



INTERNATIONAL ROAD DYNAMICS INC.

(IRD-T \$1.23)

Q2/FY06 Solid, US Gov't Orders to Ramp in H2/FY06

Financial Summary

| (end-Dec) | Revenue (\$m) | EPS (\$) | Price/Revenue (x) | P/E (x) |
|-----------|---------------|----------|-------------------|---------|
| FY04 | 31.3 | -0.07 | 0.6 | nmf |
| FY05 | 34.7 | 0.08 | 0.5 | 15.4 |
| FY06e | 31.0 | 0.11 | 0.6 | 11.2 |
| FY07e | 48.5 | 0.18 | 0.4 | 6.8 |

- IRD reported Q2/FY06 revenues of \$7.2m and EPS of \$0.03 which was slightly better than our expectation of \$6.9m and \$0.02.
- The company received \$11m in contracts in Q2 which we believe will increase as we move through H2FY06 as the orders from US customers kick in via the SAFETEA high funding.
- We are maintaining our Buy recommendation and our 12-month target price of \$2.20.

Q2/FY06 Results Very Solid

IRD reported very solid results for Q2 with revenues of \$7.2m and EPS of \$0.03. This was a very solid performance for IRD with gross margins of 38.4% up from 26.4% in Q1/FY06.

New Orders Building Strongly

During the quarter IRD announced new orders of \$11.1m not including a \$4.2m order announced two days ago from Brazil. These orders are expected to be bolstered by an influx of orders beginning in H2/FY06 as the SAFETEA funding in the US is released for Intelligent Transportation Systems installations.

Maintaining Forecasts

We are maintaining our FY06 forecast of \$31.0m and EPS of \$0.11. We are introducing our Q3/FY06 forecast of \$8.2m and \$0.04 EPS. Our FY07 forecast of \$48.5m and \$0.18 in EPS remains unchanged.

Valuation and Recommendation

Our valuation is based on 12x our FY07 EPS of \$0.18. Our FY07 forecast is predicated on revenue of \$48.5m which, we believe, is an attainable increase over our FY06 forecast revenue of \$31.0m as the ramp in spending on Intelligent Transportation systems that is expected to engage over the next six months. We are maintaining our one year target price of \$2.20 and our Buy recommendation.

Stock Rating:

Buy

| | |
|-----------------|---------|
| 12-month target | C\$2.20 |
| Potential ROR | 79% |

Company Profile

| | |
|--------|---------------------|
| Sector | Industrial Products |
| Ticker | IRD-T |

| | |
|-----------------|-------|
| Shares O/S (m) | 13.7 |
| Free Float (m) | 9.7 |
| Mkt cap (\$m) | 16.9 |
| Mkt float (\$m) | 11.9 |
| Free float (%) | 80.0% |

Key Metrics

| | |
|------------------------|------|
| Book Value/sh (\$) | 0.97 |
| Est. FY07 Gross Margin | 33% |
| Div/sh (\$) | 0 |
| Debt to Equity | 33% |

Analyst

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Sales

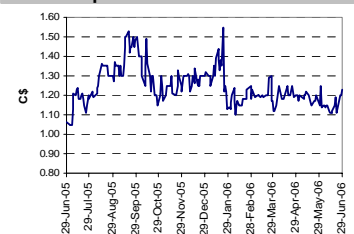
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IRD stock price chart



01/25/06 FY05-06 EPS & target lowered (\$2.20)

09/25/05 FY05 EPS lowered

08/18/05 Initiated coverage (\$2.40)

Source: Bloomberg



We would point out however, that the share price may well “mark time” until evidence of contracts to produce the revenue ramp are announced.

FIG. 1. Forecast Summary

| | Current | | | Prior | |
|---------------|----------------|-------|-------|--------------|-------|
| | Q3FY06e | FY06e | FY07e | FY06e | FY07e |
| Revenue (\$m) | 8.2 | 31 | 48.5 | 31 | 48.5 |
| EPS (\$) | 0.04 | 0.11 | 0.18 | 0.11 | 0.18 |

Source: Paradigm



Appendix 1: IRD Financial Statements

Table A1-1: Income Statement

| International Road Dynamics | | | | | | | | | | | |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Income Statement \$'000's | | | | | | | | | | | |
| Nov. 30 year end | | | | | | | | | | | |
| | 2001 | 2002 | 2003 | 2004 | 2005 | Q106 | Q206 | Q306E | Q406E | 2006E | 2007E |
| Revenue | 28,394 | 29,043 | 28,288 | 31,356 | 33,550 | 6,324 | 7,199 | 8,250 | 9,250 | 31,023 | 48,500 |
| | | 2.3% | -2.6% | 10.8% | 7.0% | | | | | -1.1% | 56.3% |
| Cost of Sales | 18,689 | 18,800 | 18,338 | 22,893 | 23,712 | 4,669 | 4,435 | 5,150 | 5,750 | 20,004 | 32,500 |
| Gross Margin | 9,705 | 10,243 | 9,950 | 8,463 | 9,838 | 1,655 | 2,764 | 3,100 | 3,500 | 11,019 | 16,000 |
| % | 34.2% | 35.3% | 35.2% | 27.0% | 29.3% | 26.2% | 38.4% | 37.6% | 37.8% | 35.5% | 33.0% |
| General and administrative | 5,419 | 6,587 | 6,678 | 7,574 | 7,079 | 1,737 | 1,718 | 1,830 | 1,875 | 7,160 | 9,650 |
| % of sales | 19.1% | 22.7% | 23.6% | 24.2% | 21.1% | 27.5% | 23.9% | 22.2% | 20.3% | 23.1% | 19.9% |
| Research & Development | 906 | 775 | 752 | 1,015 | 534 | 120 | 175 | 145 | 140 | 580 | 1,250 |
| % of sales | 3.2% | 2.7% | 2.7% | 3.2% | 1.6% | 1.9% | 2.4% | 1.8% | 1.5% | 1.9% | 2.6% |
| | 6,325 | 7,362 | 7,430 | 8,589 | 7,613 | 1,857 | 1,893 | 1,975 | 2,015 | 7,740 | 10,900 |
| Earnings (loss) before below expenses | 3,380 | 2,881 | 2,520 | -126 | 2,225 | -202 | 871 | 1,125 | 1,485 | 3,279 | 5,100 |
| Other Expenses | | | | | | | | | | | |
| Foreign exchange gain (loss) | 0 | 0 | 1,006 | -91 | 15 | -66 | -2 | 15 | 25 | -28 | 50 |
| Amortization | 553 | 647 | 799 | 933 | 836 | 167 | 168 | 172 | 176 | 683 | 925 |
| Interest on short term debt | 195 | 154 | 98 | 257 | 316 | 85 | 64 | 91 | 80 | 320 | 325 |
| Interest on long term debt | 75 | 64 | 89 | 94 | 125 | 29 | 27 | 29 | 32 | 117 | 130 |
| Interest and other income | -112 | 0 | -27 | -115 | -73 | -16 | -16 | -12 | -17 | -61 | -115 |
| Investment tax credits recovered | -937 | -71 | | | | | | | | | |
| Loss from equity investment | | | | 92 | -199 | -119 | -26 | | | | |
| | -226 | 794 | 1,965 | 1,170 | 1,020 | 80 | 215 | 295 | 296 | 1,031 | 1,315 |
| Earnings (loss) before taxes | 3,606 | 2,087 | 555 | -1,296 | 1,205 | -282 | 656 | 830 | 1,189 | 2,248 | 3,785 |
| Income taxes | | | | | | | | | | | |
| Current | 0 | 1,226 | 59 | 130 | 168 | 90 | 225 | 184 | 235 | 734 | 250 |
| Future | 1,605 | -474 | -168 | -509 | 75 | -262 | -17 | 56 | 105 | -118 | 950 |
| | 1,605 | 752 | -109 | -379 | 243 | -172 | 208 | 240 | 340 | 616 | 1,200 |
| tax rate | 44.5% | 36.0% | nmf | nmf | 20.2% | nmf | 31.7% | 28.9% | 28.6% | 27.4% | 31.7% |
| Net earnings | 2,001 | 1,335 | 664 | -917 | 962 | -110 | 448 | 590 | 849 | 1,632 | 2,585 |
| so\$ | | | | | | | | | | | |
| basic | 12,861,646 | 13,657,696 | 13,566,177 | 13,747,614 | 13,766,476 | 13,766,476 | 13,784,217 | 13,784,217 | 13,784,217 | 13,766,476 | 13,766,476 |
| fully diluted | 14,631,713 | 14,577,196 | 14,300,677 | 14,722,614 | 14,741,476 | 14,741,476 | 14,744,217 | 14,744,217 | 14,744,217 | 14,741,476 | 14,741,476 |
| EPS | | | | | | | | | | | |
| basic | \$0.16 | \$0.10 | \$0.05 | -\$0.07 | \$0.07 | -\$0.01 | \$0.03 | \$0.04 | \$0.06 | \$0.12 | \$0.19 |
| fully diluted | \$0.14 | \$0.09 | \$0.05 | -\$0.06 | \$0.07 | -\$0.01 | \$0.03 | \$0.04 | \$0.06 | \$0.11 | \$0.18 |

Source : Company, Paradigm Capital



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