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## 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

August 29, 2016

OLNCF \$1.42 — (OTC)

	<u>2014A</u>	<u>2015A</u>	<u>2016E</u>	<u>2017E</u>
Revenues (millions)	\$5.9	\$7.5	\$9.4	\$10.8
Earnings (loss) per share	\$0.04	\$0.07	\$0.20	\$0.26

52-Week range	\$1.45 – \$1.01	Fiscal year ends:	December
Common shares out as of 7/25/16	10.9 million	Revenue per share (TTM)	\$0.62
Approximate float	9.2 million	Price/Sales (TTM)	2.3X
Market capitalization	\$15 million	Price/Sales (FY2017)E	1.5X
Tangible book value/share	\$1.67	Price/Earnings (TTM)	17.8X
Price/tangible book value	0.9X	Price/Earnings (FY2017)E	5.5X

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](http://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 (\$1.50 previously) based on an increase in our 2017 estimates.*

*Omni-Lite's sales have grown at a compound annual growth rate of 12% 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. Sales growth will be driven by over \$10 million in new orders that should increase sales by 26% in 2016 and 15% in 2017.*

*In August 2016, Omni-Lite Industries announced it received a new \$4.8 million, three-year contract from a major aerospace customer. This contract increases the company's current backlog to \$11.1 million and is the second multi-year aerospace contract signed in the last six months for a revenue total of approximately \$7.9 million to be booked over the next three years.*

*For 2016, we are maintaining our revenue projection of \$9.4 million for 26% growth and net income projection of \$2.3 million or \$0.20 per share.*

*For 2017, we project revenue of \$10.8 million and net income of \$2.9 million or \$0.26 per share. Our projections are higher than we previously projected (\$10.5 million revenue and net income of \$2.7 million or \$0.24 per share) due primarily to recent contracts.*

*Omni-Lite reported (7-28-2016) 2Q16 revenue decreased 6% to \$2.1 million. Net income was \$411,000 or \$0.04 per share compared to \$567,000 or \$0.05 per share in 2Q15. Results were in line with our projected 2Q16 revenue of \$2.1 million and net income of \$415,000 or \$0.04 per share.*

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

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**Recommendation and Valuation**

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 (\$1.50 previously)** based on an increase in our 2017 estimates.

Shares of Omni-Lite trade at a significant discount to its peers (see chart below) due arguably to limited recognition of the company's growth potential. Valuation should improve as the company starts to show significant sales and earnings growth into 2017.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	Forward P/E
RBC Bearings, Inc.	ROLL	78.65	1,820	27.0	21.1
TriMas Corporation	TRS	18.89	859	NMF	13.4
NN, Inc.	NNBR	18.06	490	NMF	9.8
Ampco-Pittsburgh Corporation	AP	11.11	136	NMF	NA
Eastern Company	EML	19	119	17.0	NA
SIFCO Industries, Inc.	SIF	6.51	36	NMF	NA
Kreisler Manufacturing Corp.	KRSL	17.89	34	16.0	NA
Chicago Rivet & Machine Co.	CVR	27.75	27	12.8	NA
<b>Peer Average</b>			<b>440</b>	<b>18.2</b>	<b>14.8</b>
Company					
<b>Omni-Lite Industries Canada, Inc.</b>	<b>OLNCF</b>	<b>1.42</b>	<b>15</b>	<b>17.8</b>	<b>5.5</b>
Source: Taglich Brothers estimates, Yahoo! Finance					

Omni-Lite currently trades at a multiple of 6X our 2017 EPS projection. Omni-Lite's peer group trades at a forward multiple 14X. We applied a multiple of 7X to our 2017 EPS projection of \$0.26, discounted for execution risk, to obtain a year-ahead value of \$1.60 per share.

**Recent Developments**

**Aerospace Contract** – In August 2016, Omni-Lite Industries announced it received a new \$4.8 million, three-year contract from a major aerospace customer. Additional value could accrue to this program as the contract can be amended to include new components at any time during the contract term. This contract increases the company's current backlog to \$11.1 million in potential revenue that could be recognized by 2019.

This contract is the second multi-year aerospace contract signed in the last six months for a total of almost \$7.9 million.

**New CFO Appointed** - In August 2016, Omni-Lite Industries announced that Tim Leybold has joined Omni-Lite as chief financial officer (CFO).

Leybold was CFO of Till Capital Ltd. where he led several acquisition transactions and served as a director of Till's operating subsidiaries. Previously was CFO with Tatum CFO Partners. Also served as CFO for Port Townsend Paper Corp. and its subsidiary Crown Packaging Ltd., the Port Blakely Companies and RLC Industries. Leybold began his career as a CPA with an international public accounting firm. Bachelor of Business Administration from University of Portland. Masters in Business Administration from University of Oregon.

**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 30% of total sales in 2015, Aerospace 34%, Specialty Automotive 23%, and Sports and Recreation 13%. The company serves customers primarily in the US, Canada, and the Barbados. Some of the company's customers (shown at right) include Fortune 500 companies such as Boeing, Airbus, Alcoa, Caterpillar, Borg Warner, Ford, Chrysler, the US Military, Nike and Adidas.



Military Division – 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.



Aerospace Division – 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 Division – 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).



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 Division – 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.

### ***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. 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 decision. 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 (May 2016), the US is the largest aircraft manufacturer in the world. Military and civilian aircraft engines and engine parts is a \$48 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 4.1% 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 (January 2016), the guns and ammunition manufacturing market is a \$15.8 billion market of which the military is responsible for 24.2% or \$3.8 billion of this market. Based on President Obama's fiscal 2016 budget request, US Army, Navy and Marine outlays for ammunition, small arms, ordnances and similar munitions are anticipated to increase more than 20% (or approximately 5% annually) between 2016 and 2020. Increased combat operations in Iraq and Syria are helping to drive this growth.

*Automotive* – In this market, the company manufactures transmission components, components for diesel engines, and brake components. According to IBISWorld (May 2016), the auto parts manufacturing market is a \$68.1 billion market and is projected to average growth of only 0.5% 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. Even though gas prices this past year are lower compared to previous years, consumer preferences have continued to prompt automakers to produce smaller vehicles with superior fuel economy. 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<sup>1</sup>, athletic shoes are a \$75 billion market with American consumers responsible for \$14 billion of that. 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 sales of approximately \$1 million to this market of which it claims to have more than a 50% market share.

### ***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 manufactures 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.

### ***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). Approximately 18 percent of outstanding shares of CNO are held by Omni-Lite.

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

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. According to a report by Deloitte<sup>2</sup>, the global aerospace sector is poised for a rebound in 2016 after relatively flat growth in 2015. One factor driving this growth will be record production levels. Deloitte forecasts a compound annual growth rate (CAGR) of approximately 3% for global aircraft production over the five years to 2021.

1. <https://www.freelapusa.com/the-history-of-track-spikes/>. Free Lap USA. Retrieved August 2016.

2. "2016 Global aerospace and defense sector outlook, Poised for a rebound". (January 2016). Deloitte Touche Tohmatsu Limited.

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

**2Q and 1H 2016 Financial Results**

2Q16 – Revenue decreased 6% to \$2.1 million. Net income decreased to \$410,000 or \$0.04 per share from \$568,000 or \$0.05 per share in 2Q15.

The decrease in revenue was primarily due to the late initiation of a key military program (shipping started in June 2016 versus January a year earlier due to a government change in the specifications). Gross profit decreased to \$1.2 million from \$1.4 million. Gross margins decreased to 56.9% from 60.2% due primarily to lower margin sales from the specialty automotive segment and increased material costs for the military segment.

Total operating expenses increased to \$896,000 in 2Q16 from \$783,000 in 2Q15 with general and administrative expenses contributing the largest share of the increase due primarily to new project expenses which are expected to be capitalized starting 3Q16. Operating income decreased to \$305,000 from \$567,000 for margins of 14.4% versus 25.3% due to lower gross profit and higher operating expenses. The company realized a \$99,000 tax benefit related to tax loss carry-forwards.

1H16 – Revenue decreased 10% to \$3.6 million. Net income decreased to \$581,000 or \$0.05 per share from \$880,000 or \$0.07 per share in 1H15.

The decrease in total revenue was primarily due to the late initiation of a key military program (shipping started in June 2016 versus January a year earlier due to a government change in the specifications). Gross profit decreased to \$2.1 million from \$2.4 million. Gross margins decreased to 58.2% from 59.3% primarily due to lower margin sales from the specialty automotive segment and increased material costs for the military segment.

Total operating expenses increased to \$1.8 million from \$1.6 million in 1H15 with general and administrative expenses contributing the largest share of the increase due primarily to new project expenses which are expected to be capitalized starting on 3Q16. Operating income decreased to \$338,000 from \$830,000 for margins of 9.4% versus 20.7% due to lower gross profit and higher operating expenses. The company realized a \$229,000 tax benefit related to tax loss carry-forwards.

Liquidity – Omni-Lite has a strong balance sheet. As of June 30, 2016, the company had \$819,000 cash, a current ratio of 8.3X versus 2.9X 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 meet its operational needs through 2017.

	1H Income Statement (in thousands \$)	
	<u>2016A</u>	<u>2015A</u>
Revenue	3,595	4,015
Cost of goods sold	1,504	1,634
Gross profit	2,091	2,381
Employee benefits	562	590
General and administrative	578	421
Depreciation	521	491
Other operating expenses	92	49
Income (loss) from operations	338	830
Interest income	14	14
Other income (loss)	-	-
Income (loss) before income taxes	352	844
Income tax (benefit)	(229)	(36)
Net income	581	880
EPS	0.05	0.07
Shares Outstanding	11,620	12,038
<u>Margin Analysis</u>		
Gross margin	58.2%	59.3%
Operating margin	9.4%	20.7%
Net margin	16.2%	21.9%
<u>Year / Year Growth</u>		
Total Revenues	(10.5)%	
Net Income	(34.0)%	
EPS	(31.6)%	
Source: Company filings		

Cash provided by operations in the first six months of 2016 was approximately \$707,000 consisting of cash earnings of \$946,000 and a \$240,000 increase in working capital. The change in working capital was primarily due to increased accounts receivable offset in part by increased accounts payable and accrued liabilities. Cash used in investing consisted primarily of \$545,000 of capital expenditures. Cash used in financing consisted primarily of \$425,000 for the repurchase of common shares. Cash decreased by \$232,000 to \$819,000 at June 30, 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 January 30, 2017. There were no outstanding balances on this credit facility as of June 30, 2016.

### ***Economic Outlook***

Although most of the company's revenue are generated in the US, and economic growth forecasts have been reduced for that region, the projected growth for Omni-Lite's target markets should support good sales growth for the company through our forecast horizon. Growth for the aerospace market is projected at 4.1% annually (IBISWorld May 2016) while the latest budget request for the military munitions market is for approximately 5% annual growth into 2020. While minimal growth is projected for the automotive parts manufacturing market, changes in regulations and customer preferences are driving research aimed at reducing vehicle weight and increasing performance.

In July 2016, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.1% in 2016 and 3.4% in 2017, down from an earlier (April 2016) growth forecast of 3.2% in 2016 and 3.5% in 2017. The reduced growth estimate primarily reflects the downside risk for the world economy in the aftermath of the June 23, 2016 vote in the United Kingdom to leave the European Union.

The IMF lowered its economic growth estimate for the US to 2.2% in 2016, down from an earlier (April 2016) growth forecast of 2.4%, but kept it unchanged at 2.5% in 2017. The IMF said that 1Q16 growth was weaker than expected, triggering the downward revision to the 2016 forecast, but indicators of economic activity (such as labor and financial market indicators) point to a pick-up in 2Q16 and for the remainder of the year. The IMF projects the impact from the UK leaving the European Union to be muted for the US, as lower long-term interest rates and a more gradual path of monetary policy normalization are expected to broadly offset larger corporate spreads (difference between corporate and treasury bond yields), a stronger US dollar, and some decline in confidence.

The advance estimate of US GDP growth (released on July 29, 2016) showed the US economy grew at an annual rate of 1.2% in 2Q16, up from 0.8% growth in 1Q16. The 2Q16 US GDP growth estimate primarily reflects a rise in consumer spending. Partly offsetting this contribution to GDP growth was a decline in inventory investment, business investment, and housing investment.

### ***Projections***

2016 – We are maintaining our revenue projection of \$9.4 million for 26% growth and net income projection of \$2.3 million or \$0.20 per share. Our \$9.4 million revenue projection should be made up of \$3.6 million or 38% of total revenue to the aerospace market, \$2.9 million or 31% to the automotive market, \$1.9 million or 20% to the military market, and \$1 million or 11% to the sports and recreation market. Driving this growth will be \$10.4 million of new orders since the start of 2016, increasing backlog which should be booked in revenue by 2019.

Aerospace customers account for the majority of these orders with a three-year, \$3 million contract signed in February 2016 and a three-year \$4.8 million contract signed in August 2016. These contracts are expected to increase sales by over \$2.6 million annually over the next three years. Current automotive customers have increased throughput by approximately 30% this year, combined with new products for Ford, John Deere and Navistar, and continued ramping of brake components for Bosch, it is expected that automotive segment sales will increase by over \$1 million this year.

We project gross margins of 59%, in line with trailing-twelve-month gross margins (excluding 4Q15 with its non-recurring write down of inventory). Gross margins are highest for the company's aerospace and military segments and lowest for its automotive and sports and recreation segments. We project employee benefits will remain near current levels of \$1.2 million annually as they have been relatively stable over the past two years. We project general and administrative expenses will increase to \$1.1 million in 2016 from \$905,000 in 2015 due primarily to increased compensation costs. The company should only pay minimal taxes due to its large amount of net operating loss carryforwards (\$1.2 million US and \$500,000 Canada as of December 31, 2015).

We project \$2.6 million cash from operations from \$3.3 million cash earnings and a \$661,000 increase in working capital. The increase in working capital will come primarily from increases in accounts receivable and inventory. Cash from operations should more than offset our projected \$1.4 million in capital expenditures and \$425,000 for the repurchase of common shares increasing cash by \$818,000 to \$1.9 million at December 31, 2016.

2017 – We project revenue of \$10.8 million and net income of \$2.9 million or \$0.26 per share. Our projections are higher than we previously projected (\$10.5 million revenue and net income of \$2.7 million or \$0.24 per share) due primarily to the recent contract (August 2016) which resulted in us increasing our projection for the aerospace segment by \$300,000. Taking into consideration the recent contracts and various projected growth rates for the markets that the company sells to, our \$10.8 million revenue projection should be made up of \$4.4 million or 41% of total revenue to the aerospace market, \$3.2 million or 30% to the automotive market, \$2.2 million or 20% to the military market, and \$1 million or 9% to the sports and recreation market.

We project gross margins increasing to 60% with the increased higher margin aerospace sales we project. We project employee benefits of \$1.2 million, in line with 2016. We project general and administrative expenses will remain at \$1.1 million as certain project costs that were recognized in 2016 will be capitalized. The company should only pay minimal taxes due to its large amount of net operating loss carryforwards.

We project \$3.5 million cash from operations from \$4.1 million cash earnings and a \$562,000 increase in working capital. The increase in working capital will come primarily from increases in accounts receivable and inventory. Cash from operations should more than offset our projected \$1 million in capital expenditures increasing cash by \$2.5 million to \$4.4 million at December 31, 2017.

## ***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.



Omni-Lite Industries Canada, Inc.

*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 9.2 million shares in the float and the average daily volume is approximately 1,600 shares.

*Miscellaneous risk* - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets  
(in thousands \$)

	2013A	2014A	2015A	2Q16A	2016E	2017E
Cash	1,925	1,687	1,052	819	1,870	4,417
Accounts receivable	1,034	759	1,412	1,818	1,773	2,039
Inventory	2,456	2,380	2,516	2,628	2,865	3,214
Income taxes receivable	41	40	37	44	44	44
Current portion of due from related parties	18	7	4	4	4	4
Prepaid expenses	133	142	143	139	139	139
<b>Total current assets</b>	<b>5,607</b>	<b>5,015</b>	<b>5,164</b>	<b>5,452</b>	<b>6,695</b>	<b>9,856</b>
Investment	275	437	203	217	217	217
Equipment deposits	-	441	-	-	-	-
Property, plant and equipment	13,612	13,174	14,232	14,068	14,620	14,610
Due from related parties	1,591	1,450	1,477	1,464	1,281	1,281
Deferred tax asset	1,251	1,330	908	1,020	1,020	1,020
<b>Total assets</b>	<b>22,336</b>	<b>21,847</b>	<b>21,984</b>	<b>22,221</b>	<b>23,833</b>	<b>26,984</b>
Accounts payable and accrued liabilities	541	415	376	658	428	480
Equipment payable	-	-	188	-	-	-
Income taxes payable	2	1	-	-	-	-
Current portion of long-term debt	300	-	-	-	-	-
<b>Total current liabilities</b>	<b>843</b>	<b>416</b>	<b>564</b>	<b>658</b>	<b>428</b>	<b>480</b>
Deferred tax liability	3,535	3,316	3,068	2,948	2,948	2,948
<b>Total liabilities</b>	<b>4,378</b>	<b>3,732</b>	<b>3,632</b>	<b>3,606</b>	<b>3,376</b>	<b>3,428</b>
<b>Total stockholders' equity</b>	<b>17,958</b>	<b>18,115</b>	<b>18,352</b>	<b>18,615</b>	<b>20,457</b>	<b>23,556</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>22,336</b>	<b>21,847</b>	<b>21,984</b>	<b>22,221</b>	<b>23,833</b>	<b>26,984</b>

Source: Company filings and Taglich Brothers' estimates

Omni-Lite Industries Canada, Inc.

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

	<u>2013A</u>	<u>2014A</u>	<u>2015A</u>	<u>2016E</u>	<u>2017E</u>
Revenue	5,301	5,850	7,480	9,394	10,800
Cost of goods sold	<u>2,389</u>	<u>2,636</u>	<u>3,382</u>	<u>3,851</u>	<u>4,320</u>
Gross profit	2,912	3,214	4,098	5,543	6,480
Employee benefits	939	1,077	1,097	1,162	1,200
General and administrative	854	838	905	1,078	1,100
Depreciation	967	972	983	1,026	1,063
Other operating expenses	<u>238</u>	<u>118</u>	<u>137</u>	<u>191</u>	<u>200</u>
Income (loss) from operations	(86)	209	976	2,086	2,917
Interest income	19	29	30	30	32
Other income (loss)	<u>-</u>	<u>(56)</u>	<u>65</u>	<u>-</u>	<u>-</u>
Income (loss) before income taxes	<u>(67)</u>	<u>182</u>	<u>1,071</u>	<u>2,116</u>	<u>2,949</u>
Income tax (benefit)	(205)	(287)	186	(229)	-
Net income	<u>138</u>	<u>469</u>	<u>885</u>	<u>2,345</u>	<u>2,949</u>
EPS	<u>0.01</u>	<u>0.04</u>	<u>0.07</u>	<u>0.20</u>	<u>0.26</u>
Shares Outstanding	12,303	12,149	12,028	11,446	11,384
<u>Margin Analysis</u>					
Gross margin	54.9%	54.9%	54.8%	59.0%	60.0%
Operating margin	(1.6)%	3.6%	13.0%	22.2%	27.0%
Net margin	2.6%	8.0%	11.8%	25.0%	27.3%
<u>Year / Year Growth</u>					
Total Revenues		10.4%	27.9%	25.6%	15.0%
Net Income		239.9%	88.7%	165.0%	25.8%
EPS		244.2%	90.6%	178.4%	26.4%

Source: Company filings and Taglich Brothers' estimates

Omni-Lite Industries Canada, Inc.

Quarterly Income Statement 2015A to 2017E  
(in thousands \$)

	<u>3/15A</u>	<u>6/15A</u>	<u>9/15A</u>	<u>12/15A</u>	<u>2015A</u>	<u>3/16A</u>	<u>6/16A</u>	<u>9/16E</u>	<u>12/16E</u>	<u>2016E</u>	<u>3/17E</u>	<u>6/17E</u>	<u>9/17E</u>	<u>12/17E</u>	<u>2017E</u>
Revenue	1,773	2,241	2,003	1,463	7,480	1,484	2,110	2,800	3,000	9,394	2,400	2,850	2,950	2,600	10,800
Cost of goods sold	<u>743</u>	<u>891</u>	<u>787</u>	<u>961</u>	<u>3,382</u>	<u>593</u>	<u>910</u>	<u>1,148</u>	<u>1,200</u>	<u>3,851</u>	<u>960</u>	<u>1,140</u>	<u>1,180</u>	<u>1,040</u>	<u>4,320</u>
Gross profit	1,030	1,350	1,216	502	4,098	891	1,200	1,652	1,800	5,543	1,440	1,710	1,770	1,560	6,480
Employee benefits	299	291	309	198	1,097	290	272	300	300	1,162	300	300	300	300	1,200
General and administrative	202	219	261	223	905	258	320	250	250	1,078	275	275	275	275	1,100
Depreciation	244	247	249	243	983	268	254	252	252	1,026	266	266	266	265	1,063
Other operating expenses	<u>23</u>	<u>26</u>	<u>29</u>	<u>59</u>	<u>137</u>	<u>42</u>	<u>49</u>	<u>50</u>	<u>50</u>	<u>191</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>200</u>
Income (loss) from operations	262	567	368	(221)	976	33	305	800	948	2,086	549	819	879	670	2,917
Interest income	7	7	9	7	30	7	7	8	8	30	8	8	8	8	32
Other income (loss)	-	-	-	65	65	-	-	-	-	-	-	-	-	-	-
Income (loss) before income taxes	<u>269</u>	<u>574</u>	<u>377</u>	<u>(149)</u>	<u>1,071</u>	<u>40</u>	<u>312</u>	<u>808</u>	<u>956</u>	<u>2,116</u>	<u>557</u>	<u>827</u>	<u>887</u>	<u>678</u>	<u>2,949</u>
Income tax (benefit)	(43)	7	7	215	186	(130)	(99)	-	-	(229)	-	-	-	-	-
Net income	<u>312</u>	<u>567</u>	<u>370</u>	<u>3</u>	<u>885</u>	<u>170</u>	<u>411</u>	<u>808</u>	<u>956</u>	<u>2,345</u>	<u>557</u>	<u>827</u>	<u>887</u>	<u>678</u>	<u>2,949</u>
EPS	<u>0.03</u>	<u>0.05</u>	<u>0.03</u>	<u>0.00</u>	<u>0.07</u>	<u>0.02</u>	<u>0.04</u>	<u>0.07</u>	<u>0.08</u>	<u>0.20</u>	<u>0.05</u>	<u>0.07</u>	<u>0.08</u>	<u>0.06</u>	<u>0.26</u>
Shares Outstanding	11,995	12,546	12,132	12,028	12,028	11,633	11,384	11,384	11,384	11,446	11,384	11,384	11,384	11,384	11,384
<u>Margin Analysis</u>															
Gross margin	58.1%	60.2%	60.7%	34.3%	54.8%	60.0%	56.9%	59.0%	60.0%	59.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Operating margin	14.8%	25.3%	18.4%	(15.1)%	13.0%	2.2%	14.5%	28.6%	31.6%	22.2%	22.9%	28.7%	29.8%	25.8%	27.0%
Net margin	17.6%	25.3%	18.5%	0.2%	11.8%	11.5%	19.5%	28.9%	31.9%	25.0%	23.2%	29.0%	30.1%	26.1%	27.3%
<u>Year / Year Growth</u>															
Total Revenues	29.1%	23.9%	23.0%	40.8%	27.9%	(16.3)%	(5.8)%	39.8%	105.1%	25.6%	61.7%	35.1%	5.4%	(13.3)%	15.0%
Net Income	625.6%	116.4%	51.0%	103.7%	88.7%	(45.5)%	(27.5)%	118.4%	NMF	165.0%	227.6%	101.2%	9.8%	(29.1)%	25.8%
EPS	160.1%	110.2%	50.6%	103.7%	90.6%	(23.1)%	(20.1)%	132.7%	NMF	178.4%	144.6%	101.2%	9.8%	(29.1)%	26.4%

Source: Company filings and Taglich Brothers' estimates

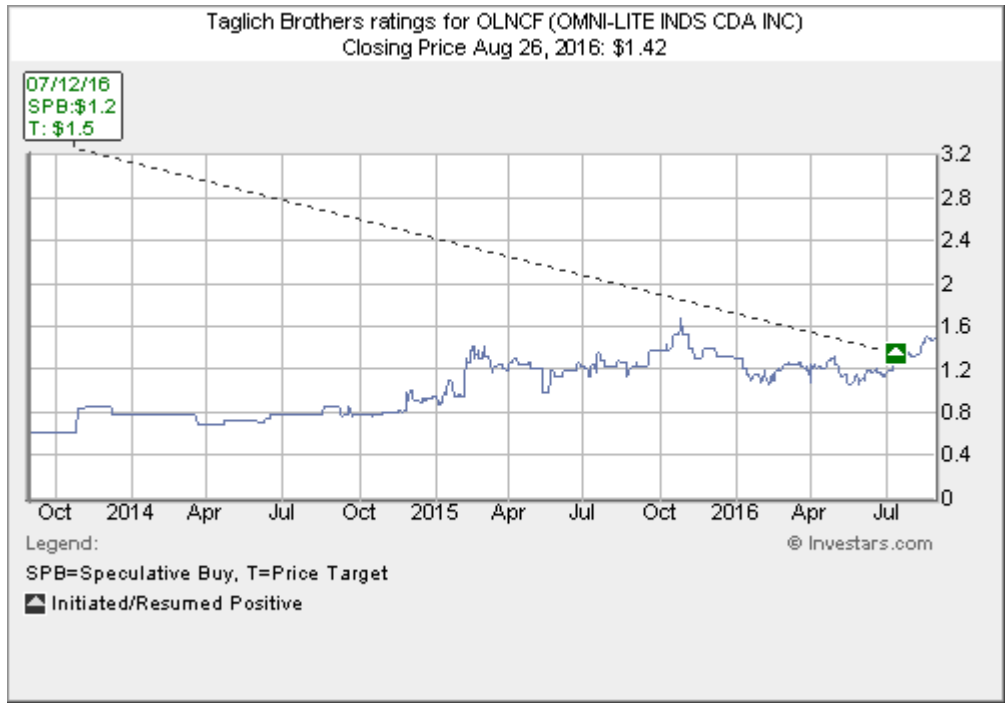
Omni-Lite Industries Canada, Inc.

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

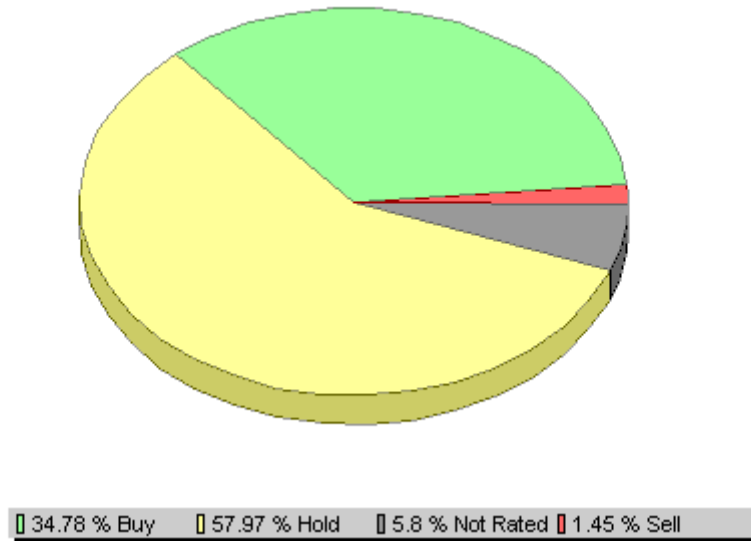
	2013A	2014A	2015A	1H16A	2016E	2017E
Net income (loss)	138	469	885	581	2,345	2,949
Depreciation	967	972	983	522	1,011	1,010
Deferred taxes	(215)	(297)	175	(233)	(233)	-
Loss on sale of equipment	-	57	-	-	-	-
Bad debt	-	20	5	-	-	-
Share-based compensation	99	49	88	76	150	150
Cash earnings (loss)	989	1,270	2,136	946	3,273	4,109
<i>Changes in assets and liabilities</i>						
Accounts receivable	(322)	275	(653)	(406)	(361)	(265)
Income taxes receivable	-	-	3	(7)	(7)	-
Inventory	(90)	76	(135)	(112)	(349)	(349)
Prepaid expenses	(35)	(9)	(2)	4	4	-
Accounts payable and accrued liabilities	243	(126)	(38)	282	52	52
Income taxes payable	(3)	(1)	(1)	-	-	-
(Increase) decrease in working capital	(207)	215	(826)	(239)	(661)	(562)
<b>Net cash provided by (used in) operations</b>	<b>782</b>	<b>1,485</b>	<b>1,310</b>	<b>707</b>	<b>2,612</b>	<b>3,547</b>
Deposits on equipment	-	(441)	-	-	-	-
Proceeds from sale of equipment	-	263	-	-	-	-
Purchase of available for sale financial asset	-	(91)	-	-	-	-
Purchase of property, plant and equipment	(770)	(854)	(1,412)	(545)	(1,400)	(1,000)
<b>Net cash provided by (used in) investing</b>	<b>(770)</b>	<b>(1,123)</b>	<b>(1,412)</b>	<b>(545)</b>	<b>(1,400)</b>	<b>(1,000)</b>
Payments from related parties	737	250	26	18	18	-
Advances to related parties	(898)	(118)	(56)	(4)	(4)	-
Repayment of long-term debt	(624)	(300)	-	-	-	-
Relinquishment of options	-	-	-	(18)	(18)	-
Share issue costs	(1)	(1)	(3)	-	-	-
Proceeds from exercise of stock options	-	-	185	-	-	-
Issue of common shares	-	-	-	35	35	-
Repurchase of common shares	(47)	(431)	(685)	(425)	(425)	-
<b>Net cash provided by (used in) financing</b>	<b>(833)</b>	<b>(600)</b>	<b>(533)</b>	<b>(394)</b>	<b>(394)</b>	<b>-</b>
<b>Net change in cash</b>	<b>(821)</b>	<b>(238)</b>	<b>(635)</b>	<b>(233)</b>	<b>818</b>	<b>2,547</b>
<b>Cash - beginning of period</b>	<b>2,746</b>	<b>1,925</b>	<b>1,687</b>	<b>1,052</b>	<b>1,052</b>	<b>1,870</b>
<b>Cash - end of period</b>	<b>1,925</b>	<b>1,687</b>	<b>1,052</b>	<b>819</b>	<b>1,870</b>	<b>4,417</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	2	7
Hold		
Sell		
Not Rated		

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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.

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### **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.**

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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.