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# INDEPENDENT RESEARCH



## Pacific Insight Electronics Corp. (PIH : TSX)

Date: February 19, 2007

Price: \$4.76

(coverage initiated Jan. 25, 2006 : \$3.20)



### KEY INFORMATION

Fiscal Year-end	June 30
52-Week High/Low	\$5.30 - \$3.52
3-Month Avg. Daily Trading Volume	9,051 shares
Market Capitalization	\$29.0 million
Enterprise Value	\$26.0 million
Book Value Per Share (Dec. 31, 2006)	\$2.66
Current Ratio	3.8
Gross Margin	30%
LT Debt to f2006 CF	0.0
LT Debt to Equity	0.0
Price to f2006 earnings	10.6
Price to f2007e Earnings	9.0

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

	3 Months Dec. 31		6 Months Dec. 31	
	2006	2005	2006	2005
Revenues	9,465	9,421	18,919	18,571
Earnings	782	877	1,438	1,414
per share	0.13	0.14	0.24	0.21
Cash Flow	1,116	1,213	2,289	2,036
per share	0.18	0.19	0.38	0.30

### BALANCE SHEET (as at December 31, 2006)

Current Assets	\$ 12,543,073
Total Assets	20,550,190
Current Liabilities	3,312,005
Long-Term Debt	nil
Shareholders' Equity	16,205,185

### SHARES OUTSTANDING (as at December 31, 2006)

Basic	*6,099,307
Fully-Diluted	6,612,407

\*management and insiders own approximately 22% of the company's issued and outstanding common shares

### Highlights:

- positive working capital position of about \$9.2 million or \$1.51 per share
- no long-term debt
- currently establishing another production facility in Mexico
- second half of each fiscal year is historically stronger in terms of revenues and earnings

Pacific Insight Electronics Corp. designs, manufactures and markets electronic products and full service solutions to the North American commercial vehicle, off-road, and specialty markets. The company was incorporated in 1987 in British Columbia, went public in 1989, and in 2001, Pacific Insight constructed a custom 70,000 square foot facility in Nelson, B.C.

Pacific Insight has developed into a company that designs and manufactures a broad range of advanced electronic and lighting solutions. The company has four primary product groups, namely, LED lighting products, instrumentation products, electronic modules, and wire and cable products. In fiscal 2006, 88% of Pacific Insight's sales were purchased by U.S. customers. Going forward, the company expects sales to the U.S. to remain at 85% to 90% of total revenues.

In March 2006, Pacific Insight released an innovative information transfer product for tractor-trailers. The new PLC display allows for data communication between the tractor and trailer on the status of trailer-mounted systems. The new product was designed in tandem with Meritor WABCO and will be sold through this partner's global distribution network. Meritor WABCO is a joint venture between ArvinMeritor (ARM:NYSE) and the WABCO Automotive Products Group of American Standard Companies Inc. (ASD:NYSE).

In December 2006, the company committed to invest \$800,000 on a complete new surface

mount technology (SMT) manufacturing line which will be operational in the third quarter of fiscal 2007. This addition is expected to significantly increase electronic module, gauge, and LED lighting manufacturing capacity, as well as streamline operations, improve quality, improve on-time delivery to customers, and reduce manufacturing capacity constraints.

In addition to the equipment investments, management has stated that Pacific Insight will expand its operations by opening a satellite facility in Mexico. Mexico provides an attractive infrastructure base for manufacturing and excellent proximity for selling into the company's primary U.S. customer base. Pacific Insight has established a manufacturing relationship with a shelter group which will support management in the gradual expansion of manufacturing operations within a shelter facility. This leased facility will begin preliminary operations in March 2007 and production will then be increased on a gradual basis. The initial focus of this satellite facility will be to support the addition of new wire harness business and the assembly of some of the company's labor intensive products, which should free up the main facility in Nelson for higher margin and expanded business opportunities. As this satellite facility comes up to full operating capacity, management expects to see considerable capacity for growth in sales to Pacific Insight's existing customer base, as well as the addition of new customers.

On February 22, 2007, Pacific Insight commenced a normal course issuer bid to repurchase up to 10% of its public float of common shares over a one year period expiring on February 21, 2008. Under the terms of the issuer bid, the company may repurchase up to 484,140 common shares for corporate purposes or cancellation.

During the first six months of fiscal 2007, electronic module revenues increased 21% over the prior year to \$7.32 million. This increase reflects strong product sales, particularly electronic control modules for a number of key customers in the heavy truck and automotive markets. LED lighting product sales for the first half of the year were consistent with results reported for the same period in fiscal 2006. Management has stated that LED products are the future in vehicular lighting, and Pacific Insight has strategically aligned itself with a leader in the market place, Peterson Manufacturing Company, of Kansas City, Missouri. Instrumentation devices contributed \$4.05 million in revenues for the first half of the year, up 7% over the same period last year. In addition, wire and cable harness revenues were \$3.05 million for the six months ended December 31, 2006, down from \$4.2 million last year due to a major customer's re-designed truck.

Pacific Insight expects to continue to grow both sales and earnings in a controlled manner over the next several years. During the three months ended December 31, 2006, Pacific Insight recorded total sales of approximately \$9.5 million. Earnings for the second quarter were \$782,000 or \$0.13 per basic share. On a year to date basis for fiscal 2006, revenues were \$18.9 million with associated earnings of \$1.4 million or \$0.24 per share. It should be noted that the company has historically generated stronger revenues and net income during the second half of the fiscal year.

As at December 31, 2006, Pacific Insight had a positive working capital position of \$9.2 million or \$1.51 per share. In addition, the company has no long-term debt. Pacific Insight is trading at just six times earnings on a debt adjusted basis.

### **Pacific Insight Electronics Corp.**

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