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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
July 1, 2016

CETX $3.69 — (NASDAQ)

	2014A	2015A	2016E	2017E
Revenues (millions)	$47.7	$56.9	$81.2	$117.0
Earnings (loss) per share	$0.39	$0.40	$0.59	$1.17

52-Week range	$5.19 – $1.56	Fiscal year ends:	September
Common shares out as of 5/9/16	8.5 million	Revenue per share (TTM)	$8.23
Approximate float	3.3 million	Price/Sales (TTM)	0.4X
Market capitalization	$31 million	Price/Sales (FY2017)E	0.3X
Tangible book value/share	$1.14	Price/Earnings (TTM)	9.5X
Price/tangible book value	3.2X	Price/Earnings (FY2017)E	3.2X

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:

We are reiterating our Speculative Buy rating on Cemtrex, Inc. (CETX) and raising our twelve-month price target to $4.25 per share (previously $3.80) due primarily to an increase in our FY17 earnings estimates.

Cemtrex's 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 June 2016, Cemtrex acquired Periscope, an electronic manufacturing services company primarily focused on the major German automotive manufacturers. This acquisition allows Cemtrex to secure a broader base and larger market share in the Eurozone.

The acquisition of Periscope should add over $30 million to annual revenue.

For FY16 we project a 43% increase in revenue to $81.2 million and EPS of $0.59. We previously projected revenue of $76 million and EPS of $0.73. The change in our estimates reflects the June 2016 acquisition of Periscope (added $6.6 million revenue), higher growth in industrial products and services (added $400,000 revenue), and recent results (subtracted $1.8 million revenue).

For FY17 we project a 44% increase in revenue to $117 million and EPS of $1.17 per share. We previously projected revenue of $86.5 million and EPS of $0.92. The change in our estimates primarily reflects the June 2016 acquisition of Periscope.

CETX reported (5/16/16) 2Q16 revenue increased 32% to $18.9 million and EPS of $0.10. Excluding the impact of one-time expenses, adjusted EPS was $0.16. We projected revenue of $20.8 million and EPS of $0.20.

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

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on Cemtrex, Inc. (CETX) and raising our **twelve-month price target to $4.25 per share** (previously $3.80) due primarily to an increase in our FY17 earnings estimates.

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 market recognizes the sales and earnings potential that the Periscope acquisition offers.

Name	Symbol	Price	Market Cap $M	Trailing P/E	Forward P/E
Ecolab, Inc.	ECL	118.6	34,790	35.7	23.6
Donaldson Company, Inc.	DCI	34.36	4,570	24.9	21.5
Clarcor, Inc.	CLC	60.83	2,970	20.9	21.3
Calgon Carbon Corporation	CCC	13.15	665	18.2	13.8
CECO Environmental Corp.	CECE	8.74	298	NA	9.9
Peer Average			**8,659**	**24.9**	**18.0**
Company					
Cemtrex, Inc.	**CETX**	**3.69**	**31**	**9.5**	**3.2**
Source: Taglich Brothers estimates, Yahoo! Finance					

CETX currently trades at a multiple of 3.2X our FY17 EPS projection compared to a forward multiple of 18X for its peer group. We applied a multiple of 4.5X to our FY17 EPS projection of $1.17, discounted for integration risk, to obtain a year-ahead value of $4.25 per share.

Recent Developments

Acquisition of Electronics Manufacturer – In June 2016, Cemtrex announced it acquired Periscope, located in Paderborn, Germany. Periscope is focused on electronic manufacturing services primarily for the major German automotive manufacturers, including Tier 1 (direct to OEM) suppliers in the industry, as well as for industries like telecommunications, industrial goods, luxury consumer products, display technology, and other industrial OEMs.

This acquisition allows Cemtrex to secure a broader base and larger market share in the Eurozone and gives Cemtrex a strong footing in the automotive electronics industry, which is projected to grow at a compound annual growth rate (CAGR) of 8.4% to $352.92 billion by 2023, up from $185.05 billion in 2015, according to Global Market Insights, Inc.

This acquisition should add over $30 million to annual revenue. Cemtrex intends to rebrand the Periscope operation under its ROB Cemtrex brand. The company completed the purchase of approximately €9 million (approximately $10 million US) Periscope assets through the payment of cash, a third-party note and seller note. The purchase price was not disclosed.

Cemtrex Receives $12 Million in New Orders – In June 2016, Cemtrex announced it received $12 million in new orders over the last month marking the company's strongest bookings month in its history. The new orders were from both existing and new customers to the company.

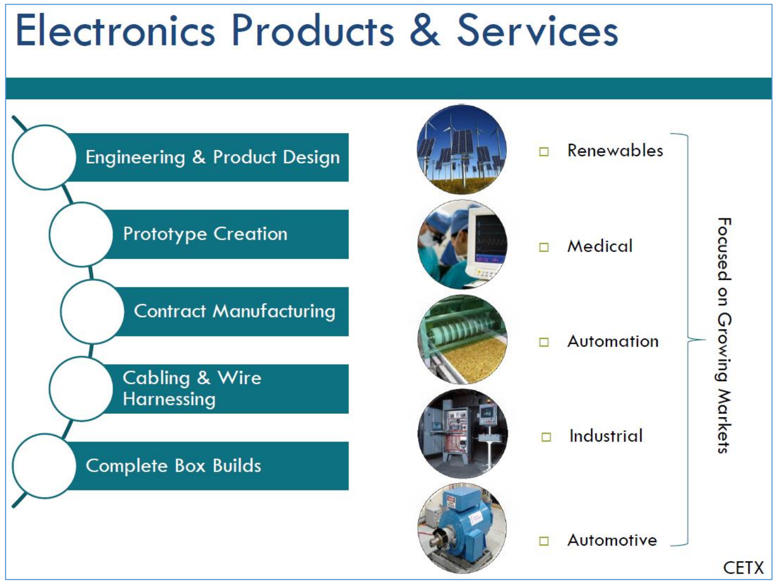
Share Repurchase Authorization – In June 2016, Cemtrex's board of directors approved a new share repurchase authorization for up to one million shares of the company's common stock over the next twelve months. The repurchase program may be suspended or discontinued at any time.

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.

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.



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. 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 enables the company to provide contracting and installation services as part of its existing equipment sale contracts, allows the two companies to leverage each other's customer portfolio, and helps CETX expand its domestic business and diversify its revenue streams. AIS was combined into CETX's existing environmental business which is now labeled the Industrial Products & Services group.

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 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.

Industrial Products and Services - 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.

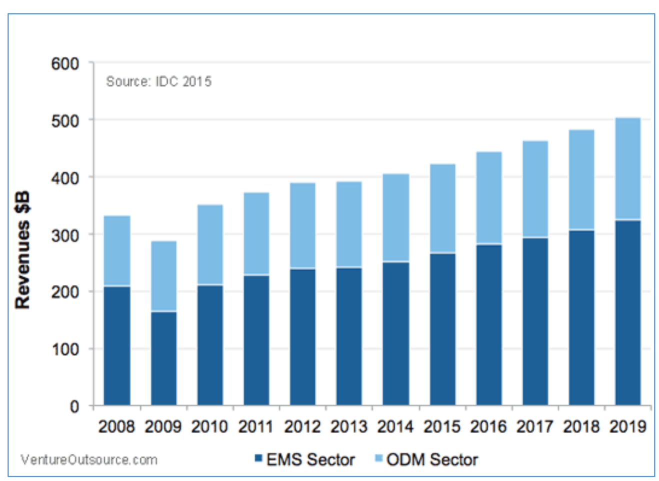
Cemtrex's environmental products also include ancillary equipment such as heaters, pumps, fans, ducting, conveying systems, mixers, and spare parts. Cemtrex is responsible for the delivery, installation, erection, and start-up of these systems.

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

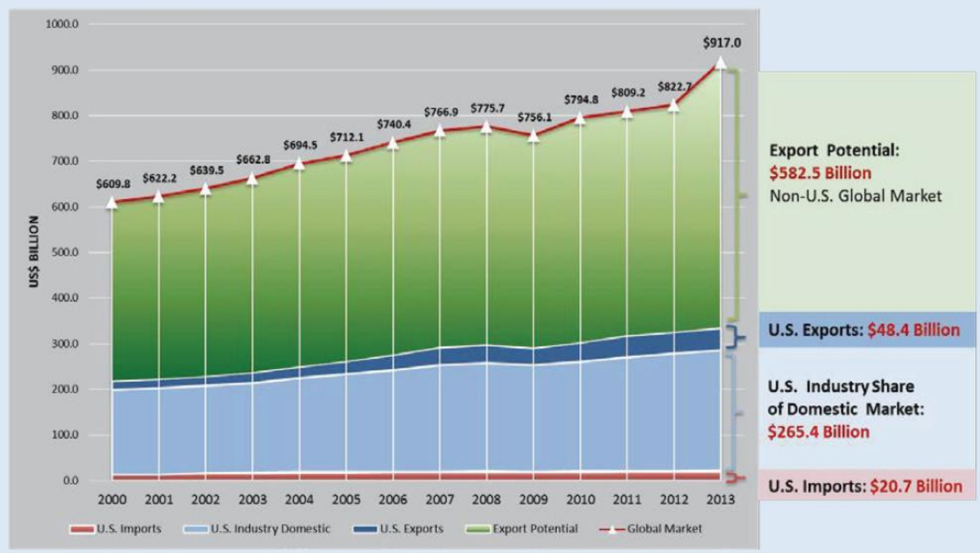
Electronics Manufacturing Services – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. According to the IT research firm IDC, the electronics 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.

Figure 2: Global Environmental Technologies Market Overview



Source: Environmental Business International with ITA analysis

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 above right).

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 Transparency Market Research (November 2015) showed the global 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%. 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.

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.

2Q and 1H 2016 Financial Results

<u>*2Q16*</u> – Net income decreased to $830,000 or $0.10 per share on a 32% increase in revenue to $18.9 million. Net income in 2Q15 was $1.1 million or $0.16 per share. 2Q16 net income was adversely affected by one-time acquisition and financing related expenses of $452,000. Excluding the impact of these expenses, adjusted net income for 2Q16 was $1.3 million or $0.16 per share. We projected revenue of $20.8 million and net income of $1.6 million or $0.20 per share.

The increase in revenue was primarily due to a $5.7 million increase in industrial products and services sales offset in part by a $1.2 million decrease in electronics manufacturing services sales stemming from the postponement of orders. The increase in industrial products and services sales was primarily due to the acquisition of AIS in December 2015. The decrease in electronics manufacturing services sales was primarily due to the postponement of orders.

Gross profit increased to $5.8 million from $4.2 million, with margins increasing to 30.8% from 29.6% due to a favorable product mix.

Operating expenses increased to $4.9 million from $3.4 million due primarily to the acquisition of AIS and one-time expenses related to certain planned and uncompleted acquisitions. Other income/(expense) decreased to an expense of ($71,000) versus income of $263,000 due primarily to interest on the acquisition loans for AIS. The company pays minimal taxes which are based on the projected income tax from the company's US and international subsidiaries.

<u>*1H16*</u> – Net income increased to $1.52 million or $0.19 per share on a 14% increase in revenue to $32.2 million. Net income in 1H16 was $1.48 million or $0.22 per share. 1H16 net income was adversely affected by one-time acquisition and financing related expenses of $452,000. Excluding the impact of these expenses, adjusted net income for 1H16 was $2 million or $0.25 per share.

The increase in revenue was primarily due to a $6.3 million increase in industrial products and services sales offset in part by a $2.2 million decrease in electronics manufacturing services sales attributed to the postponement of orders (orders expected to be filled over the next few quarters). The increase in industrial products and services sales was primarily due to the acquisition of AIS in December 2015.

	Income Statement Six Months Ended	
	3/16A	3/15A
Revenues	32,223	28,174
Cost of revenues	22,517	19,906
Gross profit	9,706	8,268
General and administrative	8,344	7,069
Operating income	1,362	1,199
Other income (expense)	464	509
Interest expense	(360)	(330)
Income before taxes	1,466	1,378
Income tax (benefit)	(56)	(100)
Net income / (loss)	1,522	1,478
EPS	0.19	0.22
Shares Outstanding	7,842	6,784
<u>Margin Analysis</u>		
Gross margin	30.1%	29.3%
SG&A	25.9%	25.1%
Operating margin	4.2%	4.3%
Pretax margin	4.5%	4.9%
Tax rate	(3.8)%	(7.3)%
<u>Year / Year Growth</u>		
Total Revenues	14.4%	
Net Income	3.0%	
EPS	(10.9)%	

Source: Company filings

Gross profit increased to $9.7 million from $8.3 million, with margins increasing to 30.1% from 29.3% due to a favorable product mix (higher industrial product sales).

Operating expenses increased to $8.3 million from $7.1 million due primarily to one-time expenses related to certain planned and uncompleted acquisitions. Other income/(expense) decreased to income of $104,000 versus income of $180,000 due primarily to interest on the acquisition loans for AIS. The company pays minimal taxes which are based on the projected income tax from the company's US and international subsidiaries.

Liquidity - As of March 31, 2016, the company had $4.2 million cash of which $883,000 was restricted, a current ratio of 1.5X versus 3.3X for the pollution controls industry and 2.2X for the electronic components industry, $16 million of debt (of which $7.6 million is categorized as current), and approximately 28% 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 six months of FY16 was approximately $1.9 million consisting of cash earnings of $3.2 million and a $1.3 million increase in working capital. The change in working capital was primarily due to an increase in accounts receivable. Cash used in investing consisted of $7.4 million for the acquisition of AIS and $116,000 of capital expenditures. Cash provided by financing of $7.4 million consisted primarily of increased debt. Cash increased by $1.8 million to $3.3 million at March 31, 2016.

Cemtrex's current liabilities include $2 million of convertible notes that mature in varying amounts from August 2016 to March 2017 with interest rates varying from 5% to 10% and a conversion price of 75% of market. Cemtrex also has $3.5 million outstanding on its revolving line of credit and the current portion of long-term liabilities was $2.2 million as of March 31, 2016.

Cemtrex's long-term liabilities include $7.1 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 $1.5 million note payable to AIS at an interest rate of 6% that matures December 2018 and $3.8 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years.

Economic Outlook

In April 2016, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.2% in 2016 and 3.5% in 2017, down from an earlier (January 2016) growth forecast of 3.4% in 2016 and 3.6% in 2017. The lowered growth estimate primarily reflects weakness in oil exporting countries.

The IMF lowered its economic growth estimate for the US to 2.4% in 2016 and 2.5% in 2017, down from an earlier (January 2016) growth forecast of 2.6% in both 2016 and 2017. Subsequent to the April 2016 forecast, the IMF in June 2016 again lowered its economic growth forecast for the US to 2.2%. The IMF said that rising poverty and inequality in the US could hold back the country's economic potential.

The third estimate of US GDP growth (released on June 28, 2016) showed the US economy grew at an annual rate of 1.1% in 1Q16, down from 1.4% growth in 4Q15. The 1Q16 US GDP growth estimate primarily reflects a rise in consumer spending. Partly offsetting this contribution to GDP growth was a decline in business investment, private inventory investment, and government spending.

In Europe, the IMF lowered its economic growth forecast to 1.5% in 2016 and 1.6% in 2017, down from an earlier (January 2016) growth forecast of 1.7% in both 2016 and 2017. The IMF said low investment, high unemployment, and weak balance sheets weighed on growth.

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 averaged 37% annual growth over the past five years while the overall environmental technologies industry has averaged annual growth of approximately 4%. 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 (projections for approximately 7% annual growth into 2020) and project CETX will grow this segment's sales by 10% annually 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 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.

<u>*FY16*</u> – We project a 43% increase in revenue to $81.2 million and net income of $4.9 million or $0.59 per share. We previously projected revenue of $76 million and net income of $5.7 million or $0.73 per share. The change in our estimates reflects the June 2016 acquisition of Periscope (adjusted for integration risk) and recent results.

We project gross margins of 30%, in line with 1H16 margins. SG&A expenses are project to increase to $19.5 million (with margins of 24%) from $13.8 million (with margins of 24.3%) in FY15 due primarily to the acquisitions of AIS and Periscope. Depreciation expense is projected to increase to $2.6 million from $772,000 due primarily to the 2016 acquisitions of AIS and Periscope. We project interest expense to increase to $1 million from $496,000 with the increased debt levels associated with financing the AIS and Periscope acquisitions.

We project $5.9 million cash from operations from cash earnings of $8.6 million and a $2.6 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory. Cash from operations will not cover our projected $17.4 million cash for acquisitions and $2 million of capital expenditures, necessitating $12.9 million provided by financing activities primarily from increased debt. We project a $598,000 decrease in cash to $889,000 at September 30, 2016.

<u>*FY17*</u> – We project a 44% increase in revenue to $117 million and net income of $10.1 million or $1.17 per share. We previously projected revenue of $86.5 million and net income of $7.5 million or $0.92 per share. The change in our estimates reflects the June 2016 acquisition of Periscope (adjusted for integration risk).

We project gross margins of 30%, in line with FY16. SG&A expenses are project to increase to $24.8 million (with margins of 21.2%) from $19.5 million (with margins of 24%) in FY16 due primarily to a full year inclusion of AIS and Periscope. We project interest expense to increase to $1.2 million from $1 million due to a higher average debt level.

We project $9.7 million cash from operations from cash earnings of $13 million and a $3.2 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 $2 million of capital expenditures and a $7.2 million pay down of debt, increasing cash by $588,000 to $1.5 million at September 30, 2017.

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.

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.

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 3.3 million shares in the float and the average daily volume is approximately 330,000 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.

Cemtrex, Inc.

Consolidated Balance Sheets
(in thousands $)

	2013A	2014A	2015A	3/16A	2016E	2017E
Cash and equivalents	67	146	1,487	3,282	889	1,478
Restricted cash	-	-	-	883	883	883
Short-term investments	-	560	-	-	-	-
Receivables	1,848	4,039	4,771	10,987	9,019	11,895
Inventory	159	6,270	6,369	7,396	7,571	10,037
Prepaid expenses and other	432	531	894	975	975	975
Total current assets	2,506	11,546	13,521	23,523	19,337	25,267
Property and equipment	10	7,399	8,142	14,267	25,129	24,584
Goodwill	-	845	845	854	854	854
Due from related parties	354	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Other assets	4	52	36	335	335	335
Total assets	**2,874**	**19,842**	**22,544**	**38,979**	**45,655**	**51,040**
Accounts payable	571	2,722	4,386	5,790	5,520	7,337
Accrued expenses	64	440	309	1,944	974	1,404
Accrued income taxes	-	62	74	17	17	17
Revolving line of credit	-	2,355	2,130	3,516	3,516	3,516
Convertible notes	-	-	1,274	1,951	1,951	1,951
Current portion of long-term liabilities	-	690	654	2,167	2,167	2,167
Total current liabilities	635	6,269	8,827	15,385	14,146	16,392
Long-term debt	-	3,153	2,384	7,193	12,693	5,693
Mortgage payable	-	4,907	4,089	3,786	3,786	3,786
Notes payable	-	-	-	950	870	710
Notes payable-related party	1,108	1,870	119	229	229	229
Total liabilities	**1,743**	**16,199**	**15,419**	**27,543**	**31,724**	**26,810**
Total stockholders' equity*	**1,131**	**3,643**	**7,125**	**10,486**	**13,932**	**24,230**
Total liabilities & stockholders' equity	**2,874**	**19,842**	**22,544**	**38,029**	**45,655**	**51,040**

*FY16 includes $1244 additional paid-in-capital from stock issued to satisfy conv. notes payable
*FY16 includes $414 other comprehensive 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	81,173	117,000
Cost of revenues	12,529	32,058	40,565	56,782	81,900
Gross profit	1,145	15,595	16,322	24,391	35,100
General and administrative	798	12,582	13,821	19,494	24,800
Operating income	347	3,013	2,501	4,897	10,300
Other income (expense)	-	154	834	965	1,000
Interest expense	(46)	(437)	(496)	(1,041)	(1,203)
Income before taxes	301	2,730	2,839	4,821	10,097
Income tax (benefit)	13	61	1	(56)	-
Net income / (loss)	288	2,669	2,838	4,877	10,097
EPS	0.04	0.39	0.40	0.59	1.17
Shares Outstanding	6,767	6,767	7,059	8,221	8,600
Margin Analysis					
Gross margin	91.6%	67.3%	28.7%	30.0%	30.0%
SG&A	5.8%	26.4%	24.3%	24.0%	21.2%
Operating margin	2.5%	6.3%	4.4%	6.0%	8.8%
Pretax margin	2.2%	5.7%	5.0%	5.9%	8.6%
Tax rate	4.3%	2.2%	0.0%	(1.2)%	0.0%
Year / Year Growth					
Total Revenues	26.7%	248.5%	19.4%	42.7%	44.1%
Net Income		NMF	6.3%	71.9%	107.0%
EPS		NMF	1.9%	47.6%	97.9%

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	3/16A	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	18,908	21,450	27,500	81,173	28,700	29,000	29,200	30,100	117,000
Cost of revenues	9,820	10,086	10,414	10,245	40,565	9,442	13,075	15,015	19,250	56,782	20,090	20,300	20,440	21,070	81,900
Gross profit	4,023	4,245	4,252	3,802	16,322	3,873	5,833	6,435	8,250	24,391	8,610	8,700	8,760	9,030	35,100
General and administrative	3,622	3,447	3,571	3,181	13,821	3,406	4,938	5,050	6,100	19,494	6,200	6,200	6,200	6,200	24,800
Operating income	401	798	681	621	2,501	467	895	1,385	2,150	4,897	2,410	2,500	2,560	2,830	10,300
Other income (expense)	58	452	384	(60)	834	351	114	250	250	965	250	250	250	250	1,000
Interest expense	(141)	(190)	(137)	(28)	(496)	(176)	(185)	(317)	(362)	(1,041)	(345)	(320)	(286)	(252)	(1,203)
Income before taxes	318	1,060	928	533	2,839	642	824	1,318	2,038	4,821	2,315	2,430	2,524	2,828	10,097
Income tax (benefit)	(79)	(21)	(15)	116	1	(50)	(6)	-	-	(56)	-	-	-	-	-
Net income / (loss)	397	1,081	943	417	2,838	692	830	1,318	2,038	4,877	2,315	2,430	2,524	2,828	10,097
EPS	0.06	0.16	0.14	0.06	0.40	0.09	0.10	0.15	0.24	0.59	0.27	0.28	0.29	0.33	1.17
Shares Outstanding	6,784	6,789	6,883	7,059	7,059	7,481	8,202	8,600	8,600	8,221	8,600	8,600	8,600	8,600	8,600
Margin Analysis															
Gross margin	29.1%	29.6%	29.0%	27.1%	28.7%	29.1%	30.8%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
SG&A	26.2%	24.1%	24.3%	22.6%	24.3%	25.6%	26.1%	23.5%	22.2%	24.0%	21.6%	21.4%	21.2%	20.6%	21.2%
Operating margin	2.9%	5.6%	4.6%	4.4%	4.4%	3.5%	4.7%	6.5%	7.8%	6.0%	8.4%	8.6%	8.8%	9.4%	8.8%
Pretax margin	2.3%	7.4%	6.3%	3.8%	5.0%	4.8%	4.4%	6.1%	7.4%	5.9%	8.1%	8.4%	8.6%	9.4%	8.6%
Tax rate	(24.8)%	(2.0)%	(1.6)%	21.8%	0.0%	(7.8)%	(0.7)%	0.0%	35.0%	(1.2)%	35.0%	35.0%	35.0%	35.0%	0.0%
Year / Year Growth															
Total Revenues					19.4%	(3.8)%	31.9%	46.3%	95.8%	42.7%	115.5%	53.4%	36.1%	9.5%	44.1%
Net Income					6.3%	74.3%	(23.2)%	39.7%	388.7%	71.9%	234.5%	192.8%	91.6%	38.8%	107.0%
EPS					1.9%	58.1%	(36.4)%	11.8%	301.1%	47.6%	191.0%	179.3%	91.6%	38.8%	97.9%

Source: Company filings and Taglich Brothers' estimates

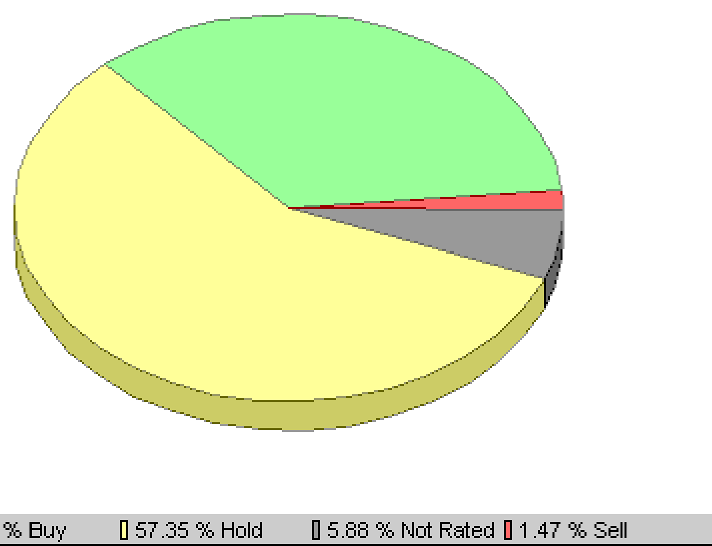
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2013A	2014A	2015A	6mos16A	2016E	2017E
Net income (loss)	288	2,669	2,838	1,522	4,877	10,097
Depreciation & amortization	11	495	772	667	2,605	2,545
Stock-based compensation	-	-	57	51	100	200
Shares issued for acquisition	-	-	-	1,000	1,000	-
Discounts on convertible debt			-	(74)	(74)	-
Interest expense on convertible debt	-	-	-	38	76	124
Cash earnings	299	3,164	3,667	3,204	8,584	12,966
Changes in assets and liabilities						
Restricted cash	-	-	-	(275)	(275)	-
Receivables	(348)	(3,397)	(733)	(3,004)	(1,036)	(2,876)
Due from related party	(851)	1,560	-	-	-	-
Inventory	37	(6,111)	(99)	389	(564)	(2,466)
Prepaid expenses and other	(36)	(99)	(363)	508	508	-
Other	-	(48)	17	(256)	(256)	-
Accounts payable	251	2,150	1,665	655	492	1,816
Revolving line of credit	-	-	-	(99)	(99)	-
Accrued expenses	25	377	(131)	807	(1,355)	307
Income taxes payable	-	62	12	(64)	(64)	-
(Increase) decrease in working capital	(922)	(5,506)	368	(1,339)	(2,649)	(3,218)
Net cash provided by (used in) operations	**(623)**	**(2,342)**	**4,035**	**1,865**	**5,935**	**9,748**
Purchase of property and equipment	-	(2,699)	(1,516)	(117)	(2,000)	(2,000)
Purchase of short-term investments	-	(560)	-	-	-	-
Redemption of short-term investments	-	-	560	-	-	-
Investment in subsidiary	-	(6,030)	-	(7,387)	(17,387)	-
Net cash used in investing	**-**	**(9,289)**	**(956)**	**(7,504)**	**(19,387)**	**(2,000)**
Proceeds from notes payable	-	-	-	1,500	1,500	-
Payments on notes payable	-	-	-	(77)	(157)	(160)
Proceeds from affiliated loan	631	605	-	109	109	-
Payments on affiliated loan	(274)	-	(1,751)	-	-	-
Proceeds from bank loans	-	11,105	-	5,000	12,000	-
Payments on bank loans	-	-	(2,026)	(976)	(2,476)	(7,000)
Payments on convertible notes	-	-	-	-	-	-
Proceeds from convertible notes	-	-	2,038	1,878	1,878	-
Net cash provided by (used in) financing	**357**	**11,710**	**(1,739)**	**7,434**	**12,854**	**(7,160)**
Net change in cash	**(266)**	**79**	**1,340**	**1,795**	**(598)**	**588**
Cash - beginning of period	**333**	**67**	**146**	**1,487**	**1,487**	**889**
Cash - end of period	**67**	**146**	**1,487**	**3,282**	**889**	**1,478**

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**	**7**
Hold		
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:

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.