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News

Empire Industries reports 2019 and First Quarter 2020 Results

May 29, 2020

The Company's backlog, strategy and improved liquidity have uniquely positioned it for new opportunities arising from the post-pandemic economy.

WINNIPEG – May 29, 2020 – Empire Industries Ltd. (TSX-V: EIL) (“Empire”, “EIL” or the “Company”) today reported its audited consolidated financial results for the year ended December 31, 2019 (<http://empind.com/wp-content/uploads/2020/05/1Q20-EIL-Quarterly-Report.pdf>) and its unaudited first quarter 2020 (<http://empind.com/wp-content/uploads/2020/05/1Q20-EIL-Quarterly-Report.pdf>). The consolidated financial statements and MD&A’s for both periods have been filed on SEDAR and can be viewed at sedar.com (<http://sedar.com/>) or at [empind.com](http://www.empind.com) (<http://www.empind.com>).

“Empire faced challenges and increased costs in Q4 2019 and Q1 2020 related to six complex ride systems that were at various stages of installation and commissioning in theme parks around the world,” commented Guy Nelson, Empire’s Executive Chairman and CEO. “The pandemic added to our challenges starting in mid Q1 2020 in the field and in our manufacturing operations. A material amount of these costs were directly related to the development of a new generation of proprietary ride systems. These rides are expected to bring significant value to our future business. I am pleased to see that the losses in 2019 have turned into a break-even EBITDA in Q1 2020.”

“I am also pleased to state that our liquidity at the end of Q1 2020 of \$11.2 million of cash combined with \$218 million of profitable backlog, positions us well to get through this pandemic period and be in a position to leverage our considerable intellectual property that we have invested so heavily in creating,” added Nelson.

Summary of 2019 Consolidated Annual Results

- Revenues decreased to \$110.1 million in 2019, down 19% from 2018.
- EBITDA improved by \$5.6 million to a loss of \$5.3 million from a loss of \$10.9 million the prior year.
- The company incurred a Net loss in 2019 of \$27.0 million versus a Net loss of \$50.5 million in 2018.
- Both years had large amounts of non-cash expenses as evidenced by Cash used in continuing operations in 2019 being \$13.1 million (2018: \$13.4 million.)
- Cash was used in 2019 to fund \$4.4 million of discontinued operations related to the closing of Empire Iron Works
- Non-cash working capital was reduced by \$13.1 million, most of which was reducing trade payables.
- Financing Activities were very active in fiscal 2019 generating \$40.1 million as compared to \$7.8 million in 2018.
- Contract Backlog was \$217 million at the end of 2019, down 18% from the end of 2018. 94% of the backlog rolling into 2020 is non-first generation contracts.

Summary of First Quarter 2020

- Revenues decreased to \$17.5 million in Q1 2020, down \$11.8 million or 44%, from \$29.3 million in Q1 2019;
- EBITDA was \$NIL in Q1 2020 compared to \$0.5 million the prior year;
- The company incurred a Net Loss in Q1 2020 of \$4.3 million versus a Net loss in Q1 2019 of \$0.1 million;
- Cash used in continuing operations in Q1 2020 was \$1.0 million compared to Cash from continuing operations in Q1 2019 of \$0.6 million;
- Contract Backlog at the end of Q1 2020 was \$218 million.

For the year ended December 31 2019 and the quarter ending March 31, 2020

(\$ millions, except per-share amounts)	Fiscal 2019	Fiscal 2018	Q1 2020	Q1 2019
Revenue	110.1	135.4	17.5	29.3
EBITDA (\$) ¹	(5.3)	(10.9)	0.0	0.5
Loss from continuing operations before tax	(20.3)	(39.7)	(3.8)	(0.1)
Net loss	(27.1)	(50.5)	(4.3)	(0.1)
Per Share Information (Basic & Diluted)				
Loss per share – continuing operations	(0.20)	(0.51)	(0.022)	0.00
Loss per share – discontinued operations	(0.06)	(0.02)	(0.003)	(0.00)
Loss per share – all operations	(0.26)	(0.53)	(0.025)	(0.00)

¹ Earnings (loss) before interest, tax, depreciation and amortization (EBITDA) is not defined by IFRS. The definition of EBITDA does not take into account the Company's share of profit of an associate investment, gains and losses on the disposal of assets, fair value changes in foreign currency forward contracts and non-cash components of stock based compensation. While not IFRS measures, EBITDA is used by management, creditors, analysts, investors and other financial stakeholders to assess the Company's performance and management from a financial and operational perspective.

The Company enhanced its working capital by \$38.5 million of senior debt financing in April 2019. It added further cash of \$19.1 million from private placements during the fiscal 2019. The extra liquidity allowed the Company to reduce its trade payables by \$16.6 million (to \$18.8 million at the end of 2019 versus \$35.4 million as at the prior year end). The company's cash on hand was \$12.4 million on December 31, 2019 and \$11.2 million on March 31, 2020.

"The Company's ride manufacturing business, when excluding the first generation contracts, was profitable in 2019 and has been profitable for the past five years," stated Nelson. "Excluding first generation contracts and discontinued operations, the Company has averaged revenue of over \$100 million per year and EBITDA of 14% of revenue for the past five years. The Company will stay focused on executing its profitable backlog."

"The pandemic's negative effects on the economy will subside," added Nelson. "We are already seeing the park guests return to theme parks that have reopened. We are confident that the leading global theme park operators will look to our Company for its iconic attractions and proven manufacturing competencies. There are only a handful of companies in the world with our Company's level of end to end, vertically integrated capability and experience. The Company has proven itself by continuing to deliver quality and innovation through this massive, global challenge and it will continue to do so."

Senior Lender Update

With the consent of the Company's senior lender, a principal payment of USD \$1.5 million was paid in May and the balance of USD \$4.9 million was deferred until July 15, 2020. The Company is in ongoing discussions with the senior lender to further extend the repayment of the outstanding USD \$4.9 million.

As at December 31, 2019 and March 31, 2020, the Company was not in compliance with the senior debt to earnings before interest, taxes, depreciation and amortization "EBITDA", fixed charge coverage, total debt to total capitalization and accounts payable aging financial covenants contained in its credit facilities agreement. In anticipation of this, the Company secured waivers of these covenant violations and principal deferral amendments prior to December 31, 2019 and prior to March 31, 2020.

The Company is in active discussion with its senior lender to restructure and extend the maturity dates of its current credit facilities and expects to complete that process prior to the maturity dates of the current facilities. The waivers and extensions received prior to December 31, 2019 and for the reporting dates after that, have been granted as part of that overall process.

Update on Co-ventures

The COVID-19 pandemic has had virtually no impact on Empire's co-venture business. In fact, Empire continues to pursue co-venture opportunities in North America, Europe and China.

The Pigeon Forge, Tennessee co-venture, is in the heart of the Smoky Mountains. Empire holds an option to acquire 50% of this project which is planning to open its flying theater attraction in the spring of 2021. Construction of the facility at the Island Theme Park is underway and manufacturing of the flying theatre and production of the movie are also on schedule. The Island is ranked the sixth most popular theme park in America by Trip Advisor.

The co-venture business model sees Empire's wholly owned subsidiary, Dynamic Entertainment Group Ltd., co-owning attractions in high traffic tourist areas that are expected to generate steady, recurring revenue and profit, by leveraging the company's attraction development knowhow and its proprietary, world class ride systems.

Conference Call Information

Empire's management team will be holding an investor/analyst conference call to discuss the 2019 results and the outlook for the Company. The call-in details are as follows:

Time/Date: Wednesday, June 3, 2020 at 10:00AM Eastern Time
Dial-in Number: 1-800-319-4610 (Canada/USA toll-free)
 1-416-915-3239 (Toronto)

Callers should dial in 5 – 10 minutes prior to the scheduled start time and ask to join the Empire Industries Investor Conference Call.

About Empire Industries Ltd.

Empire focuses on designing, supplying, and installing iconic media-based attractions and ride systems for the global theme park industry. Empire also uses these same turn-key integration services for special projects such as large optical telescopes and enclosures. Empire also has commenced an initiative to leverage its world class flying theater and attraction development capability on a co-venture ownership basis. Empire was selected as a 2020 TSX Venture 50 company. The 2020 TSX Venture 50 is a ranking of top performers on the TSX Venture Exchange over the past year. The ranking is comprised of 10 companies from each of 5 industry sectors, with Empire being selected in the Diversified Industry category. Selection was based on three equally weighted criteria; share price, trading and market capitalization. Empire's common shares are listed on the TSX Venture Exchange under the symbol EIL.

For more information about the Company, visit [empind.com](http://www.empind.com) (<http://www.empind.com>) or contact:

Guy Nelson

Allan Francis

Chief Executive Officer

Phone: (416) 366-7977

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

Vice President – Corporate Affairs and Administration

Phone: (204) 589-9301

Email: afrancis@empind.com (mailto:afrancis@empind.com)**Reader Advisory**

This news release contains forward-looking statements, within the meaning of applicable securities legislation, concerning Empire's business and affairs. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "budget", "booked", "scheduled", "positions", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or state that certain actions, events or results "may", "may be", "could", "should", "would", "might" or "will", "occur" or "be achieved". Such statements include statements with respect to: (i) the expectation that the new generation of proprietary ride systems will bring significant value to Empire; (ii) the belief that the current liquidity of the Company positions it to get through the pandemic and thereafter permit the Company to leverage its intellectual property; (iii) the belief that the pandemic's negative effects on the economy will eventually subside; (iv) the belief that the leading global theme park operators will look to Empire for its iconic attractions and proven manufacturing competencies; (v) the planned opening of the flying theater attraction located at Pigeon Forge, Tennessee in the spring of 2021; and (vi) the expected development of the co-venture business, positioning the Company for a stream of long term, recurring revenue and profit. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Although Empire believes these statements to be reasonable, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this news release should not be unduly relied upon. Such statements include statements with respect to the expected execution of the theme park agreements and the shipping dates of the three rides. Actual results could differ materially from those anticipated in these forward-looking statements as a result of prevailing economic conditions, and other factors, many of which are beyond the control of Empire. The forward-looking statements contained in this news release represent Empire's expectations as of the date hereof, and are subject to change after such date. Empire disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by applicable securities regulations.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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+1 (204) 589 9300 (tel:12045899300)

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"We are also excited about the progress we're making on our co-venture initiatives..... we see the recurring revenu...

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