

EXCO TECHNOLOGIES LIMITED

Price (July 29) \$11.29
52-Week Range: \$12.59-\$6.25

Shares O/S: 41.95 mm
Market Cap: \$473.62 mm

Average Volume:
50-Day: 38,300
200-Day: 28,500

Dividend (Ann.): \$0.20
Yield: 1.77%

Symbol: TSX: XTC



PROFILE: Designer, developer and manufacturer of dies, moulds, components and assemblies for the global die-cast, extrusion and automotive industries.

STRONG FISCAL THIRD-QUARTER RESULTS

Exco Technologies Limited reported strong results for Q3/F2014 and for the nine months ended June 30, 2014. Net sales were up 78% in the quarter, compared with the corresponding period of F2013, with the *Automotive Solutions* division showing a 183% increase. The increases were largely the result of the recent acquisition of the Automotive Leather Group (ALC) of South Africa, although existing businesses also showed respectable increases over the period. EPS were \$0.20 compared with \$0.14 a year ago.

The Company also announced that its quarterly dividend of \$0.05 per common share will be paid September 26 to shareholders of record on September 12.

COMMENT: The positive impact of the Automotive Leather Group (ALC) acquisition since March 1, 2014, together with continued growth in the Exco's existing operations, have resulted in the Company reporting strong results for both the third quarter and first nine months of fiscal 2014. In addition, the Company has remained financially strong with no net debt, net cash of \$1.1 million, and working capital of \$75.6 million at the end of the latest quarter. We believe that these factors, together with the benefits of the Company's capital spending program, will enable Exco to achieve a strong performance through the balance of fiscal 2014 and in fiscal 2015.

A. Q3/F2014 Results (March 1 - June 30, 2014)

Exco's net sales rose approximately 78% to \$110.9 million, largely as a result of the inclusion in Q3/F2014 of \$35.3 million of sales from the Automotive Leather Group (ALC) acquisition which closed on March 1, 2014. Sales from Exco's existing operations increased 21%.

Automotive Solutions sales increased 183% in Q3/F2014, reflecting the \$35.3 million in sales from the ALC acquisition coupled with a 32% increase in sales from the Company's existing businesses in this sector. Sales in the *Casting & Extrusion* sector rose 14.7%, as a result of improved conditions in the North American extrusion market, while mould sales benefited from continuing strong market conditions in both North America and Asia.

Exco reported earnings of \$8.34 million, or \$0.20 per share, for Q3/F2014 compared with \$5.55 million, or \$0.14 per share, for the corresponding period of fiscal 2013. The latest period's net earnings included approximately \$0.9 million of unusual expenses (primarily start-up costs related to the Company's new Brazilian and Thailand facilities). The year-earlier quarter included an unusual item of \$1.5 million of withholding tax which the Company paid. If these items are excluded, earnings would have been \$9.2 million (\$0.22 per share) and \$7.2 million (\$0.18 per share) in the respective quarters.

Table 1 below compares Exco's Q3/F2014 and Q3/F2013 results.

Table 1: Exco Technologies Limited Q3/F2014 versus Q3/F2013 Results

<i>(\$000s except EPS)</i>	<u>Q3/F2014</u>	<u>Q3/F2013</u>	<u>Change</u>
Net Sales			
Casting & Extrusion	\$44,610	\$38,907	14.7%
Automotive Solutions	<u>\$66,328</u>	<u>\$23,475</u>	<u>182.5%</u>
Total Sales	\$110,938	\$62,382	77.8%
 EBITDA	 \$14,932	 \$11,686	 27.8%
EBITDA Margin	13.5%	18.7%	
 Net Profit	 \$8,340	 \$5,550	 50.3%
Net Profit Margin	7.5%	8.9%	
 EPS	 \$0.20	 \$0.14	
 Average Shares O/S (million)	 42.0	 40.7	

Results based on IFRS

Source: Company and eResearch

B. 9M/F2014 Results (October 1, 2013 – June 30, 2014)

Sales rose 42% to \$257.3 million, led by a 96% gain in sales in the *Automotive Solutions* area and an approximate 10% increase in sales in the *Casting & Extrusion* sector.

The significant growth in the *Automotive Solutions* area reflected: (1) the impact of the (ALC) acquisition, which added \$49.7 million in sales; and (2) 23% growth in the Company's existing businesses in this area. As was the case in Q3/F2014, the sales increase in the *Casting & Extrusion* sector in the nine-month period reflected improved conditions in the North American extrusion market, while mould sales benefited from continuing strong market conditions in both North America and Asia.

For the first nine months of F2014, Exco reported earnings of \$22.53 million, or \$0.54 per share, compared with \$16.88 million, or \$0.42 per share, for the corresponding period of fiscal 2013. Net earnings in the latest nine months included unusual expenses of approximately \$1.9 million (primarily start-up costs in Brazil and Thailand, and \$0.4 million of due diligence and closing costs related to the ALC acquisition), while the F2013 nine-month period included \$1.7 million of unusual expenses (primarily the withholding tax item). If these are excluded, earnings would have been \$24.2 million (\$0.59 per share) and \$18.6 million (\$0.46 per share) for the respective periods.

The table below compares Exco's 9M/F2014 and 9M/F2013 results.

Table 2: Exco Technologies Limited Q3/F2014 versus Q3/F2013 Results

<i>(\$000s except EPS)</i>	<u>9M/F2014</u>	<u>9M/F2013</u>	<u>Change</u>
Net Sales			
Casting & Extrusion	\$123,427	\$112,280	9.9%
Automotive Solutions	<u>\$133,893</u>	<u>\$68,369</u>	<u>95.8%</u>
Total Sales	\$257,320	\$180,649	42.4%
 EBITDA	 \$38,335	 \$32,032	 19.7%
EBITDA Margin	14.9%	17.7%	
 Net Profit	 \$22,533	 \$16,882	 33.5%
Net Profit Margin	8.8%	9.3%	
EPS	\$0.54	\$0.42	
 Average Shares O/S (million)	 41.5	 40.7	

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: Exco Technologies Limited Quarterly Results Q4/F2012 to Q3/F2014

(\$000s except EPS)	<u>Q4/F12</u>	<u>Q1/F13</u>	<u>Q2/F13</u>	<u>Q3/F13</u>	<u>Q4/F13</u>	<u>Q1/F14</u>	<u>Q2/F14</u>	<u>Q3/F14</u>
Net Sales								
Casting & Extrusion	\$40,000	\$36,323	\$37,050	\$38,907	\$40,219	\$38,964	\$39,853	\$44,610
Automotive Solutions	<u>\$21,667</u>	<u>\$22,363</u>	<u>\$22,531</u>	<u>\$23,475</u>	<u>\$23,742</u>	<u>\$24,981</u>	<u>\$42,584</u>	<u>\$66,328</u>
Total Sales	\$61,667	\$58,686	\$59,581	\$62,382	\$63,961	\$63,945	\$82,437	\$110,938
EBITDA	\$11,850	\$10,313	\$10,033	\$11,686	\$11,072	\$10,968	\$12,431	\$14,932
EBITDA Margin	19.2%	17.6%	16.8%	18.7%	17.3%	17.2%	15.1%	13.5%
Net Profit	\$7,147	\$5,787	\$5,545	\$5,550	\$6,750	\$6,740	\$7,453	\$8,340
Net Profit Margin	11.6%	9.9%	9.3%	8.9%	10.6%	10.5%	9.0%	7.5%
EPS	\$0.18	\$0.14	\$0.14	\$0.14	\$0.17	\$0.17	\$0.18	\$0.20
Average Shares O/S (million)	40.7	40.7	40.7	40.7	40.7	40.8	41.9	42.0

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 June 30, 2014.

Table 4: Exco Technologies Limited Abbreviated Historical Financial Results

						TTM
Year Ended September 30	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>to 06/14</u>
(\$000s except EPS)						
Net Sales						
Casting & Extrusion	\$96,105	\$105,015	\$128,353	\$152,521	\$152,499	\$163,646
Automotive Solutions	<u>\$47,611</u>	<u>\$60,497</u>	<u>\$74,278</u>	<u>\$89,995</u>	<u>\$92,111</u>	<u>\$157,635</u>
Total Sales	\$143,716	\$165,512	\$202,631	\$242,516	\$244,610	\$321,281
EBITDA	\$1,392	\$22,450	\$28,619	\$42,594	\$43,104	\$49,407
EBITDA Margin	1.0%	13.6%	14.1%	17.6%	17.6%	15.4%
Net Profit (Loss)	(\$17,666)	\$10,077	\$13,263	\$24,449	\$23,632	\$29,283
Net Profit Margin	-12.3%	6.1%	6.5%	10.1%	9.7%	9.1%
EPS	-\$0.43	\$0.25	\$0.32	\$0.60	\$0.58	\$0.70
Shares O/S (million)	40.8	40.8	40.9	40.7	40.7	41.5

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

Source: Company and eResearch

THE COMPANY

Exco Technologies Limited is a Markham, Ontario-based designer, developer and manufacturer of dies, moulds, components and assemblies for the global die-cast, extrusion and automotive industries.

The Company has two main sectors:

- *Extrusion Technology and Casting*, which accounted for 51% of Trailing Twelve Months' Sales to June 30, 2014; and
- *Automotive Solutions*, which provided the remaining 49%.

Exco operates through 18 facilities in 12 countries in North and South America, Europe, South Africa and Asia. In fiscal 2013, approximately 71% of Exco's sales were generated in Canada and the United States, with the remaining 29% in the balance of the world. (No interim break-down were reported.) International sales are expected increase their share of total sales in fiscal 2014 and beyond, as a result of recent acquisitions and expansion.

Effective March 1, 2014, Exco acquired Automotive Leather Company Group (ALC) of South Africa for approximately \$17.3 million in cash and 973,895 Exco shares. ALC manufactures and exports luxury leather interior seat covers and other trim components, primarily for BMW in Germany.

For more on Exco Technologies Limited., see eResearch's June 6, 2014 *StockPotentials Report* at the following link: http://www.eresearch.ca/report/XTC_061614-SP.pdf.

e*RESEARCH CORPORATION**e*Research Analysts on this Report:**

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

Analyst Affirmation: I, Bill Campbell, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, shares of Exco Technologies Limited.

NOTE: *e*Research published a *StockPotentials Report* on Exco Technologies Limited on June 6, 2014. This report and reports on other companies are available FREE on our website at www.eresearch.ca. You must REGISTER to access these reports.

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