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Research Report – Update

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

Cemtrex, Inc.

Speculative Buy

John Nobile
May 23, 2017

CETX $3.72 — (NASDAQ)

	2016A	2017E	2018E	2019E
Revenues (millions)	$93.7	$125.9	$144.8	$154.0
Earnings (loss) per share*	$0.58	$0.37	$0.89	$1.25

52-Week range	$8.41 – $1.92	Fiscal year ends:	September
Common shares out as of 5/2/17	9.9 million	Revenue per share (TTM)	$13.63
Approximate float	4.9 million	Price/Sales (TTM)	0.3X
Market capitalization	$37 million	Price/Sales (FY2019)E	0.2X
Tangible book value/share	$3.38	Price/Earnings (TTM)	7.3X
Price/tangible book value	1.1X	Price/Earnings (FY2019)E	3.0X

** to common shareholders*

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:

Upgrading shares to Speculative Buy from Neutral based on an improved sales and earnings outlook to 2019 and setting a twelve-month price target of $5.00 per share.

Our outlook is based on the company receiving more than $21 million in new orders during the month of April 2017. One of the orders was estimated to be worth $15 million over three years for the company's electronics (EMS) segment while remaining orders were split evenly between the Industrial (IPS) and EMS segments.

We anticipate Cemtrex's electronics business will help drive total average annual revenue growth of 19% to 2019. Emission control and environmental monitoring market growth is projected at approximately 7% annually into 2021 while the electronics manufacturing services market is projected to grow at 6% annually into 2020.

CETX reported (10Q released 5/11/17) 2Q17 revenue increased 61% to $30.5 million and EPS of $0.04. We projected revenue of $30 million and EPS of $0.10 per share.

For FY17, we project a 34% increase in revenue to $125.9 million (prior was $123.9 million) and EPS to common of $0.37 (prior was $0.51). Our higher revenue projection reflects 2Q17 results and new orders received in April 2017. Our reduced EPS projection reflects higher expenses stemming from recent lawsuits and increased spending on sales activities.

For FY18, we project a 15% increase in revenue to $144.8 million and EPS to common of $0.89. While our net income projection is up minimally, our EPS to common projection is up from $0.70 reflecting a lower share count.

For FY19, we project a 6% increase in revenue to $154 million and EPS to common of $1.25. While our revenue and net income projections are up minimally ($1.4 million $300,000, respectively) our EPS projection is up from $0.97 reflecting a lower share count. Revenue growth should be driven by new orders and continued demand for the company's products and services.

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

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Recommendation and Valuation

We are upgrading shares to **Speculative Buy** from Neutral based on an improved sales and earnings outlook to 2019 and setting a **twelve-month price target of $5.00 per share.**

CETX trades at a multiple of approximately 3X our 2019 earnings projection compared to 16X 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	2019 P/E
Ecolab	ECL	127.82	37,074	30.9	23.9
Fluor Corporation	FLR	45.85	6,409	22.9	15.3
Donaldson Company	DCI	47.09	6,221	33.2	25.6
Jabil Circuit	JBL	29.04	5,294	22.0	12.0
EMCOR Group	EME	63.05	3,735	21.2	16.5
Stantec	STN	22.94	2,620	25.2	13.8
Benchmark Electronics	BHE	31.70	1,577	24.6	18.9
Tutor Perini Corporation	TPC	26.15	1,300	13.6	9.1
Calgon Carbon Corporation	CCC	14.20	721	52.6	16.3
CECO Environmental Corp.	CECE	9.39	325	NMF	10.3
Sparton Corp.	SPA	17.50	173	NMF	14.6
Hill International	HIL	4.94	256	NMF	14.5
CUI Global	CUI	3.70	78	NMF	21.8
IEC Electronics	IEC	3.53	36	7.5	5.8
Peer Average				**25.4**	**15.6**
Cemtrex, Inc.	**CETX**	**3.72**	**37**	**7.3**	**3.0**
Source: Taglich Brothers estimates, Thomson Reuters					

While we project a higher compound annual growth rate for the company's earnings into 2019 versus its peers (29% versus 20% for the peer group), CETX's valuation is likely to remain at a discount to its peers due to current litigation pressures. We believe investors should accord a multiple of 4X to our FY19 earnings estimate of $1.25 per share, valuing the company at $5.00 per share.

Record $21 Million in New Orders Received in April 2017

In May 2017, Cemtrex announced it has received more than $21 million in new orders during the month of April 2017.

One of the orders was a three-year agreement estimated to be worth $15 million (the single largest order ever placed with Cemtrex) for the company's electronics manufacturing services (EMS) business in Germany. The remaining orders were split evenly between the IPS and EMS segments. The orders are expected to be executed over the next twelve months.

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 (see chart below), 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 was focused on electronic manufacturing services primarily for major German automotive manufacturers. In 2017, Cemtrex plans to consolidate the majority of its Paderborn operations into its Neulingen facility in order to create operational efficiencies.

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 bottom right of previous page.

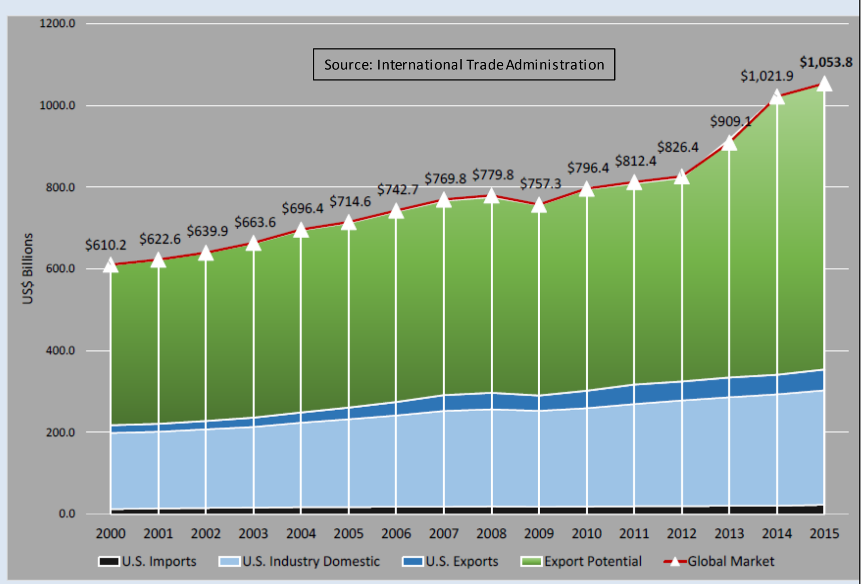
Markets

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. The latest research from 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 relates to 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. The International Trade Administration cited some key industry facts concerning the global ET market including a total market value of $1.1 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 $1.1 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 is projected at approximately 7%. The latest projections from Market Research Reports Search Engine 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%. MarketsandMarkets forecasted the global environmental monitoring market to grow at a CAGR of 7.7% from 2016 to 2021 reaching a value of $19.6 billion. Geographically, North America was estimated to have captured the largest share of the global environmental monitoring market in 2016. Some of the factors driving industry growth include rapid growth in industrialization and increasingly stringent environmental regulation policies.

The latest research from the industrial research firm MAPI projected spending in the industrial equipment market to grow 4.9% in 2017, 5.5% in 2018, 4.7% in 2019, and 2.1% in 2020. MAPI cited a modest improvement in its machinery outlook over its December 2016 projection that was based on slightly stronger capital spending than previously anticipated.

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.

2Q and 1H 2017 Financial Results

2Q17 – Net income decreased to $413,000 or $0.04 per share on a 61% increase in revenue to $30.5 million. Including the impact of $333,000 of preferred dividends, net income to common was $80,000 or $0.01 per share. Net income in 2Q16 was $830,000 or $0.10 per share. We projected revenue of $30 million and net income of $1.3 million or $0.10 per share. The shortfall in earnings was primarily due to higher G&A expenses (by $845,000) than we originally anticipated.

The increase in revenue was primarily due to the acquisition of Periscope in June 2016. Gross profit increased to $9.4 million from $5.8 million, with margins remaining near 30.7%.

Operating expenses increased to $8.6 million or 28.2% of revenue from $4.9 million or 26.1% of revenue due primarily to the acquisition of Periscope and certain onetime expenses related to recent lawsuit litigation. Other expense increased to $641,000 versus $71,000 due primarily to a loss on the disposal of fixed assets and interest expense associated with acquisitions. The company realized a $291,000 income tax benefit which is based on the projected income tax from the company's US and international subsidiaries.

1H17 – Net income increased to $1.8 million or $0.18 per share on an 86% increase in revenue to $59.9 million. Including the impact of $333,000 of preferred dividends, net income to common was $1.5 million or $0.14 per share. Net income in 1H16 was $1.5 million or $0.19 per share.

Income Statement Six Months Ended	3/17A	3/16A
Revenues	59,902	32,223
Cost of revenues	40,846	22,517
Gross profit	19,056	9,706
General and administrative	16,307	8,344
Operating income	2,749	1,362
Other income (expense)	(237)	464
Interest expense	(743)	(360)
Income before taxes	1,769	1,466
Income tax (benefit)	(50)	(56)
Net income / (loss)	1,819	1,522
Dividends on preferred stock	333	-
Net income (loss) to common	1,486	1,522
EPS to common	0.14	0.19
Shares Outstanding	10,262	7,842
Margin Analysis		
Gross margin	31.8%	30.1%
SG&A	27.2%	25.9%
Operating margin	4.6%	4.2%
Pretax margin	3.0%	4.5%
Tax rate	(2.8)%	(3.8)%
Year / Year Growth		
Total Revenues	85.9%	
Net Income	19.5%	
EPS	(25.4)%	

Source: Company filings

The increase in revenue was primarily due to the acquisition of Periscope in June 2016 and AIS in December 2015. Gross profit increased to $19.1 million from $9.7 million, with margins increasing to 31.8% from 30.1% as product mix improved (greater percentage of higher margin EMS sales).

Operating expenses increased to $16.3 million or 27.2% of revenue from $8.3 million or 25.9% of revenue due primarily to the acquisition of Periscope and certain onetime expenses related to recent lawsuit litigation. Other expense was $980,000 versus other income of $104,000 due primarily to a loss on the disposal of fixed assets and interest expense associated with acquisitions. The company realized a $50,000 income tax benefit which is based on the projected income tax from the company's US and international subsidiaries.

Liquidity - As of March 31, 2017, the company had $16.8 million cash of which $859,000 was restricted, a current ratio of 2.3X versus 2.7X for the pollution controls industry and 1.3X for the electronics manufacturing industry, $23 million of debt (of which $13.3 million is categorized as current), and approximately 53% of assets are covered by equity. By our forecasts, the company should have sufficient capital to meets its operational needs throughout our forecast horizon.

Cash provided by operations in the first six months of FY17 was approximately $631,000 consisting of cash earnings of $2.6 million and a $2 million increase in working capital. The change in working capital was primarily due to decreases in accounts payable and accrued expenses. Cash used in investing of $1.6 million consisted primarily of a $1.3 million purchase and retirement of common stock and $265,000 of capital expenditures. Cash provided by financing of $10.9 million consisted primarily of $12.8 million net proceeds from a subscription rights offering offset in part by a $1.6 million reduction in debt and $333,000 in preferred dividend payments. Cash increased by $9.9 million to $16 million at March 31, 2017.

Cemtrex's current liabilities include $1.5 million of convertible notes that mature in varying amounts from July 2017 to August 2017 with an interest rate of 10% and a conversion prices of $5.00 to $6.50. Cemtrex also has $3.2 million outstanding on its revolving line of credit, $254,000 credit card payable, and the current portion of long-term liabilities was $2 million as of March 31, 2017.

Cemtrex's long-term liabilities include $5.7 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 $521,000 of notes payable to AIS at an interest rate of 6% that matures December 2018 and $3.6 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details are not disclosed.

Economic Outlook

In April 2017, the International Monetary Fund (IMF) raised its global economic growth forecast to 3.5% in 2017 but kept it unchanged at 3.6% for 2018. The 2017 revision is up from an earlier (January 2017) growth forecast of 3.4% in 2017 due primarily to a faster than expected rebound in advanced economies.

The IMF kept its economic growth estimate for the US unchanged at 2.3% in 2017 and 2.5% in 2018. The IMF's projection reflects momentum from 2H16 that was driven by a cyclical recovery in inventory accumulation, solid consumption growth, and the assumption of a looser fiscal policy stance.

The advance estimate of US GDP growth (released on April 28, 2017) showed the US economy grew at an annual rate of 0.7% in 1Q17, down from 2.1% growth in 4Q16. In May 2017, the Federal Reserve Bank of Atlanta anticipates US GDP to rebound in 2Q17 to 3.6%.

In Europe, the IMF raised its economic growth forecast to 1.7% in 2017 but kept it unchanged at 1.6% for 2018. The IMF said that some of the factors supporting its growth projections in this area are a mildly expansionary fiscal stance, accommodative financial conditions, and a weaker euro.

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

Projections

Cemtrex's sales of industrial products and services have averaged 22% annual growth over the five years to 2016 (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. These competitive advantages and recent new orders in the IPS segment ($9 million announced since December 2016) will enable CETX to continue to grow at a rate faster than the overall industry average annual growth rate of 7% into 2019. We project CETX will grow this segment's sales by an average annual growth rate of approximately 14% into FY19.

Cemtrex's sales from its electronics manufacturing services segment improved with the June 2016 acquisition of Periscope, which added approximately $18.7 million to FY16 revenue. We believe that with a full year's contribution from Periscope in 2017, and recent new orders in the EMS segment ($28.5 million announced since December 2016), Cemtrex will grow EMS segment revenue at an average annual growth rate of approximately 23% into FY19.

The table at right 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	FY17E	FY18E	FY19E	Avg. Annual Growth to 2019
IPS	49,244	60,057	68,400	73,000	14%
EMS	44,461	65,845	76,400	81,000	23%
Total Revenue	93,705	125,902	144,800	154,000	19%

Source: Company filings and Taglich Brothers' estimates

AIS, acquired in December 2015, had an annual run rate of $20 million in revenue in FY16. AIS should provide a significant increase to CETX's top and bottom lines over our forecast horizon since the acquisition did not occur until the last month of 1Q16.

When Cemtrex acquired Periscope in June 2016, the annual revenue contribution from this acquisition was expected to be over $30 million. However, reduced sales and a lack of expected new orders at Periscope resulted in the company's decision to consolidate the majority of Periscope's manufacturing operations to its Neulingen, Germany facility (to be completed by December 31, 2017) in an effort to improve efficiencies and reduce costs. The Paderborn facility will remain operational in a smaller capacity in order to support a select group of customers. Nevertheless, we expect the revenue contribution from Periscope to be significantly greater in FY17 than it was in FY16 as the company realizes a full year of sales from Periscope in FY17 versus only four months in FY16.

Cemtrex's plans to set up an instruments & electronics manufacturing facility in India in 2018 which should help to bolster margins.

FY17 – We project a 34% increase in revenue to $125.9 million and net income to common of $3.7 million or $0.37 per share. Our higher revenue projection (prior was $123.9 million) reflects 2Q17 results and new orders. Our reduced net income to common projection (prior was $6.1 million or $0.51 per share) reflects higher general and administrative expenses stemming from recent lawsuits and increased sales and marketing activities.

We project gross margins increasing to 32% from 31.2% in FY16 due primarily to increased overhead coverage. SG&A expenses are project to increase to $33.8 million (with margins of 26.8%) from $24.2 million (with margins of 25.8%) in FY16 due primarily to increased litigation expenses and a full year inclusion of AIS and Periscope. We project interest expense of $1.4 million, up from $674,000 due primarily to a higher estimated interest rate.

We project $583,000 cash from operations on cash earnings of $6.6 million and a $6.1 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 $12.8 million proceeds from the recent rights offering should be offset by our projected $2 million of capital expenditures (includes funds for building its India facility), $1 million of dividend payments, and $9.3 million to reduce debt, decreasing cash by $272,000 to $5.8 million at September 30, 2017.

FY18 – We project a 15% increase in revenue to $144.8 million and net income to common of $9.1 million or $0.89 per share. Revenue growth should be driven by continued demand for the company's products and services. The increase in our EPS forecast ($0.89 versus $0.70) primarily reflects a lower outstanding share count stemming from recent share purchases by the company.

We project gross margins increasing to 33.5%, from 32% in FY17 due primarily to increased overhead coverage and lower cost manufacturing from the India plant. SG&A expenses are project to increase to $36.2 million (with margins of 25%) from $33.8 million (with margins of 26.8%). We project lower interest expense to $200,000 from $1.4 million due to a lower average debt level and a lower estimated interest rate.

We project $9.3 million cash from operations on cash earnings of $12.8 million and a $3.5 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 accounts payable. Cash from operations should cover our projected $1 million of capital expenditures and $1.4 million of dividend payments, increasing cash by $6.9 million to $12.7 million at September 30, 2018.

FY19 – We project a 6% increase in revenue to $154 million and net income to common of $12.8 million or $1.25 per share. Revenue growth should be driven by continued demand for the company's products and services. While our revenue and net income projections are up minimally from our previous projections of $152.6 million revenue and net income to common of $12.5 million, our EPS projection is up from $0.97 per share to reflect a lower outstanding share count.

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 million (with margins of 24%) from $36.2 million (with margins of 25%). We project interest expense to remain at $200,000.

We project $14.5 million cash from operations on cash earnings of $16.4 million and a $1.9 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 $1 million of capital expenditures and $1.4 million of dividend payments, increasing cash by $12.1 million to $24.8 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 acquired businesses, obtaining acceptable financing, and lower than expected revenue from 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.

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.

Litigation risks – Cemtrex is currently the target of class action law suits alleging the company made materially false and misleading statements about its business, operations, and prospects. The company believes the law suits are meritless and intends to defend itself. This could lead to increased professional fees beyond what we have factored into our estimates.

Significant insider ownership – 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.

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 4.9 million shares in the float and the average daily volume is approximately 665,000 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 $)

	FY15A	FY16A	6/17A	FY17E	FY18E	FY19E
Cash and equivalents	1,487	6,046	15,956	5,774	12,716	24,768
Restricted cash	-	698	859	859	859	859
Short-term investments	-	-	-	-	-	-
Receivables	4,771	13,569	13,609	18,231	20,968	22,300
Inventory	6,369	14,072	13,615	18,668	21,008	21,842
Deferred tax asset	-	67	67	67	67	67
Prepaid expenses and other	894	2,475	2,105	2,105	2,105	2,105
Total current assets	13,521	36,927	46,211	45,705	57,724	71,941
Property and equipment	8,142	17,648	15,923	17,396	16,297	15,332
Goodwill	845	919	919	919	919	919
Due from related parties	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Other assets	36	540	619	619	619	619
Total assets	**22,544**	**56,034**	**63,672**	**64,639**	**75,559**	**88,811**
Accounts payable	4,386	7,733	6,263	10,259	11,545	12,003
Credit card payable	-	294	254	254	254	254
Sales tax payable	-	263	93	93	93	93
Accrued expenses	309	5,175	4,556	6,953	7,997	8,505
Accrued income taxes	74	1,043	1,066	1,066	1,066	1,066
Revolving line of credit	2,130	3,455	3,228	3,228	3,228	3,228
Deferred revenue	-	1,387	820	820	820	820
Convertible notes	1,274	3,748	1,505	-	-	-
Notes payable	-	-	-	-	-	-
Current portion of long-term liabilities	654	2,057	2,015	2,015	2,015	2,015
Total current liabilities	8,827	25,155	19,800	24,688	27,018	27,984
Deferred tax liabilities	-	94	94	94	94	94
Accrued expenses	-	-	-	-	-	-
Long-term debt	2,384	6,402	5,672	-	-	-
Mortgage payable	4,089	3,869	3,587	3,305	2,741	2,177
Notes payable	-	1,222	521	-	-	-
Notes payable-related party	119	3,600	-	-	-	-
Total liabilities	**15,419**	**40,342**	**29,674**	**28,087**	**29,853**	**30,255**
Preferred equity	**1**	**1**	**3**	**3**	**3**	**3**
Total stockholders' equity*	**7,125**	**15,692**	**33,995**	**36,552**	**45,706**	**58,556**
Total liabilities & stockholders' equity	**22,544**	**56,034**	**63,672**	**64,639**	**75,559**	**88,811**

*2017 includes $5.6 million of additional paid-in-capital from the issuance of pfd. and com. stock

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	125,902	144,800	154,000
Cost of revenues	40,565	64,491	85,556	96,280	100,100
Gross profit	16,322	29,214	40,346	48,520	53,900
General and administrative	13,821	24,150	33,788	36,200	36,960
Operating income	2,501	5,064	6,558	12,320	16,940
Other income (expense)	834	1,694	263	1,000	1,000
Interest expense	(496)	(674)	(1,373)	(200)	(200)
Income before taxes	2,839	6,084	5,448	13,120	17,740
Income tax (benefit)	1	1,090	686	2,624	3,548
Net income / (loss)	2,838	4,994	4,762	10,496	14,192
Dividends on preferred stock	-	-	1,034	1,402	1,402
Net income (loss) to common	2,838	4,994	3,728	9,094	12,790
EPS to common	0.40	0.58	0.37	0.89	1.25
Shares Outstanding	7,059	8,582	10,179	10,270	10,270
Margin Analysis					
Gross margin	28.7%	31.2%	32.0%	33.5%	35.0%
SG&A	24.3%	25.8%	26.8%	25.0%	24.0%
Operating margin	4.4%	5.4%	5.2%	8.5%	11.0%
Pretax margin	5.0%	6.5%	4.3%	9.1%	11.5%
Tax rate	0.0%	17.9%	12.6%	20.0%	20.0%
Year / Year Growth					
Total Revenues	19.4%	64.7%	34.4%	15.0%	6.4%
Net Income	6.3%	76.0%	(4.6)%	120.4%	35.2%
EPS	1.9%	44.7%	(37.1)%	141.8%	40.6%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY17E - FY19E
(in thousands $)

	12/16A	3/17A	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	30,505	32,000	34,000	125,902	35,150	35,850	36,550	37,250	144,800	37,000	38,000	39,000	40,000	154,000
Cost of revenues	19,699	21,147	21,760	22,950	85,556	23,551	23,912	24,233	24,585	96,280	24,050	24,700	25,350	26,000	100,100
Gross profit	9,698	9,358	10,240	11,050	40,346	11,600	11,938	12,317	12,665	48,520	12,950	13,300	13,650	14,000	53,900
General and administrative	7,713	8,595	8,640	8,840	33,788	8,790	8,960	9,140	9,310	36,200	8,880	9,120	9,360	9,600	36,960
Operating income	1,985	763	1,600	2,210	6,558	2,810	2,978	3,177	3,355	12,320	4,070	4,180	4,290	4,400	16,940
Other income (expense)	58	(295)	250	250	263	250	250	250	250	1,000	250	250	250	250	1,000
Interest expense	(397)	(346)	(330)	(300)	(1,373)	(50)	(50)	(50)	(50)	(200)	(50)	(50)	(50)	(50)	(200)
Income before taxes	1,646	122	1,520	2,160	5,448	3,010	3,178	3,377	3,555	13,120	4,270	4,380	4,490	4,600	17,740
Income tax (benefit)	241	(291)	304	432	686	602	636	675	711	2,624	854	876	898	920	3,548
Net income / (loss)	1,405	413	1,216	1,728	4,762	2,408	2,542	2,702	2,844	10,496	3,416	3,504	3,592	3,680	14,192
Dividends on preferred stock	-	333	-	701	1,034	-	701	-	701	1,402	-	701	-	701	1,402
Net income (loss) to common	1,405	80	1,216	1,027	3,728	2,408	1,841	2,702	2,143	9,094	3,416	2,803	3,592	2,979	12,790
EPS to common	0.14	0.01	0.12	0.10	0.37	0.23	0.18	0.26	0.21	0.89	0.33	0.27	0.35	0.29	1.25
Shares Outstanding	9,787	10,387	10,270	10,270	10,179	10,270	10,270	10,270	10,270	10,270	10,270	10,270	10,270	10,270	10,270
Margin Analysis															
Gross margin	33.0%	30.7%	32.0%	32.5%	32.0%	33.0%	33.3%	33.7%	34.0%	33.5%	35.0%	35.0%	35.0%	35.0%	35.0%
SG&A	26.2%	28.2%	27.0%	26.0%	26.8%	25.0%	25.0%	25.0%	25.0%	25.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Operating margin	6.8%	2.5%	5.0%	6.5%	5.2%	8.0%	8.3%	8.7%	9.0%	8.5%	11.0%	11.0%	11.0%	11.0%	11.0%
Pretax margin	5.6%	0.4%	4.8%	6.4%	4.3%	8.6%	8.9%	9.2%	9.5%	9.1%	11.5%	11.5%	11.5%	11.5%	11.5%
Tax rate	14.6%	(238.5)%	20.0%	20.0%	12.6%	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%	61.3%	29.5%	(7.5)%	34.4%	19.6%	17.5%	14.2%	9.6%	15.0%	5.3%	6.0%	6.7%	7.4%	6.4%
Net Income	103.0%	(50.2)%	(15.0)%	(15.3)%	(4.6)%	71.4%	NMF	122.2%	64.6%	120.4%	41.9%	37.8%	32.9%	29.4%	35.2%
EPS	55.2%	(92.4)%	(26.6)%	(53.4)%	(37.1)%	63.3%	NMF	122.2%	108.7%	141.8%	41.9%	52.2%	32.9%	39.0%	40.6%

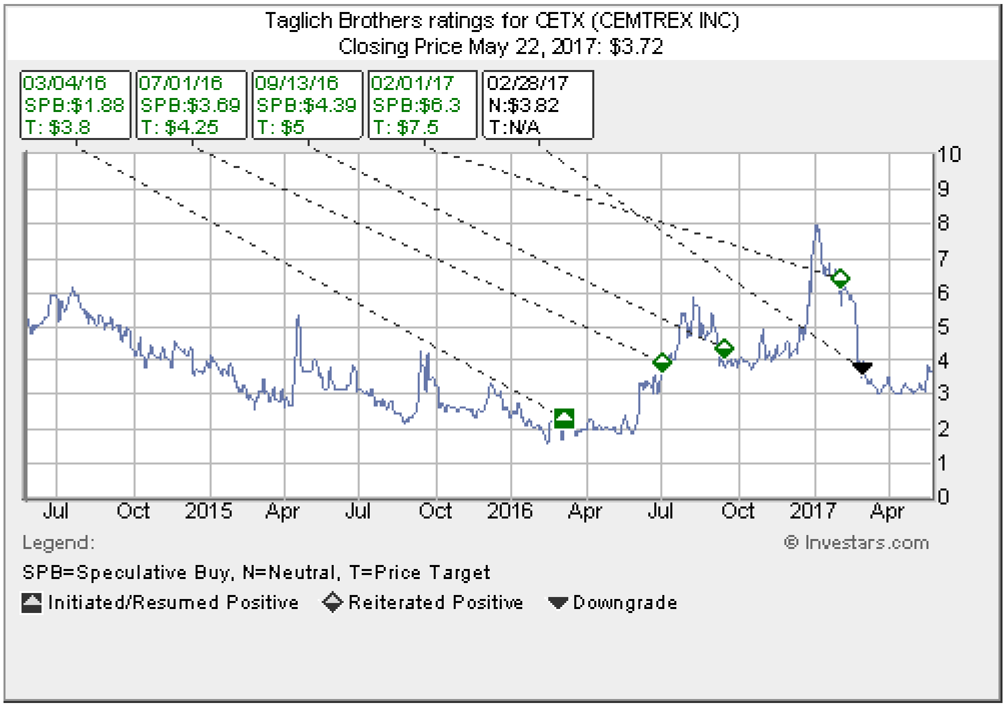
Source: Company filings and Taglich Brothers' estimates

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

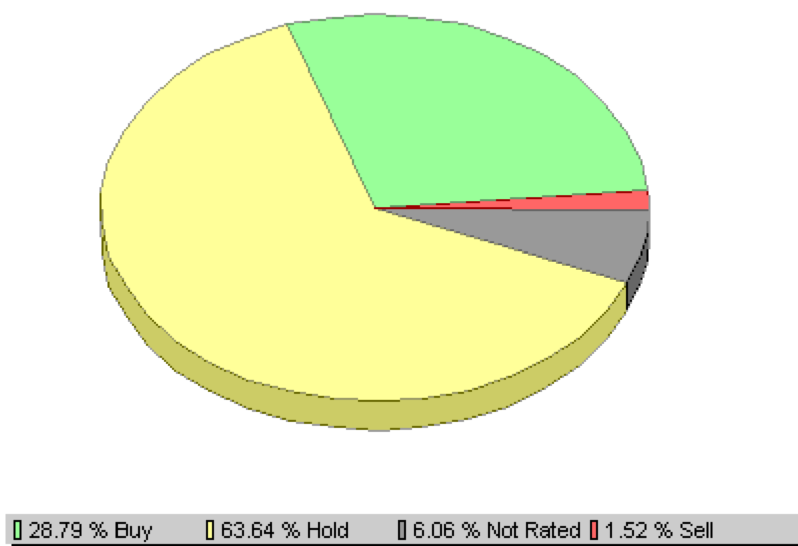
	FY15A	FY16A	6m17A	FY17E	FY18E	FY19E
Net income (loss)	2,838	4,994	1,819	4,762	10,496	14,192
Depreciation & amortization	772	2,296	1,243	2,252	2,099	1,965
Deferred revenue	-	1,127	(567)	(567)	-	-
Stock-based compensation	57	52	-	60	60	60
Shares issued for acquisition	-	1,000	-	-	-	-
Discounts on convertible debt	-	249	-	-	-	-
Deferred taxes	-	102	-	-	-	-
Goodwill	-	5	-	-	-	-
Interest expense on convertible debt	-	139	91	140	140	140
Cash earnings	3,667	9,964	2,586	6,647	12,795	16,357
Changes in assets and liabilities						
Restricted cash	-	(90)	(161)	(161)	-	-
Receivables	(733)	(5,586)	(40)	(4,662)	(2,737)	(1,332)
Due from related party	-	-	-	-	-	-
Inventory	(99)	764	457	(4,596)	(2,340)	(834)
Prepaid expenses and other	(363)	2,343	371	370	370	-
Other	17	(171)	(79)	(79)	-	-
Accounts payable	1,665	1,377	(1,470)	2,526	1,286	458
Credit card payable	-	67	(40)	(40)	-	-
Sales tax payable	-	85	(170)	(170)	-	-
Revolving line of credit	-	(6,117)	(227)	(227)	-	-
Accrued expenses	(131)	4,297	(619)	953	(30)	(196)
Income taxes payable	12	962	23	23	-	-
(Increase) decrease in working capital	368	(2,069)	(1,955)	(6,064)	(3,451)	(1,904)
Net cash provided by (used in) operations	**4,035**	**7,895**	**631**	**583**	**9,344**	**14,453**
Purchase of property and equipment	(1,516)	(664)	(265)	(2,000)	(1,000)	(1,000)
Gain (loss) on disposal of property and equipment	-	-	(25)	(25)		
Purchase of short-term investments	-	-	-	-	-	-
Redemption of short-term investments	560	-	-	-	-	-
Purchase and retirement of common stock	-	-	(1,345)	(1,345)	-	-
Investment in subsidiary	-	(16,483)	-	-	-	-
Net cash used in investing	**(956)**	**(17,147)**	**(1,635)**	**(3,370)**	**(1,000)**	**(1,000)**
Proceeds from rights offering	-	-	12,817	12,817	-	-
Dividends paid	-	-	(333)	(1,034)	(1,402)	(1,402)
Proceeds from notes payable	-	2,218	-	-	-	-
Payments on notes payable	-	(486)	(701)	(1,222)	-	-
Proceeds (payments) on affiliated loan	(1,751)	3,480	(120)	(120)	-	-
Proceeds from bank loans	-	5,176	-	-	-	-
Payments on bank loans	(2,026)	(1,656)	(749)	(6,421)	-	-
Payments on convertible notes	-	-	-	(1,505)	-	-
Proceeds from convertible notes	2,038	5,078	-	-	-	-
Net cash provided by (used in) financing	**(1,739)**	**13,810**	**10,914**	**2,515**	**(1,402)**	**(1,402)**
Net change in cash	**1,340**	**4,558**	**9,910**	**(272)**	**6,942**	**12,051**
Cash - beginning of period	**146**	**1,487**	**6,046**	**6,046**	**5,774**	**12,716**
Cash - end of period	**1,487**	**6,046**	**15,956**	**5,774**	**12,716**	**24,768**

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**	**13**
Hold	**2**	**50**
Sell		
Not Rated		

Important Disclosures

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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:

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.