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Initial Research Report

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

Cemtrex, Inc.

Speculative Buy

John Nobile
March 4, 2016

CETX $1.88 — (NASDAQ)

	2014A	2015A	2016E	2017E
Revenues (millions)	$47.7	$56.9	$76.0	$86.5
Earnings (loss) per share	$0.39	$0.40	$0.73	$0.92

52-Week range	$5.19 – $1.56	Fiscal year ends:	September
Common shares out as of 2/8/16	8.1 million	Revenue per share (TTM)	$8.05
Approximate float	2.9 million	Price/Sales (TTM)	0.2X
Market capitalization	$15 million	Price/Sales (FY2017)E	0.2X
Tangible book value/share	$1.09	Price/Earnings (TTM)	4.4X
Price/tangible book value	1.7X	Price/Earnings (FY2017)E	2.0X

Headquartered in Farmingdale, NY, Cemtrex provides manufacturing services of advanced custom engineered electronics, industrial maintenance services, monitoring instruments for industrial processes and environmental compliance, and systems for controlling emissions. (www.cemtrex.com)

Key investment considerations:

Initiating coverage of Cemtrex, Inc. (CETX) with a Speculative Buy rating and twelve-month price target of $3.80 per share based on a multiple of 5X applied to our discounted FY17 EPS projection.

Cemtrex's expertise in its core environmental business underlies strong revenue growth over the past five years (averaging 37% annual growth). Industry sector growth is projected at approximately 7% annually into 2020.

In December 2015, Cemtrex completed the acquisition of broad based industrial services provider Advanced Industrial Services Inc. (AIS). This acquisition should enable the company to provide contracting and installation services as part of its existing equipment sales contracts to a wide range of customers.

The acquisition of AIS should add over $20 million to annual revenue.

For FY16 we project a 34% increase in revenue to $76 million. Net income is projected to increase to $5.7 million or $0.73 per share from $2.8 million or $0.40 per share in FY15. The significant increase in CETX's top and bottom lines is primarily due to the December 2015 acquisition of AIS.

For FY17 we project revenue of $86.5 million and net income of $7.5 million or $0.92 per share, up 14% and 30% respectively.

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

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Recommendation and Valuation

We are initiating coverage of Cemtrex, Inc. (CETX) with a **Speculative Buy** rating and **twelve-month price target of $3.80 per share** based on a multiple of 5X applied to our discounted FY17 EPS projection**.**

Shares of CETX trade at a significant discount to its peers (see chart below) due arguably to limited recognition of the growth potential of company's most recent acquisition (discussed in recent development section below). Valuation should improve as the company leverages its expertise in the growing environmental market with its recent acquisition of AIS.

Name	Symbol	Price	Market Cap $M	Trailing P/E	Forward P/E
Ecolab, Inc.	ECL	105.24	31,080	28.2	20.4
Clarcor, Inc.	CLC	50.91	2,480	19.1	17.6
Donaldson Company, Inc.	DCI	30.95	4,110	22.4	18.6
Calgon Carbon Corporation	CCC	14.4	741	17.6	13.6
CECO Environmental Corp.	CECE	6.77	231	NA	6.9
Peer Average			**7,728**	**21.8**	**15.4**
Company					
Cemtrex, Inc.	**CETX**	**1.88**	**15**	**4.4**	**2.0**
Source: Taglich Brothers estimates, Yahoo! Finance					

CETX currently trades at a multiple of 2X our FY17 EPS projection compared to a forward multiple of 15.4X for its peer group. We applied a multiple of 5X to our FY17 EPS projection of $0.92, discounted for execution risk, to obtain a year-ahead value of $3.80 per share.

Recent Development

Acquisition of Advanced Industrial Services – In December 2015, Cemtrex completed the acquisition of privately held Advanced Industrial Services Inc. (AIS) based in York, Pennsylvania. The total consideration was approximately $7.5 million consisting of $5 million in cash, $1.5 million in a seller's note, and $1 million in the form of 315,458 shares of CETX restricted stock.

AIS is a broad based industrial services provider that offers one-source expertise and capabilities in plant and equipment erection, relocation, and disassembly. The company installs high precision equipment in a wide variety of industrial markets like automotive, printing & graphics, industrial automation, packaging, and chemicals. AIS also installs industrial air filtration equipment, similar to the equipment sold by Cemtrex.

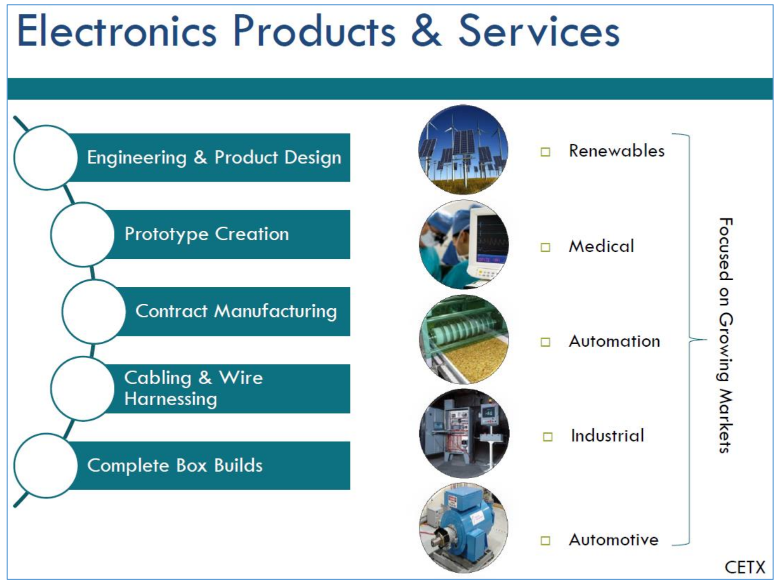
This acquisition will enable the company to provide contracting and installation services as part of its existing equipment sale contracts, allow the two companies to leverage each other's customer portfolio, and help CETX expand its domestic business and diversify its revenue streams.

AIS averaged approximately $23 million in annual revenue and $2.4 million in annual normalized EBITDA over the two years 2013 and 2014. AIS will be combined into CETX's existing environmental business which will be labeled the Industrial Products & Services group.

Business

Founded in 2000 and headquartered in Farmingdale, NY, Cemtrex provides manufacturing services of advanced custom engineered electronics, industrial maintenance services, monitoring instruments for industrial processes and environmental compliance, and systems for controlling emissions. In FY15, approximately 75% of CETX's business was conducted internationally. With the acquisition of AIS, it is estimated that a little over ½ of CETX's current business is conducted internationally.

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 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. The ROB Group consisted of four distinct operating companies, forming a complete electronics design, manufacturing, assembly, and cabling solutions provider that serves the electronics and cabling needs of some of the largest companies in the world in the medical, automation, industrial, and renewable energy industries. ROB Group also has a manufacturing facility in Sibiu, Romania. The ROB Group currently operates as a subsidiary of Cemtrex, Inc.

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

<u>Electronics Manufacturing and Services</u> – Cemtrex's electronic manufacturing products include printed circuit board assemblies and completely assembled electronic products. In connection with the production of assembled products, the company also provides services to its customers, including: automatic and manual assembly and testing of products, material sourcing and procurement, manufacturing and test engineering support, and prototype design services.

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. Cemtrex also manufactures custom designed cables, connectors, and wire harnesses for various industrial, medical and automotive applications.

<u>Industrial Products and Services</u> - Cemtrex provides air filtration and environmental control equipment to industries such as: chemical, cement, steel, food, construction, mining, & petrochemical. Major customers from these industries can be seen in the chart at right. CETX's equipment is used to remove dust, corrosive fumes, mists, hydrocarbons, volatile organic compounds, submicron particles and particulate from industrial exhausts and boilers. The company's environmental equipment is also used to clean noxious and acid gases from industrial exhaust stacks

prior to discharging to the atmosphere, and to control emissions of coal, dust, phosphates, carbon black, etc. from construction facilities, mining operations and dryer exhausts.

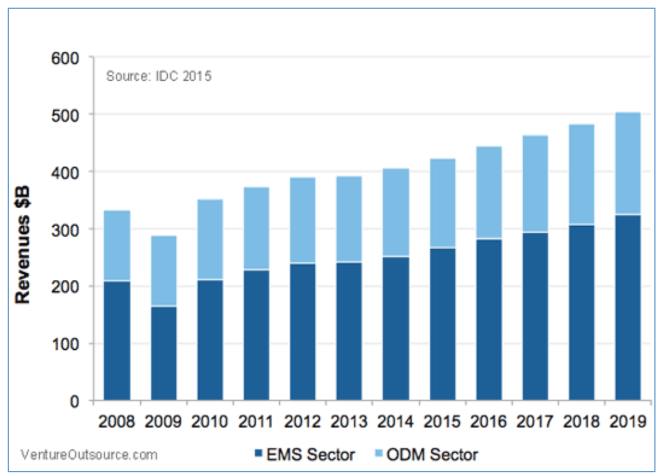
Cemtrex's environmental products also include ancillary equipment such as heaters, pumps, fans, ducting, conveying systems, mixers, and spare parts. Cemtrex is responsible for the delivery, installation, erection, and start-up of these systems.

Cemtrex also manufactures and sells advanced instruments for emissions monitoring, process analysis, and controls for industrial applications and compliance with environmental regulations. Emission monitoring systems are installed at the exhaust stacks of industrial facilities and are used to measure the outlet flue gas concentrations of a range of regulated pollutants. Through the use of the company's equipment and instrumentation, clients can monitor the exhausts to the atmosphere from their facilities and comply with Environmental Protection Agency and state and local emission regulations on dust, particulate, fumes, acid gases and other regulated pollutants into the atmosphere.

Cemtrex markets a range of crude oil and natural gas analyzers which provide real time measurement of various properties specific to the refining processes of oil and gas. Some of the properties include RON (a fuel's octane number), salt and water content, pH, viscosity, and other critical parameters that can be used to optimize the blending and refining processes.

Markets

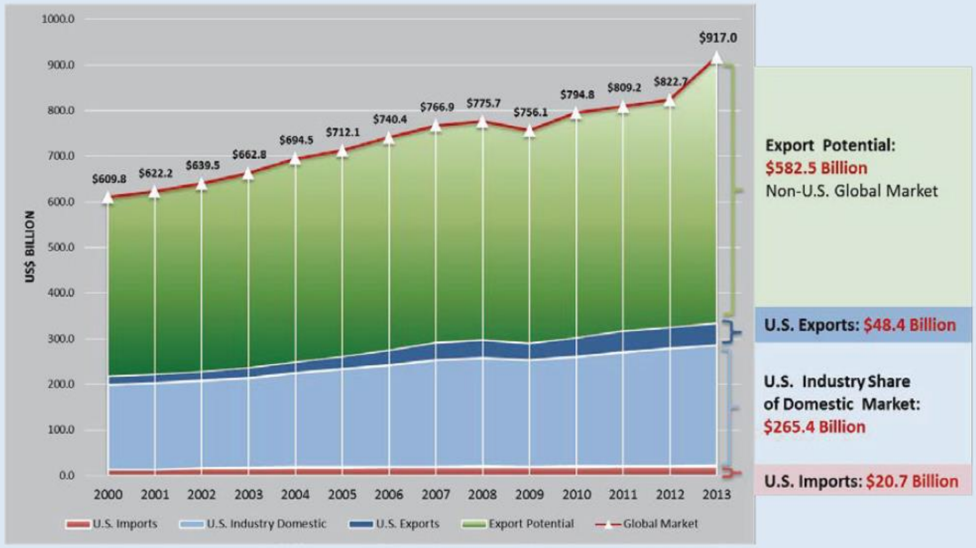
Electronics Manufacturing Services – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. According to the IT research firm IDC, the electronics manufacturing services market was estimated at $423 billion in 2015 and is projected to grow to $505 billion in 2019 for a compound annual growth rate of approximately 5% (see chart at right). Driving this growth will be rising demand from the consumer electronics, servers and storage, networking equipment, automotive electronics, and medical electronics industries.



Industrial Products and Services – This segment falls under the environmental technologies (ET) industry as 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.

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 July 2015, the ITA cited some key industry facts concerning the global ET market including a total market value of $917 billion with the US being the world's largest producer and consumer of environmental technologies. The US ET industry generates approximately $314 billion in annual revenues and employs approximately 2.6 million people. The ET industry has grown from $609.8 billion to $917 billion in the thirteen years to 2013 (latest figures available) for a compound annual growth rate of approximately 3% (see chart at top right on next page).

Figure 2: Global Environmental Technologies Market Overview



Source: Environmental Business International with ITA analysis

Growth for the emission control and environmental monitoring markets that the company sells to is projected at 6.1% to 7.5%. The latest projections from BCC Research (March 2015) showed the US and European emission control market was valued at nearly $14.1 billion in 2014 and is expected to reach nearly $18.9 billion by 2019, a CAGR of 6.1%. In June 2015, MarketsandMarkets 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.

Sales and Marketing

Cemtrex sells its products globally through a direct sales force, independent sales representatives, distributors, and magazine and internet advertising. The independent sales representatives are given a defined territory within which to sell some or all of Cemtrex's products and systems.

Technical inquiries received from potential customers are referred to the engineering personnel. Thereafter, the company's sales and engineering personnel jointly prepare a budget proposal, or a final bid. The period between initial customer contact and issuance of an order is generally between two and twelve months.

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, Clarcor, Donaldson, Calgon Carbon, and CECO Environmental.

Ecolab provides products and services to help companies in various industries keep their environment clean. Clarcor is a manufacturer of mobile, industrial and environmental filtration products. Donaldson is a manufacturer of filtration systems and related replacement parts. Calgon Carbon is a manufacturer of products for the purification of drinking water, wastewater, pollution abatement, and industrial manufacturing processes. CECO Environmental is a manufacturer of emission control products used in the energy, environmental and fluid handling/filtration industries.

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 2016 and FY 2015 Financial Results

<u>*1Q 2016*</u> – Net income increased to $692,000 or $0.09 per share on a 4% decrease in revenue to $13.3 million. Net income in 2015 was $397,000 or $0.06 per share.

The decrease in revenue was primarily due to a $1.1 million decrease in electronics manufacturing services sales offset in part by a $526,000 increase in industrial products and services sales. The decrease in electronics manufacturing sales was primarily due to a drop in the currency exchange rate between the US dollar and the Euro. The increase in industrial products and services sales was primarily due to the acquisition of AIS in December 2015.

Although gross profit decreased to $3.9 million from $4 million, margins remained constant at 29.1%.

Operating expenses decreased to $3.4 million from $3.6 million due primarily to reductions in salaries, benefits, and insurance expenses. Interest and other income increased to $175,000 from an expense of ($83,000) due primarily to the forgiveness of debt. The company pays minimal taxes which are based on the projected income tax from the company's international subsidiaries.

<u>*FY 2015*</u> – Net income increased to $2.8 million or $0.40 per share on a 19% increase in revenue to $56.9 million. Net income in 2014 was $2.7 million or $0.39 per share.

The increase in revenue was primarily due to a $14 million increase in industrial products and services sales offset in part by a $4.7 million decrease in electronics manufacturing services sales. The increase in industrial products and services sales was primarily due to increased orders from Southeast Asian markets. The decrease in electronics manufacturing sales was primarily due to a drop in the currency exchange rate between the US dollar and the Euro.

Although gross profit increased to $16.3 million from $15.6 million, margins fell to 28.7% from 32.7% due to lower margin projects completed in 2015 compared to 2014.

Operating expenses increased to $13.8 million from $12.6 million as revenue and acquisition related expenses increased. Other income increased to $338,000 from an expense of ($283,000) due primarily to the forgiveness of debt. The company pays minimal taxes which are based on the projected income tax from the company's international subsidiaries.

<u>*Liquidity*</u> - As of December 31, 2015, the company had $2.4 million cash, a current ratio of 1.4X versus 3.4X for the pollution controls industry and 2.9X for the electronic components industry, $20 million of debt (of which $7.7 million is categorized as current), and approximately 26% 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 FY16 was approximately $1.5 million consisting primarily of cash earnings of $2 million and a $436,000 increase in working capital. The change in working capital was primarily due to increased accounts receivable and decreased accrued expenses (net of effect from acquisition). Cash used in investing consisted primarily of $7.4 million for the acquisition of AIS and $174,000 of capital expenditures. Cash provided by financing of $6.9 million consisted primarily of increased debt. Cash increased by $893,000 to $2.4 million at December 31, 2015.

Cemtrex's current liabilities include $1.9 million of convertible notes that mature in varying amounts from June 2016 to December 2016 with interest rates varying from 5% to 10% and conversion rates varying from 65% of market to 75% of market. Cemtrex also has $3.7 million outstanding on its revolving line of credit and the current portion of long-term liabilities was $2.1 million as of December 31, 2015.

Cemtrex's long-term liabilities include $7.3 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 a $1.1 million note payable to AIS at an interest rate of 6% that matures December 2018 and $3.9 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years.

Economic Outlook

In January 2016, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.4% in 2016 and 3.6% in 2017, down from an earlier (October 2015) growth forecast of 3.6% in 2016 and 3.8% in 2016. The lowered growth estimate primarily reflects weaker prospects for emerging market economies.

The IMF lowered its economic growth estimate for the US to 2.6% in both 2016 and 2017, down from an earlier (October 2015) growth forecast of 2.8% in both 2016 and 2017. The IMF said that the strengthening US dollar was weighing on manufacturing activity and lower oil prices were curtailing investment in mining structures and equipment. However, overall activity in the US remained resilient and was supported by still-easy financial conditions and strengthening housing and labor markets.

The second estimate of US GDP growth (released on February 26, 2016) was revised upward to 1.0% in 4Q15 from 0.7% (January 29, 2016). The upward revision to US economic growth reflected an upward revision to inventory investment and a downward revision to imports.

For the year 2015, US GDP increased 2.4%, the same as in 2014. Contributing to this growth were increases in consumer spending, business investment, residential investment, inventory investment, and state and local government spending.

With a significant portion of Cemtrex's business conducted internationally, the low and/or slowing economic growth projections domestically and abroad could constrain growth.

Projections

Cemtrex's sales of industrial products and services have been fairly erratic over the past five years ranging from a decline of 11% (in FY12) to a rise of 79% (in FY15), averaging 37% growth over that time frame. Because of the erratic history of sales in this segment, we will be growing this segment's sales in line with overall industry forecasts at approximately 7% going forward.

Cemtrex's sales from its electronics manufacturing services segment (only two 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. Excluding currency exchange rates, we will be growing this segment's sales in line with industry growth rates of approximately 5% going forward.

The December 2015 acquisition of AIS with $23 million in annual revenue over the past two years and higher margins, should provide a significant increase to CETX's top and bottom lines over our forecast horizon. Due to the acquisition occurring in the last month of 1Q16, we do not expect to realize the full effect from this acquisition until FY17.

FY16 **-** We project a 34% increase in revenue to $76 million. Net income is projected to double to $5.7 million or $0.73 per share. The significant increase in CETX's top and bottom lines is primarily due to the December 2015 acquisition of AIS.

We project gross margins of 29.1%, in line with 1Q16 and FY15 margins. SG&A expenses are project to increase to $16.9 million (with margins of 22.2%) from $13.8 million (with margins of 24.3%) in FY15 due primarily to the acquisition of AIS. We project interest expense to increase to $875,000 from $496,000 with the increased debt levels associated with financing the AIS acquisition.

We project $8.4 million cash from operations will come primarily from cash earnings. Cash from operations will not cover our projected $7.4 million cash for acquisitions and $2 million of capital expenditures, necessitating $2.6 million provided by financing activities primarily from increased debt. We project a $1.5 million increase in cash to $3 million at September 30, 2016.

FY17 - We project a 14% increase in revenue to $86.5 million. Net income is projected to increase to $7.5 million or $0.92 per share from $5.8 million or $0.72 per share in FY16. Helping to drive the increase in revenue and earnings will be a full year's contribution from AIS.

We project gross margins of 29.1%, in line with FY15. SG&A expenses are project to increase to $18.4 million (with margins of 21.3%) from $16.9 million (with margins of 22.2%) in FY16 due primarily to a full year inclusion of AIS. We project interest expense to decrease to $691,000 from $875,000 as the company pays down debt.

We project $9 million cash from operations will come primarily from cash earnings. Cash from operations should cover $2 million of capital expenditures and a $3.7 million pay down of debt, increasing cash by $3.4 million to $6.4 million at September 30, 2017.

Management

Saagar Govil, President and Chief Executive Officer – Govil has been with Cemtrex since 2008. CEO and president since December 2011. Prior to becoming CEO, was vice president of operations. Govil began his career as an applications engineer providing customer support on-site and designing turn-key engineered systems for various customers and projects. BE Materials Engineering, Stony Brook University.

Renato Dela Rama, Chief Financial Officer - Dela Rama has been CFO of Cemtrex since December 2004. Prior, had worked in various accounting, banking, and financial management positions. BS Business Administration with an Accounting major, MBA and CPA.

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.

Governmental standards – The company's environmental control products are evaluated using governmental standards. In the event the company's products fail to meet these ever-changing standards, some or all of its environmental control products could become obsolete.

Production scheduling issues - Most of the company's customers do not commit to firm production schedules. The company's inability to forecast the level of customer orders with certainty makes it difficult to schedule production, maximize utilization of manufacturing capacity, and manage inventory levels. Orders from customers could be cancelled or delivery schedules could be deferred as a result of changes in customers' demand.

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.

Acquisition 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.

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.

Currency translation risks – 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.

Significant insider ownership – Approximately 65% 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.

Liquidity risk - 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 2.9 million shares in the float and the average daily volume is approximately 86,000 shares.

Miscellaneous risk - 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 $)

	2013A	2014A	2015A	12/15A	2016E	2017E
Cash and equivalents	67	146	1,487	2,380	3,024	6,417
Restricted cash	-	-	-	624	624	624
Short-term investments	-	560	-	-	-	-
Receivables	1,848	4,039	4,771	8,146	8,446	8,794
Inventory	159	6,270	6,369	6,792	7,186	7,516
Prepaid expenses and other	432	531	894	1,447	1,447	1,447
Total current assets	2,506	11,546	13,521	19,389	20,727	24,798
Property and equipment	10	7,399	8,142	14,758	16,109	16,448
Goodwill	-	845	845	756	756	756
Due from related parties	354	-	-	-	-	-
Notes receivable	-	-	-	121	121	121
Other assets	4	52	36	80	80	80
Total assets	**2,874**	**19,842**	**22,544**	**35,104**	**37,793**	**42,203**
Accounts payable	571	2,722	4,386	5,011	5,240	5,494
Accrued expenses	64	440	309	864	912	1,038
Accrued income taxes	-	62	74	41	41	41
Revolving line of credit	-	2,355	2,130	3,717	3,717	3,717
Convertible notes	-	-	1,274	1,865	1,265	-
Current portion of long-term liabilities	-	690	654	2,097	2,097	2,097
Total current liabilities	635	6,269	8,827	13,595	13,272	12,387
Long-term debt	-	3,153	2,384	7,276	5,476	3,676
Mortgage payable	-	4,907	4,089	3,923	3,923	3,923
Notes payable	-	-	-	1,086	586	-
Notes payable-related party	1,108	1,870	119	113	113	113
Total liabilities	**1,743**	**16,199**	**15,419**	**25,993**	**23,370**	**20,099**
Total stockholders' equity*	**1,131**	**3,643**	**7,125**	**9,111**	**14,423**	**22,104**
Total liabilities & stockholders' equity	**2,874**	**19,842**	**22,544**	**35,104**	**37,793**	**42,203**

*FY16 includes $774 additional paid-in-capital from stock issued to satisfy conv. notes payable
*FY16 includes $463 foreign currency translation loss
Source: Company filings and Taglich Brothers' estimates

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

	2013A	2014A	2015A	2016E	2017E
Revenues	13,674	47,653	56,887	76,015	86,500
Cost of revenues	12,529	32,058	40,565	53,896	61,329
Gross profit	1,145	15,595	16,322	22,119	25,172
General and administrative	798	12,582	13,821	16,906	18,400
Operating income	347	3,013	2,501	5,213	6,771
Other income (expense)	-	154	834	1,401	1,400
Interest expense	(46)	(437)	(496)	(875)	(691)
Income before taxes	301	2,730	2,839	5,738	7,480
Income tax (benefit)	13	61	1	(50)	-
Net income / (loss)	288	2,669	2,838	5,788	7,480
EPS	0.04	0.39	0.40	0.73	0.92
Shares Outstanding	6,767	6,767	7,059	7,966	8,127
Margin Analysis					
Gross margin	91.6%	67.3%	28.7%	29.1%	29.1%
SG&A	5.8%	26.4%	24.3%	22.2%	21.3%
Operating margin	2.5%	6.3%	4.4%	6.9%	7.8%
Pretax margin	2.2%	5.7%	5.0%	7.5%	8.6%
Tax rate	4.3%	2.2%	0.0%	(0.9)%	0.0%
Year / Year Growth					
Total Revenues	26.7%	248.5%	19.4%	33.6%	13.8%
Net Income		NMF	6.3%	104.0%	29.2%
EPS		NMF	1.9%	80.8%	26.7%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2015A - 2017E
(in thousands $)

	12/14A	3/15A	6/15A	9/15A	2015A	12/15A	3/16E	6/16E	9/16E	2016E	12/16E	3/17E	6/17E	9/17E	2017E
Revenues	13,843	14,331	14,666	14,047	56,887	13,315	20,750	20,900	21,050	76,015	21,250	21,500	21,750	22,000	86,500
Cost of revenues	9,820	10,086	10,414	10,245	40,565	9,442	14,712	14,818	14,924	53,896	15,066	15,244	15,421	15,598	61,329
Gross profit	4,023	4,245	4,252	3,802	16,322	3,873	6,038	6,082	6,126	22,119	6,184	6,257	6,329	6,402	25,172
General and administrative	3,622	3,447	3,571	3,181	13,821	3,406	4,500	4,500	4,500	16,906	4,600	4,600	4,600	4,600	18,400
Operating income	401	798	681	621	2,501	467	1,538	1,582	1,626	5,213	1,584	1,657	1,729	1,802	6,771
Other income (expense)	58	452	384	(60)	834	351	350	350	350	1,401	350	350	350	350	1,400
Interest expense	(141)	(190)	(137)	(28)	(496)	(176)	(248)	(233)	(218)	(875)	(194)	(180)	(166)	(152)	(691)
Income before taxes	318	1,060	928	533	2,839	642	1,640	1,699	1,758	5,738	1,740	1,827	1,913	2,000	7,480
Income tax (benefit)	(79)	(21)	(15)	116	1	(50)	-	-	-	(50)	-	-	-	-	-
Net income / (loss)	397	1,081	943	417	2,838	692	1,640	1,699	1,758	5,788	1,740	1,827	1,913	2,000	7,480
EPS	0.06	0.16	0.14	0.06	0.40	0.09	0.20	0.21	0.22	0.73	0.21	0.22	0.24	0.25	0.92
Shares Outstanding	6,784	6,789	6,883	7,059	7,059	7,481	8,127	8,127	8,127	7,966	8,127	8,127	8,127	8,127	8,127
Margin Analysis															
Gross margin	29.1%	29.6%	29.0%	27.1%	28.7%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%
SG&A	26.2%	24.1%	24.3%	22.6%	24.3%	25.6%	21.7%	21.5%	21.4%	22.2%	21.6%	21.4%	21.1%	20.9%	21.3%
Operating margin	2.9%	5.6%	4.6%	4.4%	4.4%	3.5%	7.4%	7.6%	7.7%	6.9%	7.5%	7.7%	8.0%	8.2%	7.8%
Pretax margin	2.3%	7.4%	6.3%	3.8%	5.0%	4.8%	7.9%	8.1%	8.4%	7.5%	8.2%	8.5%	8.8%	9.1%	8.6%
Tax rate	(24.8)%	(2.0)%	(1.6)%	21.8%	0.0%	(7.8)%	0.0%	0.0%	35.0%	(0.9)%	35.0%	35.0%	35.0%	35.0%	0.0%
Year / Year Growth															
Total Revenues					19.4%	(3.8)%	44.8%	42.5%	49.9%	33.6%	59.6%	3.6%	4.1%	4.5%	13.8%
Net Income					6.3%	74.3%	51.7%	80.2%	321.5%	104.0%	151.5%	11.4%	12.6%	13.8%	29.2%
EPS					1.9%	58.1%	26.7%	52.6%	266.1%	80.8%	131.5%	11.4%	12.6%	13.8%	26.7%

Source: Company filings and Taglich Brothers' estimates

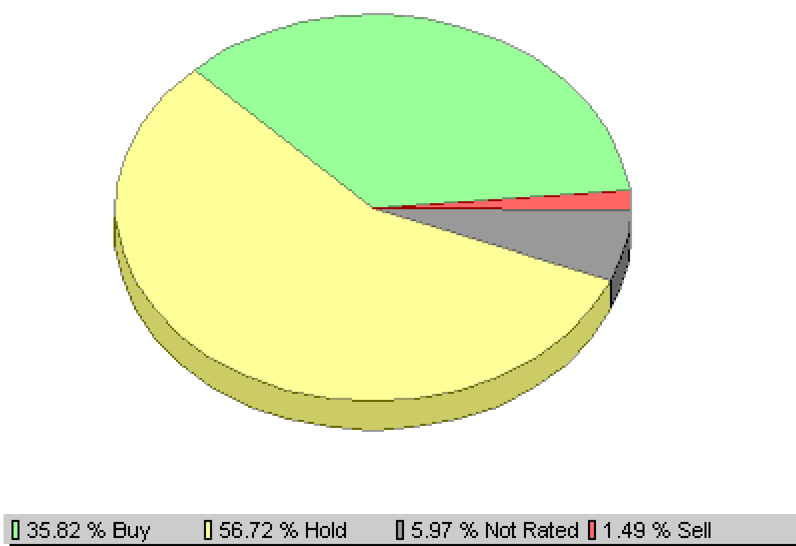
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2013A	2014A	2015A	3mos16A	2016E	2017E
Net income (loss)	288	2,669	2,838	692	5,788	7,480
Depreciation & amortization	11	495	772	211	1,625	1,661
Stock-based compensation	-	-	57	51	200	200
Shares issued for acquisition	-	-	-	1,000	1,000	-
Interest expense on convertible debt	-	-	-	31	124	124
Cash earnings	299	3,164	3,667	1,985	8,737	9,465
Changes in assets and liabilities						
Restricted cash	-	-	-	(16)	(16)	-
Receivables	(348)	(3,397)	(733)	(163)	(463)	(348)
Due from related party	(851)	1,560	-	-	-	-
Inventory	37	(6,111)	(99)	43	(351)	(330)
Prepaid expenses and other	(36)	(99)	(363)	36	(2)	-
Other	-	(48)	17	(2)	(44)	-
Accounts payable	251	2,150	1,665	(124)	122	254
Revolving line of credit	-	-	-	103	103	-
Accrued expenses	25	377	(131)	(273)	318	(67)
Income taxes payable	-	62	12	(39)	(33)	69
(Increase) decrease in working capital	(922)	(5,506)	368	(435)	(366)	(422)
Net cash provided by (used in) operations	**(623)**	**(2,342)**	**4,035**	**1,550**	**8,371**	**9,043**
Purchase of property and equipment	-	(2,699)	(1,516)	(174)	(2,000)	(2,000)
Purchase of short-term investments	-	(560)	-	-	-	-
Redemption of short-term investments	-	-	560	-	-	-
Investment in subsidiary	-	(6,030)	-	(7,387)	(7,387)	-
Net cash used in investing	**-**	**(9,289)**	**(956)**	**(7,561)**	**(9,387)**	**(2,000)**
Proceeds from notes payable	-	-	-	1,500	1,500	-
Payments on notes payable	-	-	-	-	(914)	(586)
Proceeds from affiliated loan	631	605	-	(6)	(6)	-
Payments on affiliated loan	(274)	-	(1,751)	-	-	-
Proceeds from bank loans	-	11,105	-	5,000	5,000	-
Payments on bank loans	-	-	(2,026)	(817)	(3,017)	(1,800)
Payments on convertible notes	-	-	-	-	(1,237)	(1,265)
Proceeds from convertible notes	-	-	2,038	1,228	1,228	-
Net cash provided by (used in) financing	**357**	**11,710**	**(1,739)**	**6,905**	**2,554**	**(3,651)**
Net change in cash	**(266)**	**79**	**1,340**	**894**	**1,538**	**3,392**
Cash - beginning of period	**333**	**67**	**146**	**1,486**	**1,486**	**3,024**
Cash - end of period	**67**	**146**	**1,486**	**2,380**	**3,024**	**6,417**

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	**2**	**8**
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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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:

Calgon Carbon Corporation (NYSE: CCC)
CECO Environmental Corp. (NASDAQ: CECE)
Clarcor, Inc. (NYSE: CLC)
Donaldson Company, Inc. (NYSE: DCI)
Ecolab, Inc. (NYSE: ECL)

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.