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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
February 1, 2017

### CETX $6.30 — (NASDAQ)

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Revenues (millions) | $93.7 | $125.0 | $138.8 | $154.0 |
| Earnings (loss) per share | $0.58 | $0.44 | $0.62 | $0.86 |

| | | | |
|---|---|---|---|
| 52-Week range | $8.41 – $1.56 | Fiscal year ends: | September |
| Common shares out as of 12/27/16 | 9.9 million | Revenue per share (TTM) | $10.92 |
| Approximate float | 4.7 million | Price/Sales (TTM) | 0.6X |
| Market capitalization | $62 million | Price/Sales (FY2019)E | 0.5X |
| Tangible book value/share | $1.56 | Price/Earnings (TTM) | 10.9X |
| Price/tangible book value | 4.0X | Price/Earnings (FY2019)E | 7.3X |

*Headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, instruments & emission monitors for industrial processes, and industrial air filtration & environmental control systems. (www.cemtrex.com)*

***Key investment considerations:***

***We are reiterating our Speculative Buy rating on Cemtrex, Inc. (CETX) and raising our twelve-month price target to $7.50 per share (previously $5.00) due primarily to strong growth into FY19.***

***Cemtrex's core environmental business underlies strong revenue growth over the past five years (averaging 22% annual growth excluding AIS acquisition). Industry sector growth is projected at approximately 7% annually into 2020.***

***The FY16 acquisitions of AIS (December 2015), with an annual run rate of approximately $20 million, and Periscope (June 2016), with over $30 million in annual revenue, should contribute to revenue and profit gains over our forecast horizon.***

***In January 2017, Cemtrex announced plans to set up an instruments & electronics manufacturing facility in India. Cemtrex also announced it received new orders in excess of $15 million in December 2016 (a new monthly record).***

***In October 2016, Cemtrex announced it entered into a letter of intent to acquire an electronics manufacturer based in the Silicon Valley area.***

***For FY17, we project a 33% increase in revenue to $125 million and EPS of $0.44. Our revenue projection is increased from $117 million previously due to increased demand for the company's products and services. Our EPS projection is down from $0.65 previously reflecting increased foreign taxes, preferred stock dividends, and earnings dilution.***

***For FY18, we project an 11% increase in revenue to $138.8 million and EPS of $0.62. For FY19, we project an 11% increase in revenue to $154 million and EPS of $0.86. Revenue growth should be driven by continued demand for the company's products and services.***

***CETX reported (12/28/16) 4Q16 revenue increased 162% to $36.8 million and EPS of $0.21. We projected revenue of $27.5 million and EPS of $0.15.***

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

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***Recommendation and Valuation***

We are reiterating our **Speculative Buy** rating on Cemtrex, Inc. (CETX) and raising our **twelve-month price target to $7.50 per share** (previously $5.00) due primarily to strong growth into FY19.

Recent developments should bode well for Cemtrex's sales and financial condition going forward. Cemtrex entered into an agreement to acquire an electronics manufacturer (discussed in recent developments section). Cemtrex should benefit from opportunities presented from the Paris Climate Agreement (discussed in recent developments section). The potential for increased profit margins and greater market share is afforded by an instruments and electronics manufacturing plant scheduled to be built in India over the next twelve months (discussed in recent developments section).

A recent financing (discussed in financial results section) should greatly strengthen the company's balance sheet. Although the financing resulted in the dilution of our projected earnings, it should allow for new product development and further growth through additional acquisitions.

On December 27, 2016, shares of CETX jumped 14% to close at $6.42 in response to the stated exercise price of warrants associated with the recent financing. Shares have since settled at a price of $6.30 for a forward earnings multiple of 7X compared to a forward multiple of 20X for its peer group (chart below). Our peer group includes a mix of companies from the electronics manufacturing industry, environmental technology industry, and industrial contracting services industry to accurately reflect CETX's current revenue mix.

| Company | Symbol | Price | Market Cap $M | Trailing P/E | Forward P/E |
|---|---|---|---|---|---|
| Ecolab | ECL | 120.14 | 35,020 | 33.4 | 24.5 |
| Fluor Corporation | FLR | 55.23 | 7,690 | 12.2 | 19.0 |
| Donaldson Company | DCI | 41.89 | 5,530 | 26.9 | 23.8 |
| Jabil Circuit | JBL | 23.94 | 4,360 | 13.6 | 10.0 |
| EMCOR Group | EME | 69.61 | 4,220 | 23.8 | 19.8 |
| Clarcor | CLC | 82.85 | 4,040 | 28.4 | 29.0 |
| Stantec | STN | 26.75 | 3,010 | 29.5 | 16.4 |
| Benchmark Electronics | BHE | 30.55 | 1,490 | 18.1 | 19.3 |
| Tutor Perini Corporation | TPC | 29.65 | 1,460 | 19.9 | 12.5 |
| Calgon Carbon Corporation | CCC | 15.95 | 808 | 29.6 | 17.9 |
| CECO Environmental Corp. | CECE | 13.07 | 446 | 44.9 | 13.8 |
| Sparton Corp. | SPA | 21.75 | 213 | NA | 13.0 |
| Hill International | HIL | 5.4 | 280 | NA | 16.4 |
| CUI Global | CUI | 6.46 | 135 | NA | 43.1 |
| IEC Electronics | IEC | 3.65 | 38 | 7.8 | NA |
| **Peer Average** | | | | **24.0** | **19.9** |
| | | | | | |
| **Cemtrex, Inc.** | **CETX** | **6.3** | **62** | **10.9** | **7.3** |
| Source: Taglich Brothers estimates, Yahoo! Finance | | | | | |

The forward multiple for the four peers with market capitalizations under $1 billion is approximately 15X earnings (excludes CUI Global's 43X multiple). We applied a multiple of 10X (up from 8X previously to account for an almost 40% increase in the industry multiple and strong growth into FY19) to our FY19 EPS projection of $0.86, discounted for integration risk, to obtain a year-ahead value of $7.50 per share.

***Recent Developments***

*Cemtrex Plans to Setup a Manufacturing Plant in India* – In January 2017, Cemtrex announced it is planning to set up an instruments & electronics manufacturing facility in India to serve the growing demand in Asia and other parts of the world. Cemtrex believes that with access to low cost manufacturing, the company will be able to increase its market share and maintain its competitive advantage as a low cost provider in the market.

The company plans to establish this facility in the next twelve months.

*New Orders totaling over $15 Million Received* – In January 2017, Cemtrex announced it received new orders in excess of $15 million in December 2016 (a new monthly record). Approximately $10.5 million in orders were received for the Electronics Manufacturing Services segment for products related to innovative automotive products, medical devices, and automation technology. Cemtrex also received approximately $4.5 million in orders in its Industrial Products and Services segment from the packaging, industrial, power, oil, and construction industries. Shipments are expected to take place over the next twelve months.

*Cemtrex Enters into Agreement to Acquire Electronics Manufacturer* – In October 2016, Cemtrex announced it entered into a letter of intent to acquire an electronics manufacturer based in the Silicon Valley area. The target company is focused on electronic manufacturing services primarily for semiconductor customers as well as OEMs in the medical, industrial, and telecommunications industries and according to Cemtrex, has averaged $7 million in annual revenues over the last two years. The target company has a support office in India.

The terms of the deal and the name of the target company were not disclosed.

*Paris Climate Treaty to Open New Opportunities for Cemtrex* – In October 2016, the UN announced that the Paris Climate Agreement to cap emissions and curb the global rise in temperatures had reached the threshold necessary to formally take effect starting November 4, 2016. The agreement aims to keep average global temperatures from rising more than 2 degrees Celsius above preindustrial levels through individualized national limits on greenhouse gas emissions. While the agreement doesn't legally require countries to curb emissions, it does require countries to release their targets and report emissions by 2020.

Cemtrex expects new markets for greenhouse gas monitoring and control technologies to open up with the recent commitment of many nations to the Paris Climate Agreement. The company's Industrial Products & Services division provides monitoring instruments for industrial processes and environmental compliance, and equipment for controlling particulates, hazardous pollutants, and greenhouse gases used in carbon trading globally.

A large market opportunity exists for Cemtrex's VAMOX methane abatement technology. Estimates from the World Bank suggest that if China's national market is implemented, the total value of the carbon trading market could be valued at $100 billion. Cemtrex claims to be one of only two companies in the world with carbon-capture technology aligned with cap and trade programs and the Paris Climate Agreement to combat global warming by reducing greenhouse emissions. At $2 million per VAMOX system and with thousands of potential installations worldwide, this could be a multi-billion-dollar opportunity for Cemtrex.

***Business***

Founded in 2000 and headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, instruments & emission monitors for industrial processes, and industrial air filtration & environmental control 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, industrial air filtration and contracting services.

In October 2013, Cemtrex expanded into electronics manufacturing and services with the acquisition of privately held ROB Group, an electronics manufacturer located in Neulingen, Germany. Cemtrex has since made two more acquisitions.


In December 2015, Cemtrex completed the acquisition of privately held Advanced Industrial Services Inc. (AIS) based in York, Pennsylvania. AIS is a broad based industrial services provider that offers one-source expertise and capabilities in plant and equipment erection, relocation, and disassembly. AIS was combined into CETX's existing environmental business which is now labeled the Industrial Products & Services group.

In June 2016, Cemtrex announced it acquired Periscope, located in Paderborn, Germany. Periscope is focused on electronic manufacturing services primarily for major German automotive manufacturers.

***Segments***

Cemtrex operates in two segments, electronics manufacturing and services, and industrial products and services (formerly environmental products and services).

*Electronics Manufacturing and Services* – Cemtrex's electronic manufacturing and 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.

*Industrial Products and Services* – 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. The company also manufactures, sells, and services monitoring instruments, software and systems for the measurement of emissions of greenhouse gases, hazardous gases, and other regulated pollutants used in emissions trading globally as well as for industrial processes. Cemtrex also markets monitoring and analysis equipment for gas and liquid measurement for oil & gas applications. Major customers can be seen in the chart at right.

## *Markets*

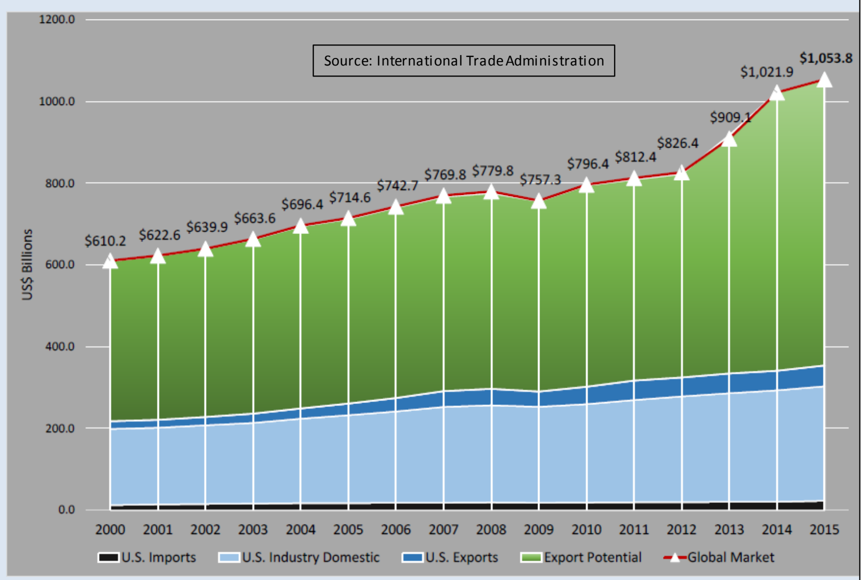
*Electronics Manufacturing Services* – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. In October 2016, the market research firm Research and Markets estimated the electronics manufacturing services market at $430 billion in 2015 and projected it to grow to $580 billion in 2020 for a compound annual growth rate of approximately 6.2%. The IT research firm IDC says that growth in this market will be driven by rising demand from the consumer electronics, servers and storage, networking equipment, automotive electronics, and medical electronics industries.

*Industrial Products and Services* – This market (as it concerns 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.

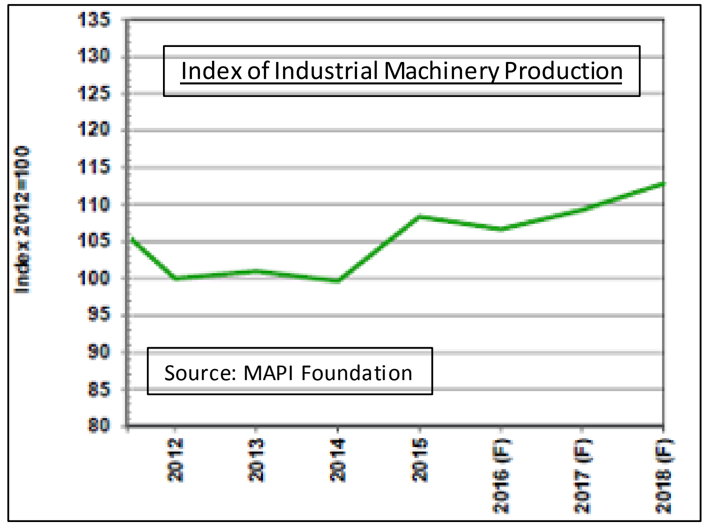
The ET industry evolved in response to concerns about the risks and costs of pollution and the enactment of pollution control legislation and regulations in the US and around the world. In June 2016, the International Trade Administration cited some key industry facts concerning the global ET market including a total market value of $1.05 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 $1.05 trillion in the fifteen years to 2015 (latest figures available) for a compound annual growth rate of approximately 3.7% (see chart above right).

**Figure 2: Global Environmental Technologies Market Overview**




Growth for the emission control and environmental monitoring markets that the company sells to is projected a little over 7%. The latest projections from Market Research Reports Search Engine (September 2016) showed the global industrial emission control market was valued at $11.7 billion in 2014 and is projected to reach $22.1 billion by 2023, a CAGR of 7.3%. The latest projections from RnR Market Research (July 2016) forecasted the global environmental monitoring market to grow at a CAGR of 7.5% from 2015 to 2020 reaching a value of $20.5 billion. Some of the factors driving this growth include a growing population and the development of policies and initiatives aimed at reducing air, soil, and water pollution.

In September 2016, the industrial research firm MAPI said the market for industrial machinery equipment should post moderate growth into 2018. MAPI projected industrial machinery production to rise 2% in 2017 and 3% in 2018. MAPI cited a 1% rise in production in the three months ending July 2016 compared with the same period a year earlier and said that its momentum indicator was very positive.




## *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.

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.

## *4Q and FY16 Financial Results*

4Q16 – Net income increased to $2 million or $0.21 per share on a 162% increase in revenue to $36.8 million. Net income in 4Q15 was $417,000 or $0.06 per share. We projected revenue of $27.5 million and net income of $1.4 million or $0.15 per share.

The increase in revenue was primarily due to the acquisition of Periscope in June 2016 and the acquisition of AIS in December 2015.

Gross profit increased to $11.3 million from $3.8 million, with margins increasing to 30.9% from 27.1%.

Operating expenses increased to $9.3 million or 25.4% of revenue from $3.2 million or 22.6% of revenue due primarily to the acquisitions of AIS and Periscope. Other income was $1.1 million versus an expense of $60,000. The company paid $1 million in income tax which is based on the projected income tax from the company's US and international subsidiaries.

FY16 – Net income increased to $5 million or $0.58 per share on a 65% increase in revenue to $93.7 million. Net income was $2.8 million or $0.40 per share in 2015.

The increase in revenue was due to a $19.2 million increase in electronics manufacturing services sales and a $17.6 million increase in industrial products and services sales. The increase in industrial products and services sales was primarily due to the acquisition of AIS in December 2015 (provided an additional $16.7 million in

FY16 revenue). The increase in electronics manufacturing services was primarily due to the acquisition of Periscope in June 2016 (provided an additional $18.7 million in FY16 revenue).

Gross profit increased to $29.2 million from $16.3 million, with margins increasing to 31.2% from 28.7% due to higher electronics manufacturing services sales with their higher margins (34.9% versus 27.9% for industrial products and services).

Operating expenses increased to $24.2 million from $13.8 million due primarily to the acquisition of AIS and Periscope. Other income increased to 1.7 million from $834,000 due primarily to the acquisitions of AIS and Periscope. The company paid $1.1 million in income tax which is based on the projected income tax from the company's US and international subsidiaries.

*Liquidity* - As of September 30, 2016, the company had $6.7 million cash of which $698,000 was restricted, a current ratio of 1.5X versus 3.3X for the pollution controls industry and 1.3X for the electronics manufacturing industry, $20.8 million of debt (of which $9.6 million is categorized as current), and approximately 28% of assets are covered by equity. By our forecasts, the company should have sufficient capital to meets its operational needs for the next twelve months.

Cash provided by operations in FY16 was approximately $7.9 million consisting of cash earnings of $10 million and a $2.1 million increase in working capital. The change in working capital was primarily due to an increase in accounts receivable and a decrease in the revolving line of credit, offset in part by an increase in accrued expenses and accounts payable, and a decrease in prepaid expenses. Cash used in investing consisted of $16.5 million for the acquisitions of AIS and Periscope and $664,000 of capital expenditures. Cash provided by financing of $13.8 million consisted primarily of increased debt. Cash increased by $4.6 million to $13.8 million at September 30, 2016.

Cemtrex's current liabilities include $3.7 million of convertible notes that mature in varying amounts from February 2017 to August 2017 with interest rates varying from 8% to 10% and conversion prices of 75% to 80% of market and $5.00 to $6.50. Cemtrex also has $3.5 million outstanding on its revolving line of credit, $294,000 credit card payable, and the current portion of long-term liabilities was $2.1 million as of September 30, 2016.

Cemtrex's long-term liabilities include $6.4 million of bank loans from Sparkasse Bank of Germany and Fulton Bank with interest rates varying from LIBOR plus 2% to 4.95%, and maturities varying from May 2018 to December 2022. The company also has a $1.2 million note payable to AIS at an interest rate of 6% that matures December 2018, a $3.6 million note payable to Ducon Technologies at an interest rate of 5%, and $3.9 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years.

In December 2016, CETX commenced a rights offering to its stockholders to raise up to $15 million through the sale of 1.5 million units at $10 per unit. Each unit consists of one share of preferred stock paying cumulative dividends of 10% and two five-year warrants exercisable at $6.31 per share. The rights offering concluded on January 20, 2017 with the company selling 1,356,187 units for gross proceeds of approximately $13.6 million. The remaining 143,813 units will be available to both current subscribers and other public investors who have yet to subscribe and will expire on January 31, 2017. The rights offering, if fully subscribed and all warrants exercised, would add an additional three million shares of common stock.

### ***Economic Outlook***

In January 2017, the International Monetary Fund (IMF) projected global economic growth of 3.4% in 2017 and 3.6% in 2018, unchanged from an earlier (October 2016) growth forecast. The growth estimate primarily reflects a pick-up in economic activity in emerging and developing economies. However, this forecast has a high level of uncertainty associated with it in light of the effect that potential changes in the policy stance of the US under the incoming administration might have on the global economy.

The IMF raised its economic growth estimate for the US to 2.3% in 2017 and 2.5% in 2018, up from an earlier (October 2016) growth forecast of 2.2% for 2017 and 2.1% for 2018. The IMF attributed the upward revision to the assumption that fiscal stimulus will spur growth.

The advance estimate of US GDP growth (released on January 27, 2017) showed the US economy grew at an annual rate of 1.9% in 4Q16, down from 3.5% growth in 3Q16. The 4Q16 US GDP growth estimate primarily reflects a rise in consumer spending, private inventory investment, residential investment, business investment, and state and local government spending. Partly offsetting these contributions to GDP growth were declines in exports and federal government spending.

In Europe, the IMF raised its economic growth forecast to 1.6% in 2017 and 2018, up from an earlier (October 2016) growth forecast of 1.5% for 2017, but unchanged for 2018. The IMF said that growth projections in this area are primarily based on stronger-than-expected economic performance in the latter part of 2016.

Because Cemtrex's business is conducted globally, the mixed economic growth projections domestically and abroad could constrain growth.

## ***Projections***

Cemtrex's sales of industrial products and services have averaged 22% annual growth over the past five years (excludes AIS acquisition) while the overall environmental technologies industry has averaged annual growth of approximately 5%. We believe CETX's higher growth as compared to the industry is due arguably to the company's ability to differentiate itself with custom designed products and its reputation as a high quality supplier. We believe these competitive advantages will enable CETX to continue to grow at a rate faster than the overall industry (average annual growth projection of approximately 7% into 2018) and project CETX will grow this segment's sales by an average annual growth rate of approximately 14% into FY19.

Cemtrex's sales from its electronics manufacturing services segment (only three full years of revenue from this segment) have been under pressure due to the drop in the currency exchange rate between the US dollar and the Euro (Euro down 17% relative to the US dollar over the past three years). Excluding currency exchange rates, we will be growing this segment's sales in line with industry growth rates of approximately 6% annually going forward.

The following table shows FY16 and a quarterly breakdown of our projections for the revenue contribution from recent acquisitions.

Revenue Contribution from Recent Acquisitions
(In thousands $)

| | FY16A | 12/16E | 3/17E | 6/17E | 9/17E | FY17E | 12/17E | 3/18E | 6/18E | 9/18E | FY18E | 12/18E | 3/19E | 6/19E | 9/19E | FY19E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AIS | 16,751 | 5,175 | 5,100 | 5,400 | 5,575 | 21,250 | 5,750 | 5,675 | 6,000 | 6,175 | 23,600 | 6,400 | 6,300 | 6,650 | 6,850 | 26,200 |
| Periscope | 18,688 | 10,075 | 9,900 | 10,475 | 10,800 | 41,250 | 11,175 | 10,975 | 11,625 | 11,975 | 45,750 | 12,400 | 12,200 | 12,900 | 13,300 | 50,800 |
| Total Contribution | 35,439 | 15,250 | 15,000 | 15,875 | 16,375 | 62,500 | 16,925 | 16,650 | 17,625 | 18,150 | 69,350 | 18,800 | 18,500 | 19,550 | 20,150 | 77,000 |

Source: Company filings and Taglich Brothers' estimates

The December 2015 acquisition of AIS with an annual run rate of approximately $20 million in revenue in FY16 should provide a significant increase to CETX's top and bottom lines over our forecast horizon. Due to this acquisition occurring in the last month of 1Q16, we do not expect to realize the full effect from this acquisition until FY17.

The June 2016 acquisition of Periscope with over $30 million in annual revenue should also contribute to increasing CETX's top and bottom lines over our forecast horizon. Due to this acquisition occurring in the last month of 3Q16, we do not expect to realize the full effect from this acquisition until FY17.

*FY17* – We project a 33% increase in revenue to $125 million and net income of $5.2 million or $0.44 per share. Recent acquisitions should account for $62.5 million or approximately 50% of total revenue. Our revenue projection is increased from $117 million previously due primarily to increased demand for the company's products and services. Our net income projection is down from $6.2 million or $0.65 per share previously to primarily reflect increased foreign taxes, preferred stock dividends, and earnings dilution from a higher share count.

We project gross margins increasing to 31.6% from 31.2% in FY16 due primarily to increased overhead coverage. SG&A expenses are project to increase to $31.6 million (with margins of 25.3%) from $24.2 million (with margins of 25.3%) in FY16 due primarily to a full year inclusion of AIS and Periscope. We project interest expense to decrease to $564,000 from $674,000 due to a lower average debt level.

We project $4.1 million cash from operations from cash earnings of $9.3 million and a $5.2 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory. Cash from operations and our projected $15 million proceeds from the recent rights offering should be more than offset by our projected $7 million of capital expenditures (includes funds for India facility), $1 million of dividend payments, and $16.4 million pay down of debt, decreasing cash by $5.4 million to $676,000 at September 30, 2017.

*FY18* – We project an 11% increase in revenue to $138.8 million and net income of $8 million or $0.62 per share. Recent acquisitions should account for $69.4 million or approximately 50% of total revenue. Revenue growth should be driven by continued demand for the company's products and services.

We project gross margins increasing to 33.3%, from 31.6% in FY17 due primarily to increased overhead coverage and lower cost manufacturing from the India plant. SG&A expenses are project to increase to $34 million (with margins of 24.5%) from $31.6 million (with margins of 25.3%). We project interest expense to decrease to $144,000 from $564,000 due to a lower average debt level.

We project $10.2 million cash from operations from cash earnings of $12.5 million and a $2.3 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory. Cash from operations should cover our projected $2 million of capital expenditures, $1.5 million of dividend payments, and $1.4 million pay down of debt, increasing cash by $5.3 million to $6 million at September 30, 2018.

*FY19* – We project an 11% increase in revenue to $154 million and net income of $11.2 million or $0.86 per share. Recent acquisitions should account for $77 million or approximately 50% of total revenue. Revenue growth should be driven by continued demand for the company's products and services.

We project gross margins increasing to 34.7%, from 33.3% in FY18 due primarily to increased overhead coverage and a full year of lower cost manufacturing from the India plant. SG&A expenses are project to increase to $37 million (with margins of 24%) from $34 million (with margins of 24.5%). We project interest expense to decrease to $71,000 from $144,000 due to a lower average debt level.

We project $12.9 million cash from operations from cash earnings of $15.4 million and a $2.5 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory. Cash from operations should cover our projected $1 million of capital expenditures, $1.5 million of dividend payments, and $650,000 pay down of debt, increasing cash by $8.7 million to $14.7 million at September 30, 2019.

***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 or electronics manufacturing services could adversely impact the company's revenues.

*Acquisition/Integration risks* – The company's current strategy involves growth through acquisitions. Risks associated with this type of strategy include being able to identify suitable acquisition candidates, successfully integrating and managing an acquired business, obtaining acceptable financing, and consummating future acquisitions.

*Additional dilution* – The recent rights offering, if fully subscribed and all warrants exercised, could add an additional three million shares of common stock outstanding.

*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.

*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* – Approximately 50% of CETX's voting equity is beneficially held by Aron Govil, the company's former chairman, and Saagar Govil, the company's CEO. This degree of control could result in decisions that are not in the best interest of general shareholders.

*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 4.7 million shares in the float and the average daily volume is approximately 477,000 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 $)

| | 2015A | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Cash and equivalents | 1,487 | 6,046 | 676 | 5,973 | 14,722 |
| Restricted cash | - | 698 | 698 | 698 | 698 |
| Short-term investments | - | - | - | - | - |
| Receivables | 4,771 | 13,569 | 18,101 | 20,092 | 22,300 |
| Inventory | 6,369 | 14,072 | 18,665 | 20,203 | 21,927 |
| Deferred tax asset | - | 67 | 67 | 67 | 67 |
| Prepaid expenses and other | 894 | 2,475 | 2,475 | 2,475 | 2,475 |
| Total current assets | 13,521 | 36,927 | 40,681 | 49,507 | 62,189 |
| Property and equipment | 8,142 | 17,648 | 21,786 | 21,030 | 19,488 |
| Goodwill | 845 | 919 | 919 | 919 | 919 |
| Due from related parties | - | - | - | - | - |
| Notes receivable | - | - | - | - | - |
| Other assets | 36 | 540 | 540 | 540 | 540 |
| **Total assets** | **22,544** | **56,034** | **63,926** | **71,996** | **83,136** |
| | | | | | |
| Accounts payable | 4,386 | 7,733 | 10,257 | 11,102 | 12,050 |
| Credit card payable | - | 294 | 294 | 294 | 294 |
| Sales tax payable | - | 263 | 263 | 263 | 263 |
| Accrued expenses | 309 | 5,175 | 6,903 | 7,663 | 8,505 |
| Accrued income taxes | 74 | 1,043 | 1,043 | 1,043 | 1,043 |
| Revolving line of credit | 2,130 | 3,455 | 2,000 | 2,000 | 1,000 |
| Deferred revenue | - | 1,387 | 1,387 | 1,387 | 1,387 |
| Convertible notes | 1,274 | 3,748 | - | - | - |
| Notes payable | - | - | - | - | - |
| Current portion of long-term liabilities | 654 | 2,057 | 2,057 | 650 | - |
| Total current liabilities | 8,827 | 25,155 | 24,204 | 24,402 | 24,541 |
| Deferred tax liabilities | - | 94 | 94 | 94 | 94 |
| Accrued expenses | - | - | - | - | - |
| Long-term debt | 2,384 | 6,402 | - | - | - |
| Mortgage payable | 4,089 | 3,869 | 3,649 | 3,429 | 3,209 |
| Notes payable | - | 1,222 | - | - | - |
| Notes payable-related party | 119 | 3,600 | - | - | - |
| **Total liabilities** | **15,419** | **40,342** | **27,947** | **27,925** | **27,844** |
| **Preferred equity** | **1** | **1** | **3** | **3** | **3** |
| **Total stockholders' equity** | **7,125** | **15,692** | **35,979** | **44,071** | **55,292** |
| **Total liabilities & stockholders' equity** | **22,544** | **56,034** | **63,926** | **71,996** | **83,136** |

Source: Company filings and Taglich Brothers' estimates

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

| | 2015A | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenues | 56,887 | 93,705 | 125,000 | 138,750 | 154,000 |
| Cost of revenues | 40,565 | 64,491 | 85,540 | 92,589 | 100,490 |
| Gross profit | 16,322 | 29,214 | 39,461 | 46,161 | 53,510 |
| General and administrative | 13,821 | 24,150 | 31,600 | 34,000 | 36,950 |
| Operating income | 2,501 | 5,064 | 7,861 | 12,161 | 16,560 |
| Other income (expense) | 834 | 1,694 | 1,600 | 1,600 | 1,600 |
| Interest expense | (496) | (674) | (564) | (144) | (71) |
| Income before taxes | 2,839 | 6,084 | 8,897 | 13,617 | 18,089 |
| Income tax (benefit) | 1 | 1,090 | 2,669 | 4,085 | 5,427 |
| Net income / (loss) | 2,838 | 4,994 | 6,228 | 9,532 | 12,662 |
| Dividends on preferred stock | - | - | 1,000 | 1,500 | 1,500 |
| Net income / (loss) to common | 2,838 | 4,994 | 5,228 | 8,032 | 11,162 |
| EPS | 0.40 | 0.58 | 0.44 | 0.62 | 0.86 |
| Shares Outstanding | 7,059 | 8,582 | 12,000 | 13,000 | 13,000 |
| Margin Analysis | | | | | |
| Gross margin | 28.7% | 31.2% | 31.6% | 33.3% | 34.7% |
| SG&A | 24.3% | 25.8% | 25.3% | 24.5% | 24.0% |
| Operating margin | 4.4% | 5.4% | 6.3% | 8.8% | 10.8% |
| Pretax margin | 5.0% | 6.5% | 7.1% | 9.8% | 11.7% |
| Tax rate | 0.0% | 17.9% | 30.0% | 30.0% | 30.0% |
| Year / Year Growth | | | | | |
| Total Revenues | 19.4% | 64.7% | 33.4% | 11.0% | 11.0% |
| Net Income | 6.3% | 76.0% | 24.7% | 53.1% | 32.8% |
| EPS | 1.9% | 44.7% | (25.1)% | 41.8% | 39.0% |

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2017E - 2019E
(in thousands $)

| | 12/16E | 3/17E | 6/17E | 9/17E | 2017E | 12/17E | 3/18E | 6/18E | 9/18E | 2018E | 12/18E | 3/19E | 6/19E | 9/19E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 30,500 | 30,000 | 31,750 | 32,750 | 125,000 | 33,850 | 33,300 | 35,250 | 36,350 | 138,750 | 37,550 | 36,950 | 39,150 | 40,350 | 154,000 |
| Cost of revenues | 21,045 | 20,700 | 21,590 | 22,205 | 85,540 | 22,680 | 22,478 | 23,441 | 23,991 | 92,589 | 24,520 | 24,295 | 25,448 | 26,228 | 100,490 |
| Gross profit | 9,455 | 9,300 | 10,160 | 10,546 | 39,461 | 11,171 | 10,823 | 11,809 | 12,359 | 46,161 | 13,030 | 12,655 | 13,703 | 14,123 | 53,510 |
| General and administrative | 7,800 | 7,600 | 8,000 | 8,200 | 31,600 | 8,300 | 8,150 | 8,650 | 8,900 | 34,000 | 9,000 | 8,850 | 9,400 | 9,700 | 36,950 |
| Operating income | 1,655 | 1,700 | 2,160 | 2,346 | 7,861 | 2,871 | 2,673 | 3,159 | 3,459 | 12,161 | 4,030 | 3,805 | 4,303 | 4,423 | 16,560 |
| Other income (expense) | 400 | 400 | 400 | 400 | 1,600 | 400 | 400 | 400 | 400 | 1,600 | 400 | 400 | 400 | 400 | 1,600 |
| Interest expense | (221) | (165) | (112) | (66) | (564) | (42) | (38) | (34) | (30) | (144) | (25) | (19) | (15) | (12) | (71) |
| Income before taxes | 1,834 | 1,935 | 2,448 | 2,680 | 8,897 | 3,229 | 3,035 | 3,525 | 3,829 | 13,617 | 4,405 | 4,186 | 4,688 | 4,810 | 18,089 |
| Income tax (benefit) | 550 | 581 | 734 | 804 | 2,669 | 969 | 910 | 1,057 | 1,149 | 4,085 | 1,321 | 1,256 | 1,406 | 1,443 | 5,427 |
| Net income / (loss) | 1,284 | 1,355 | 1,713 | 1,876 | 6,228 | 2,260 | 2,124 | 2,467 | 2,680 | 9,532 | 3,083 | 2,930 | 3,281 | 3,367 | 12,662 |
| Dividends on preferred stock | - | 250 | - | 750 | 1,000 | - | 750 | - | 750 | 1,500 | - | 750 | - | 750 | 1,500 |
| Net income / (loss) to common | 1,284 | 1,105 | 1,713 | 1,126 | 5,228 | 2,260 | 1,374 | 2,467 | 1,930 | 8,032 | 3,083 | 2,180 | 3,281 | 2,617 | 11,162 |
| EPS | 0.13 | 0.09 | 0.13 | 0.09 | 0.44 | 0.17 | 0.11 | 0.19 | 0.15 | 0.62 | 0.24 | 0.17 | 0.25 | 0.20 | 0.86 |
| Shares Outstanding | 10,000 | 12,000 | 13,000 | 13,000 | 12,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 |
| Margin Analysis | | | | | | | | | | | | | | | |
| Gross margin | 31.0% | 31.0% | 32.0% | 32.2% | 31.6% | 33.0% | 32.5% | 33.5% | 34.0% | 33.3% | 34.7% | 34.3% | 35.0% | 35.0% | 34.7% |
| SG&A | 25.6% | 25.3% | 25.2% | 25.0% | 25.3% | 24.5% | 24.5% | 24.5% | 24.5% | 24.5% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% |
| Operating margin | 5.4% | 5.7% | 6.8% | 7.2% | 6.3% | 8.5% | 8.0% | 9.0% | 9.5% | 8.8% | 10.7% | 10.3% | 11.0% | 11.0% | 10.8% |
| Pretax margin | 6.0% | 6.5% | 7.7% | 8.2% | 7.1% | 9.5% | 9.1% | 10.0% | 10.5% | 9.8% | 11.7% | 11.3% | 12.0% | 11.9% | 11.7% |
| Tax rate | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% |
| Year / Year Growth | | | | | | | | | | | | | | | |
| Total Revenues | 129.1% | 58.7% | 28.5% | (10.9)% | 33.4% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 10.9% | 11.0% | 11.1% | 11.0% | 11.0% |
| Net Income | 85.5% | 63.2% | 19.7% | (8.1)% | 24.7% | 76.1% | 56.8% | 44.0% | 42.9% | 53.1% | 36.4% | 38.0% | 33.0% | 25.6% | 32.8% |
| EPS | 38.8% | (9.0)% | (18.3)% | (59.6)% | (25.1)% | 35.4% | 14.8% | 44.0% | 71.4% | 41.8% | 36.4% | 58.7% | 33.0% | 35.6% | 39.0% |

Source: Company filings and Taglich Brothers' estimates

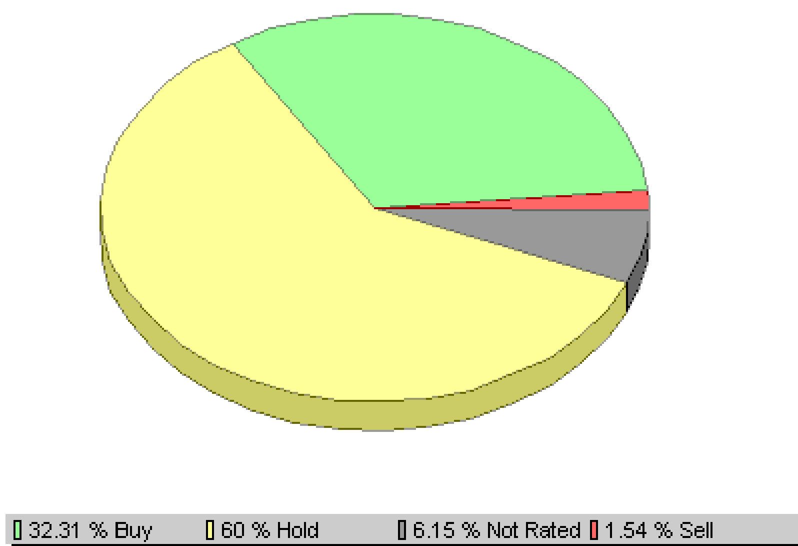
Statement of Cash Flows for the Periods Ended
(in thousands $)

| | 2015A | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Net income (loss) | 2,838 | 4,994 | 6,228 | 9,532 | 12,662 |
| Depreciation & amortization | 772 | 2,296 | 2,862 | 2,756 | 2,542 |
| Deferred revenue | - | 1,127 | - | - | - |
| Stock-based compensation | 57 | 52 | 60 | 60 | 60 |
| Shares issued for acquisition | - | 1,000 | - | - | - |
| Discounts on convertible debt | - | 249 | - | - | - |
| Deferred taxes | - | 102 | - | - | - |
| Goodwill | - | 5 | - | - | - |
| Interest expense on convertible debt | - | 139 | 140 | 140 | 140 |
| Cash earnings | 3,667 | 9,964 | 9,290 | 12,488 | 15,404 |
| *Changes in assets and liabilities* | | | | | |
| Restricted cash | - | (90) | - | - | - |
| Receivables | (733) | (5,586) | (4,532) | (1,991) | (2,208) |
| Due from related party | - | - | - | - | - |
| Inventory | (99) | 764 | (4,593) | (1,538) | (1,724) |
| Prepaid expenses and other | (363) | 2,343 | - | - | - |
| Other | 17 | (171) | - | - | - |
| Accounts payable | 1,665 | 1,377 | 2,524 | 845 | 947 |
| Credit card payable | - | 67 | - | - | - |
| Sales tax payable | - | 85 | - | - | - |
| Revolving line of credit | - | (6,117) | (1,455) | - | (1,000) |
| Accrued expenses | (131) | 4,297 | 2,824 | 400 | 1,480 |
| Income taxes payable | 12 | 962 | - | - | - |
| (Increase) decrease in working capital | 368 | (2,069) | (5,232) | (2,284) | (2,505) |
| **Net cash provided by (used in) operations** | **4,035** | **7,895** | **4,058** | **10,204** | **12,899** |
| | | | | | |
| Purchase of property and equipment | (1,516) | (664) | (7,000) | (2,000) | (1,000) |
| Purchase of short-term investments | - | - | - | - | - |
| Redemption of short-term investments | 560 | - | - | - | - |
| Investment in subsidiary | - | (16,483) | - | - | - |
| **Net cash used in investing** | **(956)** | **(17,147)** | **(7,000)** | **(2,000)** | **(1,000)** |
| | | | | | |
| Proceeds from rights offering | - | - | 15,000 | - | - |
| Dividends paid | - | - | (1,000) | (1,500) | (1,500) |
| Proceeds from notes payable | - | 2,218 | - | - | - |
| Payments on notes payable | - | (486) | (1,222) | - | - |
| Proceeds (payments) on affiliated loan | (1,751) | 3,480 | (3,600) | - | (1,000) |
| Proceeds from bank loans | - | 5,176 | - | - | - |
| Payments on bank loans | (2,026) | (1,656) | (7,857) | (1,407) | (650) |
| Payments on convertible notes | - | - | (3,748) | - | - |
| Proceeds from convertible notes | 2,038 | 5,078 | - | - | - |
| **Net cash provided by (used in) financing** | **(1,739)** | **13,810** | **(2,427)** | **(2,907)** | **(3,150)** |
| **Net change in cash** | **1,340** | **4,558** | **(5,369)** | **5,297** | **8,749** |
| **Cash - beginning of period** | **146** | **1,487** | **6,045** | **676** | **5,973** |
| **Cash - end of period** | **1,487** | **6,045** | **676** | **5,973** | **14,722** |

Source: Company filings and Taglich Brothers' estimates

## Price Chart


## Taglich Brothers' Current Ratings Distribution




| Investment Banking Services for Companies Covered in the Past 12 Months | | |
|---|---|---|
| Rating | # | % |
| Buy | 3 | 12 |
| Hold | 1 | 100 |
| Sell | | |
| Not Rated | | |

## Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $4,500 (USD) in 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.**

<u>Public companies mentioned in this report:</u>

Benchmark Electronics, Inc. (NYSE: BHE)
Calgon Carbon Corporation (NYSE: CCC)
CECO Environmental Corp. (NASDAQ: CECE)
Clarcor, Inc. (NYSE: CLC)
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)
Sparton Corporation (NYSE: SPA)
Stantec Inc. (NYSE: STN)
Tutor Perini Corporation (NYSE: TPC)

## 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.