aggregate $0.07 per share negative impact from current and deferred withholding taxes, as well as a $0.05 per share income tax expense related to taxable foreign exchange impacts similar to those noted above. See notes 12 and 14 to our Interim Financial Statements.

IFRS EPS for the fourth quarter and full year 2015 were negatively impacted by an $0.08 per share non-cash impairment charge (aggregate of $12.2 million) on certain of our property, plant and equipment. IFRS EPS and adjusted EPS (non-IFRS) for the full year 2015 included an $0.08 per share (aggregate of $12.2 million) income tax expense related to taxable foreign exchange impacts similar to those noted above, arising in the third quarter of 2015. See note 12 to our Interim Financial Statements.

Our non-IFRS operating margin of 3.8% for the fourth quarter of 2016 was consistent with the mid-point of our expectations.

In addition, the calculation of our weighted average number of shares (used to determine our IFRS EPS and non-IFRS adjusted EPS) for the full year 2016 reflects the full impact of the reduction in outstanding subordinate voting shares as a result of our share repurchases and cancellations in 2015 pursuant to our $350.0 million substantial issuer bid and our Normal Course Issuer Bid then in effect. Accordingly, the positive effect of the reduced weighted average number of shares on our IFRS EPS and non-IFRS adjusted EPS for the full year 2016 was greater as compared to full year 2015.

ii. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other public companies that use IFRS or other generally accepted accounting principles (GAAP). See “Non-IFRS Supplementary Information” below for information on our rationale for the use of non-IFRS measures, and Schedule 1 for, among other items, non-IFRS measures included in this press release, as well as their definitions, uses, and a reconciliation of non-IFRS to IFRS measures.

End Markets by Quarter as a Percentage of Total Revenue(i)

	2015					2016				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Communications	40%	40%	41%	38%	40%	38%	41%	43%	44%	42%
Consumer	3%	3%	3%	3%	3%	3%	3%	2%	2%	2%
Diversified	28%	28%	30%	30%	29%	34%	30%	30%	27%	30%
Servers	11%	10%	8%	10%	10%	9%	9%	7%	8%	8%
Storage	18%	19%	18%	19%	18%	16%	17%	18%	19%	18%
Revenue (in billions)	$1.30	$1.42	$1.41	$1.51	$5.64	$1.35	$1.49	$1.55	$1.62	$6.02

i. Our diversified end market in 2016 was comprised of aerospace and defense, industrial, healthcare, energy, and semiconductor equipment. Commencing with the quarter ending March 31, 2017, we will combine our servers and storage end markets into a single "Enterprise" end market and add our consumer business to our diversified end market for reporting purposes.

Decision to Exit Solar Panel Manufacturing Business and Related Restructuring

Previously disclosed market instability and global oversupply of solar panels continued to negatively impact our solar panel manufacturing business, including the pricing and demand for solar panels in the fourth quarter of 2016. Since these negative factors are expected to be prolonged, and we no longer expect to generate reasonable returns, we made a decision in the quarter to exit the manufacturing of such panels. In connection therewith, we recorded restructuring charges totaling approximately $21 million in the fourth quarter of 2016 related to the closure of our solar panel manufacturing operations at our two locations, including a $19 million impairment charge to write down the carrying value of our solar manufacturing equipment to recoverable amounts.

The turbulence in our solar panel business has negatively impacted our overall energy market offering, and therefore, our diversified end market. However, since our energy market offering is diverse, and includes the manufacture of inverters, energy storage products, smart meters and other electronic componentry, we remain optimistic regarding the outlook of our energy products business, as we continue to win new programs with renewable energy customers.

Board Member Changes

Gerald W. Schwartz, Chairman of the Board, President and Chief Executive Officer of Onex Corporation (Onex), retired from Celestica's Board of Directors effective December 31, 2016 in accordance with the Board's retirement policy. Following Mr. Schwartz's retirement, Tawfiq Popatia was appointed to Celestica's Board of Directors effective January 1, 2017. As a Managing Director of Onex, Mr. Popatia leads its efforts in automation, aerospace and other transportation-focused industries.

Thomas S. Gross was appointed to Celestica's Board of Directors effective November 1, 2016. Mr. Gross recently retired as the Vice Chairman and Chief Operating Officer of the Electrical Sector of Eaton, an NYSE-traded power management company. Mr. Gross' career at Eaton spanned 13 years and he has also held senior leadership positions in companies such as Danaher Corporation and Xycom Automation.

First Quarter 2017 Outlook

For the quarter ending March 31, 2017, we anticipate revenue to be in the range of $1.4 billion to $1.5 billion, non-IFRS operating margin to be 3.5% at the mid-point of our expectations, and non-IFRS adjusted earnings per share to be in the range of $0.24 to $0.30. We expect a negative $0.11 to $0.17 per share (pre-tax) aggregate impact on net earnings on an IFRS basis for employee stock-based compensation expense, amortization of intangible assets (excluding computer software) and restructuring charges. We cannot predict changes in currency exchange rates, the impact of such changes on our operating results, or the degree to which we will be able to manage such impacts.

Fourth Quarter 2016 Webcast

Management will host its fourth quarter 2016 results conference call today at 4:30 p.m. Eastern Daylight Time. The webcast can be accessed at www.celestica.com.

Non-IFRS Supplementary Information

In addition to disclosing detailed operating results in accordance with IFRS, Celestica provides supplementary non-IFRS measures to consider in evaluating the company's operating performance. Management uses adjusted net earnings and other non-IFRS measures to assess operating performance and the effective use and allocation of resources; to provide more meaningful period-to-period comparisons of operating results; to enhance investors' understanding of the core operating results of Celestica's business; and to set management incentive targets. We believe investors use both IFRS and non-IFRS measures to assess management's past, current and future decisions associated with our priorities and our allocation of capital, as well as to analyze how our business operates in, or responds to, swings in economic cycles or to other events that impact our core operations. See Schedule 1 - Supplementary Non-IFRS Measures for, among other items, non-IFRS measures provided herein, non-IFRS definitions, and a reconciliation of non-IFRS to IFRS measures.

About Celestica

Celestica is dedicated to delivering end-to-end product lifecycle solutions to drive our customers' success. Through our simplified global operations network and information technology platform, we are solid partners who deliver informed, flexible solutions that enable our customers to succeed in the markets they serve. Committed to providing a truly differentiated customer experience, our agile and adaptive employees share a proud history of demonstrated expertise and creativity that provides our customers with the ability to overcome complex challenges. For further information about Celestica, visit our website at www.celestica.com. Our securities filings can also be accessed at www.sedar.comand www.sec.gov.

Cautionary Note Regarding Forward-looking Statements

This news release contains forward-looking statements, including, without limitation, those related to our future growth; trends in the electronics manufacturing services (EMS) industry; our anticipated financial and/or operational results, including our quarterly revenue, non-IFRS operating margin and earnings guidance; the impact of acquisitions and program wins or losses on our financial results and working capital requirements; anticipated expenses, restructuring actions and charges, and amortization of intangible assets (excluding computer software); the anticipated repatriation of undistributed earnings from foreign subsidiaries; the impact of tax and litigation outcomes; our cash flows, financial targets and priorities; changes in our mix of revenue by end market; our ability to diversify and grow our customer base and develop new capabilities; the effect of the pace of technological changes, customer outsourcing and program transfers, and the global economic environment on customer demand; the possibility of future impairments of property, plant and equipment, goodwill or intangible assets; the timing and extent of the expected recovery of cash advances made to the Solar Supplier (defined below); the anticipated termination and settlement of our solar equipment leases; changes in the composition of our end markets commencing with the period ending March 31, 2017; and the impact of the acquisition of the assets of Karel Manufacturing. Such forward-looking statements may, without limitation, be preceded by, followed by, or include words such as "believes", "expects", "anticipates", "estimates", "intends", "plans", "continues", "project", "potential", "possible", "contemplate", "seek", or similar expressions, or may employ such future or conditional verbs as "may", "might", "will", "could", "should" or "would", or may otherwise be indicated as forward-looking statements by grammatical construction, phrasing or context. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995, where applicable, and applicable Canadian securities laws.

Forward-looking statements are provided for the purpose of assisting readers in understanding management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Forward-looking statements are not guarantees of future performance and are subject to risks that could cause actual results to differ materially from conclusions, forecasts or projections expressed in such statements, including, among others, risks related to: our customers' ability to compete and succeed in the marketplace with the services we provide and the products we manufacture; price and other competitive factors generally affecting the EMS industry; managing our operations and our working capital performance during uncertain market and economic conditions; responding to changes in demand, rapidly evolving and changing technologies, and changes in our customers' business and outsourcing strategies, including the insourcing of programs; customer concentration and the challenges of diversifying our customer base and replacing revenue from completed or lost programs, or customer disengagements; changing commodity, material and component costs, as well as labor costs and conditions; disruptions to our operations, or those of our customers, component suppliers and/or logistics partners, including as a result of global or local events outside our control, including as a result of the June 2016 referendum by British voters advising for the exit of the United Kingdom from the European Union (Brexit) or significant developments stemming from the recent U.S. presidential election; retaining or expanding our business due to execution issues relating to the ramping of new or existing programs or new offerings; the incurrence of future impairment charges; recruiting or retaining skilled personnel; transitions associated with our Global Business Services (GBS) initiative, our Organizational Design (OD) initiative, and/or other changes to our company's operating model; current or future litigation and/or governmental actions; the operating performance and financial results of our semiconductor business; the timing and extent of recoveries from the sale of inventory and manufacturing equipment relating to our exit from the solar panel manufacturing business, and our ability to recover amounts outstanding from the Solar Supplier; delays in the delivery and availability of components, services and materials, including from suppliers upon which we are dependent for certain components; non-performance by counterparties; our financial exposure to foreign currency volatility, including stock market volatility and currency exchange rate fluctuations resulting from the Brexit or the recent U.S. presidential election; our dependence on industries affected by rapid technological change; the variability of revenue and operating results; managing our global operations and supply chain; increasing income taxes, tax audits, and challenges of defending our tax positions, and obtaining, renewing or meeting the conditions of tax incentives and credits; completing restructuring actions, including achieving the anticipated benefits therefrom, and integrating any acquisitions; defects or deficiencies in our products, services or designs; computer viruses, malware, hacking attempts or outages that may disrupt our operations; any failure to adequately protect our intellectual property or the intellectual property of others; compliance with applicable laws, regulations and social responsibility initiatives; our having sufficient financial resources and working capital to fund currently anticipated financial obligations and to pursue desirable business opportunities; the potential that conditions to closing the sale of our real property in Toronto and related transactions (collectively, the "Toronto Real Property Transactions") may not be satisfied on a timely basis or at all; and if the Toronto Real Property Transactions are completed, our ability to secure on commercially acceptable terms an alternate site for our existing Toronto manufacturing operations, and the costs, timing and/or execution of such relocation proving to be other than anticipated. The foregoing and other material risks and uncertainties are discussed in our public filings at www.sedar.com and www.sec.gov, including in our MD&A, our most recent Annual Report on Form 20-F filed with, and subsequent reports on Form 6-K furnished to, the U.S. Securities and Exchange Commission, and our Annual Information Form filed with the Canadian Securities Administrators.

Our revenue, earnings and other financial guidance, as contained in this press release, is based on various assumptions, many of which involve factors that are beyond our control. Our material assumptions include those related to the following: production schedules from our customers, which generally range from 30 days to 90 days and can fluctuate significantly in terms of volume and mix of products or services; the timing and execution of, and investments associated with, ramping new business; the success in the marketplace of our customers' products; the stability of general economic and market conditions, currency exchange rates, and interest rates; our pricing, the competitive environment and contract terms and conditions; supplier performance, pricing and terms; compliance by third parties with their contractual obligations, the accuracy of their representations and warranties, and the performance of their covenants; the costs and availability of components, materials, services, plant and capital equipment, labor, energy and transportation; operational and financial matters including the extent, timing and costs of replacing revenue from completed or lost programs, or customer disengagements; technological developments; overall demand improvement in the semiconductor industry; revenue growth and improved financial results in our semiconductor business; the timing and extent of recoveries from the sale of inventory and manufacturing equipment related to our exit from the solar panel manufacturing business and our ability to recover amounts outstanding from the Solar Supplier; the timing, execution and effect of restructuring actions; our having sufficient financial resources and working capital to fund our currently anticipated financial obligations and to pursue desirable business opportunities; and our ability to diversify our customer base and develop new capabilities. While management believes these assumptions to be reasonable under the current circumstances, they may prove to be inaccurate. Forward-looking statements speak only as of the date on which they are made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

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