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Tree Island Steel Ltd.

TSX : TSL

TSX : TSL.DB



November 08, 2012 16:45 ET

## Tree Island Announces Third Quarter 2012 Results

VANCOUVER, BRITISH COLUMBIA--(Marketwire - Nov. 8, 2012) - **Tree Island Steel Ltd.** (TSX:TSL)(TSX:TSL.DB) -

### Q3 2012 Financial Highlights:

- Sales amount to **\$34.0 million**
- Gross Profit of **\$3.5 million or 10% of revenues**
- EBITDA<sup>(3)</sup> (before foreign exchange) at **\$1.0 million**

**Tree Island Steel Ltd.** (formerly Tree Island Wire Income Fund or the "Fund") ("Tree Island"<sup>(1)</sup> or the "Company") (TSX:TSL)(TSX:TSL.DB) announced today its financial results for the three and nine-month periods ended September 30, 2012.

For the three-month period ended September 30, 2012<sup>(2)</sup>, sales totaled \$34.0 million versus \$38.0 million during the corresponding period in 2011, while gross profit increased to \$3.5 million from \$1.4 million mainly due to Tree Island's ongoing focus on profitable growth. Gross profit per ton also improved to \$144 per ton, compared to \$51 per ton in the same period in 2011. Gross profit and gross profit per ton continued to demonstrate improvement on a consecutive quarter basis as the Company maintained price discipline and further improved operational efficiencies. As a result of Tree Island's ongoing focus on pricing and cost management, EBITDA increased to \$1.0 million during the third quarter of 2012, which compares to an EBITDA loss of \$1.3 million during the corresponding period in 2011.

For the nine-month period ended September 30, 2012<sup>(2)</sup>, despite a 5% decrease in sales volume, Tree Island's revenues increased by 2% to \$117.6 million from \$114.9 million during the same period in 2011. Gross profit and EBITDA also increased to \$11.7 million and \$4.7 million, respectively. The year-over-year improvement in financial results is largely the result of focused management initiatives.

During the nine-month period ended September 30, 2012, Tree Island purchased 1,018,500 units at an average price of \$0.30 per unit, under its previously announced normal course issuer bid. These units were cancelled by the Company at the end of the month of purchase. On September 6, 2012, the normal course issuer bid was extended to September 6, 2013. Under the renewed normal course issuer bid the Company may purchase up to 1,700,000 units.

"I am encouraged with our overall business strategy demonstrating strength and resilience in a business environment where price volatility and overall visibility continue to be a challenge," said Dale R. MacLean, President and CEO of Tree Island Steel Ltd. "Our financial performance during the third quarter is a clear testament to our focus on profitable growth, and the strength of our underlying business fundamentals evidenced by the meaningful improvement to profit margins on a year-over-year basis despite lower sales volumes."

Amar S. Doman, Chairman of Tree Island Steel Ltd. noted, "The Company continues to demonstrate financial and operational progress with a solid commitment to providing best-in-class product quality and service to customers and partners. The sustained improvement in financial results reflects the hard work and dedication of the Tree Island team during some challenging times, which have led to a stronger Tree Island today."

Summary of Results (\$000's except for tonnage and per unit amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
<b>Sales Volumes - Tons<sup>(a)</sup></b>	<b>24,242</b>	<b>27,408</b>	<b>80,825</b>	<b>85,032</b>
Sales	\$ 33,962	\$ 38,005	\$ 117,581	\$ 114,949
Cost of sales	(29,697)	(35,774)	(103,564)	(103,135)
Depreciation	(778)	(820)	(2,299)	(2,459)
Gross profit	3,487	1,411	11,718	9,355

Selling, general and administrative expenses	(3,267)	(3,507)	(9,306)	(9,393)
Operating income (loss)	220	(2,096)	2,412	(38)
Foreign exchange gain (loss)	163	(1,817)	75	(1,239)
Gain on sale of property, plant and equipment	3	11	430	11
Changes in financial liabilities recognized at fair value	(727)	1,414	(727)	2,301
Gain (loss) on renegotiated debt	-	-	17,805	(3,234)
Financing Expenses	(1,422)	(2,153)	(5,975)	(6,259)
(Loss) income before income taxes	(1,763)	(4,641)	14,020	(8,458)
Income tax (expense) recovery	(228)	47	(1,304)	(146)
<b>Net (loss) income</b>	<b>\$ (1,991)</b>	<b>\$ (4,594)</b>	<b>\$ 12,716</b>	<b>\$ (8,604)</b>
<b>Operating income (loss)</b>	<b>\$ 220</b>	<b>\$ (2,096)</b>	<b>\$ 2,412</b>	<b>\$ (38)</b>
Add back depreciation	778	820	2,299	2,459
<b>EBITDA<sup>(b)</sup></b>	<b>\$ 998</b>	<b>\$ (1,276)</b>	<b>\$ 4,711</b>	<b>\$ 2,421</b>
Foreign exchange gain (loss)	163	(1,817)	75	(1,239)
<b>EBITDA including foreign exchange</b>	<b>\$ 1,161</b>	<b>\$ (3,093)</b>	<b>\$ 4,786</b>	<b>\$ 1,182</b>
<b>Net (loss) income</b>	<b>\$ (1,991)</b>	<b>\$ (4,594)</b>	<b>\$ 12,716</b>	<b>\$ (8,604)</b>
<b>Add back significant non-cash items</b>				
Non-cash financing expenses	634	1,339	3,313	3,962
Non-cash (gain) loss on renegotiated debt	-	-	(17,805)	3,234
Changes in financial liabilities recognized at fair value	727	(1,414)	727	(2,301)
<b>Adjusted net loss<sup>(b)</sup></b>	<b>\$ (630)</b>	<b>\$ (4,669)</b>	<b>\$ (1,049)</b>	<b>\$ (3,709)</b>
<b>Per unit</b>				
Net (loss) income per unit - basic	(0.09)	(0.20)	0.57	(0.38)
Net (loss) income per unit - diluted	(0.09)	(0.20)	0.27	(0.38)
<b>Per ton</b>				
Gross profit per ton	144	51	145	110
EBITDA per ton	41	(47)	58	28
			As at	As at
			September 30,	December 31,
			2012	2011
<b>Financial position</b>				
Total assets			\$ 94,036	\$ 91,005
Total non-current financial liabilities			\$ 29,629	\$ 42,789

- Sales volumes exclude tons which were processed as part of tolling arrangements
- See definition of EBITDA and Adjusted Net Loss in footnote 3 to the press release

#### About Tree Island Steel Ltd.

Tree Island Steel Ltd. 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, since 1964, Tree Island Industries Ltd., through its four operating facilities in Canada and the United States, produces wire products for a diverse range of industrial, residential construction, commercial construction, agricultural, and specialty applications. Its products include bright wire; a broad array of fasteners, including packaged, collated and bulk nails; stucco reinforcing products; concrete reinforcing mesh; fencing and other fabricated wire products. The Company markets these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, TI Wire, and Tough Strand and Select Brand names. Tree Island also owns and operates a Hong Kong-based company that assists the international sourcing of products to Tree Island Industries Ltd. and its customers.

#### Forward-Looking Statements

This press release includes forward-looking information with respect to the Tree Island 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 Company's Board of Directors 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 Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future

1. References to Tree Island include references to Tree Island Industries Ltd. as the context may require.
2. Please refer to our Q3 2012 MD&A for further information.
3. References made above to "EBITDA" are to operating profit plus depreciation and 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. 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. Neither EBITDA nor Adjusted Net Income (Loss) are earnings measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. We believe that EBITDA and Adjusted Net Income (Loss) are important supplemental measure in evaluating the Fund's performance. You are cautioned that EBITDA and Adjusted Net Income (Loss) should not be construed as alternatives to net income or loss, determined in accordance with IFRS, or as indicators of performance. Our method of calculating EBITDA and Adjusted Net Income (Loss) may differ from methods used by other issuers and, accordingly, our EBITDA or Adjusted Net Income (Loss) 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)*

	<b>September 30</b>	<b>December 31</b>
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<i>Current</i>		
Cash	2,850	3,852
Accounts receivable	14,410	13,835
Inventories	43,021	36,123
Prepaid expenses	1,435	2,533
	61,716	56,343
<i>Property, plant and equipment</i>	32,195	34,303
<i>Other non-current assets</i>	125	359
	94,036	91,005
<b>Liabilities</b>		
<i>Current</i>		
Senior Credit Facility	16,631	11,247
Accounts payable and accrued liabilities	13,909	13,745
Income taxes payable	1,991	2,093
Other current liabilities	129	158
Fair value of convertible instruments	1,049	322
Current portion of long-term debt	1,734	4,882
	35,443	32,447
<i>Convertible Debentures</i>	15,391	14,298
<i>Term Loan</i>	4,417	-
<i>Long-term debt</i>	9,582	28,491
<i>Finance Lease</i>	101	-
<i>Other non-current liabilities</i>	457	364
<i>Deferred income taxes</i>	2,172	766
	67,563	76,366
<b>Unitholders' Equity</b>	<b>26,473</b>	<b>14,639</b>
	<b>94,036</b>	<b>91,005</b>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Sales	\$ 33,962	\$ 38,005	\$ 117,581	\$ 114,949
Cost of goods sold	29,697	35,774	103,564	103,135
Depreciation	778	820	2,299	2,459
Gross profit	3,487	1,411	11,718	9,355
Selling, general and administrative expenses	3,267	3,507	9,306	9,393
Operating income (loss)	220	(2,096)	2,412	(38)
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(Loss) income before income taxes	(1,763)	(4,641)	14,020	(8,458)
Income tax (expense) recovery	(228)	47	(1,304)	(146)
<b>Net (loss) income for the period</b>	<b>\$ (1,991)</b>	<b>\$ (4,594)</b>	<b>\$ 12,716</b>	<b>\$ (8,604)</b>
<b>Net (loss) income per unit</b>				

Basic	\$	(0.09)	\$	(0.20)	\$	0.57	\$	(0.38)
Diluted	\$	(0.09)	\$	(0.20)	\$	0.27	\$	(0.38)
<b>Weighted-average number of units</b>								
Basic		21,846,714		22,900,703		22,293,598		22,867,849
Diluted		21,846,714		22,900,703		61,365,072		22,867,849

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

	Three Months Ended		Nine Months Ended					
	September 30		September 30					
	2012	2011	2012	2011				
<b>Cash flows from operating activities</b>								
Net (loss) income for the period	\$	(1,991)	\$	(4,594)	\$	12,716	\$	(8,604)
Adjustments for								
Depreciation		778		820		2,299		2,459
Changes in financial liabilities recognized at fair value		727		(1,414)		727		(2,301)
Gain on sale of property, plant and equipment		(3)		(11)		(430)		(11)
(Gain) loss on renegotiated debt		-		-		(17,805)		3,234
Net finance costs		1,422		2,153		5,975		6,259
Deferred income tax recovery		224		41		1,407		86
Fair value change on Phantom Units		47		53		64		49
Exchange revaluation on foreign denominated debt		(388)		3,152		(512)		1,958
Working capital		(810)		(2,031)		(6,795)		(11,995)
<b>Net cash provided by (used in) operating activities</b>		6		(1,831)		(2,354)		(8,866)
<b>Cash flows from investing activities</b>								
Proceeds on disposal of property, plant and equipment		15		49		487		49
Purchase of property, plant and equipment		(23)		(161)		(232)		(319)
<b>Net cash (used in) provided by investing activities</b>		(8)		(112)		255		(270)
<b>Cash flows from financing activities</b>								
Term Loan		(125)		-		4,875		-
Repayment of long-term debt		(297)		(1,200)		(6,514)		(2,598)
Interest paid		(813)		(728)		(2,321)		(2,088)
Normal course issuer bid		(39)		(5)		(301)		(5)
(Repayment of) advance on Senior Credit Facility		(47)		3,890		5,384		11,341
<b>Net cash (used in) provided by financing activities</b>		(1,321)		1,957		1,123		6,650
<b>Effect of exchange rate changes on cash</b>		(28)		53		(26)		(8)
<b>(Decrease) increase in cash</b>		(1,350)		67		(1,001)		(2,494)
<b>Cash, beginning of period</b>		4,201		3,073		3,852		5,634
<b>Cash, end of period</b>	\$	2,851	\$	3,140	\$	2,851	\$	3,140

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