INITIATION REPORT

Exco Technologies Limited

TSX: XTC

The 70-year-old industrial cash machine the market forgot.

A profitable, debt-light auto-parts and tooling manufacturer trading near eight times forward earnings, paying a 5.7% dividend, buying back its own stock, cheap because its largest segment is in a temporary trough the market is treating as permanent.

PRICE	TARGET	UPSIDE	RATING
~C$7.33	C$9.50	+30%	BUY

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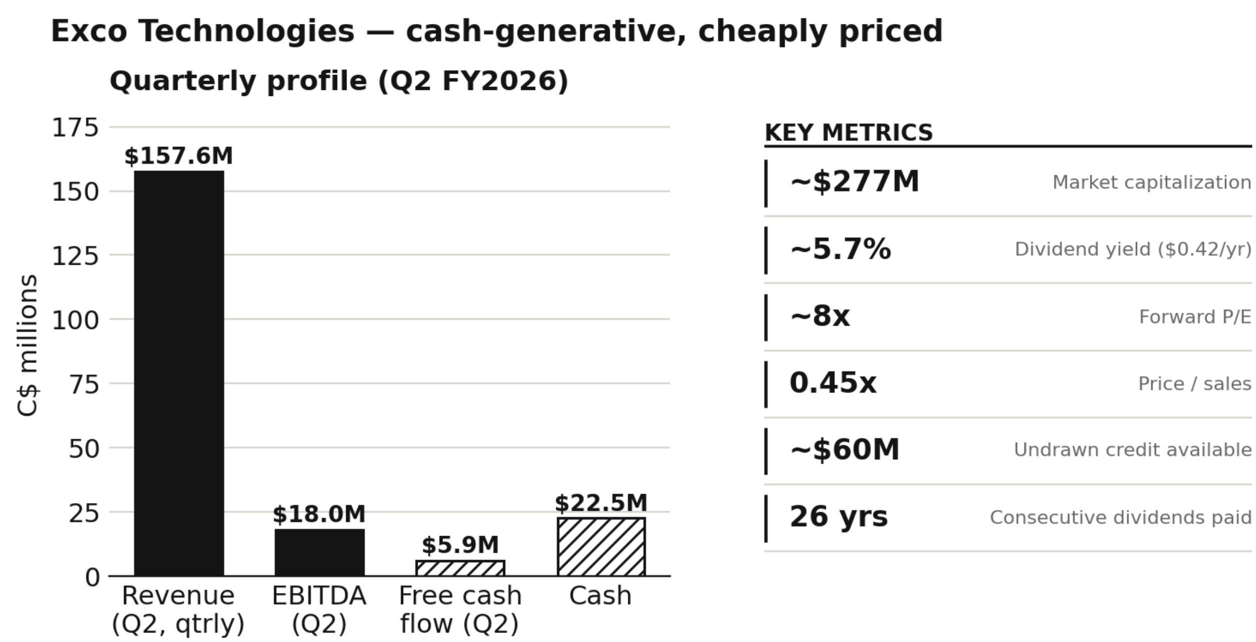
Investment Thesis

Exco Technologies is a boring, profitable, 70-year-old manufacturer that almost no one writes about — and that is precisely why it is interesting. It trades near eight times forward earnings and roughly half its annual sales, pays a dividend yielding about 5.7%, and is buying back its own stock. The reason it is cheap is not that the business is broken. It is that the largest part of one segment is in a temporary trough, and the market has decided to price that trough as if it were the new normal.

Exco makes two kinds of things. In its Casting & Extrusion segment, it builds the tooling, dies, and consumable parts that die-casting and aluminum-extrusion machines need to run, the picks and shovels of metal forming. In its Automotive Solutions segment, it makes interior components: seating, cargo-management, and restraint-system parts. It has been doing some version of this since 1952, it operates plants across nine countries, and it generates real cash in almost any environment.

The most recent quarter was soft, and the market punished it, the stock sits near the low end of its range. Sales fell 5% year over year, earnings missed badly, and the headlines were about declining margins. But underneath the soft print, three things are true at once: the weakness is concentrated in large-mould tooling volumes that are temporarily depressed by deferred OEM programs; the order book for exactly that product is being rebuilt, with management calling recent quoting activity exceptionally strong; and the company kept generating cash and returning it to shareholders the entire time. That is the setup — a cyclical trough with a visible recovery path, available at a trough price.

I am initiating Exco at BUY with a twelve-month target of C$9.50, roughly +30% from current levels, in line with the analyst consensus and supported by three independent valuation methods below. This is a value-and-income call with a self-help catalyst, not a high-growth story, and the honest version of the thesis is that you are paid about 9% a year in dividends and buybacks to wait for the recovery to show up. The risks are real and cyclical, and I treat them squarely in the bear case.



Q2 FY2026 (ended March 31, 2026). Dividend yield and multiples at ~C$7.33. Source: company filings, market data.

What Exco Actually Does

Exco runs two segments that share a common DNA, precision metal manufacturing, but serve different ends of the market.

Casting & Extrusion:

This segment builds the tooling and consumable components used by die-casting and aluminum-extrusion machines. Two sub-stories matter. Large moulds are the big, lumpy, project-based product, the dies that cast major structural and powertrain parts, and this is where the current weakness sits, because OEMs deferred tooling programs through much of last year on softer EV demand, shifting regulation, and tariff uncertainty. Extrusion tooling and consumables, by contrast, are the steadier, repeat-purchase razor-blade business, and management reports that demand there has stayed solid. So the segment is one weak, recovering piece bolted to one stable piece.

Automotive Solutions:

This segment makes interior components, seating, cargo, and restraint-system parts, and it is the quietly resilient half of the company. In the latest quarter its sales rose about 5% excluding the currency drag, helped by new program launches and a favourable vehicle mix. It is tied to vehicle production volumes rather than the lumpier tooling cycle, which gives the overall business a base of recurring revenue underneath the cyclical tooling swings.

Geographically, Exco is genuinely diversified, plants across Canada, the United States, Mexico, Colombia, Brazil, Thailand, Germany, Italy, and Morocco. That footprint is both a strength (it can serve customers regionally and lean into reshoring and rules-of-origin compliance) and the source of its biggest risk, which I come back to below.

Why the Stock Is Down

The most recent quarter is the whole story of the mispricing, so it is worth being precise about it. Consolidated sales were C$157.6M, down 5% from C$166.1M a year earlier, but C$6.9M of that decline was simply foreign exchange, so the underlying business was down only about 1%. Net income was C$5.8M (C$0.15 per share), and that figure absorbed C$2.4M of after-tax restructuring charges from closing a large-mould facility in Mexico. EBITDA was C$18.0M at an 11.4% margin, down modestly from 11.8%.

On a clean reading, the quarter missed analyst expectations badly, adjusted earnings of about C$0.09 against a roughly C$0.23 forecast, and the stock was marked down accordingly. But the miss was driven by the temporary mould softness, currency, and one-time restructuring costs, not by the business deteriorating. And here is the part the headline number buries: free cash flow actually improved year over year, to C$5.9M from C$2.8M, and the company paid C$4M in dividends and repurchased C$2.5M of stock in the very same quarter. A genuinely deteriorating business does not raise its free cash flow and return more capital while it is supposedly falling apart.

The information gap is simple: the market is extrapolating a temporary, identifiable trough in one product line into a permanent impairment of the whole company — and is being handed a cheap multiple, a fat yield, and a self-funded buyback while it does so.

The Recovery Is Already Visible

The bear narrative would be far more convincing if the order book were shrinking. It is not. Management has been explicit that large-mould order activity and backlog are building, that recent quoting activity has been exceptionally strong, and that backlog has been rebuilt meaningfully — and it expects sequential and year-over-year revenue improvement in the second half of fiscal 2026 as those programs ramp and the restructuring drag subsides.

There are two self-help levers underneath that cyclical recovery. The first is the Mexico large-mould facility closure: a one-time C$1M charge now, in exchange for a leaner cost structure and better profitability later. The second is a moderation in capital spending, fiscal 2026 capex is guided to about C$25M, down after several years of elevated investment, which means more of the cash the business generates converts to free cash flow from here. The company is also pushing its tooling expertise into newer end-markets, additive manufacturing, nuclear-component machining, and extrusions tied to AI-infrastructure build-out, which gives the recovery a small growth kicker beyond a simple cyclical bounce.

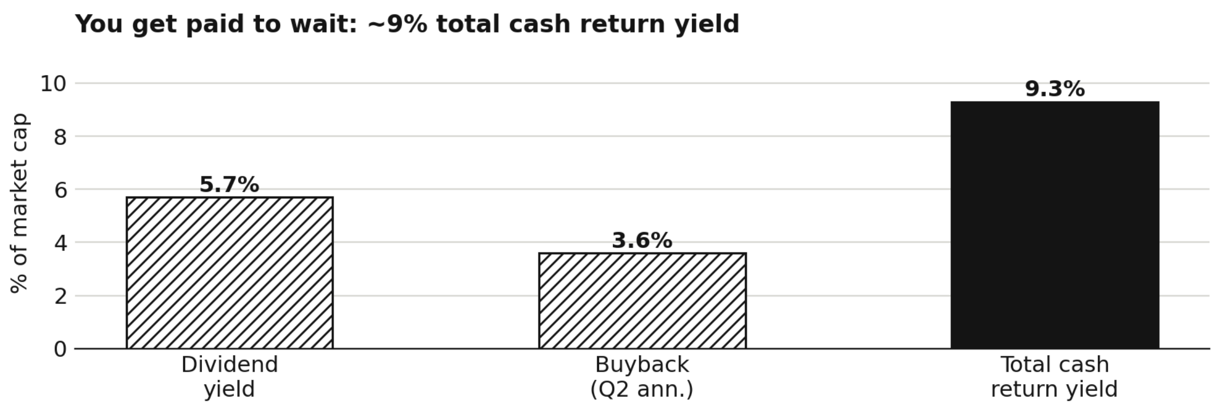
Financial Snapshot (verified, Q2 FY2026)

Metric	Value	Note
Share price	~C$7.33	Near low end of 52-week range
Market cap	~C$277M	
Q2 revenue	C$157.6M	-5% YoY; -1% ex-FX
Q2 net income	C$5.8M	C$0.15/sh; absorbed C$2.4M restructuring
Q2 EBITDA	C$18.0M	11.4% margin (vs 11.8%)
Q2 free cash flow	C$5.9M	Up from C$2.8M YoY
Cash	C$22.5M	Plus ~C$60M undrawn credit
Dividend	C$0.105/qtr (~C$0.42/yr)	~5.7% yield; eligible dividend
Forward P/E	~8x	Cheap on the cleaner forward number
Price / sales	~0.45x	Roughly half of annual sales

The metrics that matter most here are the cash ones. Reported earnings are dragged by restructuring and FX; free cash flow, the dividend, and the buyback are the honest read on what the business is actually producing.

You Get Paid To Wait

This is the part that makes the trough tolerable. While you wait for the large-mould recovery to show up in the numbers, Exco is returning a substantial amount of cash. The dividend yields about 5.7% and has been paid for over two decades. On top of that, the company repurchased C$2.5M of stock in a single quarter — annualize that and the total cash return yield is in the order of 9% of the market cap. You are being paid, in cash, roughly nine cents on the dollar per year to hold a profitable business through a cyclical low. That is a materially different risk profile from a story stock where you are paying up for a future that may not arrive.



Buyback figure annualizes the Q2 repurchase; illustrative. Source: company filings.

Valuation Framework

Exco is a value name, so I anchor the work in the metrics value investors actually use — earnings power, free cash flow, and what peers pay — and triangulate to a target.

Method 1 — Normalized earnings power

The trough understates the company. In a normalized year, with the large-mould business recovered and restructuring behind it, Exco's earnings power is meaningfully above the depressed trailing figure — consensus forward EPS sits around C$0.87. At a modest 11x multiple — still cheap for a profitable, dividend-paying industrial — that supports a share price near C$9.50. The current ~8x forward multiple is pricing in a recovery that does not happen.

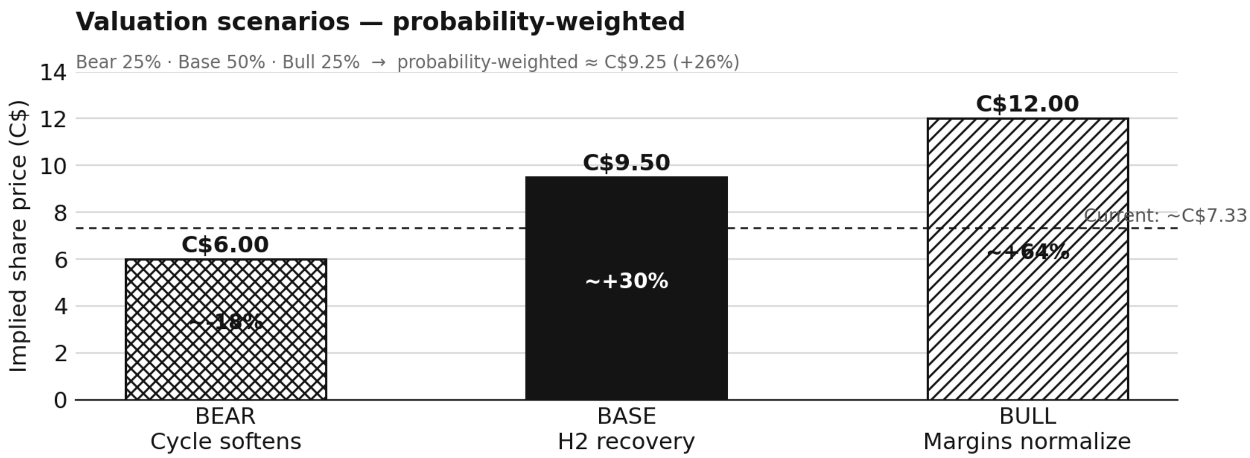
Method 2 — Free-cash-flow and dividend support

At a ~5.7% dividend yield and a roughly 9% total cash-return yield, the stock is priced as though the payout is at risk — it is not, given free cash flow comfortably covers it and the balance sheet carries ~C$22.5M cash against ~C$60M of undrawn credit. A re-rating to a more normal ~4.5% dividend yield, on an unchanged payout, alone implies a price in the high-C$9 range.

Method 3 — Asset and peer value

At roughly 0.45x sales and a single-digit EBITDA multiple, Exco trades below where profitable auto-parts and industrial-tooling peers change hands. The asset base — three fabrication plants, paint shops, a U.S. construction division, and a global footprint — is not reflected in a half-times-sales valuation. This method is the floor under the bear case more than the driver of the bull case, but it is what makes the downside bounded.

Triangulation: the three methods cluster in the C$9 to C$10 range. I set the base target at C$9.50 (~+30%), in line with analyst consensus, with the cash-return yield doing the work of paying you while the recovery plays out.



Valuation Assumptions

Assumption	Bear	Base	Bull
Normalized EPS	~C$0.55	**~C$0.87**	~C$1.05
Earnings multiple	~11x	**~11x**	~11.5x
Implied price	~C$6.00	**~C$9.50**	~C$12.00
Return vs current	~-18%	**~+30%**	~+64%
Probability weight	25%	**50%**	25%

Probability-weighted target ≈ C$9.25 (~+26%). Note the bear case still leaves you collecting the dividend while you wait.

Bear Case (25%) — ~C$6.00

The auto cycle softens further, large-mould programs stay deferred, tariffs and steel costs compress margins, and the H2 recovery slips into next year. The multiple stays at a trough level. Even here, the dividend and asset base bound the downside — but make no mistake, a real auto downturn would hurt.

Base Case (50%) — ~C$9.50

Large-mould volumes recover in the second half as guided, restructuring savings show up, capex moderates, and earnings normalize toward C$0.87. The multiple re-rates modestly as the recovery becomes visible. Nothing heroic — just the cycle turning as management expects.

Bull Case (25%) — ~C$12.00

The recovery lands faster, the new end-markets (additive, nuclear, AI-infrastructure extrusions) contribute, margins normalize fully, and the market re-rates a clean, growing, cash-returning industrial to a fuller multiple.

Risks and What Could Break the Thesis

Auto-cycle risk

This is the core risk. Exco's fortunes are tied to vehicle production and OEM tooling budgets. A genuine downturn in North American or European auto demand would hit both segments at once, and the thin (~4%) net margin leaves limited cushion. The recovery thesis assumes the cycle turns; if it doesn't, the trough deepens.

Tariff and trade-policy risk

With plants in Mexico, Morocco, Thailand and beyond, Exco sits directly in the path of USMCA review, steel and aluminum tariffs, and shifting rules of origin — live, front-page risks in the current macro environment. Management frames reshoring and rules-of-origin compliance as an opportunity, and Exco sources steel from U.S. mills to keep duties down, but trade policy is a genuine and unpredictable overhang.

Execution and timing risk

The recovery is management's guidance, not a delivered result. The large-mould ramp could slip, the restructuring benefits could take longer to appear, and the market may stay impatient. This is a value name that requires patience and tolerance for a stock that may stay cheap for a while.

Currency risk

A large share of Exco's revenue is earned in foreign currencies, and as the latest quarter showed, a stronger Canadian dollar can knock several million dollars off reported sales and earnings independent of how the business is actually performing.

Rating, Target, and Exit Criteria

The Venture Analyst initiates coverage on Exco Technologies (TSX: XTC) with a BUY rating and a 12-month target of C$9.50, implying ~+30% upside from ~C$7.33, with a probability-weighted target near C$9.25. The case rests on a visible second-half recovery in large-mould volumes, a leaner post-restructuring cost base, and a ~9% total cash return that pays you to wait — bounded on the downside by the dividend and the asset base.

Exit Criteria — Stated Before the Stock Moves

Rating moves to Hold if the stock approaches C$9.50 without further improvement in the large-mould order book.

Rating moves to Sell if large-mould volumes and margins fail to recover for two consecutive quarters into fiscal 2027, indicating the trough is structural rather than cyclical.

Rating is reviewed if the dividend is cut — the single clearest signal that the cash-generation thesis has broken.

Rating is reviewed if a tariff or trade-policy change materially impairs the economics of the foreign plant footprint.

Final Take

Exco is not exciting, and that is the point. It is a profitable, 70-year-old, globally diversified manufacturer trading at a trough multiple because one product line is in a temporary downcycle — and while the market waits for proof the recovery is real, it is handing you an ~8x earnings multiple, a ~5.7% dividend, and a buyback, on a business that kept raising its free cash flow through the soft patch.

I want to be clear-eyed about what this is and isn't. It is not a double, the upside is a reasonable +30% to a C$9.50 target, not the asymmetric setups that show up once in a while. It is genuinely cyclical, and a real auto downturn or a bad tariff outcome would hurt. But the combination of a cheap multiple, a well-covered dividend, an asset-value floor, and a visible self-help recovery is exactly the kind of low-drama, get-paid-to-wait setup that holds up when the index is expensive and the macro is turning — which is precisely the environment we are in.

BUY. Target C$9.50. You get paid to wait.

Disclosures

Financial data verified from Exco Technologies' Q2 fiscal 2026 results (quarter ended March 31, 2026) and current market data to June 2026. Prices approximate as of June 9, 2026 and must be confirmed against live data before any decision. Valuation targets are analytical estimates derived from the stated assumptions and are not guarantees.