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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Cemtrex, Inc.

Neutral

John Nobile
February 28, 2017

CETX $3.82 — (NASDAQ)

	2016A	2017E	2018E	2019E
Revenues (millions)	$93.7	$123.9	$137.5	$152.6
Earnings (loss) per share	$0.58	$0.51	$0.70	$0.97

52-Week range	$8.41 – $1.72	Fiscal year ends:	September
Common shares out as of 2/6/17	10.1 million	Revenue per share (TTM)	$12.17
Approximate float	5.0 million	Price/Sales (TTM)	0.3X
Market capitalization	$39 million	Price/Sales (FY2019)E	0.3X
Tangible book value/share	$1.75	Price/Earnings (TTM)	6.2X
Price/tangible book value	2.2X	Price/Earnings (FY2019)E	3.9X

Headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, instruments & emission monitors for industrial processes, and industrial air filtration & environmental control systems. (www.cemtrex.com)

Key investment considerations:

We are downgrading shares to Neutral from Speculative Buy due to current valuation pressures.

Cemtrex's core environmental business drove strong revenue growth over the past five years (averaging 22% annual growth excluding AIS acquisition). Industry sector growth is projected at approximately 7% annually into 2020.

The FY16 acquisitions of AIS (December 2015), with an annual run rate of approximately $20 million, and Periscope (June 2016), with over $30 million in annual revenue, should contribute to revenue and profit gains over our forecast horizon.

Cemtrex plans to set up an instruments and electronics manufacturing facility in India that should help to bolster margins.

Our earnings projections for FY17 to FY19 are up mainly to reflect a reduced estimated tax rate. For FY17, we project a 32% increase in revenue to $123.9 million and EPS of $0.51, up from $0.44. Our revenue projection is down from $125 million previously to reflect 1Q17 results.

For FY18, we project an 11% increase in revenue to $137.5 million and EPS of $0.70, up from $0.62. Our revenue projection is essentially unchanged from our previous projection.

For FY19, we project an 11% increase in revenue to $152.6 million and EPS of $0.97, up from $0.86. Our revenue projection is essentially unchanged from our previous projection.

CETX reported (10Q released 2/14/16) 1Q17 revenue increased 121% to $29.4 million and EPS of $0.14. We projected revenue of $30.5 million and EPS of $0.13.

****Please view our disclosures on pages 14 - 16.***

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Recommendation and Valuation

We are downgrading shares to **Neutral** from Speculative Buy due to current valuation pressures. We will continue to monitor events and their impact on share performance.

CETX currently trades at a forward P/E multiple of approximately 4X compared to a forward multiple of 15X for its peer group (chart below). Our peer group includes a mix of companies from the electronics manufacturing industry, environmental technology industry, and industrial contracting services industry to accurately reflect CETX's current revenue mix.

Company	Symbol	Price	Market Cap $M	Trailing P/E	Forward P/E
Ecolab	ECL	124.41	36,130	29.9	20.9
Fluor Corporation	FLR	55.63	7,830	28.1	15.1
Donaldson Company	DCI	43.28	5,760	27.9	21.9
Jabil Circuit	JBL	25.71	4,790	23.9	9.9
EMCOR Group	EME	62.74	3,820	21.2	15.9
Stantec	STN	34.37	3,910	28.2	14.8
Benchmark Electronics	BHE	31.56	1,560	24.9	16.3
Tutor Perini Corporation	TPC	30.37	1,520	16.0	8.9
Calgon Carbon Corporation	CCC	14.34	734	53.6	15.8
CECO Environmental Corp.	CECE	11.33	389	39.4	10.7
Sparton Corp.	SPA	23.26	230	NA	15.7
Hill International	HIL	5.12	274	NA	12.5
CUI Global	CUI	6.28	133	NA	4.9
IEC Electronics	IEC	3.74	38	15.9	24.9
Peer Average				**28.1**	**14.9**
Cemtrex, Inc.	**CETX**	**3.82**	**39**	**6.2**	**3.9**
Source: Taglich Brothers estimates, Thomson Reuters					

The forward multiple for the six peers with market capitalizations under $1 billion is approximately 14X earnings. With higher average annual earnings growth projected for CETX relative to its peers (21% versus 17% for the peer group), we believe a higher multiple might be justified. However, in the immediate aftermath of allegations of trading impropriety, shares of CETX fell nearly 50% to a low of $2.76 per share on heavy volume, but have since settled at a price of $3.82. CETX's valuation could remain at a discount from its peers due primarily to the time it could take for the stock to recover from the downward pressure on the stock price.

Business

Founded in 2000 and headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, instruments & emission monitors for industrial processes, and industrial air filtration & environmental control systems.

Cemtrex started as a manufacturer of emission monitoring equipment that enabled power, manufacturing, and industrial companies to comply with environmental regulations. Since that time, the company has expanded its core business into other areas such as electronics manufacturing, industrial air filtration and contracting services.

In October 2013, Cemtrex expanded into electronics manufacturing and services with the acquisition of privately held ROB Group, an electronics manufacturer located in Neulingen, Germany. Cemtrex has since made two more acquisitions.

In December 2015, Cemtrex completed the acquisition of privately held Advanced Industrial Services Inc. (AIS) based in York, Pennsylvania. AIS is a broad based industrial services provider that offers one-source expertise and capabilities in plant and equipment erection, relocation, and disassembly. AIS was combined into CETX's existing environmental business which is now labeled the Industrial Products & Services group.

In June 2016, Cemtrex announced it acquired Periscope, located in Paderborn, Germany. Periscope is focused on electronic manufacturing services primarily for major German automotive manufacturers.

Segments

Cemtrex operates in two segments, electronics manufacturing and services, and industrial products and services (formerly environmental products and services).

Electronics Manufacturing and Services – Cemtrex's electronic manufacturing and services include product design and engineering services, printed circuit board assembly and production, cabling and wire harnessing, systems integration, comprehensive testing services, and completely assembled electronic products.

Cemtrex has the ability to produce assemblies requiring mechanical as well as electronic capabilities. Cemtrex helps companies from their prototype and design phase all the way through manufacturing and assembly.

The company's products are incorporated into finished products sold in various industries, particularly wearable devices, automotive, telecommunications, industrial products, appliances, home automation, industrial automation and medical devices.

Industrial Products and Services – Cemtrex provides services for plant equipment erection, relocation, and maintenance. This segment also sells a complete line of air filtration and environmental control products to a wide variety of industrial customers worldwide. The company also manufactures, sells, and services monitoring instruments, software and systems for the measurement of emissions of greenhouse gases, hazardous gases, and other regulated pollutants used in emissions trading globally as well as for industrial processes. Cemtrex also markets monitoring and analysis equipment for gas and liquid measurement for oil & gas applications. Major customers can be seen in the chart at right.

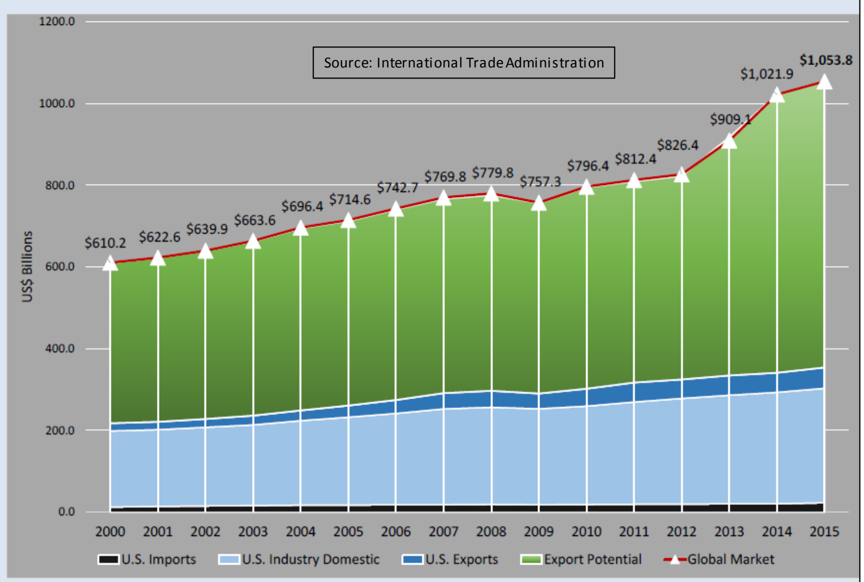
Markets

Electronics Manufacturing Services – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. In October 2016, the market research firm Research and Markets estimated the electronics manufacturing services market at $430 billion in 2015 and projected it to grow to $580 billion in 2020 for a compound annual growth rate of approximately 6.2%. The IT research firm IDC says that growth in this market will be driven by rising demand from the consumer electronics, servers and storage, networking equipment, automotive electronics, and medical electronics industries.

Industrial Products and Services – This market (as it concerns CETX) includes products and services to the environmental technologies (ET) and industrial machinery/equipment industries.

The ET industry is defined by the International Trade Administration (ITA) as all goods and services that generate revenue associated with environmental protection, assessment, compliance with environmental regulations, pollution control and prevention, and design and operation of environmental infrastructure. Key subsectors for products and services of the ET industry include air, water, and soil pollution control, solid and toxic waste management, pollution prevention, and environmental monitoring.

Figure 2: Global Environmental Technologies Market Overview



The ET industry evolved in response to concerns about the risks and costs of pollution and the enactment of pollution control legislation and regulations in the US and around the world. In June 2016, the International Trade Administration cited some key industry facts concerning the global ET market including a total market value of $1.05 trillion with the US being the world's largest producer and consumer of environmental technologies. The US ET industry generates approximately $320.4 billion in annual revenues and employs approximately 1.6 million people. The ET industry has grown from $610.2 billion to $1.05 trillion in the fifteen years to 2015 (latest figures available) for a compound annual growth rate of approximately 3.7% (see chart above right).

Growth for the emission control and environmental monitoring markets that the company sells to is projected a little over 7%. The latest projections from Market Research Reports Search Engine (September 2016) showed the global industrial emission control market was valued at $11.7 billion in 2014 and is projected to reach $22.1 billion by 2023, a CAGR of 7.3%. The latest projections from RnR Market Research (July 2016) forecasted the global environmental monitoring market to grow at a CAGR of 7.5% from 2015 to 2020 reaching a value of $20.5 billion. Some of the factors driving this growth include a growing population and the development of policies and initiatives aimed at reducing air, soil, and water pollution.

In February 2017, the industrial research firm MAPI projected spending in the industrial equipment market to post good growth into 2019. MAPI projected industrial equipment spending to grow 4.9% in 2017, 5.5% in 2018 and 4.7% in 2019. MAPI cited a modest improvement in its machinery outlook over its December 2016 projection that was being driven by a slightly stronger capital spending prediction.

Competition

Cemtrex faces substantial competition in each of its principal markets. Several companies market products that compete directly with the company's products while other companies offer products that potential customers may consider to be acceptable alternatives to Cemtrex's products and services. The company faces direct competition from companies that are larger and have greater financial resources than Cemtrex. Some of these larger competitors include Ecolab, Jabil Circuit, and EMCOR Group.

Ecolab provides products and services to help companies in various industries keep their environment clean. Jabil Circuit provides electronic manufacturing services to include electronics design, production and product management services. EMCOR Group is an electrical and mechanical construction and facilities services firm providing construction services to commercial, industrial, utility and institutional customers.

Cemtrex competes on the basis of price, engineering and technological expertise, know-how and the quality of its products, systems and services. Virtually all of the company's contracts are obtained through competitive bidding. Although price is an important factor and may in some cases be the governing factor, it is not always determinative, and contracts are often awarded on the basis of the efficiency or reliability of products and the engineering and technical expertise of the bidder.

1Q 2017 Financial Results

1Q17 – Net income increased to $1.4 million or $0.14 per share on a 121% increase in revenue to $29.4 million. Net income in 1Q16 was $692,000 or $0.09 per share. We projected revenue of $30.5 million and net income of $1.3 million or $0.13 per share.

The increase in revenue was primarily due to the acquisition of Periscope in June 2016 and the acquisition of AIS in December 2015.

Gross profit increased to $9.7 million from $3.9 million, with margins increasing to 33% from 29.1% due to higher electronics manufacturing services sales with their higher margins (37.5% versus 27.5% for industrial products and services).

Operating expenses increased to $7.7 million or 26.2% of revenue from $3.4 million or 25.6% of revenue due primarily to the acquisitions of AIS and Periscope. Other expense was $339,000 versus income of $175,000 due primarily to increased interest expense associated with acquisition loans. The company paid $241,000 in income tax which is based on the projected income tax from the company's US and international subsidiaries.

Liquidity - As of December 31, 2016, the company had $6 million cash of which $981,000 was restricted, a current ratio of 1.7X versus 3X for the pollution controls industry and 1.2X for the electronics manufacturing industry, $21.1 million of debt (of which $7.4 million is categorized as current), and approximately 35% of assets are covered by equity. By our forecasts, the company should have sufficient capital to meets its operational needs for the next twelve months.

Cash provided by operations in the first three months of FY17 was approximately $280,000 consisting of cash earnings of $1.1 million and a $787,000 increase in working capital. The change in working capital was primarily due to a decrease in accounts payable offset in part by a decrease in accounts receivable. Cash provided by investing consisted of a $384,000 gain on the disposal of property and equipment offset in part by $200,000 of capital expenditures. Cash used in financing of $1.5 million consisted debt payments. Cash decreased by $992,000 to $5.1 million at December 31, 2016.

Cemtrex's current liabilities include $2.3 million of convertible notes that mature in varying amounts from June 2017 to August 2017 with interest rates varying from 8% to 10% and a conversion prices of 80% of market and $5.00 to $6.50. Cemtrex also has $3.1 million outstanding on its revolving line of credit, $251,000 credit card payable, and the current portion of long-term liabilities was $2 million as of December 31, 2016.

Cemtrex's long-term liabilities include $6 million of bank loans from Sparkasse Bank of Germany and Fulton Bank with interest rates varying from LIBOR plus 2% to 4.95%, and maturities varying from May 2018 to December 2022. The company also has $644,000 of notes payable to AIS at an interest rate of 6% that matures December 2018, a $3.5 million note payable to Ducon Technologies at an interest rate of 5%, and $3.6 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details are not disclosed.

In December 2016, CETX commenced a rights offering to its stockholders to raise up to $15 million through the sale of 1.5 million units at $10 per unit. Each unit consists of one share of preferred stock paying cumulative dividends of 10% and two five-year warrants exercisable at $6.31 per share. The rights offering concluded on February 2, 2017 with the company selling approximately 1.4 million units for gross proceeds of approximately $14 million.

In February 2017, CETX issued 333,983 shares of preferred stock and 667,967 warrants in exchange for the cancellation of approximately $3.3 million of notes payable - related party.

Economic Outlook

In January 2017, the International Monetary Fund (IMF) projected global economic growth of 3.4% in 2017 and 3.6% in 2018, unchanged from an earlier (October 2016) growth forecast. The growth estimate primarily reflects a pick-up in economic activity in emerging and developing economies. However, this forecast has a high level of uncertainty associated with it in light of the effect that potential changes in the policy stance of the US under the incoming administration might have on the global economy.

The IMF raised its economic growth estimate for the US to 2.3% in 2017 and 2.5% in 2018, up from an earlier (October 2016) growth forecast of 2.2% for 2017 and 2.1% for 2018. The IMF attributed the upward revision to the assumption that fiscal stimulus will spur growth.

The advance estimate of US GDP growth (released on January 27, 2017) showed the US economy grew at an annual rate of 1.9% in 4Q16, down from 3.5% growth in 3Q16. The 4Q16 US GDP growth estimate primarily reflects a rise in consumer spending, private inventory investment, residential investment, business investment, and state and local government spending. Partly offsetting these contributions to GDP growth were declines in exports and federal government spending.

In Europe, the IMF raised its economic growth forecast to 1.6% in 2017 and 2018, up from an earlier (October 2016) growth forecast of 1.5% for 2017, but unchanged for 2018. The IMF said that growth projections in this area are primarily based on stronger-than-expected economic performance in the latter part of 2016.

Because Cemtrex's business is conducted globally, the mixed economic growth projections domestically and abroad could constrain growth.

Projections

Cemtrex's core sales of industrial products and services have averaged 22% annual growth over the past five years (excludes AIS acquisition) while the overall environmental technologies industry has averaged annual growth of approximately 5%. We believe CETX's higher growth as compared to the industry is due arguably to the company's ability to differentiate itself with custom designed products and its reputation as a high quality supplier. We believe these competitive advantages will enable CETX to continue to grow at a rate faster than the overall industry (average annual growth projection of approximately 7% into 2018) and project CETX will grow this segment's sales by an average annual growth rate of approximately 16% into FY19.

Cemtrex's sales from its electronics manufacturing services segment (only three full years of revenue from this segment) have been under pressure due to the drop in the currency exchange rate between the US dollar and the Euro (Euro down 17% relative to the US dollar over the past three years). Excluding currency exchange rates, we will be growing this segment's sales in line with industry growth rates of approximately 6% annually going forward.

The following table shows actual revenue for CETX's Industrial Products and Services (IPS) and Electronics Manufacturing and Services (EMS) segments along with our projections for FY17, FY18, and FY19.

Segment Revenue
(In thousands $)

	FY16A	12/16A	3/17E	6/17E	9/17E	FY17E	12/17E	3/18E	6/18E	9/18E	FY18E	12/18E	3/19E	6/19E	9/19E	FY19E
IPS	49,244	13,241	13,500	14,300	14,750	55,791	15,200	15,900	16,600	17,300	65,000	17,800	18,550	19,300	20,050	75,700
EMS	44,461	16,156	16,500	17,450	18,000	68,106	17,750	18,000	18,250	18,500	72,500	18,550	19,000	19,450	19,900	76,900
Total Revenue	93,705	29,397	30,000	31,750	32,750	123,897	32,950	33,900	34,850	35,800	137,500	36,350	37,550	38,750	39,950	152,600

Source: Company filings and Taglich Brothers' estimates

The December 2015 acquisition of AIS with an annual run rate of approximately $20 million in revenue in FY16 should provide a significant increase to CETX's top and bottom lines over our forecast horizon. Due to this acquisition occurring in the last month of 1Q16, we do not expect to realize the full effect from this acquisition until FY17.

The June 2016 acquisition of Periscope with over $30 million in annual revenue should also contribute to increasing CETX's top and bottom lines over our forecast horizon. Due to this acquisition occurring in the last month of 3Q16, we do not expect to realize the full effect from this acquisition until FY17.

Cemtrex's plans to set up an instruments & electronics manufacturing facility in India in 2017 (announced in January 2017) should help to bolster margins.

FY17 – We project a 32% increase in revenue to $123.9 million and net income of $6.1 million or $0.51 per share. Our revenue projection is decreased from $125 million previously to reflect 1Q17 results. Our net income projection is up from $5.2 million or $0.44 per share previously to primarily reflect a lower estimated tax rate.

We project gross margins increasing to 32.2% from 31.2% in FY16 due primarily to increased overhead coverage. SG&A expenses are project to increase to $31.7 million (with margins of 25.6%) from $24.2 million (with margins of 25.3%) in FY16 due primarily to a full year inclusion of AIS and Periscope. We project interest expense to increase to $853,000 from $674,000 due primarily to a higher estimated interest rate.

We project $2.8 million cash from operations from cash earnings of $8.6 million and a $5.7 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory offset in part by increased accounts payable and accrued expenses. Cash from operations and $14 million proceeds from the recent rights offering should be offset by our projected $3 million of capital expenditures (includes funds for India facility), $967,000 of dividend payments, and $13 million pay down of debt, increasing cash by $316,000 to $6.4 million at September 30, 2017.

FY18 – We project an 11% increase in revenue to $137.5 million and net income of $9 million or $0.70 per share. Revenue growth should be driven by continued demand for the company's products and services. While our revenue projection is essentially unchanged from our previous projection, our net income projection is up from $8 million or $0.62 per share to primarily reflect a lower estimated tax rate.

We project gross margins increasing to 33.5%, from 32.2% in FY17 due primarily to increased overhead coverage and lower cost manufacturing from the India plant. SG&A expenses are project to increase to $34.4 million (with margins of 25%) from $31.7 million (with margins of 25.6%). We project interest expense to decrease to $243,000 from $853,000 due to a lower average debt level.

We project $10.6 million cash from operations from cash earnings of $13 million and a $2.3 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory offset in part by an increase in accounts payable. Cash from operations should cover our projected $2 million of capital expenditures, $1.4 million of dividend payments, and $2.1 million pay down of debt, increasing cash by $5.2 million to $11.5 million at September 30, 2018.

FY19 – We project an 11% increase in revenue to $152.6 million and net income of $12.5 million or $0.97 per share. Revenue growth should be driven by continued demand for the company's products and services. While our revenue projection is essentially unchanged from our previous projection, our net income projection is up from $11.2 million or $0.86 per share to primarily reflect a lower estimated tax rate.

We project gross margins increasing to 35%, from 33.5% in FY18 due primarily to increased overhead coverage and a full year of lower cost manufacturing from the India plant. SG&A expenses are project to increase to $37.4 million (with margins of 24.5%) from $34.4 million (with margins of 25%). We project interest expense to decrease to $169,000 from $243,000 due to a lower average debt level.

We project $14 million cash from operations from cash earnings of $16.4 million and a $2.5 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory offset in part by an increase in accrued expenses. Cash from operations should cover our projected $2 million of capital expenditures, $1.4 million of dividend payments, and $1 million pay down of debt, increasing cash by $9.5 million to $21 million at September 30, 2019.

Risks

In our view, these are the principal risks underlying the stock.

Dependence upon market acceptance of the company's technology - Failure to increase market acceptance of the company's environmental control products or electronics manufacturing services could adversely impact the company's revenues.

Acquisition/Integration risks – The company's current strategy involves growth through acquisitions. Risks associated with this type of strategy include being able to identify suitable acquisition candidates, successfully integrating and managing an acquired business, obtaining acceptable financing, and consummating future acquisitions.

Additional dilution – The recent rights offering added an additional 2.8 million shares of common stock outstanding.

Competition - Several companies market products that compete directly with Cemtrex. Other companies offer products that potential customers may consider to be acceptable alternatives to Cemtrex's. The company faces direct competition from companies with far greater financial, technological, and manufacturing resources.

International risks - A significant portion of Cemtrex's business is conducted internationally. Consequently, the company is subject to a variety of risks specific to international operations. Some of these risks include compliance with the anti-corruption laws of other jurisdictions in which the company operates; potential restrictions on transfers of funds; foreign currency fluctuations; and import and export duties.

<u>Currency translation risks</u> – Because Cemtrex conducts a significant portion of its business internationally, its financial results are subject to currency translation risks. A company that has operations overseas needs to translate the foreign currency values of its assets and liabilities into its home currency and consolidate them with its home currency assets and liabilities. The translation process could result in unfavorable equivalent home currency values.

<u>Significant insider ownership</u> – Over 50% of CETX's voting equity is beneficially held by Aron Govil, the company's former chairman, and Saagar Govil, the company's CEO. This degree of control could result in decisions that are not in the best interest of general shareholders.

<u>Liquidity risk</u> - Shares of Cemtrex have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 5 million shares in the float and the average daily volume is approximately 820,000 shares.

<u>Miscellaneous risk</u> - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	FY15A	FY16A	12/16A	FY17E	FY18E	FY19E
Cash and equivalents	1,487	6,046	5,054	6,361	11,513	21,045
Restricted cash	-	698	981	981	981	981
Short-term investments	-	-	-	-	-	-
Receivables	4,771	13,569	12,138	17,941	19,911	22,097
Inventory	6,369	14,072	12,801	18,317	19,948	21,643
Deferred tax asset	-	67	67	67	67	67
Prepaid expenses and other	894	2,475	3,215	2,475	2,475	2,475
Total current assets	13,521	36,927	34,256	46,142	54,895	68,309
Property and equipment	8,142	17,648	16,541	18,274	17,946	17,658
Goodwill	845	919	919	919	919	919
Due from related parties	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Other assets	36	540	203	540	540	540
Total assets	**22,544**	**56,034**	**51,919**	**65,875**	**74,300**	**87,426**
Accounts payable	4,386	7,733	5,560	10,066	10,962	11,894
Credit card payable	-	294	252	294	294	294
Sales tax payable	-	263	70	263	263	263
Accrued expenses	309	5,175	5,013	6,842	7,594	8,428
Accrued income taxes	74	1,043	1,130	1,130	1,130	1,130
Revolving line of credit	2,130	3,455	3,135	2,000	2,000	1,000
Deferred revenue	-	1,387	333	333	333	333
Convertible notes	1,274	3,748	2,250	-	-	-
Notes payable	-	-	-	-	-	-
Current portion of long-term liabilities	654	2,057	2,009	2,057	-	-
Total current liabilities	8,827	25,155	19,752	22,985	22,576	23,341
Deferred tax liabilities	-	94	94	94	94	94
Accrued expenses	-	-	-	-	-	-
Long-term debt	2,384	6,402	5,965	-	-	-
Mortgage payable	4,089	3,869	3,579	3,649	3,429	3,209
Notes payable	-	1,222	644	-	-	-
Notes payable-related party	119	3,600	3,497	-	-	-
Total liabilities	**15,419**	**40,342**	**33,531**	**26,728**	**26,099**	**26,644**
Preferred equity	**1**	**1**		**3**	**3**	**3**
Total stockholders' equity*	**7,125**	**15,692**	**18,388**	**39,147**	**48,201**	**60,781**
Total liabilities & stockholders' equity	**22,544**	**56,034**	**51,919**	**65,875**	**74,300**	**87,426**

*2017 includes $3.3 million of additional paid-in-capital from the issuance of preferred stock and warrants associated with the cancellation of related party debt.

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	FY15A	FY16A	FY17E	FY18E	FY19E
Revenues	56,887	93,705	123,897	137,500	152,600
Cost of revenues	40,565	64,491	83,945	91,421	99,190
Gross profit	16,322	29,214	39,952	46,079	53,410
General and administrative	13,821	24,150	31,663	34,400	37,400
Operating income	2,501	5,064	8,289	11,679	16,010
Other income (expense)	834	1,694	1,258	1,600	1,600
Interest expense	(496)	(674)	(853)	(243)	(169)
Income before taxes	2,839	6,084	8,694	13,036	17,441
Income tax (benefit)	1	1,090	1,651	2,607	3,488
Net income / (loss)	2,838	4,994	7,043	10,429	13,953
Dividends on preferred stock	-	-	967	1,434	1,434
Net income / (loss) to common	2,838	4,994	6,076	8,995	12,519
EPS	0.40	0.58	0.51	0.70	0.97
Shares Outstanding	7,059	8,582	11,882	12,870	12,870
Margin Analysis					
Gross margin	28.7%	31.2%	32.2%	33.5%	35.0%
SG&A	24.3%	25.8%	25.6%	25.0%	24.5%
Operating margin	4.4%	5.4%	6.7%	8.5%	10.5%
Pretax margin	5.0%	6.5%	7.0%	9.5%	11.4%
Tax rate	0.0%	17.9%	19.0%	20.0%	20.0%
Year / Year Growth					
Total Revenues	19.4%	64.7%	32.2%	11.0%	11.0%
Net Income	6.3%	76.0%	41.0%	48.1%	33.8%
EPS	1.9%	44.7%	(12.1)%	36.7%	39.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY17E - FY19E
(in thousands $)

	12/16A	3/17E	6/17E	9/17E	FY17E	12/17E	3/18E	6/18E	9/18E	FY18E	12/18E	3/19E	6/19E	9/19E	FY19E
Revenues	29,397	30,000	31,750	32,750	123,897	32,950	33,900	34,850	35,800	137,500	36,350	37,550	38,750	39,950	152,600
Cost of revenues	19,699	20,550	21,590	22,106	83,945	22,077	22,611	23,106	23,628	91,421	23,628	24,408	25,188	25,968	99,190
Gross profit	9,698	9,450	10,160	10,644	39,952	10,874	11,289	11,744	12,172	46,079	12,723	13,143	13,563	13,983	53,410
General and administrative	7,713	7,750	8,000	8,200	31,663	8,450	8,550	8,650	8,750	34,400	9,050	9,250	9,450	9,650	37,400
Operating income	1,985	1,700	2,160	2,444	8,289	2,424	2,739	3,094	3,422	11,679	3,673	3,893	4,113	4,333	16,010
Other income (expense)	58	400	400	400	1,258	400	400	400	400	1,600	400	400	400	400	1,600
Interest expense	(397)	(221)	(142)	(93)	(853)	(69)	(63)	(58)	(53)	(243)	(46)	(44)	(41)	(38)	(169)
Income before taxes	1,646	1,879	2,418	2,750	8,694	2,755	3,075	3,436	3,769	13,036	4,026	4,249	4,472	4,694	17,441
Income tax (benefit)	241	376	484	550	1,651	551	615	687	754	2,607	805	850	894	939	3,488
Net income / (loss)	1,405	1,503	1,935	2,200	7,043	2,204	2,460	2,749	3,015	10,429	3,221	3,399	3,577	3,755	13,953
Dividends on preferred stock	-	250	-	717	967	-	717	-	717	1,434	-	717	-	717	1,434
Net income / (loss) to common	1,405	1,253	1,935	1,483	6,076	2,204	1,743	2,749	2,298	8,995	3,221	2,682	3,577	3,038	12,519
EPS	0.14	0.10	0.15	0.12	0.51	0.17	0.14	0.21	0.18	0.70	0.25	0.21	0.28	0.24	0.97
Shares Outstanding	9,787	12,000	12,870	12,870	11,882	12,870	12,870	12,870	12,870	12,870	12,870	12,870	12,870	12,870	12,870
Margin Analysis															
Gross margin	33.0%	31.5%	32.0%	32.5%	32.2%	33.0%	33.3%	33.7%	34.0%	33.5%	35.0%	35.0%	35.0%	35.0%	35.0%
SG&A	26.2%	25.8%	25.2%	25.0%	25.6%	25.6%	25.2%	24.8%	24.4%	25.0%	24.9%	24.6%	24.4%	24.2%	24.5%
Operating margin	6.8%	5.7%	6.8%	7.5%	6.7%	7.4%	8.1%	8.9%	9.6%	8.5%	10.1%	10.4%	10.6%	10.8%	10.5%
Pretax margin	5.6%	6.3%	7.6%	8.4%	7.0%	8.4%	9.1%	9.9%	10.5%	9.5%	11.1%	11.3%	11.5%	11.8%	11.4%
Tax rate	14.6%	20.0%	20.0%	20.0%	19.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Year / Year Growth															
Total Revenues	120.8%	58.7%	28.5%	(10.9)%	32.2%	12.1%	13.0%	9.8%	9.3%	11.0%	10.3%	10.8%	11.2%	11.6%	11.0%
Net Income	103.0%	81.1%	35.2%	7.8%	41.0%	56.9%	63.6%	42.1%	37.0%	48.1%	46.2%	38.2%	30.1%	24.5%	33.8%
EPS	55.2%	3.2%	(6.8)%	(46.3)%	(12.1)%	19.3%	29.7%	42.1%	54.9%	36.7%	46.2%	53.9%	30.1%	32.2%	39.2%

Source: Company filings and Taglich Brothers' estimates

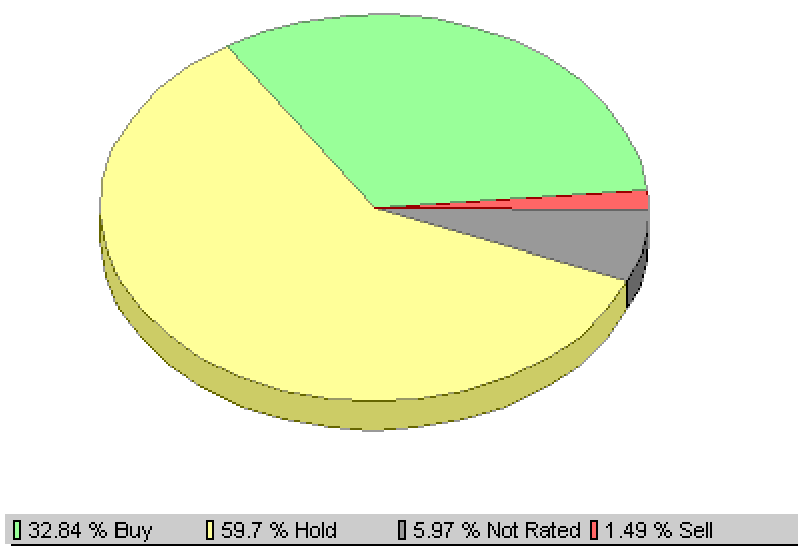
Statement of Cash Flows for the Periods Ended
(in thousands $)

	FY15A	FY16A	1Q17A	FY17E	FY18E	FY19E
Net income (loss)	2,838	4,994	1,405	7,043	10,429	13,953
Depreciation & amortization	772	2,296	634	2,374	2,328	2,288
Deferred revenue	-	1,127	(1,054)	(1,054)	-	-
Stock-based compensation	57	52	-	60	60	60
Shares issued for acquisition	-	1,000	-	-	-	-
Discounts on convertible debt	-	249		-	-	-
Deferred taxes	-	102		-	-	-
Goodwill	-	5		-	-	-
Interest expense on convertible debt	-	139	82	140	140	140
Cash earnings	3,667	9,964	1,067	8,563	12,957	16,441
Changes in assets and liabilities						
Restricted cash	-	(90)	(282)	(282)	-	-
Receivables	(733)	(5,586)	1,431	(4,372)	(1,970)	(2,187)
Due from related party	-	-	-	-	-	-
Inventory	(99)	764	1,270	(4,245)	(1,631)	(1,695)
Prepaid expenses and other	(363)	2,343	(739)	-	-	-
Other	17	(171)	337	-	-	-
Accounts payable	1,665	1,377	(2,174)	2,333	896	932
Credit card payable	-	67	(43)	(43)	-	-
Sales tax payable	-	85	(193)	(193)	-	-
Revolving line of credit	-	(6,117)	(320)	(1,455)	-	(1,000)
Accrued expenses	(131)	4,297	(162)	2,453	391	1,475
Income taxes payable	12	962	88	88	-	-
(Increase) decrease in working capital	368	(2,069)	(787)	(5,716)	(2,314)	(2,475)
Net cash provided by (used in) operations	**4,035**	**7,895**	**280**	**2,847**	**10,643**	**13,966**
Purchase of property and equipment	(1,516)	(664)	(200)	(3,000)	(2,000)	(2,000)
Gain on disposal of property and equipment	-	-	384	384		
Purchase of short-term investments	-	-	-	-	-	-
Redemption of short-term investments	560	-	-	-	-	-
Investment in subsidiary	-	(16,483)	-	-	-	-
Net cash used in investing	**(956)**	**(17,147)**	**184**	**(2,616)**	**(2,000)**	**(2,000)**
Proceeds from rights offering	-	-	-	14,019	-	-
Dividends paid	-	-	-	(967)	(1,434)	(1,434)
Proceeds from notes payable	-	2,218	-	-	-	-
Payments on notes payable	-	(486)	(578)	(1,222)	-	-
Proceeds (payments) on affiliated loan	(1,751)	3,480	(103)	(140)	-	-
Proceeds from bank loans	-	5,176	-	-	-	-
Payments on bank loans	(2,026)	(1,656)	(774)	(7,857)	(2,057)	(1,000)
Payments on convertible notes	-	-	-	(3,748)	-	-
Proceeds from convertible notes	2,038	5,078	-	-	-	-
Net cash provided by (used in) financing	**(1,739)**	**13,810**	**(1,455)**	**85**	**(3,491)**	**(2,434)**
Net change in cash	**1,340**	**4,558**	**(991)**	**316**	**5,152**	**9,532**
Cash - beginning of period	**146**	**1,487**	**6,045**	**6,045**	**6,361**	**11,513**
Cash - end of period	**1,487**	**6,045**	**5,054**	**6,361**	**11,513**	**21,045**

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**3**	**12**
Hold	**1**	**100**
Sell		
Not Rated		

Important Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Benchmark Electronics, Inc. (NYSE: BHE)
Calgon Carbon Corporation (NYSE: CCC)
CECO Environmental Corp. (NASDAQ: CECE)
CUI Global, Inc. (NASDAQ: CUI)
Donaldson Company, Inc. (NYSE: DCI)
Ecolab, Inc. (NYSE: ECL)
EMCOR Group (NYSE: EME)
Fluor Corporation (NYSE: FLR)
Hill International, Inc. (NYSE: HIL)
IEC Electronics Corp. (NYSE: IEC)
Jabil Circuit, Inc. (NYSE: JBL)
Sparton Corporation (NYSE: SPA)
Stantec Inc. (NYSE: STN)
Tutor Perini Corporation (NYSE: TPC)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.