

### AUTOMODULAR CORPORATION

Price (November 25, 2011)	\$1.86
52-Week High-Low	\$2.25 - \$0.70
Dividend/Yield	\$0.20/10.75%
Shares O/S	20.4 million
Market Cap	\$37.9 million
50-day Average Volume	25,200
200-day Average Volume	15,500
Year-End	December 31
Symbol	TSX: AM
Website	<a href="http://www.automodular.com">www.automodular.com</a>

#### Financial Data

##### Selected Income/Cash Flow

C\$000s; 12 months ended	Dec-09	Dec-10	Sep-11
Revenues	\$75,261	\$88,113	\$76,976
Adjusted EBITDA	\$11,168	\$17,656	\$21,219
Net Income	\$2,674	(\$734)	\$5,685
Cash Flow (CF) From Ops	\$5,574	\$25,068	\$25,548

##### Selected Balance Sheet

	At Dec-09	At Dec-10	At Sep-11
Cash (& Equivalents)	\$5,072	\$10,324	\$10,202
Total Debt	\$10,364	\$2,717	\$2,029
Shareholders' Equity	\$37,589	\$33,239	\$31,782
Total Assets	\$55,955	\$45,410	\$43,507
Working Capital	\$11,259	\$14,366	\$16,218
Working Capital Ratio	1.76x	2.46x	2.60x

##### Key Ratios

	At Dec-09	At Dec-10	At Sep-11
Total Debt/Total Capital	21.6%	7.6%	6.0%
Cash Flow/Total Debt	0.54x	9.23x	12.59x
Earnings Per Share	\$0.11	(\$0.03)	\$0.28
Cash Flow Per Share	\$0.21	\$1.23	\$1.25
Cash Per Share	\$0.20	\$0.51	\$0.50
Equity Per Share	\$1.45	\$1.63	\$1.56

##### Multiples

	At Dec-09	At Dec-10	At Sep-11
Price/EPS	4.28x	n/a	5.63x
Price/Adjusted EBITDA	1.05x	0.94x	1.54x
Price/Cash Flow	2.09x	0.66x	1.28x
Price/Book Equity	0.31x	0.50x	1.03x

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Source: [www.bigcharts.com](http://www.bigcharts.com)

### COMPANY PROFILE

Automodular Corporation (“Automodular” or the “Company”) supplies sub-assembly, sequencing, and transportation services to Ford's assembly plant in Oakville, Ontario. The Company's two operating facilities in Oakville employ approximately 500 people. Automodular's mission is “To be the world class assembler and sequencing operation to the automotive manufacturers”.

### INDUSTRY BACKGROUND

Higher expectations from customers, including greater reliability and more features at lower costs, caused North American original equipment manufacturers (OEMs) to lose market share to Japanese manufacturers. In order to regain business, North American OEMs began to outsource assemblies to smaller, more specialized companies and, thus, could demand higher-quality, lower-cost products. This allowed OEMs to focus on their core businesses of designing reliable vehicles with more, lower-cost features. In addition, outsourcing provided OEMs the flexibility to produce three or four different models on the same production line, and allowed them to reduce capital expenditures incurred to set up additional production lines and plant space, thus creating opportunities for companies similar to Automodular.

Note: This report was prepared with public information only.

## **INVESTMENT CONSIDERATIONS**

### **Strengths**

- Automodular has the capability to design and build assembly manufacturing plants that can be operational in 12 months, thereby providing OEMs the option to introduce new models yearly to remain competitive;
- Automodular delivers defect-free assemblies within two hours of receiving orders;
- Renewed a multi-year agreement with Ford to deliver assemblies until June 2014;
- Automodular is a beneficiary of the increasing trend for OEMs to outsource sub-assemblies;
- Automodular has signed a non-binding letter of intent to sub-assemble equipment for use in the energy sector; and
- Automodular has a good financial position with about \$12.1 million cash.

### **Challenges**

- 100% of revenues come from Ford Motor Company. The business can be impacted adversely if Ford sales are down or contracts are not renewed;
- New labor contract signed by OEMs have reduced the differences in wages with Automodular. The smaller wage difference provides opportunities for OEMs to bring assemblies in-house;
- Continuous pressure from automotive companies to reduce costs can affect future profitability; and
- The Company is dependent on a small group of key personnel, the loss of any one of which could adversely affect operations.

## **BACKGROUND**

Automodular Corporation is a Canadian based company, founded in 1957, with headquarters in Ajax, Ontario. The Company, formerly known as Algonquin Mercantile Corporation, changed its name to Automodular Corporation in June 2001.

Automodular is a sequencer and sub-assembler of modules used in cars and trucks. These assemblies are supplied in North America to Ford Motor Company.

Automodular has an excellent team, which is fully engaged and committed to delivering high quality products at low cost. Various components that are assembled in the Company's Oakville plant include instrument panels, power packs, and rear suspensions (See page 4, Corporate Pictures).

Automodular is an integral part of the supply chain network. The Company's plants are located within 20 kilometres of OEM companies, allowing assemblies to be shipped within two hours of receiving orders. This allows for cost-efficient final assembly of vehicles.

## **OPERATIONS**

Automodular's 0.6 million square foot plant provides the Company with the capacity to supply assemblies for 0.4 million vehicles. In 2010, after losing its GM contract, the Company shut down its Oshawa plant and its U.S. operations.

Over the years, Automodular has taken on increasingly more complex assembly tasks. The Company has earned a reputation for the reliability and sophistication of its operations.

Automodular believes in the following quality statement "They strive to meet or exceed customer's expectations and be competitive through continuous improvement". Their goal is to have zero defects.

**FINANCIALS****(1) 9M/2011 versus 9M/2010**

For nine months ending September 30, 2011, the Company reported revenues of \$58.27 million, a 16% decrease from the same period in 2010. The significant decrease was a direct result of losing the GM contract. The increase in gross margin to 31% from 27% in the same period last year is the result of a reduction in cost of goods sold (“COGS”). The increase in EBITDA margin to 27% in 9M/2011 from 18% in the same period last year is the result of a reduction of the exit costs from \$5.390 million to \$0.989 million. Net profit during 9M/2011 reached \$8.429 million, a 319% increase from 9M/2010. The improvement in the net profit margin to 14% in 9M/2011 from 3% for the same period in 2010 is because of increased efficiency, lower production down time, and no Plant & Equipment (P&E) impairment loss which amounted \$3.2 million. This P&E loss was because of closure of the Oshawa plant. Earnings per share improved to \$0.42 in 2011 from \$0.08 in 2010, an increase of 425%.

<u>(000s)</u>	<u>9M/ 2011</u>	<u>9M/2010</u>	<u>Change</u>
Sales	58,266	69,403	-16%
COGS	40,461	50,538	-20%
Gross Profit	17,805	18,865	-6%
Gross Margin	31%	27%	
Preproduction Costs	908	1,130	
Exit Costs	989	5,390	
EBITDA	15,908	12,345	29%
EBITDA Margin	27%	18%	
Net Profit Before Non- Recurring	8,429	5,204	
P&E Impairment	-	(3,194)	N/A
Net Profit	8,429	2,010	
Net Profit Margin	14%	3%	
EPS	0.42	0.08	425%

**(2) FY2010 versus FY2009**

For the year ended December 31, 2010, the Company achieved an increase in revenues of 17% to \$88.1 million. In 2010, the Company's sales increased due to a better economic environment and stronger demand for Ford vehicles. The increase in gross margin to 28% in FY2010 from 23% in the same period last year is because of lower COGS. The EBITDA improved 58% to \$17.7 million. The EBITDA margin rose to 20% in 2010 from 15% in 2009 as a result of increased sales, lower COGS and lower production down time. However the Company reported a net profit before Non-Recurring items of \$8.075 million a 202% increase for the same period in 2009. In 2010 the company had a loss of \$0.7 million in 2010 as compared to a profit of \$2.7 million in the previous year. This is the result of the recognition of a non-recurring cumulative translation loss of \$ 5.6 million due to the closure of its US plant. The Company had P&E impairment charge of \$3.250 million in 2010 because of the termination of the GM contract.

<u>(000s)</u>	<u>FY2010</u>	<u>FY2009</u>	<u>Change</u>
Sales	88,113	75,261	17%
COGS	63,441	57,957	9%
Gross Profit	24,672	17,304	43%
Gross Margin	28%	23%	
Exit Costs	5,638	4,349	
EBITDA	17,656	11,168	58%
EBITDA Margin	20%	15%	
Net Profit Before Non- Recurring	8,075	2,674	202%
P&E Impairment	(3,250)	-	N/A
Cumulative translation loss	(5,559)	-	
Net Profit	(734)	2,674	-127%
EPS	(0.03)	0.11	-127%

**(3) Dividend Policy**

In Q4/2010, Automodular paid a special dividend of \$0.20 per share. The Company did not pay any dividends in 2009.

In Q3/2011, given its improved financial position, Automodular announced that it will resume the payment of regular quarterly dividends of \$0.05 per share (or \$0.20 per share on an annual basis). The Company also indicated that it could pay a special dividend from time to time if its surplus cash grows beyond its needs. Thus, at the same time, the Board declared a total dividend of \$0.20 per share, comprised of a special dividend of \$0.15 and a regular quarterly dividend of \$0.05 payable September 7, 2011 to shareholders of record August 24, 2011.

In Q4/2011, the Board declared a total dividend of \$0.10, comprising a special dividend of \$ 0.05 and regular quarterly dividend of \$0.05 payable December 1, 2011 to shareholders of record November 17, 2011.

**(4) Cash Flow Analysis**

In 2010, Automodular generated \$25 million cash from its operations, primarily due to increased sales. Although the Company lost its GM contract in 2010, this had a positive impact insofar as it released the working capital tied up in this business. It also had non-cash items, such as cumulative translation loss and a Plant and Equipment (P&E) impairment charge. For H1/2011, it generated \$7.619 million cash from its operations.

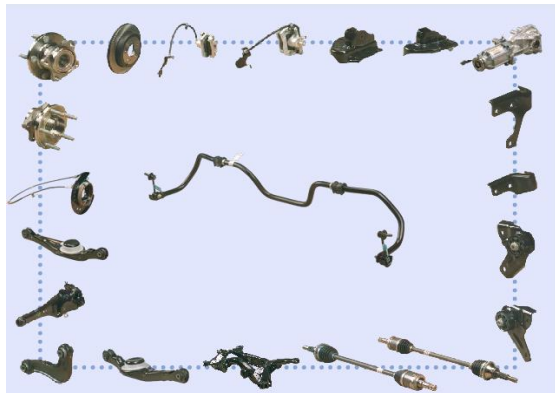
Automodular investment's in P&E has decreased considerably from \$12.878 million in 2008 to \$2.876 million in 2010.

In 2010, the Company repurchased \$5.374 million worth of its stock from the market, repaid \$8.637 million in the form of long-term liabilities, and paid \$3.981 million in dividends. It has been consistently repaying its long term liabilities since 2007. In 2007, the Company received \$7.035 million by issuing new shares.

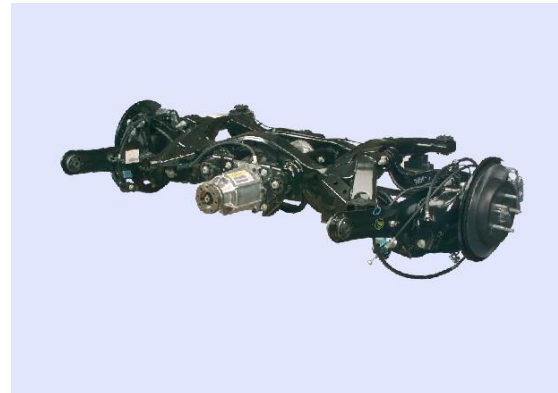
<b>(000s); Year ending December 31:</b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Cash Flow from Operations</b>	25,068	5,574	6,760	19,032
<b>Investing Activities</b>				
Purchase of P&E	(2,876)	(3,145)	(12,878)	(8,546)
Proceeds on disposal of P&E	909	30	230	112
Net change in marketable securities	<u>158</u>	<u>(913)</u>	<u>0</u>	<u>0</u>
<b>Total Cash from Investing Activities</b>	(1,809)	(4,028)	(12,648)	(8,434)
<b>Financing Activities</b>				
Bank indebtedness	-	-	-	(4,919)
Proceeds from new share issue	-	-	-	7,035
Shares repurchased	(5,374)	-	-	-
Dividends paid	(3,981)	-	(1,556)	-
Proceeds from new financing facility	-	-	-	7,000
Repayment of long-term liabilities	<u>(8,637)</u>	<u>(2,506)</u>	<u>(2,154)</u>	<u>(3,994)</u>
<b>Total Cash from Financing Activities</b>	(\$17,992)	(\$2,506)	(\$3,710)	5,122

**CORPORATE PICTURES**

Automodular sub-assembles components and modules used in the manufacturing of cars and trucks. The following pictures illustrate the type of value-added assembly the Company performs.



1. (a) Prior to sub-assembly of rear suspension unit



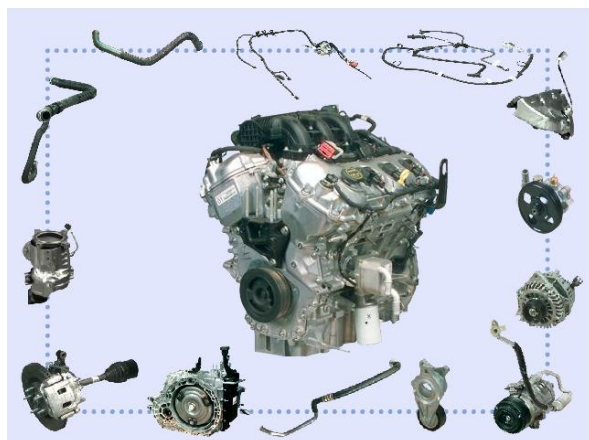
1. (b) Sub-assembled rear suspension unit



2. (a) Prior to sub-assembly of instrument panel



2. (b) Sub-assembled instrument panel



3. (a) Prior to sub-assembly of engine



3. (b) Sub-assembled engine

Source: Company website

## MANAGEMENT

### **Michael F. Blair, Chief Executive Officer**

Mr. Blair has been the Chief Executive Officer of Automodular Corporation since 1989. He was a founder and served as the President and Chief Executive Officer of the Enfield Corporation Limited from 1984 to 1989. He completed his MBA from the University of Western Ontario.

### **Christopher S. Nutt, President**

Mr. Nutt was appointed the President of the Company on August 10, 2011. He is a Certified Public Accountant.

### **Melinda Diebel, Vice-President, Finance and Chief Financial Officer**

Ms. Diebel was appointed to her present position on November 22, 2011. She joined Automodular in 2008 and served as the Company's Corporate Controller.

### **Christopher Dell, Vice-President, Business Development**

Mr. Dell joined Automodular in 1996 and, in 2006, was promoted to Vice President, Business Development.

### **Travis Doyle, Vice-President, Program Launches**

Mr. Doyle joined Automodular in 1996 as a process Engineer. He was promoted to Vice President, Program Launches in 2006.

## DIRECTORS

Russell M. Baranowski,  
Henry Knowles,

Michael F. Blair,  
R. Peter McLaughlin,

Andrew Brenton,  
James Rodgers,

Garth Davis,  
Rae E. Wallin

## CORPORATE INFORMATION

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**Analyst Affirmation:** I, Vinod Makkar, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, any shares of Automodular Corporation.

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