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Tree Island Wire Income Fund

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August 13, 2012 16:52 ET

Tree Island Announces Second Quarter 2012 Results

VANCOUVER, BRITISH COLUMBIA--(Marketwire - Aug. 13, 2012) - Tree Island Wire Income Fund (TSX:TIL.UN)(TSX:TIL.DB) -

Q2 2012 Financial Highlights

- Revenues increased to **\$39.6 million**
- Gross Profit of **\$4.2 million or 11 percent of revenues**
- EBITDA⁽³⁾ (before foreign exchange) at **\$2.0 million**

Tree Island Wire Income Fund ("Tree Island" or the "Fund"⁽¹⁾) announced today its financial results for the three and six month periods ended June 30, 2012.

For the three months ended June 30, 2012⁽²⁾, higher selling prices resulted in increased revenues of \$39.6 million, compared to \$38.0 million during the corresponding period in 2011. Gross profit also increased by \$0.7 million to \$4.2 million, while gross profit per ton improved by \$34 per ton to \$163 per ton, compared to \$129 per ton in the same period in 2011. The increase in gross profit and gross profit per ton primarily reflects the increase in sales prices which were partially offset by the increase in the cost of carbon rod. Gross profit and gross profit per ton continued to demonstrate improvement on a consecutive quarter basis as the Fund maintained price discipline and further improved efficiencies. As a result of higher revenues, gross profit and ongoing focus on pricing and price discipline, EBITDA increased by 15% to \$2.0 million during the second quarter of 2012, which compares to \$1.7 million during the corresponding period in 2011.

For the six months ended June 30, 2012⁽²⁾, despite the 1,041 decrease in tonnage, the Fund's revenues increased by 9% to \$83.6 million from \$76.9 million during the same period in 2011. Gross profit and EBITDA also increased to \$8.2 million and \$3.7 million, respectively. The year-over-year improvement in financial results is largely the result of maintaining price discipline and ongoing cost management.

During the six months ended June 30, 2012, the Fund purchased 934,000 units at an average cost of \$0.28 per unit under its previously announced normal course issuer bid. These units were cancelled by the Fund at the end of the month of purchase.

"Despite the continued challenges and uncertainties in our end markets, I am pleased with our ability to further strengthen the Fund's financial condition and overall performance," said Dale R. MacLean, President and CEO of Tree Island Industries. "Our priorities remain unchanged. Our second quarter results are indicative of our ongoing concentration on operating efficiencies which combined with our pricing discipline and target market focus have generated yet another quarter of improved results."

Amar S. Doman, Chairman of the Fund noted, "The Fund's second quarter results continue to demonstrate promise with improvement at the revenue, gross profit and EBITDA lines. Looking ahead, the Fund is positioned to take advantage of increased demand while further improving efficiencies and throughput in order to maximize margins."

Q2 2012 Significant Developments

- On June 11, 2012, the Fund successfully renewed its senior banking facility with Wells Fargo Capital Finance Corporation. The four year secured committed banking facility ("Senior Credit Facility") has been increased from \$35.0 million to \$40.0 million and now matures on June 11, 2016. Under the terms of the Senior Credit Facility, up to \$40.0 million may be borrowed for the Fund's financing requirements.
- On June 11, 2012, the Fund completed certain amendments to the terms of its long-term debt with both principal vendors. With one of the vendors, Tree Island has entered into a Second Amendment to Forbearance and Payment Agreement ("Agreement"). Under the terms of this Agreement

approximately US\$15.8 million in principal debt will be repaid monthly over a ten year amortization period. Interest is non-compounding, will be accrued on a declining balance starting in June 2017 and is payable over a four year period beginning June 2024. Additionally, approximately US\$16.7 million of principal debt for the other vendor has been extinguished with a final payment of US\$5.0 million. As a result of these amendments and settlement, the Fund has recorded an accounting gain on renegotiation of debt of \$17.8 million, net of transaction costs.

- On July 12, 2012, the Fund obtained Board of Trustee approval and announced its plans to convert the Fund from an income trust to a corporation. The proposed reorganization is subject to Unitholder and other approvals and will be undertaken pursuant to a plan of arrangement with an expected effective date prior to January 1, 2013. Unitholders will be asked to approve the proposed conversion plan at the Fund's special meeting scheduled for September 13, 2012. Implementation of the conversion is expected to occur by way of plan of arrangement and is subject to approval by not less than two thirds of the votes cast at the Unitholders' meeting as well as customary conditions, including the receipt of applicable regulatory, court and TSX approvals. Details of the conversion transaction are described in the Information Circular of the Fund to be sent to Unitholders on or about August 20, 2012. The Information Circular will also be available at www.sedar.com.

Summary of Results (\$'000's except for tonnage and per unit amounts)	Three Months Ended		Six Months Ended	
	2012	June 30 2011	2012	June 30 2011
Sales Volumes - Tons^(a)	25,965	27,676	56,583	57,624
Sales	\$ 39,622	\$ 38,000	\$ 83,619	\$ 76,944
Cost of sales	34,630	33,474	73,867	67,361
Depreciation	753	962	1,521	1,639
Gross profit	4,239	3,564	8,231	7,944
Selling, general and administrative expenses	3,007	2,801	6,039	5,886
Operating income	1,232	763	2,192	2,058
Foreign exchange (loss) gain	(397)	160	(88)	578
Gain on sale of property, plant and equipment	1	-	427	-
Changes in financial liabilities recognized at fair value	-	1,779	-	887
Loss on renegotiated debt	17,805	-	17,805	(3,234)
Financing Expenses	(2,292)	(2,040)	(4,553)	(4,106)
Income (loss) before income taxes	16,349	662	15,783	(3,817)
Income tax expense	(1,224)	(633)	(1,076)	(193)
Net income (loss)	15,125	29	14,707	(4,010)
Operating income	1,232	763	2,192	2,058
Add back depreciation	753	962	1,521	1,639
EBITDA^(b)	1,985	1,725	3,713	3,697
Foreign exchange (loss) gain	(397)	160	(88)	578
EBITDA including foreign exchange	1,588	1,885	3,625	4,275
Net Income (loss)	15,125	29	14,707	(4,010)
Add back significant non-cash items				
Non-cash financing expenses	1,275	1,297	2,679	2,623
Non-cash gain (loss) on renegotiated debt	(17,805)	-	(17,805)	3,234
Changes in financial liabilities recognized at fair value	-	(1,779)	-	(887)
Adjusted net income^(b)	(1,405)	(453)	(419)	960
Per unit				
Net income (loss) per unit - basic	0.69	0.00	0.66	(0.18)
Net income (loss) per unit - diluted	0.27	0.00	0.28	(0.18)
Adjusted Distributable Cash per Unit - basic ^(b)	0.09	0.06	0.15	0.12
Adjusted Distributable Cash per Unit - diluted ^(b)	0.03	0.06	0.06	0.12
Per ton				
Gross profit per ton	163	129	145	138
EBITDA per ton	76	62	66	64

Financial position	As at June 30, 2012	As at December 31, 2011
Total assets	96,675	91,005
Total non-current financial liabilities	29,776	42,789

(a) Sales volumes exclude tons which were processed as part of tolling arrangements

(b) See definition of EBITDA, Adjusted Net Income and Adjusted Distributable Cash in footnote 3 to the press release

About Tree Island Wire Income Fund

The Fund was launched on November 12, 2002 with the completion on an initial public offering. The Fund has a 100% ownership interest in Tree Island Industries Ltd and its performance depends on the performance of Tree Island Industries Ltd. Headquartered in Richmond, British Columbia, Tree Island Industries Ltd. produces wire products for a diverse range of construction, industrial, residential, manufacturing, and industrial applications. Its products include bright wire, stainless steel wire and galvanized wire; a broad array of fasteners, including packaged, collated and bulk nails; stucco reinforcing products, engineered structural mesh, fencing and other fabricated wire products. The company markets these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, Tough Strand, and TI Select brand names.

Forward-Looking Statements

This press release includes forward-looking information with respect to the Fund and the company, including their business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may", "will", "expect" or similar variations generally identify such statements. Any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including risks and uncertainties discussed under the heading "Risk Factors" in the Fund's most recent annual information form and management discussion and analysis.

The forward looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined in the Fund's most recent annual information form and management discussion and analysis which may cause actual results to differ materially from any forward looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, volume and price pressure from import competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, significant exposure to the Western United States due to lack of geographic diversity, dependence on the construction industry, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, reliance on key customers, intellectual property risks, energy costs, un-insured loss, credit risk, operating risk, management of growth, changes in tax, environmental and other legislation, and other risks and uncertainties set forth in our publicly filed materials.

This press release has been reviewed by the Fund's Board of Trustees and its Audit Committee, and contains information that is current as of the date of this press release, unless otherwise noted. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Readers are cautioned not to place undue reliance on this forward-looking information and management of the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities laws.

(1) References to the Fund or Tree Island include references to Tree Island Industries Ltd. as the context may require.

(2) Please refer to our Q2 2012 MD&A for further information.

(3) References made above to "EBITDA" are to operating profit plus depreciation, references to "Adjusted Net Income (Loss)" are to net income (loss) per IFRS adjusted for certain non-cash items including non-cash financing expenses, changes in fair value of convertible instruments and gain (loss) on renegotiated debt, and references to "Adjusted Distributable Cash" are to net cash from operating activities less all capital expenditures, less restrictions on distributions arising from compliance issues with financial covenants, less any minority interests and less the impact of changes in non-cash working capital. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flows from operations. Adjusted Net Income (Loss) is a measure for investors to understand the impact of significant non-cash items that affect our results from operations. Adjusted Distributable Cash is a measure for investors to understand the ability to sustain or support quarterly distributions. Neither EBITDA, Adjusted Net Income (Loss), nor Adjusted Distributable Cash are earnings measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. We believe that EBITDA, Adjusted Net Income (Loss), and Adjusted Distributable Cash are important supplemental measure in evaluating the Fund's performance. You are cautioned that EBITDA, Adjusted Net Income (Loss), and Adjusted Distributable Cash should not be construed as alternatives to net income or loss, determined in accordance with IFRS, as indicators of performance, to cash flows from operating, investing and financing activities as measures of liquidity and cash flows, or cash available for distributions. Our method of calculating EBITDA, Adjusted Net Income (Loss), and Adjusted Distributable Cash may differ from methods used by other issuers and, accordingly, our EBITDA, Adjusted Net Income (Loss), or Adjusted Distributable Cash may not be comparable to similar measures presented by other issuers.

Tree Island Wire Income Fund

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars - unaudited)

	June 30 2012	December 31 2011
Assets		
<i>Current</i>		
Cash	4,201	3,852
Accounts receivable	17,585	13,835
Inventories	40,355	36,123
Prepaid expenses	1,095	2,533
	63,236	56,343
<i>Property, plant and equipment</i>	33,223	34,303
<i>Other non-current assets</i>	216	359
	96,675	91,005
Liabilities		
<i>Current</i>		
Senior Credit Facility	16,678	11,247
Accounts payable and accrued liabilities	14,572	13,745
Income taxes payable	1,987	2,093

Other current liabilities	186	158
Fair value of convertible instruments	322	322
Current portion of long-term debt	1,733	4,882
	35,478	32,447
Convertible Debentures	15,003	14,298
Term Loan	4,542	-
Long-term debt	9,979	28,491
Finance Lease	114	-
Other non-current liabilities	479	364
Deferred income taxes	1,947	766
	67,542	76,366
Unitholders' Equity	29,133	14,639
	96,675	91,005

Tree Island Wire Income Fund**INTERIM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS***(In thousands of Canadian dollars, except units and per-unit amounts - unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Sales	\$ 39,622	\$ 38,000	\$ 83,619	\$ 76,944
Cost of goods sold	34,630	33,474	73,867	67,361
Depreciation	753	962	1,521	1,639
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Financing expenses	(2,292)	(2,040)	(4,553)	(4,106)
Income (loss) before income taxes	16,349	662	15,783	(3,817)
Income tax expense	(1,224)	(633)	(1,076)	(193)
Net income (loss) for the period	\$ 15,125	\$ 29	\$ 14,707	\$ (4,010)
Net income (loss) per unit				
Basic	\$ 0.69	\$ 0.00	\$ 0.66	\$ (0.18)
Diluted	\$ 0.27	\$ 0.00	\$ 0.28	\$ (0.18)
Weighted-average number of units				
Basic	21,935,051	22,878,200	22,144,756	22,871,096
Diluted	60,937,580	22,878,200	61,147,285	22,871,096

Tree Island Wire Income Fund**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***(In thousands of Canadian dollars - unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Cash flows from operating activities				
Net income (loss) for the period	\$ 15,125	\$ 29	\$ 14,707	\$ (4,010)
Adjustments for				
Depreciation	753	962	1,521	1,639
Changes in financial liabilities recognized at fair value	-	(1,779)	-	(887)
Gain on sale of property, plant and equipment	(1)	-	(427)	-
(Gain) loss on renegotiated debt	(17,805)	-	(17,805)	3,234
Net finance costs	2,292	2,040	4,553	4,106
Deferred income tax recovery	1,339	628	1,182	45
Fair value change on Phantom Units	5	17	11	15
Exchange revaluation on foreign denominated debt	441	(436)	(124)	(1,194)
Working capital	1,220	(5,398)	(5,950)	(9,983)
Net cash provided by (used in) operating activities	3,369	(3,937)	(2,332)	(7,035)
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment	2	-	472	-
Purchase of property, plant and equipment	(80)	(49)	(209)	(158)
Net cash (used in) provided by investing activities	(78)	(49)	263	(158)
Cash flows from financing activities				
Term Loan	5,000	-	5,000	-
Repayment of long-term debt	(5,619)	(669)	(6,217)	(1,398)
Interest paid	(765)	(682)	(1,536)	(1,360)
Normal course issuer bid	(57)	-	(262)	-
(Repayment of) Advance on Senior Credit Facility	(933)	5,303	5,431	7,451
Net cash (used in) provided by financing activities	(2,374)	3,952	2,416	4,693
Effect of exchange rate changes on cash	16	(5)	2	(61)
Increase (decrease) in cash	933	(39)	349	(2,561)
Cash, beginning of period	3,268	3,112	3,852	5,634
Cash, end of period	\$ 4,201	\$ 3,073	\$ 4,201	\$ 3,073

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