# Research Report – Update

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

# Omni-Lite Industries Canada, Inc.

**Speculative Buy**

John Nobile
May 11, 2017

## OLNCF $1.23 — (OTC)

| | 2015A | 2016A | 2017E | 2018E |
|---|---|---|---|---|
| Revenues (millions) | $7.5 | $7.2 | $9.3 | $10.3 |
| Earnings (loss) per share | $0.07 | $0.07 | $0.20 | $0.18 |

| | | | |
|---|---|---|---|
| 52-Week range | $1.54 – $1.01 | Fiscal year ends: | December |
| Common shares out as of 4/28/17 | 10.4 million | Revenue per share (TTM) | $0.63 |
| Approximate float | 8.7 million | Price/Sales (TTM) | 2.0X |
| Market capitalization | $13 million | Price/Sales (FY2018)E | 1.3X |
| Tangible book value/share | $1.73 | Price/Earnings (TTM) | 17.6X |
| Price/tangible book value | 0.7X | Price/Earnings (FY2018)E | 6.8X |

*Headquartered in Cerritos, CA, Omni-Lite Industries Canada Inc. is a research and development company specializing in the manufacture of precision components forged from advanced composite and other alloyed materials. (www.omni-lite.com)*

***Key investment considerations:***

***We are reiterating our Speculative Buy rating on Omni-Lite Industries Canada, Inc. (OLNCF) and raising our twelve-month price target to $1.60 per share ($1.40 previously) based on strong sales growth into 2018.***

***Omni-Lite's sales have grown at a compound annual growth rate of 11% over the past three years driven by its patented cold forging processes which has enabled the company to be the sole source supplier for over 70% of the components it manufactures. New orders primarily from high margin military and aerospace contracts should drive 2018 sales to $10.3 million.***

***In April 2017, Omni-Lite Industries announced it received approximately $1.8 million of new orders. These orders bring the total value of 2017 new orders to over $2.8 million. As of April 11, 2017, the company's backlog stood at approximately $9 million.***

***In April 2017, the company successfully completed the production of its first complete titanium component using an existing cold forging system that was recently converted to operate at elevated temperatures.***

***Omni-Lite reported (5-1-2017) 4Q16 revenue decreased 4% to $1.4 million. The net loss was $(0.03) per share, unchanged from 4Q15. We projected 4Q16 revenue of $2.3 million and EPS of $0.05. The shortfall was due primarily to delayed military market sales that are scheduled to ship in 2017.***

***Our 2017 forecasts are unchanged with revenue of $9.3 million and EPS of $0.20.***

***For 2018, we project EPS of $0.18 on revenue growth of 11% to $10.3 million. The company's strong backlog and new orders should support our revenue growth forecast.***

****Please view our disclosures on pages 12 - 14.***

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

## *Recommendation and Valuation*

We are reiterating our **Speculative Buy** rating on Omni-Lite Industries Canada, Inc. and raising our **twelve-month price target to $1.60 per share ($1.40 previously)** based on our 2018 sales forecast.

Due to large fluctuations in the company's effective tax rate, (from a 158% tax benefit in 2014 to a 27% tax expense in 2016), we will be valuing the company using a Price/Sales multiple.

Shares of Omni-Lite trade at a significant forward discount to its peers (see chart below) due arguably to limited recognition of the company's growth potential.

| Name | Symbol | Price | Market Cap $M | Trailing P/S | 2018 P/S |
|---|---|---|---|---|---|
| RBC Bearings, Inc. | ROLL | 101.48 | 2,435 | 3.9 | 3.7 |
| TriMas Corporation | TRS | 22.95 | 1,049 | 1.3 | 1.2 |
| NN, Inc. | NNBR | 29.6 | 813 | 1.0 | 0.9 |
| Ampco-Pittsburgh Corporation | AP | 15.35 | 188 | NMF | NMF |
| Eastern Company | EML | 27.6 | 173 | 1.2 | NA |
| SIFCO Industries, Inc. | SIF | 7.18 | 40 | NMF | NA |
| Chicago Rivet & Machine Co. | CVR | 38.95 | 38 | 1.0 | NA |
| **Peer Average** | | | **677** | **1.7** | **1.9** |
| Company | | | | | |
| **Omni-Lite Industries Canada, Inc.** | **OLNCF** | **1.23** | **13** | **2.0** | **1.3** |
| Source: Taglich Brothers estimates, Thomson Reuters | | | | | |

Omni-Lite currently trades at a multiple of 1.3X our 2018 sales/share projection while Omni-Lite's peer group trades at a forward multiple 1.9X. As investors recognize the company's growth potential, Omni-Lite's current multiple to its peers should narrow. We applied a multiple of 1.7X to our 2018 sales/share projection of $0.93 to obtain a year-ahead value of approximately $1.60 per share.

## *Recent Developments*

<u>*New Orders*</u> – In April 2017, Omni-Lite Industries announced it received approximately $1.8 million of new orders with over 80% of these new orders in the company's aerospace and military divisions. These orders bring the total value of the new orders announced in 2017 to over $2.8 million. As of April 11, 2017, the company's backlog stood at approximately $9 million and the book-to-bill ratio YTD was over 1.5.

<u>*Breakthrough in Forming Titanium for Aerospace Applications*</u> – In April 2017, the company successfully completed the production of its first complete titanium component using an existing cold forging system that was recently converted to operate at elevated temperatures. While the use of titanium is attractive due to its light weight and high strength, historically it has been challenging to create precision complex aerospace fasteners without expensive multi-stage operations. The technological breakthrough should enable the company to pursue new revenue opportunities within the markets it serves.

## *Company Overview*

Headquartered in Cerritos, CA, Omni-Lite Industries Canada Inc. is a research and development company specializing in the manufacture of precision components forged from advanced composite and other alloyed materials. These components are produced utilizing computer-controlled cold forging systems. Cold forging involves the use of sophisticated, computer-controlled machines that forge metal parts from round wire feedstock using exceptionally high pressure. The results are a very precise end product (tolerances of 0.0005 inches), virtually no raw material wastage, and high volume production capability (up to 300 parts can be produced in one minute).

Omni-Lite Industries Canada Inc. was established by the amalgamation of Omni-Lite Industries Inc. and Omni-Lite Industries Corp., both incorporated in Calgary, Alberta. To support the international scope of the marketplace, Omni-Lite established subsidiaries in Barbados to complement its production center in Cerritos, California. OLNCF's staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

Omni-Lite operates four business segments: Military, Aerospace, Specialty Automotive, and Sports and Recreational. Military sales accounted for 15% of total sales in 2016, Aerospace 40%, Specialty Automotive 34%, and Sports and Recreation 11%. The company serves customers primarily in the US, Canada, and the Barbados. Some customers (shown at right) include Fortune 500 companies such as Boeing, Alcoa, Ford, Chrysler, Borg Warner, John Deere, Nike, and the U.S. Military.


## *Revenue Generating Divisions*

*Military* – Omni-Lite manufactures special couplings for use with the Mk19 grenade launcher for the US Army. The Mk19 grenade launcher is used by the armed forces of both the US and NATO. Omni-Lite also manufactures patented products for the M-16 and .38 caliber arsenal (see picture at right) for the US government.


38 calibre Head Cap for US Military

Source: Omni-Lite Industries

*Aerospace* – Omni-Lite manufactures components that are utilized in the engine housings and tail sections of jet aircraft as well as in pumps that are used in nuclear submarines and armored vehicles. Omni-Lite's products are ideally suited to aerospace applications due to their precision and light weight nature.

*Automotive* – Omni-Lite's automotive division was established through the development of a series of transmission components utilized in the transmissions of Daimler-Chrysler automobiles (see picture at right). This technology has since been used to produce brake, engine and transmission components utilized in approximately 6 million vehicles annually (35% of North American auto production).


Transmission Valves for Daimler-Chrysler

Source: Omni-Lite Industries

Automobile manufacturers strive to find alternative components which are lighter and stronger in order to enhance both the safety and fuel economy of their vehicles. It is estimated that the weight of the average car can be reduced by several hundred pounds if the steel bolts were replaced by the light-weight components (such as those manufactured by Omni-Lite).

*Sports and Recreation* – Omni-Lite manufactures track spikes that are standard features in the track shoes designed and manufactured by the world's leading athletic shoe manufacturers including Nike, Adidas, Reebok, Puma, and New Balance. The company's ultra-lite ceramic track spikes feature patented space-age ceramic material 1/3 the weight of traditional steel spikes, a patented design that compresses the track to provide more energy back to the athlete, they will not rust or corrode, and will not damage the track. Omni-Lite's compression style track spikes are mandatory at several track facilities and the company has captured a majority (over 50%) of the OEM track spike market.

***Strategy***

Omni-Lite's strategy is to focus on growing revenue in the aerospace, military, and specialty automotive segments through on-going product development and organic customer growth.

To ensure future growth, Omni-Lite is committed to funding the research and development of new products and materials and to apply for patents to protect the intellectual property that pertains to its business. To date, the company has been granted eight US Patents covering innovations in materials, processes, and design. To gain access to new nanostructured materials and technical services, Omni-Lite invested in California Nanotechnologies Corp. (CNO). Omni-Lite owns 18% of CNO.

In 2016, Omni-Lite increased the total area of its Southern California facility by 76% to approximately 47,000 square feet which allowed for the installation of seven new cold forging systems. This enabled Omni-Lite to increase its annual capacity to approximately $30 million revenue.

In April 2017, the company produced its first titanium component. It is expected that this technical breakthrough should lead to new revenue opportunities within the Aerospace, Military, Medical, Marine, and Sports and Recreation industries.

The company's aerospace division is experiencing growth due to a cyclical resurgence in the aerospace industry and a focus on some of the composite components that the company manufactures for aircraft.

The specialty automotive division is growing primarily due to an emphasis on new components focusing on "green" technology for diesel engines.

***Projections***

<u>Basis of forecast</u>

Sales growth for the company through our forecast horizon, should be driven by new orders, a strong backlog and book-to-bill ratio of over 1.5. In the first four months of 2017, new orders and a strong book-to-bill ratio of 1.5 should support sales growth for the company through our forecast horizon. A book-to-bill ratio above 1 implies more orders were received than filled, indicating strong demand. The value of new orders was $2.8 million, helping to drive the company's backlog to $9 million.

Since most of the company's revenue is generated in the US, stable GDP growth should support revenue growth to 2018. In April 2017, 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 Q217 to 3.6%.

<u>Operations</u>

<u>2017</u> – We are maintaining our revenue projection of $9.3 million and net income projection of $2.2 million or $0.20 per share. Growth will be driven primarily by high margin aerospace and military contracts that were received in 2016 (which have resulted in a book-to-bill ratio of 1.5 as of April 11, 2017).

With increased aerospace and military sales, gross margins should increase to 61.4% from 60.5% in 2016. We project employee benefits of $1.2 million and general and administrative expenses of $1.1 million due primarily to increased compensation costs. The company should only pay minimal taxes due to its net operating loss carryforwards.

We project $2.4 million cash from operations from $3.4 million cash earnings and a $952,000 increase in working capital. The increase in working capital will come primarily from increases in receivables and inventory. Cash from operations should more than offset our projected $1 million in capital expenditures increasing cash by $1.4 million to $1.9 million at December 31, 2017.

2018 – We project 11% revenue growth to $10.3 million. Our revenue growth forecast is in line with the average growth rate over the past three years. We project this level of growth will result in net income of $1.9 million or $0.18 per share. Although our pre-tax income projection is up $428,000 over 2017, our net income projection is lower by $287,000 or $0.02 per share to reflect higher taxes. Based on our projected earnings, we anticipate the company will exhaust its net operating loss carryforwards in 2017.

We project gross margins of 61.5%, consistent with 2017. We project employee benefits of $1.3 million, general and administrative expenses of $1.2 million due primarily to increased compensation costs, and a 27% tax rate.

We project $2.6 million cash from operations from $3.1 million cash earnings and a $475,000 increase in working capital. The increase in working capital will come primarily from increases in receivables and inventory. Cash from operations should more than offset our projected $1 million in capital expenditures increasing cash by $1.6 million to $3.5 million at December 31, 2018.

## *Metal Forging Industry*

The metal forging industry manufactures forged metal products that are compressed in hot or cold temperatures. Forging is the process by which metals are shaped by applying compressive force. Many manufacturing sectors use forged metal in the production of aerospace systems, defense equipment, agricultural and other machinery.

Forgings that are used in the aerospace market include manufacturers of aircraft, aircraft engines and related parts for both commercial and military applications. Forged metal components are used in virtually every area of defense, including rifle triggers, mortar shells and submarine drive shafts. The automotive market uses forged products such as crankshafts, connecting rods, rod caps, camshafts, rocker arms, valves, gears, shafts, levers and linkages.

The quality of forged products is the key determinant of a customer’s purchasing decision. In March 2017, IBISWorld reported that more than 60% of respondents in a survey conducted by the US International Trade Commission ranked casting quality as the number one factor affecting purchasing decisions. This factor is the primary reason why this industry faces less competition from imports than many other US manufacturers. Quality is favored over price and domestic manufacturers produce the best product.

Moderately high barriers to entry aid the industry’s profitability. IBISWorld reported that industry participants require significant investment to obtain forging machines. Many clients only deal with certified suppliers. According to McGraw Hill, a certified supplier is a supplier who has demonstrated reliability by providing the buyer with quality goods and services at desirable prices, usually in accord with strict delivery specifications. Experience within the industry is also beneficial to gain contracts with manufacturers that have specific or high quality requirements. For this reason, many clients build strong relationships with experienced metal forging companies making it difficult for new entrants to attract customers.

## *Markets*

Omni-Lite operates four business segments: Military, Aerospace, Specialty Automotive, and Sports and Recreational. Gross margins are highest for the company’s aerospace and military segments and lowest for its automotive and sports and recreation segments.

*Aerospace* – In this market, the company manufactures jet engine components that are utilized in the engine housings and tail sections of jet aircraft, as well as pumps that are used in nuclear submarines. According to IBISWorld (January 2017), the US is the largest aircraft manufacturer in the world. Military and civilian aircraft engines and engine parts is a $42 billion market. Manufacturers have been using more composite materials in order to reduce weight and maintenance costs. While IBISWorld's projection for the overall aircraft, engine and parts manufacturing industry is for average annual growth of 2.7% into 2022, sales of aircraft engines and engine parts are expected to increase as a percentage of industry revenue as new fuel-efficient commercial aircraft require the industry's newest engine models.

*Military* – In this market, the company manufactures special couplings for use with the Mk19 grenade launcher for the US Army and patented products for the M-16 and .38 caliber arsenal for the US government. According to IBISWorld (August 2016), the guns and ammunition manufacturing market is a $16.2 billion market of which the military is responsible for 22.6% or $3.7 billion of this market. While defense spending has declined since 2011 due to the winding down of combat operations in the Middle East and budget cuts, the growth in US bombing operations against ISIS has partially reversed this trend.

*Automotive* – In this market, the company manufactures transmission components, components for diesel engines, and brake components. According to IBISWorld (December 2016), the auto parts manufacturing market is a $76.7 billion market and is projected to average growth of only 1.1% annually through the six years to 2022. However, changes in regulations and customer preference are driving research aimed at reducing vehicle weight and increasing performance. In order to meet these goals, automakers are working with suppliers more frequently to reduce the weight of component systems and improve performance.

*Sports and Recreational* – In this market, the company manufactures ultra-lite ceramic track spikes. According to an article by athletic timing system manufacturer Free Lap USA, athletic shoes are a $75 billion market with American consumers accounting for $14 billion. While Free Lap USA says that it is hard to pinpoint what percent of that market track spikes are a part of, we believe it is valued at no more than $2 million annually judging by OLNCF's 2015 and 2016 sales of approximately $800,000 and $1 million respectively to this market of which Omni-Lite claims to have an approximate 50% market share.

IBISWorld forecasted (April 2016) athletic shoe store industry revenue to grow at an average annual rate of 3.2% in the six years to 2022 as consumers spend more on discretionary products such as athletic shoes.

### ***Competition; Competitive Advantage***

Omni-Lite's direct competition comes from older technologies that produce components through turning or lathing processes. According to the Forging Industry Association, these older technologies produce products that are more susceptible to fatigue and stress corrosion and are more costly. Omni-Lite's proprietary and patented cold forging processes have enabled the company to offer one of the most cost effective manufacturing techniques.

Omni-Lite's expertise within its particular markets has resulted in the company being the sole source supplier for over 70% of the 100 million components it manufacturers on an annual basis. Expertise of a particular product is beneficial in the metal forging industry in gaining contracts with manufacturers that have specific or high quality requirements (such as Omni-Lite's customers). For this reason, many clients build strong relationships with experienced metal forging companies making it difficult for new entrants to attract customers.

### ***4Q and FY 2016 Financial Results***

*4Q16* – Revenue decreased 4% to $1.4 million. The net loss was $324,000 or $(0.03) per share versus a loss of $365,000 or $(0.03) per share in 4Q15. We projected 4Q16 revenue of $2.3 million and net income of $551,000 or $0.05 per share. The shortfall was primarily due to delayed military market sales that are scheduled to ship in 2017.

Gross profit increased to $801,000 in 4Q16 from $502,000 in 4Q15 due to gross margin expansion to 56.8% from 34.3% in the year-ago period. Operating income increased to $59,000 from a loss of $221,000. Operating margins were 4.2% versus (15.1%). The company paid $392,000 in income tax.

*FY 2016* – Revenue decreased 4% to $7.2 million. Net income decreased to $763,000 or $0.07 per share from $885,000 or $0.07 per share. The decrease in revenue was primarily due to delayed military market sales that are scheduled to ship in 2017.

Gross profit increased to $4.3 million from $4.1 million. Gross margins increased to 60.5% from 54.8% primarily due to improved manufacturing efficiencies. Operating income increased 4% to $1 million for margins of 14.1% versus 13% in 2015 due primarily to higher gross profit. The company paid $280,000 in income tax in 2016.

*Liquidity* – Omni-Lite has a strong balance sheet. As of December 31, 2016, the company had $477,000 cash, a current ratio of 12.9X versus 2.9X for the metal fabrication industry, no debt, with approximately 83% of assets covered by equity. By our forecasts, the company should have sufficient capital to meets its operational needs through 2017.

Cash provided by operations in 2016 was approximately $2 million consisting primarily of cash earnings. Cash used in investing consisted primarily of $1.1 million of capital expenditures. Cash used in financing consisted primarily of $1.5 million for the repurchase of common shares. Cash decreased by $575,000 to $477,000 at December 31, 2016.

The company has a $2.4 million credit facility consisting of a term loan facility of up to $1.2 million and a commercial advance line of up to $1.2 million. The credit facility bears interest at the prime rate plus 0.25% and matures on May 31, 2018. There were no outstanding balances on this credit facility as of December 31, 2016.

## *Risks*

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

*Market cycle risks* – Omni-Lite's revenues are dependent on various markets such as the aerospace, specialty automotive, and defense sectors that may experience cyclical changes in demand.

*Competition* - Improvements in materials and processing methods developed by competitors may provide other companies with a greater competitive edge.

*Economic factors* - The company's business and operating performance is subject to economic forces beyond its control, such as changes in consumer preferences, spending patterns, and general economic downturns.

*Foreign currency risk* - A significant portion of Omni-Lite's operations are located outside of the United States and are subject to fluctuations in exchange rates. Omni-Lite operates with a US dollar functional currency which gives rise to currency exchange rate risk.

*Product development* – Many of the company's products are complex and require a long development time before entering the production phase. Typical lead times range from four months to eighteen months depending on the complexity of the component. These long lead times may delay the profitability of the project.

*Liquidity risk* - Shares of Omni-Lite 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 8.7 million shares in the float and the average daily volume is approximately 1,800 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 $)

| | 2014A | 2015A | 2016A | 2017E | 2018E |
|---|---|---|---|---|---|
| Cash | 1,687 | 1,052 | 477 | 1,891 | 3,491 |
| Accounts receivable | 759 | 1,412 | 1,179 | 1,519 | 1,683 |
| Inventory | 2,380 | 2,516 | 2,707 | 3,411 | 3,769 |
| Income taxes receivable | 40 | 37 | 60 | 60 | 60 |
| Current portion due from related parties | 7 | 4 | 3 | 3 | 3 |
| Prepaid expenses | 142 | 143 | 162 | 162 | 162 |
| Total current assets | 5,015 | 5,164 | 4,588 | 7,046 | 9,169 |
| Investment | 437 | 203 | 356 | 356 | 356 |
| Equipment deposits | 441 | - | 10 | 10 | 10 |
| Property, plant and equipment | 13,174 | 14,232 | 14,322 | 14,274 | 14,230 |
| Due from related parties | 1,450 | 1,477 | 1,455 | 1,455 | 1,455 |
| Deferred tax asset | 1,330 | 908 | 937 | 937 | 937 |
| **Total assets** | **21,847** | **21,984** | **21,668** | **24,078** | **26,157** |
| | | | | | |
| Accounts payable and accrued liabilities | 415 | 376 | 355 | 447 | 494 |
| Eqipment payable | - | 188 | - | - | - |
| Income taxes payable | 1 | - | - | - | - |
| Current portion of long-term debt | - | - | - | - | - |
| Total current liabilities | 416 | 564 | 355 | 447 | 494 |
| Deferred tax liability | 3,316 | 3,068 | 3,372 | 3,372 | 3,372 |
| **Total liabilities** | **3,732** | **3,632** | **3,727** | **3,819** | **3,866** |
| **Total stockholders' equity** | **18,115** | **18,352** | **17,941** | **20,259** | **22,290** |
| **Total liabilities & stockholders' equity** | **21,847** | **21,984** | **21,668** | **24,078** | **26,157** |

Source: Company filings and Taglich Brothers' estimates

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

| | 2014A | 2015A | 2016A | 2017E | 2018E |
|---|---|---|---|---|---|
| Revenue | 5,850 | 7,480 | 7,179 | 9,250 | 10,250 |
| Cost of goods sold | 2,636 | 3,382 | 2,835 | 3,573 | 3,948 |
| Gross profit | 3,214 | 4,098 | 4,344 | 5,678 | 6,303 |
| Employee benefits | 1,077 | 1,097 | 1,147 | 1,200 | 1,300 |
| General and administrative | 838 | 905 | 1,003 | 1,100 | 1,200 |
| Depreciation | 972 | 983 | 1,044 | 1,047 | 1,044 |
| Other operating expenses | 118 | 137 | 137 | 140 | 140 |
| Income (loss) from operations | 209 | 976 | 1,013 | 2,191 | 2,619 |
| Interest income | 29 | 30 | 30 | 28 | 28 |
| Other income (loss) | (56) | 65 | - | - | - |
| Income (loss) before income taxes | 182 | 1,071 | 1,043 | 2,219 | 2,647 |
| Income tax (benefit) | (287) | 186 | 280 | - | 715 |
| Net income | 469 | 885 | 763 | 2,219 | 1,932 |
| EPS | 0.04 | 0.07 | 0.07 | 0.20 | 0.18 |
| Shares Outstanding | 12,149 | 12,028 | 11,415 | 11,000 | 11,000 |
| Margin Analysis | | | | | |
| Gross margin | 54.9% | 54.8% | 60.5% | 61.4% | 61.5% |
| Operating margin | 3.6% | 13.0% | 14.1% | 23.7% | 25.5% |
| Tax rate | | | | | |
| Net margin | 8.0% | 11.8% | 10.6% | 24.0% | 18.8% |
| Year / Year Growth | | | | | |
| Total Revenues | 10.4% | 27.9% | (4.0)% | 28.8% | 10.8% |
| Net Income | 239.9% | 88.7% | (13.8)% | 190.8% | (12.9)% |
| EPS | 244.2% | 90.6% | (9.2)% | 201.7% | (12.9)% |

Source: Company filings and Taglich Brothers' estimates

## Quarterly Income Statement 2016A to 2018E
(in thousands $)

| | 3/16A | 6/16A | 9/16A | 12/16A | 2016A | 3/17E | 6/17E | 9/17E | 12/17E | 2017E | 3/18E | 6/18E | 9/18E | 12/18E | 2018E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,484 | 2,111 | 2,173 | 1,411 | 7,179 | 1,700 | 2,550 | 2,650 | 2,350 | 9,250 | 2,250 | 3,050 | 2,950 | 2,000 | 10,250 |
| Cost of goods sold | 593 | 910 | 722 | 610 | 2,835 | 680 | 969 | 1,007 | 917 | 3,573 | 878 | 1,159 | 1,121 | 790 | 3,948 |
| Gross profit | 891 | 1,201 | 1,451 | 801 | 4,344 | 1,020 | 1,581 | 1,643 | 1,434 | 5,678 | 1,373 | 1,891 | 1,829 | 1,210 | 6,303 |
| Employee benefits | 290 | 272 | 332 | 253 | 1,147 | 300 | 300 | 300 | 300 | 1,200 | 325 | 325 | 325 | 325 | 1,300 |
| General and administrative | 258 | 320 | 200 | 225 | 1,003 | 275 | 275 | 275 | 275 | 1,100 | 300 | 300 | 300 | 300 | 1,200 |
| Depreciation | 268 | 254 | 254 | 268 | 1,044 | 262 | 262 | 262 | 261 | 1,047 | 261 | 261 | 261 | 261 | 1,044 |
| Other operating expenses | 42 | 49 | 50 | (4) | 137 | 35 | 35 | 35 | 35 | 140 | 35 | 35 | 35 | 35 | 140 |
| Income (loss) from operations | 33 | 306 | 615 | 59 | 1,013 | 148 | 709 | 771 | 563 | 2,191 | 452 | 970 | 908 | 289 | 2,619 |
| Interest income | 7 | 7 | 7 | 9 | 30 | 7 | 7 | 7 | 7 | 28 | 7 | 7 | 7 | 7 | 28 |
| Other income (loss) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Income (loss) before income taxes | 40 | 313 | 622 | 68 | 1,043 | 155 | 716 | 778 | 570 | 2,219 | 459 | 977 | 915 | 296 | 2,647 |
| Income tax (benefit) | (130) | (99) | 117 | 392 | 280 | - | - | - | - | - | 124 | 264 | 247 | 80 | 715 |
| Net income | 170 | 412 | 505 | (324) | 763 | 155 | 716 | 778 | 570 | 2,219 | 335 | 713 | 668 | 216 | 1,932 |
| EPS | 0.02 | 0.04 | 0.04 | (0.03) | 0.07 | 0.01 | 0.07 | 0.07 | 0.05 | 0.20 | 0.03 | 0.06 | 0.06 | 0.02 | 0.18 |
| Shares Outstanding | 11,633 | 11,384 | 11,608 | 11,415 | 11,415 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 |
| Margin Analysis | | | | | | | | | | | | | | | |
| Gross margin | 60.0% | 56.9% | 66.8% | 56.8% | 60.5% | 60.0% | 62.0% | 62.0% | 61.0% | 61.4% | 61.0% | 62.0% | 62.0% | 60.5% | 61.5% |
| Operating margin | 2.2% | 14.5% | 28.3% | 4.2% | 14.1% | 8.7% | 27.8% | 29.1% | 23.9% | 23.7% | 20.1% | 31.8% | 30.8% | 14.5% | 25.5% |
| Tax rate | | | | | | | | | | | 27.0% | 27.0% | 27.0% | 27.0% | |
| Net margin | 11.5% | 19.5% | 23.2% | (23.0)% | 10.6% | 9.1% | 28.1% | 29.4% | 24.2% | 24.0% | 14.9% | 23.4% | 22.6% | 10.8% | 18.8% |
| Year / Year Growth | | | | | | | | | | | | | | | |
| Total Revenues | (16.3)% | (5.8)% | 8.5% | (3.6)% | (4.0)% | 14.6% | 20.8% | 22.0% | 66.5% | 28.8% | 32.4% | 19.6% | 11.3% | (14.9)% | 10.8% |
| Net Income | (45.5)% | (27.3)% | 36.5% | NMF | (13.8)% | (8.8)% | 73.8% | 54.1% | (275.8)% | 190.8% | 115.9% | (0.4)% | (14.1)% | (62.1)% | (12.9)% |
| EPS | (23.1)% | (19.9)% | 42.6% | NMF | (9.2)% | (29.5)% | 79.9% | 62.6% | (282.4)% | 201.7% | 115.9% | (0.4)% | (14.1)% | (62.1)% | (12.9)% |

Source: Company filings and Taglich Brothers' estimates

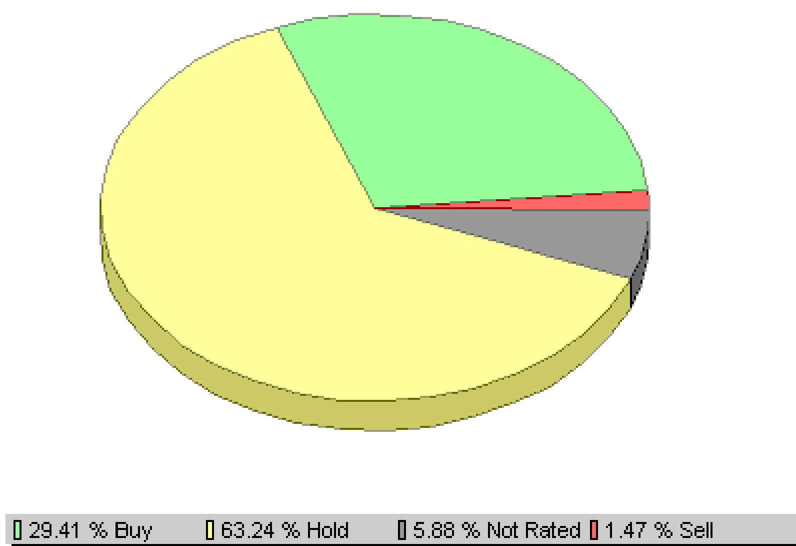
Statement of Cash Flows for the Periods Ended
(in thousands $)

| | 2014A | 2015A | 2016A | 2017E | 2018E |
|---|---|---|---|---|---|
| Net income (loss) | 469 | 885 | 763 | 2,219 | 1,932 |
| Depreciation | 972 | 983 | 1,044 | 1,047 | 1,044 |
| Deferred taxes | (297) | 175 | 274 | - | - |
| Loss on sale of equipment | 57 | - | - | - | - |
| Bad debt | 20 | 5 | - | - | - |
| Share-based compensation | 49 | 88 | 93 | 100 | 100 |
| Cash earnings (loss) | 1,270 | 2,136 | 2,174 | 3,366 | 3,076 |
| *Changes in assets and liabilities* | | | | | |
| Accounts receivable | 275 | (653) | 233 | (340) | (164) |
| Income taxes receivable | - | 3 | (23) | - | - |
| Inventory | 76 | (135) | (191) | (704) | (358) |
| Prepaid expenses | (9) | (1) | (19) | - | - |
| Accounts payable and accrued liabilities | (126) | (39) | (22) | 92 | 47 |
| Equipment payable | - | 188 | (187) | - | - |
| Income taxes payable | (1) | (1) | - | - | - |
| (Increase) decrease in working capital | 215 | (638) | (209) | (952) | (475) |
| **Net cash provided by (used in) operations** | **1,485** | **1,498** | **1,965** | **2,414** | **2,601** |
| Deposits on equipment | (441) | - | (10) | - | - |
| Proceeds from sale of equipment | 263 | - | - | - | - |
| Purchase of available for sale financial asset | (91) | - | - | - | - |
| Purchase of property, plant and equipment | (854) | (1,600) | (1,134) | (1,000) | (1,000) |
| **Net cash provided by (used in) investing** | **(1,123)** | **(1,600)** | **(1,144)** | **(1,000)** | **(1,000)** |
| Payments from related parties | 250 | 26 | 45 | - | - |
| Advances to related parties | (118) | (56) | (21) | - | - |
| Repayment of long-term debt | (300) | - | - | - | - |
| Relinquishment of options | - | - | (17) | - | - |
| Share issue costs | (1) | (3) | - | - | - |
| Proceeds from exercise of stock options | - | 185 | 49 | - | - |
| Issue of common shares | - | - | - | - | - |
| Repurchase of common shares | (431) | (685) | (1,451) | - | - |
| **Net cash provided by (used in) financing** | **(600)** | **(533)** | **(1,395)** | **-** | **-** |
| **Net change in cash** | **(238)** | **(635)** | **(575)** | **1,414** | **1,601** |
| **Cash - beginning of period** | **1,925** | **1,687** | **1,052** | **477** | **1,891** |
| **Cash - end of period** | **1,687** | **1,052** | **477** | **1,891** | **3,491** |

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

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.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $4,500 (USD) in April 2016 for the creation and dissemination of research reports for the first three months. After the first three months from initial publication, the company will pay a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of twelve months for the creation and dissemination of research reports.

## General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

## Analyst Certification

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

Public companies mentioned in this report:

Adidas AG (OTC: ADDYY)
Airbus Group (OTC: EADSY)
Alcoa Inc. (NYSE: AA)
Ampco-Pittsburgh Corporation (NYSE: AP)
The Boeing Company (NYSE: BA)
BorgWarner Inc. (NYSE: BWA)
Caterpillar (NYSE: CAT)
Fiat Chrysler Automobiles N.V. (NYSE: FCAU)
Ford Motor Company (NYSE: F)
Nike Inc. (NYSE: NKE)
NN, Inc. (NASDAQ: NNBR)
RBC Bearings, Inc. (NASDAQ: ROLL)
SIFCO Industries, Inc. (NYSE: SIF)
TriMas Corporation (NASDAQ: TRS)

## 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.