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Research Report – Update

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

Cemtrex, Inc.

Speculative Buy

John Nobile
January 28, 2019

CETX $0.84 — (NASDAQ)

	FY17A	FY18A	FY19E	FY20E
Revenues (millions)	$120.6	$89.9	$103.3	$125.8
Earnings (loss) per share*	$0.31	$(0.90)	$(0.54)	$(0.27)

52-Week range	$3.33 – $0.54	Fiscal year ends:	September
Common shares out as of 1/4/19	13.2 million	Revenue per share (TTM)	$8.00
Approximate float	7.7 million	Price/Sales (TTM)	0.1X
Market capitalization	$11.1 million	Price/Sales (FY20)E	0.1X
Tangible book value/share	$2.46	Price/Earnings (TTM)	NMF
Price/tangible book value	0.3X	Price/Earnings (FY20)E	NMF

** To common shareholders*

Headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, industrial contracting services, industrial air filtration & environmental control systems, smart technologies, virtual and augmented technologies, and intelligent security systems. (www.cemtrex.com)

Key investment considerations:

Reiterating Speculative Buy rating and maintaining twelve-month price target of $2.00 per share.

The near-term outlook for CETX' Industrial Technology (IT) segment continues to be weak. However, we expect a return to sales growth starting in 2019 driven by initial sales of the company's SmartDesk offering and new Electronics Manufacturing (EM) segment orders.

Deliveries of the SmartDesk are expected to begin at a moderate pace in 1Q19 at selling prices averaging approximately $5,000 per desk. SmartDesk sales should ramp significantly beginning in 2Q19.

New EM segment orders have increased this segments' backlog to over $50 million as of January 2019 and should result in organic growth of 10% over the next twelve months.

FY18 net loss to common (10K released 1/11/19) was $(0.90) per share on a 25.4% decrease in revenue to $89.9 million. In FY17, net income to common was $0.31 per share. We projected revenue of $91.1 million and a net loss to common of $(0.45) per share.

For FY19, we project a 14.9% increase in revenue to $103.3 million (prior was $94.6 million) and a net loss to common of $(0.54) per share (unchanged). Our revenue projection primarily reflects higher sales from the company's AT and EM segments offset by higher general and administrative expenses than originally anticipated.

For FY20, we project a 21.8% increase in revenue to $125.8 million and a net loss to common of $(0.27) per share. Growth should be driven primarily by increasing demand for the company's SmartDesk product within the AT segment.

****Please view our disclosures on pages 15 - 17.***

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating and maintaining our twelve-month price target of $2.00 per share. Our rating is based on a resumption of sales growth starting in 2019 driven primarily by growing sales of the company's SmartDesk.

We project strong growth in the company's new Advanced Technologies (AT) segment as shipments of the SmartDesk begin to ramp. Deliveries are expected to begin at a moderate pace in 1Q19 at selling prices averaging approximately $5,000 per desk. SmartDesk sales should ramp significantly beginning in 2Q19.

CETX trades at a trailing and forward sales multiple discount compared to the peer group. We believe this is due to the company's sales declines over the past twelve months. CETX's valuation is likely to remain at a discount to its peers until sales growth resumes.

Company	Symbol	Price	TTM Sales $M	TTM P/S	2020 P/S	2020 Sales Growth
Ecolab	ECL	153.89	14,558	3.1	2.9	5.5%
Fluor Corporation	FLR	37.32	19,393	0.3	0.3	5.3%
Donaldson Company	DCI	47.68	2,791	2.2	2.0	5.4%
Jabil Circuit	JBL	25.83	23,016	0.2	0.2	4.7%
EMCOR Group	EME	64.41	7,914	0.5	0.5	3.3%
Stantec	STN	23.65	2,703	1.0	1.0	2.8%
Benchmark Electronics	BHE	24.34	2,589	0.5	0.5	3.4%
Tutor Perini Corporation	TPC	17.44	4,464	0.2	0.2	9.2%
Calgon Carbon Corporation	CCC	21.5	619	1.8	NA	NA
CECO Environmental Corp.	CECE	6.84	317	0.7	0.7	7.5%
Sparton Corp.	SPA	18.39	382	0.5	NA	NA
Hill International	HIL	3.4	497	0.4	NA	NA
CUI Global	CUI	1.64	91	0.5	0.4	28.8%
IEC Electronics	IEC	7.2	117	0.6	0.5	6.1%
Peer Average				**0.9**	**0.8**	**7.4%**
Cemtrex, Inc	**CETX**	**0.84**	**90**	**0.1**	**0.1**	**22.1%**
Source: Thomson Reuters, Taglich Brothers estimates						

CETX trades at TTM P/S multiple of 0.1X (prior was 0.2X) and a forward multiple of 0.1X (prior was 0.2X). We believe investors should accord shares of CETX a multiple of 0.2X (down from 0.3X previously to account for diminished valuation) on our FY20 sales per share projection of $9.53 based on the anticipated resumption of sales growth in 2019 and 2020. Applying a multiple of 0.2X to our FY20 sales projection of $9.53, we derive a valuation of approximately $2.00 per share.

Recent Developments

SmartDesk – In December 2018, Cemtrex announced it was launching a program enabling Information Technology (IT) Value Added Resellers (VARs) to market and support its SmartDesk for enterprise customers. Cemtrex will provide resellers with training, support, and tools for sales and marketing, as well as access to tools for integrating the SmartDesk into their customers' business operations.

Following Cemtrex' SmartDesk showing at the Consumer Electronics Show in Las Vegas in January 2019, the company announced increased demand for its SmartDesk. The company has received orders for its SmartDesk from organizations such as the City of Atlanta, VMware, Black & Decker, United Airlines, Choice Hotels, as well as from government organizations and universities.

Over $13 Million in New EMS Orders Received in 4Q18 – In October 2018, Cemtrex announced it received over $13 million in new orders from its Electronics Manufacturing Services (EMS) segment in 4Q18. The new orders were primarily from customers that produce wearable smart devices, medical devices, industrial technology products, and automation and measurement devices. The company's EMS backlog exceeds $50 million, which the company believes should result in organic growth of 10% over the next twelve months.

Update on Release of Workbench Mixed Reality Application – In October 2018, Cemtrex provided an update on the release of its upcoming Virtual Reality (VR) & Augmented Reality (AR) application, WorkbenchXR.

Cemtrex has added multiple new marquee customers into its Early Access program to test and use the WorkbenchXR tool in their manufacturing environments. WorkbenchXR is intended to help assembly workers in manufacturing environments utilize VR and AR headsets, as well as connected "smart tools" to assemble products faster, reduce errors, and improve the quality assurance process. The application can be utilized for all manufacturing industries where various parts are being assembled including aerospace, measurement, automotive, machinery, electronics, and many others.

Cemtrex aims to introduce three distinct products in the next 6 to 10 months, 1) its VR-first gaming application, Star Force, based off the bestselling novels by B.V. Larson, 2) a VR Developer SaaS Tool, and 3) its WorkbenchXR application.

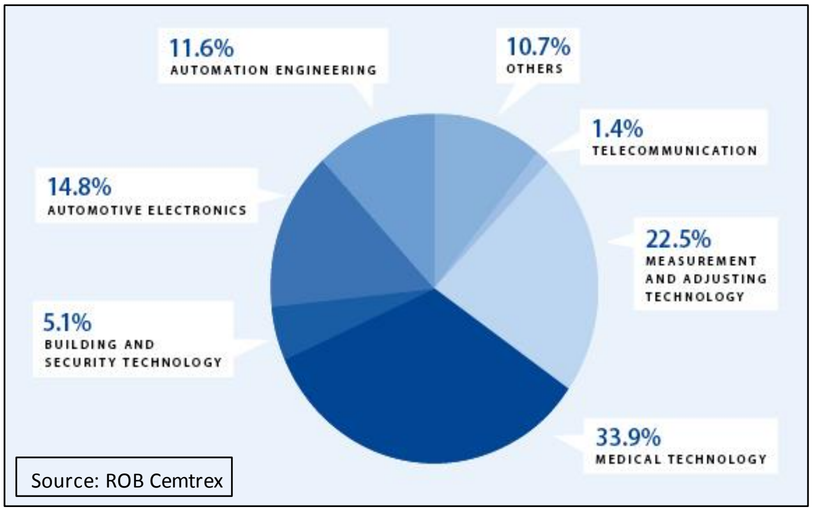
New Virtual Reality Game "Quazar" Launched – In September 2018, Cemtrex announced the release of an original content virtual reality (VR) game titled Quazar. The game was developed in-house by the Cemtrex VR team for Oculus Go and Cemtrex' SmartDesk.

Quazar is available in the Oculus app store. SmartDesk owners will also be able to play Quazar using the workstation's gesture system.

Business

Founded in 2000 and headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, industrial contracting services, industrial air filtration & environmental control systems, smart technologies, virtual and augmented technologies, and intelligent security systems.

Cemtrex started as a manufacturer of emission monitoring equipment that enabled power, manufacturing, and industrial companies to comply with environmental regulations. Since that time, the company has expanded its core business into other areas such as electronics manufacturing (industry breakdown at right), industrial air filtration and contracting services in plant and equipment erection, relocation, and disassembly.



Source: ROB Cemtrex

In July 2017, Cemtrex announced the formation of its Advanced Technologies subsidiary. The Advanced Technologies group is focused on developing products for the IoT (Internet of Things), virtual and augmented realities, and wearable segments. The company launched its SmartDesk IoT product in May 2018. The SmartDesk is aiming to replace office desks in order to help companies adopt the most advanced technologies available and increase employees' productivity.


Source: Cemtrex Investor Presentation

Cemtrex's smart desk (pictured at right) has many capabilities to service employees' needs from one device. Key features include three large displays (72 inches of touchscreen), touch, stylus and gesture control, digital phone and webcam, integrated document scanner, wireless smartphone charging, and a built-in keyboard in an adjustable height desk.

In March 2018, Cemtrex acquired approximately 46% of the outstanding common stock of Vicon Industries, Inc., a provider of security and video surveillance systems.

Segments

Cemtrex currently operates in three segments, electronics manufacturing services (EMS), industrial technology (IT, formerly environmental products and services), and advanced technologies (AT).

Electronics Manufacturing Services – Cemtrex's electronic manufacturing services include product design and engineering services, printed circuit board assembly and production, cabling and wire harnessing, systems integration, comprehensive testing services, and completely assembled electronic products.

Cemtrex has the ability to produce assemblies requiring mechanical, as well as electronic capabilities. Cemtrex helps companies from their prototype and design phase all the way through manufacturing and assembly.

The company's products are incorporated into finished products sold in various industries, particularly wearable devices, automotive, telecommunications, industrial products, appliances, home automation, industrial automation and medical devices. Major customers in this segment can be seen in the chart at right.

Source: Cemtrex Investor Presentation

Industrial Technology – Cemtrex provides services for plant equipment erection, relocation, and maintenance. This segment also sells a complete line of air filtration and environmental control products to a wide variety of industrial customers worldwide. This equipment is used to remove dust, corrosive fumes, submicron particles and particulate from industrial exhausts and boilers. This equipment is also used to clean acid gases such as sulfur dioxide, hydrogen chloride, and organics from industrial exhaust stacks prior to discharging to the atmosphere, and to control emissions such as coal, phosphates, carbon black, various ashes and similar substances. Major customers in this segment can be seen in the chart at right.

Source: Cemtrex Investor Presentation

<u>Advanced Technologies</u> – In July 2017, the company set up its Advanced Technologies subsidiary to develop and manufacture proprietary advanced electronic products for third parties and IoT applications. Cemtrex's advanced technologies include IoT, virtual and augmented realities, wearables and smart devices, such as its SmartDesk. The company designs and develops solutions for mobile, web, virtual and augmented reality, wearables and television as well as providing security and video surveillance.

Markets

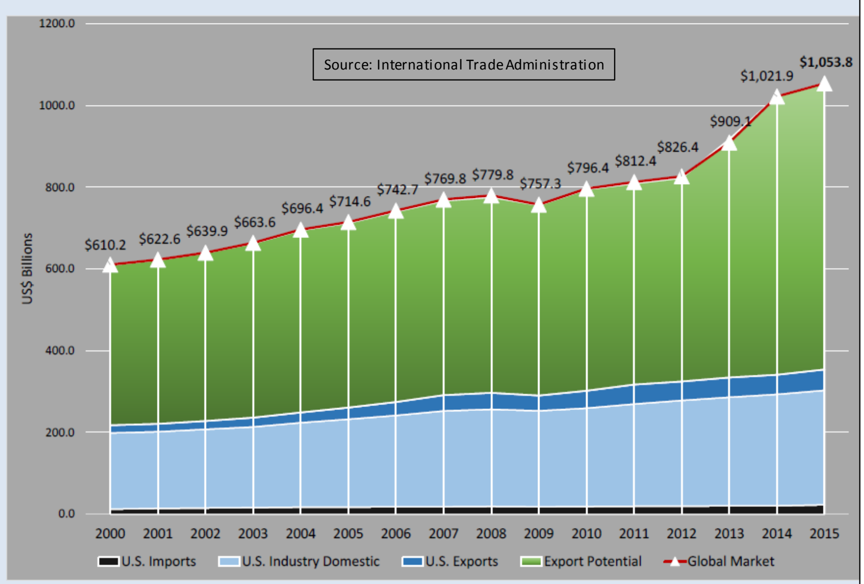
<u>Electronics Manufacturing Services</u> – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. The latest research from Market Insights Report valued the electronics manufacturing services and original design manufacturing market at $508.6 billion in 2017 and projected it to grow at a compound annual growth rate (CAGR) of 4.7% from 2018 to 2025 reaching $736.7 billion. Driving that growth is the continuing trend for OEM's to outsource their manufacturing functions either partly or entirely to electronic manufacturing service providers.

<u>Industrial Technology</u> – This market (as it relates to CETX) includes products and services to the environmental technologies (ET) and industrial machinery/equipment industries.

The ET industry is defined by the International Trade Administration (ITA) as all goods and services that generate revenue associated with environmental protection, assessment, compliance with environmental regulations, pollution control and prevention, and design and operation of environmental infrastructure. Key subsectors for products and services of the ET industry include air, water, and soil pollution control, solid and toxic waste management, pollution prevention, and environmental monitoring.

The ET industry evolved in response to concerns about the risks and costs of pollution and the enactment of pollution control legislation and regulations in the US and around the world. The ITA cited some key industry facts concerning the global ET market including a total market value of $1.1 trillion with the US being the world's largest producer and consumer of environmental technologies. The US ET industry generates approximately $320.4 billion in annual revenues and employs approximately 1.6 million people. The ET industry has grown from $610.2 billion to $1.1 trillion in the fifteen years to 2015 (latest figures available) for a compound annual growth rate of approximately 3.7% (see chart above).

Figure 2: Global Environmental Technologies Market Overview

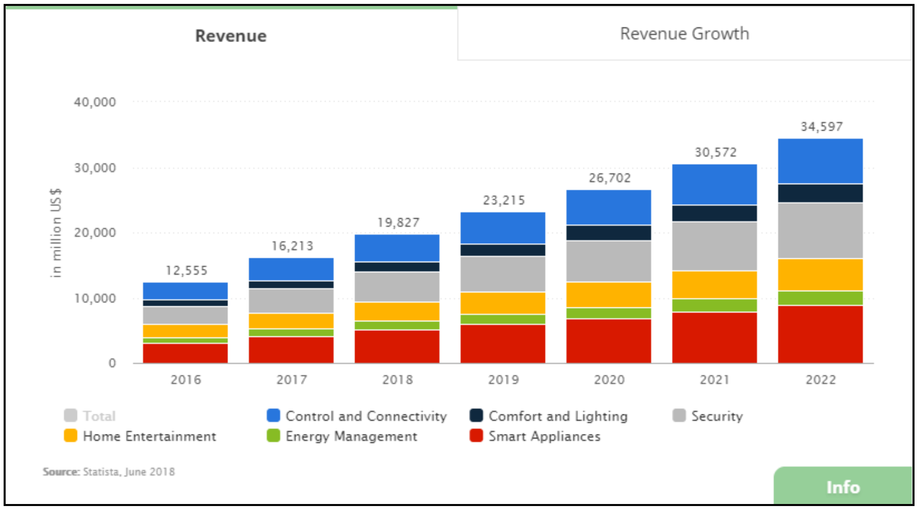


Global growth for the emission control systems market is projected at over 7% annually into 2023. Transparency Market Research projects the global industrial emission control systems market to grow at a compound annual growth rate (CAGR) of 7.3% between 2015 and 2023 with revenue of $22.1 billion. Growth should be driven by the adverse impact of global warming leading governments globally to implement stringent environmental regulations. In emerging nations, rapid industrialization and the rise in global trade has also boosted the growth of the market. While the US withdrew from the Paris climate accord that is aimed at curbing greenhouse gas emissions, China and other countries in the Asia Pacific region have committed themselves to the accord. Transparency Market Research reports that the Asia Pacific region is expected to hold significant opportunity for the growth of the market due to the growing demand for industrial emission control systems across India, China, and Japan.

Smart Technology – In this report we use the terms smart technology and IoT (Internet of Things) interchangeably. Applications of IoT (connecting devices and objects over the Internet) are enabled by smart technology (enables things to adapt automatically to the environment).

A report by PYMNTS.com forecasts the global IoT market to grow at a compound annual growth rate (CAGR) of nearly 27% from 2018 to 2024. Overall, the market could reach $6.5 trillion in 2024. Growth should be driven by such factors as the falling cost of smart sensors and increased demand for automated technologies. IDC reports that worldwide spending on IoT is forecasted to reach $772.5 billion in 2018, an increase of 14.6% over the $674 billion that was spent in 2017. IDC forecasts worldwide IoT spending to sustain a CAGR of 14.4% from 2017 to 2021 surpassing the $1 trillion mark in 2020 and reaching $1.1 trillion in 2021.

Within the IoT market, smart home devices should help propel the overall market over the next five years. Statista forecasts the smart home market in the US to grow at a CAGR of 14.9% from 2018 to 2022 reaching approximately $34.6 billion by 2022 (see chart at right). Statista projects household penetration of 53.1% by 2022, up from 32% in 2018.



Competition

Cemtrex faces substantial competition in each of its principal markets. Several companies market products that compete directly with the company's products while other companies offer products that potential customers may consider to be acceptable alternatives to Cemtrex's products and services. The company faces direct competition from companies that are larger and have greater financial resources than Cemtrex. Some of these larger competitors include Ecolab, Jabil Circuit, and EMCOR Group. To the best of the company's knowledge, its SmartDesk does not have any competition.

Ecolab provides products and services to help companies in various industries keep their environment clean. Jabil Circuit provides electronic manufacturing services to include electronics design, production and product management services. EMCOR Group is an electrical and mechanical construction and facilities services firm providing construction services to commercial, industrial, utility and institutional customers.

Cemtrex competes on the basis of price, engineering and technological expertise, know-how and the quality of its products, systems and services. Virtually all of the company's contracts are obtained through competitive bidding. Although price is an important factor and may in some cases be the governing factor, it is not always determinative, and contracts are often awarded on the basis of the efficiency or reliability of products and the engineering and technical expertise of the bidder.

FY 2018 Financial Results

The net loss to common was $10.2 million or $(0.90) per share on a 25.4% decrease in revenue to $89.9 million. The net loss included $915,000 in preferred dividends and a $1.2 million loss related to equity interests. In FY17 net income to common was $3.2 million or $0.31 per share and included $1.2 million in preferred dividends. We projected FY18 revenue of $91.1 million and a net loss to common of $5.1 million or $(0.45) per share.

The lower revenue reflects an 18% decrease in Electronics Manufacturing Services (EMS) sales to $52.5 million and a 37% decrease in Industrial Products and Services (IPS) sales to $35.6 million. The newly introduced Advanced Technologies segment's sales were $1.8 million. There were no sales in the Advanced Technologies segment in 2017.

The decrease in EMS revenue was primarily due to the loss of two customers, one as a result of consolidation and the other due to obsolescence of their product. The decrease in IPS revenue was primarily due to lower demand for environmental control products globally and the deregulation of emission standards in the US.

Gross profit decreased 21.4% to $31.4 million while margins increased to 34.9% from 33.1% as a result of higher margin projects. Operating expenses increased 21.5% to $42.3 million or 47% of revenue. Operating expenses consisted of general and administrative expenses of $36.7 million, up 5.5% from $34.8 million, and research and development expenses of $5.6 million. The increase in G&A expenses is a result of increased sales and marketing expenses, increased acquisition costs, and the recognition of share-based compensation. Spending on R&D related to the development of the company's SmartDesk and virtual reality (VR) applications also contributed to the increase in operating expenses. There were no R&D expenses in 2017.

Other income was $1.5 million versus $314,000 while interest expense increased to $1.2 million from $924,000 as a result of one-time expenses related to debt financing activities. The company recorded a $2.6 million income tax benefit in 2018 versus a $172,000 expense in 2017. The benefit was associated with the Tax Cuts and Jobs Act that was enacted in December 2017. The provision for income tax is based upon the projected income tax from the company's US and international subsidiaries.

Liquidity - As of September 30, 2018, the company had cash of $2.3 million, of which $1.3 million was restricted, a current ratio of 1.5 versus 2.1 for the pollution controls industry and 1.2 for the electronics manufacturing industry, $19 million of debt (of which $10.9 million is categorized as current), and approximately 52% of assets are covered by equity.

In FY18, cash used in operations was $2.8 million consisting of a cash loss of $4.4 million and a $1.6 million decrease in working capital. The decrease in working capital was due primarily to decreased inventory and receivables, offset in part by a decrease in accruals and an increase in prepaid expenses. Cash used in investing of $12.2 million consisted solely of capital expenditures. Cash provided by financing of $5.4 million consisted primarily of a net increase in debt. Cash decreased by $9.7 million to $2.3 million at September 30, 2018.

Cemtrex's current liabilities include $2.6 million outstanding on its revolving line of credit, $3.5 million outstanding on a bank loan with Deutsche Bank, $3.2 million of notes payable outstanding, and the current portion of long-term liabilities was $1.8 million as of September 30, 2018.

Cemtrex's long-term liabilities include $4.2 million of bank loans from Sparkasse Bank of Germany and Fulton Bank with interest rates varying from LIBOR plus 2.25% to 4.95%, and maturities varying from October 2021 to December 2022. The company also had a $277,000 of promissory note payable at treasury bill rates that matures in 2022 and $3.6 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details were not disclosed.

In November 2018, Cemtrex announced a subscription rights offering. The offering will be made through a dividend in the form of one non-transferable subscription right for each one share of common stock and for every ten series 1 warrants owned by holders on the record date at a subscription price of $0.75 per share of common stock. Pursuant to the terms of the rights offering, the rights may be exercised for a maximum of $2.7 million.

The rights offering commenced on November 26, 2018 and was set to expire on December 21, 2018. As of the date of this report, no further details have been disclosed.

Economic Outlook

In January 2019, the IMF lowered its global economic growth estimate to 3.5% for 2019 and 3.6% for 2020, down from its October 2018 estimate of 3.7% for both 2019 and 2020. The downward revision was due to a weakening global expansion. Weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook continue to weigh on the global economy.

The IMF kept its economic growth estimate for the US at 2.5% for 2019 and 1.8% for 2020. The softening in 2020 is due to the unwinding of fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest.

The 3rd estimate of US GDP growth (released on December 21, 2018) showed the US economy grew at an annual rate of 3.4% in 3Q18, down from 4.2% in 2Q18. The 3Q18 US GDP growth estimate primarily reflects increases in consumer spending, inventory investment, government spending, and business investment.

In Europe, the IMF lowered its economic growth forecast to 1.6% for 2019 (from 1.9% previously) but kept it unchanged at 1.7% for 2020. The downward revision for 2019 reflects soft private consumption, weak industrial production, and subdued foreign demand.

Because Cemtrex's business is conducted globally, the decreased global economic growth projections could constrain growth.

Projections

With the deregulation of emission standards in the US, growth in the Industrial Technology (IT) segment should be limited. We project CETX' sales in this segment will decline in FY19 and show moderate growth in FY20 as global governments implement environmental regulations to combat global warming.

The company lost two Electronics Manufacturing (EM) customers going into 2018 which adversely impacted revenues in FY18. We project a return to growth in this segment in FY19 and FY20 as new orders have increased this segments' backlog to over $50 million as of January 2019.

We project strong growth in the company's new Advanced Technologies (AT) segment as shipments of the SmartDesk begin to ramp. Deliveries are expected to begin at a moderate pace in 1Q19 at selling prices averaging approximately $5,000 per desk. SmartDesk sales should ramp significantly beginning in 2Q19 (see table below).

Segment Revenue
(in thousands $)

	FY17A	6M/18A	6/18A	9/18A	FY18A	12/18E	3/19E	6/19E	9/19E	FY19E	12/19E	3/20E	6/20E	9/20E	FY20E
AT	-	631	300	834	1,765	950	5,000	5,750	6,500	18,200	7,250	8,000	8,750	9,500	33,500
IT	56,569	21,507	7,647	6,486	35,640	6,750	6,800	6,850	6,900	27,300	6,950	7,100	7,250	7,400	28,700
EM	64,059	30,658	11,217	10,656	52,531	13,450	14,450	14,850	15,050	57,800	15,300	15,700	16,100	16,500	63,600
Total Revenue	120,628	52,796	19,164	17,976	89,936	21,150	26,250	27,450	28,450	103,300	29,500	30,800	32,100	33,400	125,800

Source: Company filings and Taglich Brothers' estimates

FY19 – We project a 14.9% increase in revenue to $103.3 million (prior was $94.6 million) and a net loss to common of $7.1 million or $(0.54) per share (unchanged). Our higher revenue projection is due primarily to increasing sales from the company's AT and EM segments offset by higher general and administrative expenses. Our revenue projection reflects a strong backlog in the EM segment and increased demand for the company's SmartDesk product (AT segment). R&D expenses are projected to be substantially less than originally anticipated as the bulk of developmental spending in the company's AT segment occurred in FY18.

We project gross margins of 35%, in line with 2018 gross margins and R&D expenses of $1.5 million. SG&A expenses are project to increase 8.9% to $40 million (with margins of 38.7%) due primarily to increased sales and marketing costs associated with the SmartDesk. We project interest expense increasing to $1.4 million from $1.2 million due to a higher average debt balance.

We project $718,000 cash provided by operations on a cash loss of $790,000 and a $1.5 million decrease in working capital. The decrease in working capital should be due primarily to increased payables and accruals, offset in part by increased inventory and receivables. Cash from operations and a net $1.6 million increase in debt is unlikely to cover $2.5 million of capital expenditures, decreasing cash (includes restricted cash) by $135,000 to $2.2 million at September 30, 2019.

FY20 – We project a 21.8% increase in revenue to $125.8 million and a net loss to common of $3.5 million or $(0.27) per share. Growth should be driven primarily by increasing demand for the company's SmartDesk product (AT segment).

We project gross margins of 35%, in line with 2018 and projected 2019 gross margins. We anticipate R&D expenses increasing to $1.8 million from $1.5 million as the company invests in development of its smart technology and virtual reality products. SG&A expenses are projected to increase 10% to $44 million (with margins of 35%) due primarily to increased sales and marketing costs associated with its AT segment products. We project interest expense of $1.4 million.

We project $3.2 million cash provided by operations on cash earnings of $2.6 million and a $643,000 decrease in working capital. The decrease in working capital should be due primarily to increased payables and accruals, offset in part by increased inventory and receivables. Cash from operations, a net $853,000 decrease in debt, and $2.5 million of capital expenditures should result in a $107,000 decrease in cash (includes restricted cash) to $2.1 million at September 30, 2020.

Risks

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

Dependence upon market acceptance of the company's technology - Failure to increase market acceptance of the company's environmental control products, electronics manufacturing services, or newly introduced advanced technology products could adversely impact the company's revenues.

Acquisition/Integration risks – The company's strategy involves growth through acquisitions. Risks associated with this type of strategy include being able to identify suitable acquisition candidates, successfully integrating and managing acquired businesses, obtaining acceptable financing, and lower than expected revenue from acquisitions.

Competition - Several companies market products that compete directly with Cemtrex. Other companies offer products that potential customers may consider to be acceptable alternatives to Cemtrex's. The company faces direct competition from companies with far greater financial, technological, and manufacturing resources.

Environmental regulations – The current US administration has relaxed its stance on curbing greenhouse gas emissions which has led to the loss of environmental business for Cemtrex in this region. While the company hopes to increase sales of its environmental products overseas, there can be no assurance that it will be successful in doing so.

International risks - A significant portion of Cemtrex's business is conducted internationally. Consequently, the company is subject to a variety of risks specific to international operations. Some of these risks include compliance with the anti-corruption laws of other jurisdictions in which the company operates; potential restrictions on transfers of funds; foreign currency fluctuations; and import and export duties.

Currency translation risks – Because Cemtrex conducts a significant portion of its business internationally, its financial results are subject to currency translation risks. A company that has operations overseas needs to translate the foreign currency values of its assets and liabilities into its home currency and consolidate them with its home currency assets and liabilities. The translation process could result in unfavorable equivalent home currency values.

Significant insider ownership – Over 50% of CETX's voting equity is beneficially held by Aron Govil, an executive director of the company and former chairman, and Saagar Govil, the company's CEO and chairman of the board. This degree of control could result in decisions that are not in the best interest of general shareholders.

Potential delisting – In January 2019, Cemtrex announced it received a letter from Nasdaq that the company no longer meets the minimum bid price requirement for continued listing on The Nasdaq Capital Market requiring a minimum bid price of $1.00 per share.

The company has until July 8, 2019, to regain compliance with the minimum bid price requirement during which the stock will continue to list on the NASDAQ. If at any time before July 8, 2019 the bid price of the Company's common stock closes at or above $1.00 per share for a minimum of 10 consecutive business days, Nasdaq will provide written notification that the company has achieved compliance with the minimum bid price requirement.

Cemtrex intends to continue actively monitoring the bid price for its common stock between now and July 8, 2019 and will take appropriate measures to resolve this deficiency and regain compliance with the minimum bid price requirement.

Liquidity risk - Shares of Cemtrex have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 7.7 million shares in the float and the average daily volume is approximately 66,000 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.

Consolidated Balance Sheets
(in thousands $)

	FY17A	FY18A	FY19E	FY20E
Cash and equivalents	10,443	974	839	732
Restricted cash	1,532	1,342	1,342	1,342
Receivables	15,461	14,111	14,347	15,026
Inventory	17,272	11,354	11,577	12,204
Prepaid expenses and other	1,721	4,133	4,133	4,133
Total current assets	46,429	31,914	32,238	33,437
Property and equipment	20,118	27,301	25,946	24,773
Goodwill	3,323	3,323	3,323	3,323
Investment in Vicon Technologies	-	1,699	1,699	1,699
Other assets	311	3,094	3,094	3,094
Total assets	**70,181**	**67,331**	**66,300**	**66,326**
Accounts payable	7,110	7,068	8,105	9,871
Short-term liabilities	6,770	10,914	9,914	8,087
Deposits from customers	-	51	51	51
Accrued expenses	4,165	2,334	3,616	4,151
Accrued income taxes	1,554	565	565	565
Deferred revenue	463	970	970	970
Total current liabilities	20,062	21,902	23,221	23,695
Deferred tax liabilities	1,891	2,052	2,052	2,052
Long-term debt	5,175	4,251	6,898	7,872
Mortgage payable	3,820	3,568	3,316	3,064
Notes payable	241	277	277	277
Total liabilities	**31,189**	**32,050**	**35,764**	**36,960**
Preferred equity	**3**	**3**	**3**	**3**
Total stockholders' equity	**38,992**	**35,281**	**30,536**	**29,366**
Total liabilities & stockholders' equity	**70,181**	**67,331**	**66,300**	**66,326**

Source: Company filings and Taglich Brothers' estimates

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

	FY17A	FY18A	FY19E	FY20E
Revenues	120,628	89,937	103,300	125,800
Cost of revenues	80,715	58,551	67,145	81,770
Gross profit	39,913	31,386	36,155	44,030
Research and development	-	5,559	1,500	1,800
General and administrative	34,798	36,727	40,000	44,000
Operating income	5,115	(10,900)	(5,345)	(1,770)
Other income (expense)	314	1,523	1,500	1,500
Interest expense	(924)	(1,248)	(1,400)	(1,400)
Income before taxes	4,505	(10,625)	(5,245)	(1,670)
Loss on equity interests	-	(1,215)	-	-
Income tax (benefit)	115	(2,600)	-	-
Net income / (loss)	4,390	(9,240)	(5,245)	(1,670)
Dividends on preferred stock	1,201	915	1,830	1,830
Net income (loss) to common	3,189	(10,155)	(7,075)	(3,500)
EPS to common	0.31	(0.90)	(0.54)	(0.27)
Shares Outstanding	10,176	11,236	13,200	13,200
Margin Analysis				
Gross margin	33.1%	34.9%	35.0%	35.0%
Research and development	0.0%	6.2%	1.5%	1.4%
SG&A	28.8%	40.8%	38.7%	35.0%
Operating margin	4.2%	(12.1)%	(5.2)%	(1.4)%
Pretax margin	3.7%	(11.8)%	(5.1)%	(1.3)%
Tax rate	2.6%	24.5%	0.0%	0.0%
Year / Year Growth				
Total Revenues	28.7%	(25.4)%	14.9%	21.8%
Net Income	(12.1)%	(310.5)%	(43.2)%	(68.2)%
EPS	(46.1)%	(388.4)%	(40.7)%	(50.5)%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY18A - FY20E
(in thousands $)

	6M/18A	6/18A	9/18A	FY18A	12/18E	3/19E	6/19E	9/19E	FY19E	12/19E	3/20E	6/20E	9/20E	FY20E
Revenues	52,795	19,164	17,978	89,937	21,150	26,250	27,450	28,450	103,300	29,500	30,800	32,100	33,400	125,800
Cost of revenues	34,763	11,901	11,887	58,551	13,748	17,063	17,843	18,493	67,145	19,175	20,020	20,865	21,710	81,770
Gross profit	18,032	7,263	6,091	31,386	7,403	9,188	9,608	9,958	36,155	10,325	10,780	11,235	11,690	44,030
Research and development	207	2,246	3,106	5,559	375	375	375	375	1,500	450	450	450	450	1,800
General and administrative	16,794	6,248	13,685	36,727	10,000	10,000	10,000	10,000	40,000	11,000	11,000	11,000	11,000	44,000
Operating income	1,031	(1,231)	(10,700)	(10,900)	(2,973)	(1,188)	(768)	(418)	(5,345)	(1,125)	(670)	(215)	240	(1,770)
Other income (expense)	799	(198)	922	1,523	375	375	375	375	1,500	375	375	375	375	1,500
Interest expense	(573)	(375)	(300)	(1,248)	(350)	(350)	(350)	(350)	(1,400)	(350)	(350)	(350)	(350)	(1,400)
Income before taxes	1,257	(1,804)	(10,078)	(10,625)	(2,948)	(1,163)	(743)	(393)	(5,245)	(1,100)	(645)	(190)	265	(1,670)
Loss on equity interests	-	(779)	(436)	(1,215)	-	-	-	-	-	-	-	-	-	-
Income tax (benefit)	102	-	(2,702)	(2,600)	-	-	-	-	-	-	-	-	-	-
Net income / (loss)	1,155	(2,583)	(7,812)	(9,240)	(2,948)	(1,163)	(743)	(393)	(5,245)	(1,100)	(645)	(190)	265	(1,670)
Dividends on preferred stock	-	915	-	915	-	915	-	915	1,830	-	915	-	915	1,830
Net income (loss) to common	1,155	(3,498)	(7,812)	(10,155)	(2,948)	(2,078)	(743)	(1,308)	(7,075)	(1,100)	(1,560)	(190)	(650)	(3,500)
EPS to common	0.10	(0.30)	(0.67)	(0.90)	(0.22)	(0.16)	(0.06)	(0.10)	(0.54)	(0.08)	(0.12)	(0.01)	(0.05)	(0.27)
Shares Outstanding	11,596	11,596	11,645	11,236	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200
Margin Analysis														
Gross margin	34.2%	37.9%	33.9%	34.9%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Research and development	0.4%	11.7%	17.3%	6.2%	1.8%	1.4%	1.4%	1.3%	1.5%	1.5%	1.5%	1.4%	1.3%	1.4%
SG&A	31.8%	32.6%	76.1%	40.8%	47.3%	38.1%	36.4%	35.1%	38.7%	37.3%	35.7%	34.3%	32.9%	35.0%
Operating margin	2.0%	(6.4)%	(59.5)%	(12.1)%	(14.1)%	(4.5)%	(2.8)%	-1.5%	(5.2)%	(3.8)%	(2.2)%	(0.7)%	0.7%	(1.4)%
Pretax margin	2.4%	(9.4)%	(56.1)%	(11.8)%	(13.9)%	(4.4)%	-2.7%	-1.4%	(5.1)%	(3.7)%	(2.1)%	-0.6%	0.8%	(1.3)%
Tax rate	8.1%	0.0%	26.8%	24.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth														
Total Revenues	73.1%	(31.1)%	(45.4)%	(25.4)%	(34.7)%	27.4%	43.2%	58.2%	14.9%	(67.2)%	45.6%	16.9%	17.4%	21.8%
Net Income	179.7%	(318.3)%	(662.4)%	(310.5)%	(502.7)%	(374.8)%	71.3%	(95.0)%	(43.2)%	(88.1)%	(78.1)%	74.4%	NMF	(68.2)%
EPS	1193.2%	(362.6)%	(1417.2)%	(388.4)%	(424.7)%	(498.1)%	81.4%	(85.2)%	(40.7)%	(90.8)%	(47.1)%	74.4%	(50.3)%	(50.5)%

Source: Company filings and Taglich Brothers' estimates

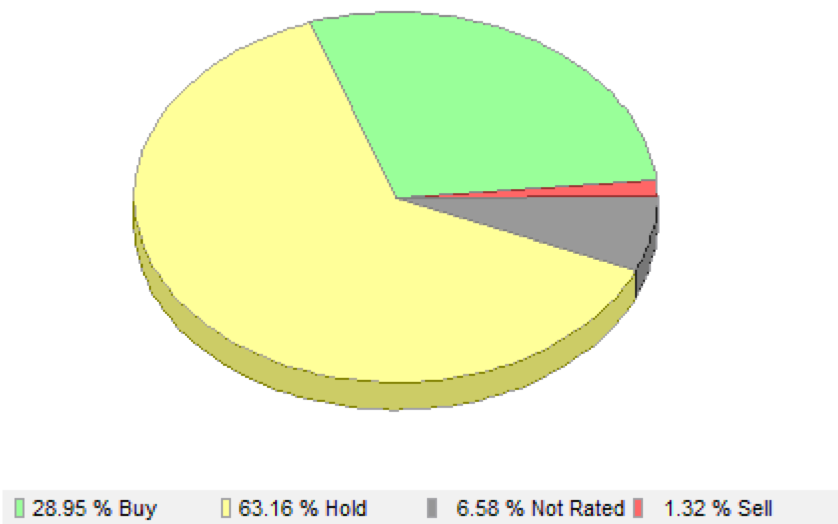
Statement of Cash Flows for the Periods Ended
(in thousands $)

	FY17A	FY18A	FY19E	FY20E
Net income (loss)	4,390	(9,240)	(5,245)	(1,670)
Depreciation & amortization	3,142	4,181	3,855	3,673
Deferred revenue	(924)	507	-	-
Stock-based compensation	67	408	500	500
Shares issued for professional services	109	-	-	-
Change in allowance for inventory obsolescence	-	600	-	-
Gain (loss) on disposal of property and equipment	66	594	-	-
Deferred taxes	(540)	(2,807)	-	-
Loss in equity interests	-	1,215	-	-
Interest expense on convertible debt	164	109	100	100
Cash earnings	6,474	(4,433)	(790)	2,603
Changes in assets and liabilities				
Receivables	(1,893)	1,350	(236)	(679)
Inventory	(3,200)	5,317	(223)	(628)
Prepaid expenses and other	754	(2,412)	-	-
Other	228	186	(352)	(352)
Accounts payable	(918)	(42)	1,037	1,765
Deposits from customers	-	51	-	-
Accrued expenses	(961)	(1,831)	1,282	536
Income taxes payable	511	(988)	-	-
(Increase) decrease in working capital	(5,479)	1,631	1,508	643
Net cash provided by (used in) operations	**995**	**(2,802)**	**718**	**3,246**
Purchase of property and equipment	(5,678)	(12,207)	(2,500)	(2,500)
Net cash used in investing	**(5,678)**	**(12,207)**	**(2,500)**	**(2,500)**
Net proceeds from stock/rights offering	12,734	1,503	-	-
Dividends paid	(529)	-	-	-
Proceeds from notes payable	-	4,025	3,000	2,000
Payments on notes payable	(981)	(565)	(565)	(565)
Proceeds from secured loan	-	3,680	2,500	1,000
Payments on secured loan	-	(189)	(189)	(189)
Proceeds (payments) on affiliated loan	(259)	-	-	-
Payments on bank loans	(802)	(1,272)	(1,272)	(1,272)
Revolving line of credit	1,095	(1,827)	(1,827)	(1,827)
Purchase and retirement of common stock	(1,345)	-	-	-
Payments on capital lease obligations	-	(4)	-	-
Net cash provided by (used in) financing	**9,913**	**5,351**	**1,647**	**(853)**
Net change in cash	**5,231**	**(9,659)**	**(135)**	**(107)**
Cash - beginning of period	**6,744**	**11,975**	**2,316**	**2,181**
Cash - end of period	**11,975**	**2,316**	**2,181**	**2,074**

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**	**8**
Hold		
Sell		
Not Rated	**2**	**50**

Important Disclosures

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All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $4,500 (USD) in December 2015 for the creation and dissemination of research reports for the first three months. After the first three months from initial publication, the company pays a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of six 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:

Benchmark Electronics, Inc. (NYSE: BHE)
Calgon Carbon Corporation (NYSE: CCC)
CECO Environmental Corp. (NASDAQ: CECE)
CUI Global, Inc. (NASDAQ: CUI)
Donaldson Company, Inc. (NYSE: DCI)
Ecolab, Inc. (NYSE: ECL)
EMCOR Group (NYSE: EME)
Fluor Corporation (NYSE: FLR)
Hill International, Inc. (NYSE: HIL)
IEC Electronics Corp. (NYSE: IEC)
Jabil Circuit, Inc. (NYSE: JBL)
Key Tronic Corporation (NASDAQ: KTCC)
Sparton Corporation (NYSE: SPA)
Stantec Inc. (NYSE: STN)
Tutor Perini Corporation (NYSE: TPC)
Vicon Industries, Inc. (NYSE: VII)

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.