TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

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
October 6, 2017

OLNCF $1.32 — (OTC)

	2015A	2016A	2017E	2018E
Revenues (millions)	$7.5	$7.2	$7.7	$10.0
Earnings (loss) per share	$0.07	$0.07	$0.15	$0.18

52-Week range	$1.61 – $1.07	Fiscal year ends:	December
Common shares out as of 8/28/17	10.4 million	Revenue per share (TTM)	$0.64
Approximate float	8.8 million	Price/Sales (TTM)	2.1X
Market capitalization	$14 million	Price/Sales (FY2018)E	1.4X
Tangible book value/share	$1.82	Price/Earnings (TTM)	16.5X
Price/tangible book value	0.7X	Price/Earnings (FY2018)E	7.3X

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:

Reiterating Speculative Buy rating and raising our twelve-month price target to $2.00 per share ($1.80 previously) based on a discounted EV/EBITDA valuation.

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, success of the company's hot forging system, and a positive outlook for the company's titanium components should drive 2018 sales to $10 million.

In September 2017, Omni-Lite announced it received approximately $1.1 million of new orders with 43% of these orders in the aerospace division. The total value of new orders announced in 2017 is approximately $4.8 million.

In August 2017, Omni-Lite announced it has committed itself to the development of two additional hot forging systems given the successful delivery of its first production order from its initial hot forging system in June 2017.

Omni-Lite reported (9-6-2017) 2Q17 revenue decreased 17% to $1.8 million and EPS decreased $0.01 to $0.03. We projected 2Q17 revenue of $2.1 million and EPS of $0.04.

We are lowering our 2017 revenue projection to $7.7 million (from $8.2 million) and our EPS projection to $0.15 from $0.17 to reflect a 2Q17 slowdown in automotive sales. Weak automotive sales in 1H17 should abate as the pickup in automotive sales that started in September 2017 is expected to continue through December 2017.

We are maintaining our 2018 revenue and EPS projections of $10 million and $0.18, respectively. Our forecast reflects strong growth from new orders, a positive outlook for the aerospace division (new family of hot forged stainless steel and titanium components), and slight growth in the automotive market (LMC Automotive projects over 100,000 or approximately 1% more vehicles being produced in North America in 2018).

****Please view our disclosures on pages 13 - 15.***

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

Recommendation and Valuation

Reiterating **Speculative Buy** rating and raising our **twelve-month price target to $2.00 per share ($1.80 previously)** based on a discounted EV/EBITDA valuation.

We chose to value Omni-Lite using an EV/EBITDA multiple to take into account the company's positive cash flow with no debt. Omni-Lite currently trades at an EV/EBITDA multiple of 6.1X while its peer group trades at a multiple 19.2X (see table below). We believe Omni-Lite's significant discount relative to its peers (68% discount) is due arguably to limited recognition of the company's growth potential.

Name	Symbol	Price	($ million) Market Cap	Current EV/EBITDA
RBC Bearings, Inc.	ROLL	125.62	3,046	22.5
TriMas Corporation	TRS	27.60	1,262	14.5
NN, Inc.	NNBR	29.50	812	11.9
Ampco-Pittsburgh Corporation	AP	17.40	215	52.4
Eastern Company	EML	29.70	186	13.2
SIFCO Industries, Inc.	SIF	6.00	34	14.4
Chicago Rivet & Machine Co.	CVR	30.80	30	5.5
Peer Average			**798**	**19.2**
Omni-Lite Industries Canada, Inc.	**OLNCF**	**1.32**	**14**	**6.1**
Source: Thomson Reuters				

Applying ONLCF's current EV/EBITDA multiple of 6.1X to our 2018 estimates, discounted for execution risk, values the company at approximately $2.00 per share.

Recent Developments

<u>*New Orders*</u> – In September 2017, Omni-Lite announced it received approximately $1.1 million of new orders with 43% of these orders in the aerospace division, 35% in the sports and recreational division, and 22% in the specialty automotive division. The total value of new orders announced in 2017 is approximately $4.8 million.

<u>*First Successful Hot Forging Production Run*</u> – In August 2017, Omni-Lite announced it has committed itself to the development of two additional hot forging systems given the successful delivery of its first production order from its hot forging system in June 2017. The company's hot forging systems can operate at a wide range of temperatures, on a broad range of materials, thus providing future growth opportunities.

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 product sales in international markets.

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 US Military.

Revenue Generating Divisions

<u>Military</u> – 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

<u>Aerospace</u> – 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. The company's products are ideally suited to aerospace applications due to their precision and light weight.

<u>Automotive</u> – 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 six 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).

<u>Sports and Recreation</u> – 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 19.1% 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, increasing its annual revenue capacity to approximately $30 million.

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 in a position for future growth due to an emphasis on new components focusing on "green" technology for diesel engines.

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.

<u>*Aerospace*</u> – 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, the US is the largest aircraft manufacturer in the world. Military and civilian aircraft engines and engine parts is a $46 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 0.7% into 2023, 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.

<u>*Military*</u> – 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, the guns and ammunition manufacturing market is a $13.3 billion market of which the military is responsible for 32% or $4.3 billion. 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.

<u>*Automotive*</u> – In this market, the company manufactures transmission components, components for diesel engines, and brake components. According to IBISWorld, the auto parts manufacturing market is a $76.7 billion market and is projected to average growth of only 1.1% annually 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.

<u>*Sports and Recreational*</u> – 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 athletic shoe store industry revenue to grow at an average annual rate of 4% in the six years to 2023 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.

2Q and 1H 2017 Financial Results

2Q17 - Revenue decreased 17% to $1.8 million. Net income was $322,000 or $0.03 per share versus net income of $411,000 or $0.04 per share in 2Q16. We projected 2Q17 revenue of $2.1 million and net income of $401,000 or $0.04 per share.

The decrease in revenue was primarily due to lower specialty automotive sales.

Although gross profit decreased to $1 million from $1.2 million in 2Q16, gross margin expanded to 61.5% from 56.9% in the year-ago period as a result of improved production efficiencies. Operating income decreased to $234,000 from $306,000. Operating margins were 13.3% versus 14.5%. The company had an $81,000 income tax benefit compared to a benefit of $99,000 in the year ago period.

1H17 - Revenue decreased 3% to $3.5 million. Net income was $690,000 or $0.07 per share versus net income of $581,000 or $0.05 per share in 1H16.

The decrease in revenue was primarily due to lower specialty automotive and aerospace sales.

Although gross profit remained flat at $2.1 million, gross margin expanded to 60% from 58.2% in the year-ago period as a result of improved production efficiencies. Operating income increased to $475,000 from $338,000. Operating margins were 13.6% versus 9.4%. The company had a $201,000 income tax benefit compared to a benefit of $229,000 in the year ago period.

Income Statement
(in thousands $)

	6m17A	6m16A
Revenue	3,479	3,595
Cost of goods sold	1,389	1,504
Gross profit	2,090	2,091
Employee benefits	532	562
General and administrative	499	578
Depreciation	540	521
Other operating expenses	44	92
Income (loss) from operations	475	338
Interest income	14	14
Other income (loss)	-	-
Income (loss) before income taxes	489	352
Income tax (benefit)	(201)	(229)
Net income	690	581
EPS	0.07	0.05
Shares Outstanding	10,622	11,620
Margin Analysis		
Gross margin	60.1%	58.2%
Operating margin	13.7%	9.4%
Net margin	19.8%	16.2%
Year / Year Growth		
Total Revenues	(3.2)%	
Net Income	18.8%	
EPS	40.0%	

Source: Company filings

Liquidity – Omni-Lite has a strong balance sheet. As of June 30, 2017, the company had $545,000 cash, a current ratio of 15.1X versus 2.8X for the metal fabrication industry, no debt, with approximately 84% of assets covered by equity. By our forecasts, the company should have sufficient capital to meets its operational needs through 2018.

Cash provided by operations in the first six months of 2017 was approximately $694,000 consisting $1.1 million cash earnings and a $360,000 increase in working capital. The increase in working capital was primarily due to increases in accounts receivable and inventory. Cash used in investing consisted primarily of $563,000 of capital expenditures. Cash used in financing was nominal. Cash increased by $68,000 to $545,000 at June 30, 2017.

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 June 30, 2017.

Projections

Basis of forecast

Sales growth for the company through our forecast horizon should be driven by new orders, customer acceptance of the company's hot forging system, and successful qualification of the company's titanium components.

In the first eight months of 2017, the value of new orders totaled $4.8 million. In August 2017, Omni-Lite announced it has committed itself to the development of two additional hot forging systems given the successful delivery of its first production order from its hot forging system in June 2017. The company's hot forging systems can operate at a wide range of temperatures, on a broad range of materials, thus providing future growth opportunities.

Several of Omni-Lite's customers continue to evaluate titanium components produced at the company's hot forging test center. Qualification of these components is expected to take several months. The company expects titanium component sales to be accretive in 2018 and has hired an ex-director of engineering from one of its customers that utilizes large quantities of these components to assist in the development and qualification process.

The company's share count has been reduced by approximately 1 million shares over the past year as it has been buying back its shares on the open market. A new share buyback program began on June 1, 2017. We forecast 10.5 million (fully diluted) to be outstanding in 2018, down from 11.4 million shares in 2016.

Since most of the company's revenue is generated in the US, GDP growth (albeit reduced) in this region should support revenue growth to 2018.

In July 2017, the IMF lowered its economic growth estimate for the US to 2.1% in 2017 and 2018, down from its earlier (April 2017) growth forecast of 2.3% and 2.5%, respectively. The downward revision reflects the uncertainties surrounding the current administration's plans to overhaul the economy. These uncertainties include the yet to be decided details about the administration's budget proposals to reduce the fiscal deficit and debt and to reprioritize public spending.

The third estimate of US GDP growth (released on September 28, 2017) showed the US economy grew at an annual rate of 3.1% in 2Q17, up from 1.2% growth in 1Q17. The 2Q17 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, and federal government spending. Partly offsetting these contributions to GDP growth were declines in housing investment and state and local government spending.

Operations

2017 – We are lowering our revenue projection to $7.7 million (from $8.2 million) and net income projection to $1.6 million or $0.15 per share (from $1.8 million or $0.17 per share) to reflect the 2Q17 slowdown in automotive sales (down approximately 35% in 2Q17). The weak automotive sales should abate in the latter half of 2017 supported by a pickup in automotive sales that started in September 2017 and are likely to continue through December 2017. Automotive resource firm Edmunds said that the deals to clear inventory that started on Labor Day were expected to continue through the rest of the year. Sales should also get a lift from buyers who need to replace vehicles that were destroyed in the 3Q17 hurricanes in Texas and Florida. The weak aerospace sales that occurred in 1H17 (down approximately 15%) should also abate in the latter half of 2017 as a customer's inventory build-up is expected to diminish.

Due to our projected mix of aerospace and military sales, gross margins should increase to 61.1% from 60.5% in 2016. We project employee benefits of $1.1 million and general and administrative expenses of $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 primarily from million cash earnings. Cash from operations should more than offset our projected $1 million in capital expenditures increasing cash by $1.3 million to $1.8 million at December 31, 2017.

2018 – We are maintaining our 2018 revenue and earnings projections of $10 million and $1.9 million or $0.18 per share, respectively. Our revenue forecast reflects strong growth from new orders, a positive outlook for the aerospace division (new family of hot forged stainless steel and titanium components), and slight growth in the automotive market (LMC Automotive projects over 100,000 or approximately 1% more vehicles being produced in North America in 2018). Based on our projected earnings, we anticipate the company will exhaust its net operating loss carryforwards in 2017.

Increased higher margin aerospace and military sales should lead to gross margins of 62%. We project employee benefits of $1.3 million and general and administrative expenses of $1.2 million due primarily to increased compensation costs, and a 27% tax rate.

We project $2 million cash from operations from $3 million cash earnings and a $1 million 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 million to $2.8 million at December 31, 2018.

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 8.8 million shares in the float and the average daily volume is approximately 3,000 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.

Omni-Lite Industries Canada, Inc.

Consolidated Balance Sheets
(in thousands $)

	2014A	2015A	2016A	6/17A	2017E	2018E
Cash	1,687	1,052	477	545	1,768	2,777
Accounts receivable	759	1,412	1,179	1,392	1,269	1,642
Inventory	2,380	2,516	2,707	2,859	2,874	3,628
Income taxes receivable	40	37	60	54	54	54
Current portion due from related parties	7	4	3	2	2	2
Prepaid expenses	142	143	162	138	138	138
Total current assets	5,015	5,164	4,588	4,990	6,106	8,241
Investment	437	203	356	645	645	645
Equipment deposits	441	-	10	-	-	-
Property, plant and equipment	13,174	14,232	14,322	14,354	14,261	14,221
Due from related parties	1,450	1,477	1,455	1,459	1,459	1,459
Deferred tax asset	1,330	908	937	937	937	937
Total assets	**21,847**	**21,984**	**21,668**	**22,385**	**23,408**	**25,503**
Accounts payable and accrued liabilities	415	376	355	330	377	476
Eqipment payable	-	188	-	-	-	-
Income taxes payable	1	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	-	-
Total current liabilities	416	564	355	330	377	476
Deferred tax liability	3,316	3,068	3,372	3,168	3,168	3,168
Total liabilities	**3,732**	**3,632**	**3,727**	**3,498**	**3,545**	**3,644**
Total stockholders' equity*	**18,115**	**18,352**	**17,941**	**18,887**	**19,863**	**21,860**
Total liabilities & stockholders' equity	**21,847**	**21,984**	**21,668**	**22,385**	**23,408**	**25,503**

*2017 Includes available for sale assets of $255,000

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	7,729	10,000
Cost of goods sold	2,636	3,382	2,835	3,010	3,800
Gross profit	3,214	4,098	4,344	4,719	6,200
Employee benefits	1,077	1,097	1,147	1,132	1,250
General and administrative	838	905	1,003	1,048	1,200
Depreciation	972	983	1,044	1,060	1,040
Other operating expenses	118	137	137	115	140
Income (loss) from operations	209	976	1,013	1,364	2,570
Interest income	29	30	30	28	28
Other income (loss)	(56)	65	-	-	-
Income (loss) before income taxes	182	1,071	1,043	1,392	2,598
Income tax (benefit)	(287)	186	280	(201)	701
Net income	469	885	763	1,593	1,897
EPS	0.04	0.07	0.07	0.15	0.18
Shares Outstanding	12,149	12,028	11,415	10,576	10,500
Margin Analysis					
Gross margin	54.9%	54.8%	60.5%	61.1%	62.0%
Operating margin	3.6%	13.0%	14.1%	17.6%	25.7%
Tax rate	NMF	NMF	26.8%	(14.4)%	27.0%
Net margin	8.0%	11.8%	10.6%	20.6%	19.0%
Year / Year Growth					
Total Revenues	10.4%	27.9%	(4.0)%	7.7%	29.4%
Net Income	239.9%	88.7%	(13.8)%	108.8%	19.1%
EPS	244.2%	90.6%	(9.2)%	125.3%	19.9%

Source: Company filings and Taglich Brothers' estimates

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

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	6/17A	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	1,724	1,755	2,000	2,250	7,729	2,350	2,450	2,550	2,650	10,000
Cost of goods sold	593	910	722	610	2,835	667	722	766	855	3,010	893	931	969	1,007	3,800
Gross profit	891	1,201	1,451	801	4,344	1,057	1,033	1,234	1,395	4,719	1,457	1,519	1,581	1,643	6,200
Employee benefits	290	272	332	253	1,147	286	246	300	300	1,132	300	300	325	325	1,250
General and administrative	258	320	200	225	1,003	234	264	275	275	1,048	300	300	300	300	1,200
Depreciation	268	254	254	268	1,044	270	270	260	260	1,060	260	260	260	260	1,040
Other operating expenses	42	49	50	(4)	137	26	19	35	35	115	35	35	35	35	140
Income (loss) from operations	33	306	615	59	1,013	241	234	364	525	1,364	562	624	661	723	2,570
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	248	241	371	532	1,392	569	631	668	730	2,598
Income tax (benefit)	(130)	(99)	117	392	280	(120)	(81)	-	-	(201)	154	170	180	197	701
Net income	170	412	505	(324)	763	368	322	371	532	1,593	415	461	488	533	1,897
EPS	0.02	0.04	0.04	(0.03)	0.07	0.04	0.03	0.04	0.05	0.15	0.04	0.04	0.05	0.05	0.18
Shares Outstanding	11,633	11,384	11,608	11,415	11,415	10,648	10,657	10,500	10,500	10,576	10,500	10,500	10,500	10,500	10,500
Margin Analysis															
Gross margin	60.0%	56.9%	66.8%	56.8%	60.5%	61.3%	61.5%	61.7%	62.0%	61.1%	62.0%	62.0%	62.0%	62.0%	62.0%
Operating margin	2.2%	14.5%	28.3%	4.2%	14.1%	14.0%	13.3%	18.2%	23.3%	17.6%	23.9%	25.5%	25.9%	27.3%	25.7%
Tax rate	NMF	NMF	NMF	NMF	26.8%	(48.4)%	-33.6%	0.0%	0.0%	(14.4)%	27.0%	27.0%	27.0%	27.0%	27.0%
Net margin	11.5%	19.5%	23.2%	(23.0)%	10.6%	21.3%	18.3%	18.6%	23.6%	20.6%	17.7%	18.8%	19.1%	20.1%	19.0%
Year / Year Growth															
Total Revenues	(16.3)%	(5.8)%	8.5%	(3.6)%	(4.0)%	16.2%	(16.9)%	(8.0)%	59.5%	7.7%	36.3%	39.6%	27.5%	17.8%	29.4%
Net Income	(45.5)%	(27.3)%	36.5%	NMF	(13.8)%	116.5%	(21.8)%	(26.5)%	64.2%	108.8%	12.9%	43.1%	31.4%	-0.2%	19.1%
EPS	(23.1)%	(19.9)%	42.6%	NMF	(9.2)%	100.0%	(16.5)%	(18.8)%	78.5%	125.3%	100.0%	45.2%	31.4%	-0.2%	19.9%

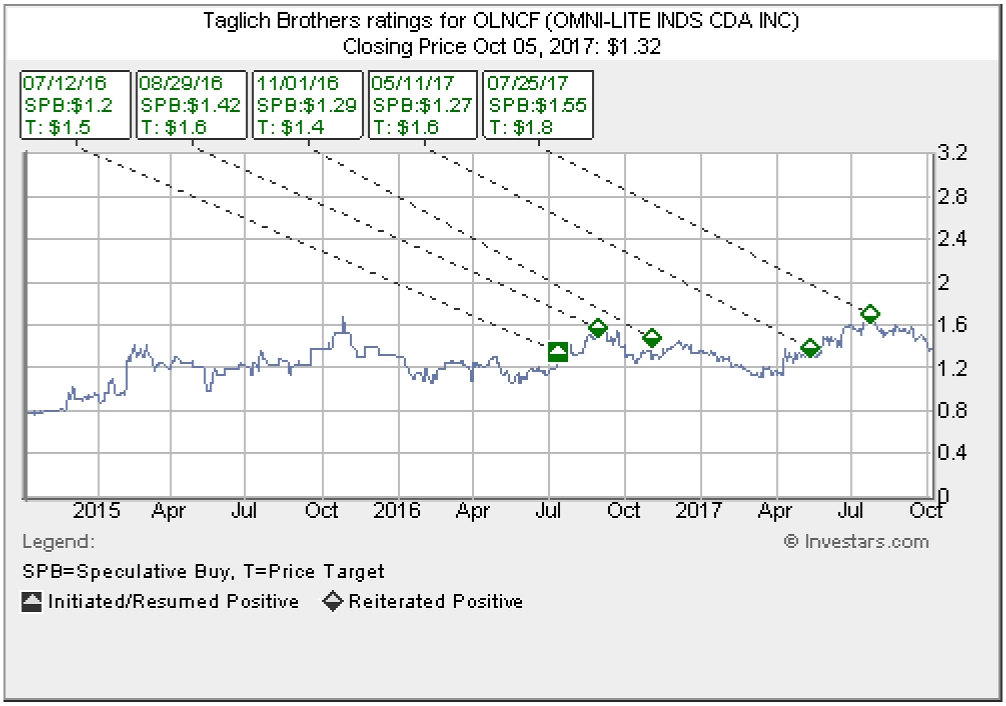
Source: Company filings and Taglich Brothers' estimates

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

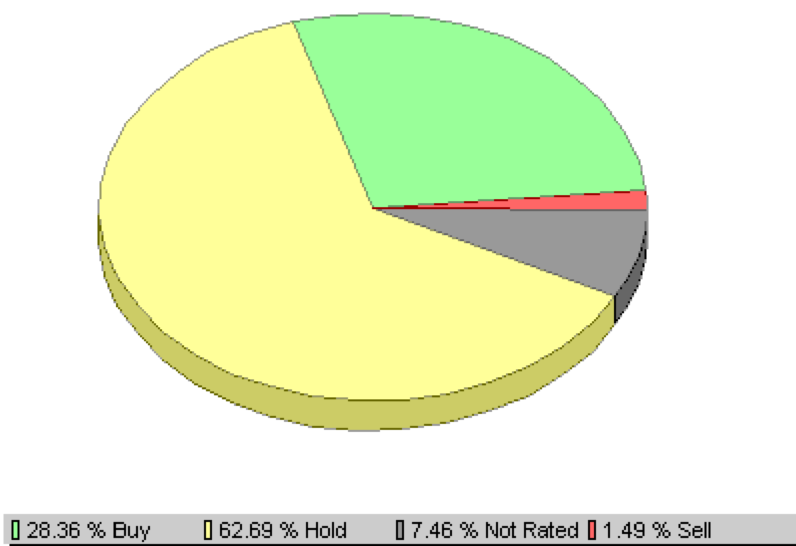
	2014A	2015A	2016A	6m17A	2017E	2018E
Net income (loss)	469	885	763	690	1,593	1,897
Depreciation	972	983	1,044	540	1,060	1,040
Deferred taxes	(297)	175	274	(204)	(192)	-
Loss on sale of equipment	57	-	-	-	-	-
Bad debt	20	5	-	-	-	-
Share-based compensation	49	88	93	27	100	100
Cash earnings (loss)	1,270	2,136	2,174	1,053	2,561	3,037
Changes in assets and liabilities						
Accounts receivable	275	(653)	233	(213)	(90)	(373)
Income taxes receivable	-	3	(23)	6	6	-
Inventory	76	(135)	(191)	(152)	(167)	(754)
Prepaid expenses	(9)	(1)	(19)	25	24	-
Accounts payable and accrued liabilities	(126)	(39)	(22)	(25)	22	99
Equipment payable	-	188	(187)	-	-	-
Income taxes payable	(1)	(1)	-	-	-	-
(Increase) decrease in working capital	215	(638)	(209)	(359)	(206)	(1,028)
Net cash provided by (used in) operations	**1,485**	**1,498**	**1,965**	**694**	**2,355**	**2,008**
Deposits on equipment	(441)	-	(10)	-	-	-
Proceeds from sale of equipment	263	-	-	-	-	-
Purchase of available for sale financial asset	(91)	-	-	-	-	-
Purchase of common shares	-	-	-	(35)	(35)	-
Purchase of property, plant and equipment	(854)	(1,600)	(1,134)	(562)	(1,000)	(1,000)
Net cash provided by (used in) investing	**(1,123)**	**(1,600)**	**(1,144)**	**(597)**	**(1,035)**	**(1,000)**
Payments from related parties	250	26	45	4	4	-
Advances to related parties	(118)	(56)	(21)	(7)	(7)	-
Repayment of long-term debt	(300)	-	-	-	-	-
Relinquishment of options	-	-	(17)	(26)	(26)	-
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)**	**(29)**	**(29)**	**-**
Net change in cash	**(238)**	**(635)**	**(575)**	**68**	**1,291**	**1,008**
Cash - beginning of period	**1,925**	**1,687**	**1,052**	**477**	**477**	**1,768**
Cash - end of period	**1,687**	**1,052**	**477**	**545**	**1,768**	**2,777**

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**	**10**
Hold		
Sell		
Not Rated	**1**	**33**

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.