

## Contact Info:

Ph: (250) 376-8989  
Fax: (250) 376-8958  
info@qiscapital.com  
www.qiscapital.com

Research  
Doren Quinton

Research Assistants  
Josh Kier

# INDEPENDENT RESEARCH



## Empire Industries Limited (EIL: TSX-V)

Date: April 18, 2008  
Price: \$0.48



### KEY INFORMATION

Fiscal Year-end	December 31
52-Week High/Low	\$0.72 - \$0.40
3-Mth Avg. Daily Trading Vol.	134,345 shares
Market Capitalization	\$43.7 million
Enterprise Value	\$58.7 million
Book Value per Share	\$0.44
Current Ratio	1.16
Gross Margin	17.4%
LT Debt to Cash Flow	2.5
LT Debt to Equity	0.4
Price to 2007 Earnings	9.4
Price to 2008e Earnings	8.0

### FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Dec 31		Yr Ended Dec 31	
	2007	2006	2007	2006
Revenues	35,460	16,650	117,022	72,864
Cash Flow	nm	1,530	6,007	3,208
per share	nm	0.027	0.098	0.060
Net Income	767	319	3,148	2,247
per share	0.011	0.006	0.051	0.042

### BALANCE SHEET (as at December 31, 2007)

Current Assets	\$ 61,981,265
Total Assets	110,856,106
Current Liabilities	53,576,732
Long-Term Debt	14,081,559
Shareholders' Equity	40,400,355

### SHARES OUTSTANDING (as at December 31, 2007)

Basic	91,137,640
Options	7,606,888
Warrants	300,000
Fully-Diluted	99,044,528

## Highlights:

- revenue and net profit growth of 60% and 40%, respectively over FY06 performance
- backlog of \$91 million as at March 31, 2008
- proposed capital spending of \$150 billion in AB and BC over the next decade
- recent tripling of operational capacity
- strategic acquisition of 4 companies in 2007
- trading at low P/E and EBITDA multiples

## COMPANY OVERVIEW

Empire Industries Ltd. is a leading player in the arena of steel fabrication and construction service providers. The current operations of the company are focused on growth trends in Western Canada in industrial, commercial and institutional capital spending for steel fabrication and installation services.

Empire Industries operates in three principle lines of business, namely, steel fabrication; construction and maintenance services; and customized manufacturing of equipment. Steel fabrication includes structural steel, module fabrication, pipes, bridges and plate steel. Construction and maintenance includes bridge servicing and complex infrastructure installations, steel erection services, and multi-trade installation services. Customized manufacturing of equipment includes oil and gas production and combustion equipment, hydrovac and vacuum trucks, stationary industrial vacuums, industrial air cleaning equipment, bulk material handling equipment, telescopes and amusement rides.

Empire Industries currently has four wholly owned subsidiaries - Empire Iron Works Limited, George Third & Son Limited, Empire Dynamic Structures Limited, and Tornado Technologies Inc. The company has successfully completed six acquisitions totalling \$48 million since 2006 and has grown its work force to over 800 employees and its fabrication capacity to over 400,000 sq ft.

## FINANCIAL SUMMARY

For the year ended December 31, 2007, Empire Industries posted a 60% increase in revenues, rising from \$72.9 million to \$117 million. The significant revenue growth for the year reflects internal growth and the acquisitions completed during 2007. Gross margins increased to 17.4% compared to 13.9% in FY06. Empire generated net income of \$3.15 million or \$0.05 per share in 2007, a 25% increase from \$2.25 million or \$0.04 per share in 2006.

For the 3 months ended Dec. 31, 2007, revenues increased by 113% to \$35.46 million from \$16.65 million in FY06. Gross margins were 15.4% in the fourth quarter compared to 23.1% for the comparable quarter in 2006. Earnings in the second half of 2007 were dampened by the lower margin backlog of projects inherited from acquisition activity and as a result of ongoing integration efforts. Lower than normal margins are expected to persist through the first half of 2008 as the lower margin backlog is replaced with higher margin projects, leading to anticipated stronger earnings in the last half of 2008.

Working capital increased by 29% to \$8.4 million as at December 31, 2007. There was a significant increase in the asset size of the company to \$110.9 million from \$41.8 million in FY06 as a result of acquisition activity. The acquisitions have tripled the capacity of Empire Industries and are projected to propel growth initiatives in 2008 and beyond.

## RECENT DEVELOPMENTS

In Feb 2008, the company was awarded a \$21 million contract for the fabrication and installation of the Coast Meridian Overpass in Vancouver, BC for SNC-Lavalin Constructors Pacific Inc. 75% of the project is expected to be executed in 2008, with completion scheduled for 2009.

The company has successfully completed the acquisition of Parr Metal Fabricators and Tornado Technologies in January 2008 and December 2007, respectively. The two acquisitions further strengthen the company's market share in steel fabrication. Tornado enhances capacity in plate steel fabrication and industrial equipment manufacturing while Parr Metal provides the company with 30 years of expertise in custom fabrication of products like pressure vessels, piping, tanks, stacks and conveyor systems. The Tornado acquisition also positions Empire to capitalize on the increasing oil and gas service activity as both oil and natural gas prices continue to push new highs.

## SUMMARY

Empire has uniquely positioned itself for robust future growth through a combination of organic and strategic acquisition strategy supported with the anticipated growth in industrial, commercial and institutional combined capital spending in Western Canada to the tune of \$150 billion over the next decade. The company currently has a strong order book of \$91 million and is in negotiations for several major new contracts. Empire is expected to post continued earnings growth in 2008 due to a strong focus on integration, optimum capacity utilization and higher margin realizations.

Empire's current market capitalization represents less than 10 times trailing earnings and less than half of one-year's sales. Revenues are expected to continue to expand in 2008 resulting in earnings of about \$5 million or \$0.06 per share. At current market prices, the company's shares trade at approximately 8 times forward earnings compared to the average industry P/E that stands at 17.5 times. From an EBITDA perspective also, the company trades at 4.9 times forward EBITDA, as compared to average industry forward EBITDA of approximately 6.5 times.

### **Empire Industries Limited**

Suite 203, 2 Lombard Street

Toronto, Ontario M5C 1M1

Contact: Guy Nelson, Chairman & CEO

Phone: (416) 366-7977

Fax: (416) 949-7227

Email: [gnelson@empind.com](mailto:gnelson@empind.com)

Website: [www.empireindustriesltd.com](http://www.empireindustriesltd.com)

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