

### EMPIRE INDUSTRIES LTD.

**Price: April 17** **\$0.115**  
**52-Week Range:** **\$0.12-\$0.035**  
**Shares O/S:** **254.54 million**  
**Market Cap:** **\$29.27 million**  
**Average Share Volume**  
    **50-day:** **164,100**  
    **200-day:** **225,100**  
**Year-End:** **December 31**  
**Symbol:** **TSX-V: EIL**  
**Website:** **www.empind.com**



#### Financial Data

	TTM		
( <i>\$000s</i> ) as at Dec.31	2011	2012	to 9/13
<b>Sales</b>	\$54,058	\$83,690	\$110,894
<b>EBITDA</b>	-\$3,868	\$1,952	\$5,081
<b>Net Earns. Fr. Cont. Ops</b>	-\$6,223	\$948	\$2,233
<b>EPS</b>	-\$0.04	\$0.01	\$0.02
<b>Current Assets</b>	\$26,352	\$25,437	\$28,560
<b>Total Assets</b>	\$38,908	\$36,300	\$39,700
<b>Working Capital</b>	-\$2,584	-\$946	\$5,160
<b>Shareholders' Equity</b>	\$7,662	\$7,200	\$13,826

#### eResearch Analysts:

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#### PROFILE

Empire Industries Ltd. ("Empire" or the "Company") is a Winnipeg, Manitoba-based manufacturer of specialized engineered products, selling in domestic and selected international markets.

The Company's operations are conducted in three business sectors: (1) Media-based Attractions; (2) Manufactured Products; and (3) Steel Fabrication Services. Empire also has two key equity partnerships: (i) a 49% interest in ACE Industrial Services; and (ii) a 45% interest in a Chinese joint venture in the Asian steel fabrication market.

Empire has undertaken restructuring and cost-cutting measures over the past several years, and these have returned the Company to profitability and improved its overall prospects.

The Company's balance sheet has been strengthened significantly, with debt having been reduced from approximately \$48 million in 2008 to \$9 million at the end of Q3/2013.

Empire's stock is thinly traded and, thus, would be of more interest to retail than institutional investors.

## OPERATIONS

The Company's operations are carried out in three sectors.

### 1. Media-based Attractions

The *Media-based Attractions* operations design and manufacture complex amusement park ride systems and media-based attractions for entertainment facilities in many international locations. These operations continue to generate significant new orders, and management is optimistic over prospects for further growth over the next several years. For the first nine months of 2013, revenue from this area was \$48.8 million (approximately 57% of total revenue), and gross profit reached \$8.3 million (57% of total gross profit).

### 2. Manufactured Products

The *Manufactured Products* operations make hydrovac trucks for excavation service providers for the oil & gas industry and municipal markets. These operations generated \$19.2 million in revenue and \$3.6 million in gross profit for the first three quarters of 2013, comprising 22% and 24% of the respective totals for the period.

### 3. Steel Fabrication Services

Empire's *Steel Fabrication and Installation* businesses are engaged in the fabrication of tanks, pressure vessels, and other specialty carbon and stainless steel products, primarily for the oil sands and mining sectors in western Canada. These operations are conducted from a structural steel fabrication plant in Edmonton, a plate and pipe steel fabrication plant in Vancouver, and a pressure vessel, tank, and pipe shop in Winnipeg. This business generated \$18.3 million (21%) in revenue and \$2.7 million (19%) in gross profit for the first three quarters of 2013.

	<b><u>Total Revenue</u></b>	<b><u>Total Gross Profit</u></b>
Media-based Attractions	57%	57%
Manufactured Products	22%	24%
Steel Fabrication Services	21%	19%

## Investments

Empire has a 49% interest in ACE Industrial Services, an aboriginal partnership with Athabasca Chipewyan First Nation in Fort McMurray, which provides oil sands industrial maintenance services for companies operating in the oil sands market.

The Company also has a 45% interest in Dongguan Qiguang Dynamic Steel Structures, a structural steel fabrication operation in China. The 55% balance is owned by Guangdong Qiguang Steel Structures Co. Ltd.

## **HISTORICAL SUMMARY**

Empire Industries Ltd. was formed in July 2006 when Empire Iron Works Ltd. and several other existing steel fabrication and engineering companies were combined to form Empire Industries. Through 2006 and 2007, the Company grew rapidly, tripling its plant capacity and increasing its workforce from 246 to 800 employees. Sales increased from approximately \$73 million in 2006 to \$180 million in 2008; however, as industry conditions deteriorated in 2008, earnings declined from \$0.05 per share in 2007 to a loss of \$0.02 per share in 2008.

In 2008, management developed a reorganization plan to structure better the Company for the recession which had developed. This involved downsizing the Company to enhance its efficiency, the sale of less profitable assets, reductions in its workforce, and other cost-saving measures, together with significant debt reduction and working capital improvement measures.

As these measures were implemented over the next few years, sales declined to a low of \$50 million in 2010 before beginning a recovery to \$54 million in 2011 and approximately \$84 million in 2012. Losses from continuing operations reached a peak of \$0.11 per share in 2009, before improving to losses of \$0.02 per share and \$0.04 per share in the subsequent two years. The Company returned to profitability in 2012, with earnings from continuing operations that year of \$0.01 per share.

As part of the reorganization plan, management significantly strengthened the Company's balance sheet. Since the end of 2008, total debt had been reduced from approximately \$48 million to about \$9 million by the end of September 2013. Working capital, which had reached a low of negative \$2.5 million at the end of 2011, had increased to positive \$5.2 million at the end of the third quarter of 2014, while equity increased from a low of \$6.3 million at the end of 2010 to approximately \$14 million at the end of September 2013.

## **INVESTMENT CONSIDERATIONS**

### **Strengths**

- The restructuring and cost-cutting measures which Empire has undertaken over the past several years have returned the Company to profitability and improved its overall prospects.
- Management has also significantly strengthened the Company's balance sheet, reducing debt from approximately \$48 million in 2008 to \$9 million at the end of Q3/2013.
- Empire has changed its product mix to higher-margin items, such as its media-based products. The Company has demonstrated an ability to generate significant orders from major international customers for large media-based projects such as theme-park rides and other complex entertainment products. Since 2011, Empire has generated more than \$60 million in orders from these markets.

### **Challenges**

- With a significant portion (approximately 39% in 2012) of Empire's revenues generated in international markets, the Company's results can be affected by the economic conditions in the countries to which it exports. It also adds currency risk.
- As a relatively small company, results could be adversely impacted by the loss of any of the key members of its management team.
- The stock is thinly traded, and would be of more interest to retail than institutional investors.

## RECENT FINANCIAL RESULTS

### A. Q3/2013 Results

For Q3/2013 ended September 30, Empire reported earnings from continuing operations of \$1.648 million (or \$0.01 per share) compared with \$0.396 million (or \$0.00 per share) for the same period in 2012. Overall sales increased 69.3% to \$34.120 million, led by a 225% gain in the *Media-based Attractions* segment to \$22.329 million and 32% increase in *Manufactured Products*, which more than offset a 37% decline in sales from the *Steel Fabrication Services* sector.

EBITDA rose approximately 274% to \$2.090 million in the latest quarter from \$0.559 million in the year-earlier period, as the EBITDA margin increased from 2.8% to 6.1%. The improved results reflect the benefit of the Company's emphasis on increasing its gross margins through focusing on higher value-added products and increasing its utilization rates.

### Balance Sheet

On July 10, 2013, Empire announced that it had closed a \$3 million private placement of 60 million units comprising one common share and one half-warrant at \$0.05 per unit. Each full warrant entitles the holder to purchase one share at \$0.05 per share for one year from the closing, and at \$0.10 per share thereafter for an additional four years. Canada Zhoufa Agricultural Holding Company Limited acquired 50.4 million units, and insiders of Empire subscribed for the remaining 9.6 million units. As a result of this transaction, Canada Zoufa, a subsidiary of Zhejiang ZF Investment Co. Ltd., now owns 19.9% of the outstanding shares of Empire.

Net income from continuing operations for Q3/2013 approximately quadrupled to \$1.648 million from \$0.396 million in the year-earlier period, as the Company benefited from the increase in EBITDA which was partially offset by a \$0.4 million increase in finance costs and slight increase in depreciation.

**Table 1: Empire Industries Ltd. Q3/2013 versus Q3/2012 Results**

(\$000s)	<u>Q3/2013</u>	<u>Q3/2012</u>	<u>Change</u>
<b>Media-based Attractions</b>	\$22,329	\$6,866	225.2%
<b>Mfd. Products</b>	\$6,552	\$4,950	32.4%
<b>Steel Fabrication Services</b>	<u>\$5,239</u>	<u>\$8,339</u>	<u>-37.2%</u>
<b>Total Sales</b>	\$34,120	\$20,155	69.3%
<b>EBITDA</b>	<u>\$2,090</u>	<u>\$559</u>	273.9%
<b>EBITDA Margin</b>	6.1%	2.8%	
<b>Net Profit from Cont. Ops.</b>	<u>\$1,648</u>	<u>\$396</u>	316.2%
<b>Net Profit Margin</b>	4.8%	2.0%	
<b>EPS</b>	\$0.01	\$0.00	
<b>Average Shares O/S (million)</b>	247.2	193.2	

*Results based on IFRS*

*Source: Company & eResearch*

## B. 9M/2013 Results

For the nine months ended September 30, 2013, total sales rose 46% to \$86.300 million, as gains of 95.6% for *Media-based Attractions* sales to \$48.791 million and 33.8% for *Manufactured Products* to \$19.229 million offset a 7.6% decline in *Steel Fabrication Services* sales to \$18.280 million.

EBITDA increased approximately 157% to \$5.126 million for the 2013 nine months, compared with \$1.997 million for the corresponding period of 2012. EBITDA margin increased to 5.9% from 3.4% a year ago. The improved results reflected the benefit of the Company's strategic transformation, which has enabled it to increase significantly its backlog of high value-added products, such as amusement ride systems, hydrovac trucks, and other proprietary products.

Net income from continuing operations for the 2013 nine months increased 52.3% to \$3.738 million (\$0.02 per share) compared with \$2.453 million (or \$0.01 per share) a year ago, as a result of the improved EBITDA which was slightly offset by a \$0.25 million increase in finance costs and a \$0.1 million increase in depreciation.

The Company's order backlog as at September 30, 2013 was approximately \$73 million.

**Table 2: Empire Industries Ltd. 9M/2013 versus 9M/2012 Results**

<i>(\$000s)</i>	<u>9M/2013</u>	<u>9M/2012</u>	<u>Change</u>
<b>Media-based Attractions</b>	\$48,791	\$24,940	95.6%
<b>Mfd. Products</b>	\$19,229	\$14,367	33.8%
<b>Steel Fabrication Services</b>	<u>\$18,280</u>	<u>\$19,789</u>	<u>-7.6%</u>
<b>Total Sales</b>	\$86,300	\$59,096	46.0%
 <b>EBITDA</b>	 \$5,126	 \$1,997	 156.7%
<b>EBITDA Margin</b>	5.9%	3.4%	
 <b>Net Profit from Cont. Ops.</b>	 \$3,738	 \$2,453	 52.4%
<b>Net Profit Margin</b>	4.3%	4.2%	
 <b>EPS</b>	 \$0.02	 \$0.01	
 <b>Average Shares O/S (million)</b>		193.2	193.2

*Results based on IFRS*

*Source: Company & eResearch*

## QUARTERLY TRENDS

The table below shows the quarterly trend in selected financial items for the last eight quarters.

**Table 3: Empire Industries Ltd Quarterly Results Q4/2011 to Q3/2013**

<i>(\$000s except EPS)</i>	<u>Q4/11</u>	<u>Q1/12</u>	<u>Q2/12</u>	<u>Q3/12</u>	<u>Q4/12</u>	<u>Q1/13</u>	<u>Q2/13</u>	<u>Q3/13</u>
<b>Sales</b>	\$12,553	\$16,794	\$22,147	\$20,155	\$24,594	\$23,780	\$28,400	\$34,120
<b>EBITDA</b>	-\$1,377	\$304	\$1,134	\$559	-\$45	\$1,530	\$1,506	\$2,090
<b>EBITDA Margin</b>	-11.0%	1.8%	5.1%	2.8%	-0.2%	6.4%	5.3%	6.1%
<b>Net Profit from Cont. Ops.</b>	-\$1,606	\$1,176	\$881	\$396	-\$1,505	\$1,074	\$1,016	\$1,648
<b>Net Profit Margin</b>	-12.8%	7.0%	4.0%	2.0%	-6.1%	4.5%	3.6%	4.8%
<b>EPS</b>	-\$0.01	\$0.01	\$0.005	\$0.00	-\$0.01	\$0.01	\$0.005	\$0.01
<b>Average Shares O/S (million)</b>	152.4	193.2	193.2	193.2	193.2	193.2	193.2	247.2

*Results based on IFRS*

Source: Company & eResearch

## HISTORICAL RESULTS

Table 4 below shows selected financial results for the past five years and for the trailing twelve months (TTM) to September 2013.

**Table 4: Empire Industries Ltd. Abbreviated Historical Financial Results**

<b>Year Ended December 31</b>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<b>TTM to 9/13</b>
<i>(\$000s)</i>						
<b>Sales</b>	\$180,032	\$67,907	\$50,002	\$54,058	\$83,690	\$110,894
<b>EBITDA</b>	\$5,300	-\$1,100	\$1,675	-\$3,868	\$1,952	\$5,081
<b>EBITDA Margin</b>	2.9%	-1.6%	3.3%	-7.2%	2.3%	4.6%
<b>Net Profit from Cont. Ops.</b>	-\$1,759	-\$9,794	-\$1,976	-\$6,223	\$948	\$2,233
<b>Net Profit Margin</b>	-1.0%	-14.4%	-4.0%	-11.5%	1.1%	2.0%
<b>EPS</b>	-\$0.02	-\$0.11	-\$0.02	-\$0.04	\$0.01	\$0.02
<b>Average Shares O/S (million)</b>	91.2	91.2	91.2	152.5	193.2	206.7

*\*Results before 2010 based on GAAP; 2010 onwards based on IFRS*

Source: Company & eResearch

## **MANAGEMENT & DIRECTORS**

### **1. Management**

**Guy Nelson**, *Executive Chairman, CEO & President*

Guy Nelson has been a Director of Empire since June 2006 when Empire Industries Ltd. was formed. Mr. Nelson had previously been Chairman of Empire Iron Works, a predecessor company since 1997. He is a significant shareholder of Empire.

**Allan Francis**, *VP Corporate Affairs & Administration*

Allan Francis joined Empire Industries in November 2006. He had previously spent 10 years in various positions with Dominion Bridge and Canon.

**Michael Martin**, *CFO*

Michael Martin joined Empire in 2010 as Director of Finance and Corporate Controller, and became CFO in 2012.

### **2. Directors**

Ian Macdonald,  
Robert Marshall,  
Chao Jian (Jane) Lin

Guy Nelson,  
Bruce Jackson,  
Li-Ting (Jack) Chang.

Campbell McIntyre,  
Terence Quinn,

## **CORPORATE INFORMATION**

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**Analyst Affirmation:** I, Bill Campbell, and I, Bob Weir, hereby state that, at the time of issuance of this report, I do not own, directly or indirectly, shares of Empire Industries Ltd.

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