

L. Alan Davis, CFA

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April 28th, 2015

Rating | **BUY**Last Trade | **\$1.52**9-Month Target Price | **\$2.50**

Industry	Technical Equipment
Risk Level*	Above Average

* See page 5 for description of risk levels.

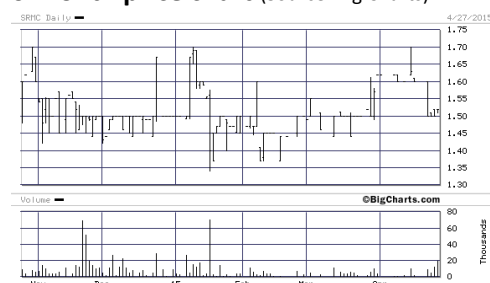
1Q15 Results

Est. Actual	1Q15-A
Revenues	\$4.9M
GAAP EPS	\$0.02
EBITDA	\$622k

Annual Results & Projections

2014	2014A	Price Multiple
Revenues	\$19.3M	0.66x
GAAP EPS	\$0.03	NM
EBITDA	\$1.5M	8.9x

2015e	Prior 2015e	New 2015e	Price Multiple
Revenues	\$21.5M	\$21.6M	0.72x
GAAP EPS	\$0.05	\$0.08	19.0x
EBITDA	\$1.9M	\$2.4M	6.6x

6-month price chart (Source: Big Charts)**Sierra Monitor Corporation**OTC QB | **SRMC**

1991 Tarob Court

Milpitas, CA 95035

1Q15 Results: Strong Start to 2015, Highest Operating Cash Flow Since 3Q13; Our Estimate Move Up

Yesterday Sierra Monitor reported 1Q15 results. Revenues of \$4.9 million (+20.2%y/y, -3.6% q/q) and gross margins of 59.8% exhibited a strong start to 2015.

With the strong revenues and margins, SRMC generated EPS of \$0.02 and EBITDA of \$622,000—the strongest quarter of operating cash since 3Q13.

We are increasing our 2015 estimates and continue to forecast solid top and bottom line growth.

We are maintaining our \$2.50 target price and BUY rating.

With the strong management team additions and positive long-term market trends, we remain optimistic about the company's prospects for continued profitable growth in 2015 and beyond.

Key Financial Metrics

Exchange	OTC QB	Revenues (M) (ttm)	\$20.2
Market Cap. (M)	\$16.1	Cash (M) Jun-2014	\$4.1
Shares Outstanding (M)	10.6	Debt (M) Jun-2014	\$0.0
Ave. Daily Volume (3Mo.)	3,203	P/E (ttm)	30.4x
Insider Ownership	64.5%	EV/EBITDA (ttm)	10.0x
Dividend Yield	2.7%	EV/Sales (ttm)	1.0x
		Public Float (M)	3.8

1Q15 Results & Revised 2015 Outlook

Strong Revenues and Margins

Yesterday after the close Sierra Monitor reported 1Q15 results. Revenues of \$4.9 million (+20.2%y/y, -3.6% q/q) and gross margins of 59.8% established strong start to 2015. The strong gross margins were driven by a higher mix of domestic business. The strong revenues and margins lead to GAAP EPS of \$0.02 and EBITDA of \$622,000—**the strongest quarter of operating cash flow since 3Q13**. Operating expenses were generally in line with the past few quarters.

The strong cash flow bolstered SRMC's already solid balance sheet; the company finished 1Q15 with \$4.1 million in cash and no debt.

Significant Distribution Deal

During the quarter Sierra Monitor announced a distribution deal with Kele, a leading distributor of Building Automation System (BAS) products. Under the agreement, SRMC's BACnet Router FS-Router-BAC will be made available in Kele's online catalog—in essence making the world's leading protocol gateway technology available to a much larger group of integrators. One of the keys to getting products distributed by companies such as Kele is having products which are easy to use—we believe this deal exemplifies the strides SRMC has made in this area. We also believe this approach (i.e. focusing on ease of use) to broaden the company's addressable customer base will become an increasing trend at SRMC, with long-term growth benefits. Going forward, we expect to see similar distribution deals for other SRMC products.

Increasing our Projections

We continue to forecast solid growth in 2015. We have increased our revenue estimate slightly \$21.6 million, reflecting 11.6% y/y growth. We have raised our GAAP EPS estimate to \$0.08 from our \$0.05 while our EBITDA estimate has improved to \$2.4 million (+61.9% y/y) from \$1.9 million—**reflecting a projected 11.0% EBITDA margin for the year**.

Maintaining \$2.50 Target Price & Buy Rating

We are maintaining our \$2.50 target price, a valuation equating to a 9x EV/EBITDA multiple based on our 2015 projections—a seemingly reasonable valuation considering the year-over-year growth we are forecasting. Given the implied appreciation potential, we are maintaining our BUY rating. With the strong management team additions, positive long-term market trends, and that fact that the company is beginning to expand its customer base, we remain optimistic about the company's prospects for profitable growth in 2015 and beyond.

Appendix 1 | Financial Statements

Balance Sheet

Consolidated Balance Sheet (\$,000)	2010A	2011A	2012A	2013A	2014A	1Q15A
						MAR
Cash & Equivalents	1,645	1,212	2,306	3,422	3,340	4,050
Accounts Receivable	1,709	1,648	1,913	1,944	2,572	2,449
Inventories	2,115	3,918	2,995	2,741	2,897	2,693
Prepaid & Other	477	601	737	726	705	666
Total Current Assets	5,947	7,379	7,951	8,832	9,513	9,858
PP&E	294	400	290	391	277	335
Other	155	140	135	274	343	430
Total Assets	6,396	7,919	8,376	9,497	10,133	10,623
Accounts Payable	705	919	714	689	814	903
Accrued Compensation	432	497	260	291	471	456
Income Taxes Payable	21	11	-	-	-	200
Other Current Liabilities	73	323	90	72	74	83
Total Current Liabilities	1,230	1,750	1,064	1,051	1,359	1,642
Def. Tax Liability	54	108	59	84	138	138
Other L-T liabilities						
Total Liabilities	1,285	1,859	1,123	1,136	1,498	1,780
Stockholders' Equity	5,111	6,061	7,253	8,361	8,635	8,842
Total Liabilities & SE	6,396	7,919	8,376	9,497	10,133	10,623
Common Shares	9,897	10,004	9,901	9,926	10,174	10,623
Net Cash & Investments	1,645	1,212	2,306	3,422	3,340	4,050
Net Cash & Investments per share	\$0.14	\$0.12	\$0.23	\$0.34	\$0.33	\$0.40
Working Capital (ex. Cash & ST Debt)	\$3,071	\$4,416	\$4,581	\$4,359	\$4,296	\$4,166
q/q % change						-13.5%
y/y % change	11.9%	43.8%	3.7%	-4.9%	-1.5%	-0.7%
y/y \$ Change	+327	+1346	+165	-222	-63	-31
Balance Sheet Ratios	2010A	2011A	2012A	2013A	2014A	1Q15A
Current ratio	4.8	4.2	7.5	8.4	7.0	6.0
Quick ratio	2.7	1.6	4.0	5.1	4.3	4.0
Book value	\$0.52	\$0.61	\$0.73	\$0.83	\$0.85	\$0.83
Tangible Book Value	\$0.50	\$0.59	\$0.72	\$0.81	\$0.82	\$0.79
Long-term debt to capitalization	0.0%	0.0%	0.0%	0%	0%	0%
Total debt to capitalization	0.0%	0.0%	0.0%	0%	0%	0%
Cash per share	\$0.17	\$0.12	\$0.23	\$0.34	\$0.33	\$0.38
Net cash per share	\$0.17	\$0.12	\$0.23	\$0.34	\$0.33	\$0.38
Ave. asset turnover (ttm)	4.5x	4.2x	2.2x	2.0x	2.4x	2.0x
Return on average equity (ttm)	13.2%	15.6%	18.0%	17.0%	3.7%	6.0%
Return on average assets (ttm)	21.1%	12.1%	14.7%	14.6%	3.1%	5.0%
Collection period (days)	43	39	37	42	46	45
Payables period (days)	43	53	31	34	33	42

Source: Sierra Monitor & L. A. Davis & Associates

Appendix 1, Continued

Income Statement

Consolidated Income Statement (\$,000)	2010A	2011A	2012A	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15e	3Q15e	4Q15e	2015e
					MAR	JUN	SEPT	DEC						
Total Revenues	\$14,394	\$15,529	\$18,759	\$18,345	\$4,101	\$4,752	\$5,363	\$5,114	\$19,330	\$4,928	\$5,133	\$5,631	\$5,881	\$21,572
q/q					-3.9%	15.9%	12.9%	-4.6%		-3.6%				
y/y	13.1%	7.9%	20.8%	-2.2%	-5.9%	-0.7%	8.7%	19.8%	5.4%	20.2%	8.0%	5.0%	15.0%	11.6%
Cost of Revenues	5,971	6,341	8,318	7,629	1,627	2,005	2,490	2,261	8,384	1,982	2,233	2,464	2,573	9,251
Gross profit	8,423	9,188	10,441	10,716	2,474	2,747	2,873	2,853	10,947	2,946	2,900	3,168	3,308	12,321
Sales & Marketing	3,323	3,459	4,082	4,095	1,245	1,251	1,176	1,202	4,873	1,185	1,215	1,275	1,300	4,975
General & Administrative	1,978	2,087	2,236	2,246	659	707	815	827	3,008	776	800	875	900	3,351
Research & Development	1,979	2,205	2,168	2,156	560	580	599	562	2,301	566	575	625	650	2,416
Total Operating Expenses	7,280	7,751	8,486	8,497	2,463	2,538	2,591	2,591	10,182	2,527	2,590	2,775	2,850	10,742
Operating Income	\$1,143	\$1,437	\$1,955	\$2,218	\$11	\$209	\$282	\$262	\$765	\$419	\$310	\$393	\$458	\$1,579
Interest income (expense)	4	1	0	4	0	0	0	0	0	0	0	1	0	2
Other income (expense), net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	1,147	1,438	1,955	2,222	11	209	282	262	765	419	310	394	458	1,581
Onetime - Net Gains less (Charges & Impairments)														
Provision for Taxes	472	569	759	869	4	84	\$113	253	454	205	147	187	218	757
Operating Net Income (ex. 1-time)	\$675	\$869	\$1,196	\$1,353	\$7	\$126	\$169	\$9	\$311	\$214	\$163	\$207	\$240	\$824
GAAP Net Income (including 1-time)	\$675	\$869	\$1,196	\$1,353	\$7	\$126	\$169	\$9	\$311	\$214	\$163	\$207	\$240	\$824
Operating GAAP EPS (excludes 1-time)	\$0.06	\$0.09	\$0.12	\$0.13	\$0.00	\$0.01	\$0.02	\$0.00	\$0.03	\$0.02	\$0.02	\$0.02	\$0.02	\$0.08
Operating pro forma EPS (excludes stock comp. & ar	\$0.09	\$0.12	\$0.16	\$0.17	\$0.02	\$0.03	\$0.03	\$0.02	\$0.10	\$0.04	\$0.04	\$0.04	\$0.04	\$0.16
GAAP EPS (including 1-time)	\$0.06	\$0.09	\$0.12	\$0.13	\$0.00	\$0.01	\$0.02	\$0.00	\$0.03	\$0.02	\$0.02	\$0.02	\$0.02	\$0.08
Diluted Shares	11,469	10,101	10,139	10,169	10,198	10,180	10,490	10,132	10,190	10,143	10,194	10,245	10,296	10,292
EBITDA	1,479	1,793	2,342	2,571	158	355	465	485	1,462	622	505	588	653	2,367
EBITDA per Share	\$0.13	\$0.18	\$0.23	\$0.25	\$0.02	\$0.03	\$0.04	\$0.05	\$0.14	\$ 0.06	\$ 0.05	\$ 0.06	\$ 0.06	\$ 0.23
Sales per Share	\$1.25	\$1.54	\$1.85	\$1.80	\$0.40	\$0.47	\$0.51	\$0.50	\$1.90	\$ 0.49	\$ 0.50	\$ 0.55	\$ 0.57	\$ 2.10
Income Statement Ratios	2010A	2011A	2012A	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15e	3Q15e	4Q15e	2015e
Gross Margin (operating GAAP, ex. onetime)	58.5%	59.2%	55.7%	58.4%	60.3%	57.8%	53.6%	55.8%	56.6%	59.8%	56.5%	56.3%	56.3%	57.1%
EBITDA Margin	10.3%	11.5%	12.5%	14.0%	3.8%	7.5%	8.7%	9.5%	7.6%	12.6%	9.8%	10.4%	11.1%	11.0%
Operating Margin	7.9%	9.3%	10.4%	12.1%	0.3%	4.4%	5.3%	5.1%	4.0%	8.5%	6.0%	7.0%	7.8%	7.3%
Net Margin	4.7%	5.6%	6.4%	7.4%	0.2%	2.6%	3.2%	0.2%	1.6%	4.3%	3.2%	3.7%	4.1%	3.8%
S&M - % sales	23.1%	22.3%	21.8%	22.3%	30.3%	26.3%	21.9%	23.5%	25.2%	24.0%	23.7%	22.6%	22.1%	23.1%
G&A - % sales	13.7%	13.4%	11.9%	12.2%	16.1%	14.9%	15.2%	16.2%	15.6%	15.8%	15.6%	15.5%	15.3%	15.5%
R&D - % sales	13.7%	14.2%	11.6%	11.8%	13.6%	12.2%	11.2%	11.0%	11.9%	11.5%	11.2%	11.1%	11.1%	11.2%
Effective Tax Rate	41.2%	39.6%	38.8%	39.1%	40.0%	40.0%	40.0%	96.4%	59.3%	49.0%	47.5%	47.5%	47.5%	47.9%
YoY %Change														
Total Revenues	13.05%	7.89%	20.80%	(2%)	(6%)	(1%)	8.7%	19.8%	5.4%	20.2%	8.0%	5.0%	15.0%	11.6%
Gross Profit	10.49%	9.08%	13.64%	2.6%	0.90%	(3.7%)	(4.8%)	19.13%	2.16%	19.1%	5.6%	10.2%	16.0%	12.55%
Operating Income	177.27%	25.66%	36.08%	13.5%	(96.6%)	(70.8%)	(67.5%)	(13.3%)	(66%)	NM	48.0%	39.1%	74.7%	106.4%
Net Income	219.0%	28.7%	37.6%	13.2%	(103.4%)	(128.7%)	(132.5%)	(104.8%)	(77%)	NM	NM	NM	NM	164.8%
EBITDA	NM	NM	30.7%	9.77%	(62.4%)	(55.5%)	(51.4%)	19.7%	(43.1%)	294.9%	42.3%	26.4%	34.6%	61.9%
Total Operating Expenses	0.95%	6.48%	9.48%	0.14%	16.02%	18.91%	20.61%	23.81%	19.82%	2.6%	2.1%	7.1%	10.0%	5.50%

Notes: Financial statements are presented in accordance with U.S. GAAP. Historical results have been sourced from Sierra Monitor' SEC filings. Projections are based on L.A. Davis' assumptions as of 10/30/2013, and subject to change without notice. Working capital is defined as current assets less cash, less current liabilities. Free cash flow to equity holders (FCFE) is defined as net income plus non cash expenditures, less capital expenditures, less an increase in working capital.

Source: Sierra Monitor & L. A. Davis & Associates

Disclosures

Research coverage, including this report, has been commissioned by Sierra Monitor Corp. (the company). L. A. Davis & Associates has been paid, or promised payment of \$9,000 for the production or editorial content of this report and additional research coverage over the course of six (6) months. However, the opinions, forecasts, and valuation are based on L. A. Davis' examination of the company's fundamentals, conversations with management, independent analysis of markets, economic conditions, and other publicly available information.

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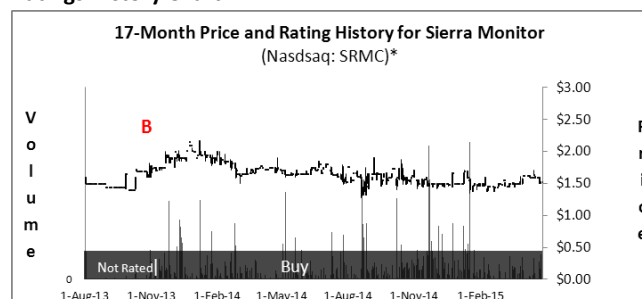
Price Target (12 Months for Sierra Monitor) **Method:** Our \$2.50 target price is based on an EV/EBITDA analysis and equates 9x EV/EBITDA multiple based on our 2015 projections. **Definition of Equity Risk Level:** Above Average: Shares of a company with above average operational, competitive, or financial risk. **LAD Risk Levels:** Highly Speculative, Speculative, High, Above Average, Average, Below Average, Low. Average risk denotes the risk level associated with the average publically traded company in the U.S. **Distribution of Researched Companies:** At this time there are an insufficient number of companies researched to generate distribution information or to draw any conclusions regarding bias about research methodology. **LAD Rating System:** BUY, HOLD, SELL. Relative to the market, these ratings denote our expectations for above average, average, or below average returns, respectively, for the stated target-price period.

Price and Rating History:

SRMC	Closing Price	Target Price	Rating
Date	(\$US)	(\$US)	(B-H-S)
11/11/2013	\$1.75	\$3.50	*B
2/25/2014	\$1.61	\$3.00	
8/5/2014	\$1.55	\$2.75	
2/4/2015	\$1.55	\$2.50	

* Asterisk denoted initiation or assumption of coverage

Ratings History Chart:



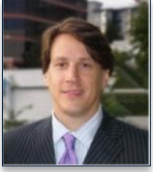


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Product Benefit Hierarchy



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"L. Alan Davis is a respected investment professional with a sharp analytic mind and a thoughtful and insightful approach to analyzing and valuing companies."

Greg Walsh

Portfolio Manager | American Century Investments

"L. Alan Davis is a knowledgeable and well-regarded analyst. Alan has been a pleasure to work with, willing to do the work necessary to understand our complex and dynamic business, which is important and unfortunately not the norm with analysts today. From my experience, his research exhibits an insightful detailed analysis of the key issues impacting a business today and into the future. He has a firm grasp on the critical elements of valuation."

Mel Flanigan

Chief Financial Officer | DTS, Inc. (Nasdaq: DT

