

### EMPIRE INDUSTRIES LTD.

<b>Price (Dec. 8):</b>	<b>\$0.095</b>
<b>52-Week Range:</b>	<b>\$0.21-\$0.085</b>
<b>Recommendation:</b>	<b>Spec. Buy</b>
<b>Target Price:</b>	
<b>First:</b>	<b>\$0.22</b>
<b>Second:</b>	<b>\$0.27</b>
<b>Shares O/S:</b>	<b>256.24 mm</b>
<b>Market Cap:</b>	<b>\$24.34 mm</b>
<b>Average Volume:</b>	
<b>50-Day:</b>	<b>327,200</b>
<b>200-Day:</b>	<b>287,400</b>



**Symbol:** TSX-V: EIL

**PROFILE:** Winnipeg-based manufacturer of specialized engineered products, selling in domestic and selected international markets. The Company's primary focus is on its Media-Based Attractions operations.

### THIRD-QUARTER AND NINE-MONTH RESULTS

Empire Industries Ltd. reported continuing positive operating results for the third quarter of 2014, despite a 35% decline in revenues in the Company's Media-Based Attractions operations caused by the timing of contracts. The Manufactured Products division achieved strong growth in revenues and EBITDA, while Steel Fabrication operations generated a significant 138% revenue gain coupled with a return to strongly positive EBITDA from a negative level a year earlier. A lower level of net earnings reflected the impact of an unrealized loss on foreign currency forward contracts.

**COMMENT:** We believe that the Company will benefit from a positive performance over the balance of 2014 and expect further growth in operations over the next year.

### RECOMMENDATION AND TARGET PRICE

We recommend the shares of Empire Industries as a Speculative Buy. The shares are currently trading at \$0.10. Our first Target Price is \$0.22, and our second is \$0.27.

**A. Q3/2014 Results**

Empire Industries reported earnings from continuing operations in Q3/2014 of \$0.732 million (\$0.005 per share) compared with \$1.625 million (\$0.010 per share) in Q3/2013.

Total revenues rose approximately 7.0% to \$36.5 million, compared with \$34.1 million in Q3/2013. This reflected the impact of a 138% increase in revenues in the Steel Fabrication operations to \$12.4 million from \$5.2 million, together with a 45.3% gain in revenues in the Manufactured Products area to \$9.5 million from \$6.5 million a year earlier. These gains more than offset an approximate 35% decline in revenues in the Media-Based Attractions sector to \$14.5 million, down from \$22.3 million.

EBITDA rose 1.1% to approximately \$2.3 million in the quarter, up from \$2.1 million a year ago. This reflected the impact of a slight increase in the EBITDA margin to 6.2% compared with 6.1%. The margin increase resulted from a significant improvement in the EBITDA margin in the Structural Steel operations to 5.9% from negative 1.8% a year earlier, as volumes increased significantly in Q3/2014. This margin improvement was partially offset by margin declines in the Media-Based Attraction sector to 8.3% compared with 10.2%, as a result of increased operating costs and lower revenues. Manufactured Product operations also incurred a margin decline, to 9.6% from 11.2%, due to increased outsourcing as a result of higher production levels.

Despite the improved operating results, net profit from continuing operations declined to \$0.732 million in Q3/2014 from \$1.6 million in Q3/2013, primarily as a result of a \$1.0 million unrealized loss on foreign currency forward contracts in Q3/2014 compared with an unrealized gain of \$0.3 million from this item in Q3/2013.

Table 1 below compares Empire’s Q3/2014 and Q3/2013 results.

**Table 1: Empire Industries Ltd. Q3/2014 versus Q3/2013 Results**

<i>(\$000s except EPS)</i>	<u>Q3/2014</u>	<u>Q3/2013</u>	<u>Change</u>
<b>Sales</b>			
<b>Media-Based Attractions</b>	\$14,522	\$22,329	-35.0%
<b>Manufactured Products</b>	\$9,519	\$6,552	45.3%
<b>Steel Fabrication Services</b>	<u>\$12,431</u>	<u>\$5,224</u>	138.0%
<b>Total Sales</b>	\$36,522	\$34,120	7.0%
<b>EBITDA</b>	\$2,263	\$2,090	1.1%
<b>EBITDA Margin</b>	6.2%	6.1%	
<b>Net Profit from Cont. Ops.</b>	\$732	\$1,625	-55.0%
<b>Net Profit Margin</b>	2.0%	4.8%	
<b>EPS</b>	\$0.005	\$0.010	
<b>Average Shares O/S (million)</b>	255.6	247.2	

*Results based on IFRS.  
Source: Company and eResearch*

**B. 9M/2014 vs. 9M/2013 Results**

For the first nine months of 2014, Empire Industries reported earnings from continuing operations of \$3.6 million (\$0.015 per share) compared with \$3.7 million (\$0.020 per share) for the corresponding period in 2013.

Overall revenues increased 21.7% to \$105 million in the nine months, up from \$86.3 million a year ago. The strong revenue gain was led by an approximate 48% increase in Steel Fabrication revenues to \$27 million, up from \$18 million, as well as an approximate 37% gain in Manufactured Product revenues to \$26 million, up from \$19 million. The Media-Based Attractions sector achieved a 6% revenue gain to approximately \$51.7 million, compared with \$48.8 million a year ago.

EBITDA rose approximately 20% in the nine months to \$6.2 million, up from \$5.1 million a year ago. This reflected the impact of the Company's strong revenue gain, as the EBITDA margin of 5.9% remained the same in both periods. This reflected declines in EBITDA margins from 9.3% to 7.3% in the Media-Based Attractions sector, as a result of increased operating costs including R&D, and from 11.8% to 10.6% in the Manufactured Product area because of increased outsourcing. This was offset by a significant margin improvement in the Structural Steel operation from 1.7% to 5.0% as a result of a significantly higher production level.

Net profit from continuing operations declined 2.7% to \$3.6 million, down from \$3.7 million a year ago. As was the case in the third quarter results, this primarily reflected an unrealized loss on foreign currency forward contracts of \$0.8 million in the latest nine months compared with a gain of approximately \$0.2 million from the same item a year ago.

Table 2 below compares Empire's 9M/2014 and 9M/2013 results.

**Table 2: Empire Industries Ltd. 9M/2014 versus 9M/2013 Results.**

<i>(\$000s except EPS)</i>	<u>9M/2014</u>	<u>9M/2013</u>	<u>Change</u>
<b>Sales</b>			
<b>Media-Based Attractions</b>	\$51,728	\$48,791	6.0%
<b>Mfd. Products</b>	\$26,276	\$19,229	36.6%
<b>Steel Fabrication Services</b>	<u>\$26,914</u>	<u>\$18,201</u>	<u>47.9%</u>
<b>Total Sales</b>	\$105,032	\$86,300	21.7%
<b>EBITDA</b>	\$6,156	\$5,126	20.1%
<b>EBITDA Margin</b>	5.9%	5.9%	
<b>Net Profit from Cont. Ops.</b>	\$3,592	\$3,693	-2.7%
<b>Net Profit Margin</b>	3.4%	4.3%	
<b>EPS</b>	\$0.015	\$0.020	
<b>Average Shares O/S (million)</b>	254.8	211.8	

*Results based on IFRS.  
Source: Company and eResearch*

C. Quarterly Trends

Table 3 below shows the quarterly trend in selected financial items for the past eight quarters.

**Table 3: Empire Industries Ltd. Quarterly Results Q4/2012 to Q3/2014**

<i>(\$000s except EPS)</i>	<u>Q4/12</u>	<u>Q1/13</u>	<u>Q2/13</u>	<u>Q3/13</u>	<u>Q4/13</u>	<u>Q1/14</u>	<u>Q2/14</u>	<u>Q3/14</u>
<b>Sales</b>	\$24,594	\$23,780	\$28,400	\$34,120	\$31,495	\$33,598	\$34,912	\$36,522
<b>EBITDA</b>	-\$45	\$1,530	\$1,506	\$2,090	\$1,192	\$2,370	\$1,523	\$2,263
<b>EBITDA Margin</b>	-0.2%	6.4%	5.3%	6.1%	3.8%	7.1%	4.4%	6.2%
<b>Net Profit from Cont. Ops.</b>	-\$1,505	\$1,074	\$1,016	\$1,648	\$681	\$1,211	\$1,649	\$732
<b>Net Profit Margin</b>	-6.1%	4.5%	3.6%	4.8%	2.2%	3.6%	4.7%	2.0%
<b>EPS</b>	-\$0.01	\$0.005	\$0.005	\$0.01	\$0.005	\$0.005	\$0.005	\$0.01
<b>Average Shares O/S (million)</b>	193.2	193.2	193.2	247.2	250.2	253.9	254.9	255.6

Results based on IFRS.

Source: Company and eResearch

D. Historical Results

Table 4 below shows selected financial results for the past five years and trailing 12 months (TTM) ended September 30, 2014.

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

<b>Year Ended December 31</b>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<b>TTM to 09/14</b>
<i>(\$000s except EPS)</i>						
<b>Sales</b>	\$67,907	\$50,002	\$54,058	\$83,690	\$117,795	\$136,527
<b>EBITDA</b>	-\$1,100	\$1,675	-\$3,868	\$1,952	\$6,318	\$7,348
<b>EBITDA Margin</b>	-1.6%	3.3%	-7.2%	2.3%	5.4%	5.4%
<b>Net Profit from Cont. Ops.</b>	-\$9,794	-\$1,976	-\$6,223	\$948	\$4,419	\$4,318
<b>Net Profit Margin</b>	-14.4%	-4.0%	-11.5%	1.1%	3.8%	3.2%
<b>EPS</b>	-\$0.11	-\$0.02	-\$0.04	\$0.01	\$0.02	\$0.02
<b>Average Shares O/S (million)</b>	91.2	91.2	152.5	193.2	222.0	251.4

Source: Company and eResearch

## RECENT DEVELOPMENTS

Subsequent to the end of the third quarter, Empire Industries announced several new contracts for its Media-Based Attractions operation.

The first was an \$8 million award for equipment for a major South Korean theme park. The contract is the Company's first in this market, and will be produced over the next 18 months.

The second announcement was for two contracts for a total of US\$17 million for its proprietary Flying Theatre. One is for a Chinese theme park, and the other for a U.S. real estate developer. These contracts will also be produced over an 18-month period.

**COMMENT:** *The South Korean contract gives the Company entry into another attractive Asian market, while the other two contracts bring the total number of Flying Theatres sold to eight.*

## THE COMPANY

Empire Industries Ltd. is a manufacturer of specialized engineered products, which it sells 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 Industries also has two key equity partnerships:

1. 49% interest in ACE Industrial Services; and
2. 45% interest in a Chinese steel fabrication joint venture, Dongguan Qiguang Dynamic Steel Structures, Ltd., in the Asian steel fabrication market.

## OPERATING BUSINESSES

### 1. Media-Based Attractions

Dynamic Attractions (6): The sale of new proprietary attractions has already started to take place, and Company results are starting to reflect the first sales of these new rides being designed, built, shipped, installed and commissioned, with a number of them being opened to the public over the next year in various locations around the world. The Company expects to gather momentum as more products are sold to additional clients.

The Company's six main media-based attractions are:

- **Flying Theatre:** A theatre ride which gives the riders the sensation of being suspended in the air (Link to Brochure: click [HERE](#)).
- **Immersive Transporter:** A ride in which the riders become immersed in realistic audio visual effects and various sensations of motion (Link to Brochure: click [HERE](#)).
- **Tracked Robotic Ride Vehicle:** This unique, flexible, and highly productive ride platform is sought out by large entertainment companies as an iconic draw to their amusement parks.
- **Circumotion™:** This is a 360-degree theatre that provides customers with a variety of sensations as it lifts, leans and spins through various apparent environments such as space or underwater. This product is

co-marketed in agreement with the owner of the patent who also produces the creative movie content used by the Circumotion™ theatre (Link to Brochure: click [HERE](#)).

- **SFX Indoor Coaster:** A high-speed coaster in which the participants are immersed in many sounds and sights as well as four new elements of motion (Link to Brochure: click [HERE](#) ).
- **Trackless Ride Vehicle:** These are vehicles which can be combined with a multi-axis motion platform or robot arms to provide smooth exciting rides.

**Dynamic Structures** (telescopes): The Company currently is not engaged in building new telescopes and, instead, is actively pursuing funding for the Thirty-Meter-Telescope project. If Canada decides to participate, then one-half of its contribution would go towards building a spherical enclosure for the telescope. Building this enclosure would be granted to Empire Industries' subsidiary, Dynamic Structures.

In the meantime, the Company is spending significant R&D monies on telescope mirror production and polishing. This division continues to serve its traditional “build to print” clients in the entertainment industry.

## 2. Manufactured Products

Empire Industries is a manufacturer and seller of Tornado hydrovac trucks for use by excavation service providers in western Canada. (Possible new markets for the Company's hydrovac trucks are eastern Canada and the United States.) In contrast, competitor Badger Daylighting Ltd. operates with a totally different strategy: it is a manufacturer and service provider of daylighting services, which requires considerably more total capital to finance its operations.

Since Empire is already active in China, it could produce hydrovac trucks for the Chinese market. In this respect, the Company could build its own plant to manufacture the trucks, or it could buy a Chinese company that already manufactures trucks, or it could joint venture with an existing Chinese company that builds back-ends for trucks.

**COMMENT:** *The demand for the Company's Hydrovac Trucks product continues to grow. The Company is targeting growth markets internationally and domestically in Proprietary Engineered Products, and is identifying ways to broaden geographic coverage and expand the product line.*

## 3. Steel Fabrication

Empire Industries' *Steel Fabrication Services* operation is conducted through two facilities:

- Empire Iron in Edmonton, which carries out conventional structural steel fabrication; and
- Parr Metal in Winnipeg, which fabricates tanks, pressure vessels, and pipe. This operation produces the steel tanks for the Tornado hydrovac trucks.

The Company also conducts steel fabrication services through its two minority equity ownership interests in companies in Fort McMurray, Alberta and China.

**OUTLOOK**

Empire's Media-Based Attractions sector is expected to continue to benefit from strength in the theme park attractions market, as indicated by the Company's recent contract awards in this area. Further contracts are expected over the next year, although the exact timing of the awards can vary.

The Manufactured Products operations are currently operating at full capacity and are expected to continue to do so for the foreseeable future, as the Company benefits from its current \$15 million order backlog.

The Structural Steel operations are expected to maintain the current level of operations over the near term, as the Company benefits from its \$8 million backlog and anticipated new orders.

On balance, we expect Empire to continue to achieve further growth in its operations over the next year.

**INITIATING REPORT AND VIDEO**

An Initiating Report, a Video, and Update Reports on Empire Industries Ltd. are available at the following link:

<http://www.eresearch.ca/profile.asp?companyID=757>

**eRESEARCH CORPORATION****eResearch Analysts on this Report:**

Bill Campbell, B. Comm.; and Bob Weir, B.Sc., B.Comm, CFA

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

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