

Research Report – Update

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

Cemtrex, Inc.

Speculative Buy

John Nobile

CETX \$0.62 — (NASDAQ)

February 27, 2019

	<u>FY17A</u>	<u>FY18A</u>	<u>FY19E</u>	<u>FY20E</u>
Revenues (millions)	\$120.6	\$89.9	\$100.7	\$132.4
Earnings (loss) per share*	\$0.31	\$(0.90)	\$(0.63)	\$(0.03)

52-Week range	\$3.33 – \$0.54	Fiscal year ends:	September
Common shares out as of 2/11/19	14.2 million	Revenue per share (TTM)	\$6.36
Approximate float	8.2 million	Price/Sales (TTM)	0.1X
Market capitalization	\$9 million	Price/Sales (FY20)E	0.1X
Tangible book value/share	\$2.19	Price/Earnings (TTM)	NMF
Price/tangible book value	0.3X	Price/Earnings (FY20)E	NMF

* To common shareholders

Headquartered in Long Island City, 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 but lowering our twelve-month price target to \$1.50 per share from \$2.00 to reflect the execution risks associated with evaluations by potential enterprise customers of the company's newly released SmartDesk offering.

The 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 Electronics Manufacturing (EM) segment orders.

In 1Q19, deliveries of the company's SmartDesk began at a moderate pace. A significant ramp is expected in 2Q19.

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

1Q19 net loss to common (10Q released 2/19/19) was \$(0.24) per share on a 46.6% decrease in revenue to \$17.3 million. In 1Q18, net income to common was \$0.07 per share. We projected 1Q19 revenue of \$21.2 million and a net loss to common of \$(0.22) per share.

For FY19, we project an 11.9% increase in revenue to \$100.7 million (prior was \$103.3 million) and a net loss to common of \$(0.63) per share (prior was \$(0.54) per share). Our reduced projections reflect 1Q19 results, as well as continued declines in the IT segment.

For FY20, we project a 31.5% increase in revenue to \$132.4 million (prior was \$125.8 million) and a net loss to common of \$(0.03) per share (prior was \$(0.27) per share). Our projections reflect a full year's consolidation of Vicon that became effective in February 2019.

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

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating but lowering our twelve-month price target to \$1.50 per share from \$2.00 to reflect the execution risks associated with evaluations by potential enterprise customers of its newly released SmartDesk offering.

We project strong growth in the company's new Advanced Technologies (AT) segment as shipments of the SmartDesk begin to ramp. In 1Q19, deliveries of the company's SmartDesk began at a moderate pace. A significant ramp is expected 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 significant discount to its peers until sales growth resumes.

Company	Symbol	Price	TTM			2020
			Sales \$M	TTM P/S	2020 P/S	Sales Growth
Ecolab	ECL	168.22	14,668	3.3	3.0	5.1%
Fluor Corporation	FLR	37.96	19,167	0.3	0.2	9.7%
Donaldson Company	DCI	52.2	2,791	2.4	2.1	5.4%
Jabil Circuit	JBL	29.16	23,016	0.2	0.2	4.6%
EMCOR Group	EME	72.1	8,131	0.5	0.5	1.8%
Stantec	STN	24.39	2,703	1.0	1.0	2.7%
Benchmark Electronics	BHE	28.13	2,566	0.5	0.5	-4.9%
Tutor Perini Corporation	TPC	18.09	4,464	0.2	0.2	8.5%
Calgon Carbon Corporation	CCC	21.5	619	1.8	NA	NA
CECO Environmental Corp.	CECE	7.57	317	0.8	0.7	7.1%
Sparton Corp.	SPA	18.45	389	0.5	NA	NA
Hill International	HIL	3.29	497	0.3	NA	NA
CUI Global	CUI	1.45	91	0.5	0.3	28.8%
IEC Electronics	IEC	8.17	131	0.6	0.5	18.2%
Peer Average				0.9	0.8	7.9%
Cemtrex, Inc	CETX	0.62	75	0.1	0.1	31.5%

Source: Thomson Reuters, Taglich Brothers estimates

CETX trades at TTM P/S multiple of 0.1X (unchanged) and a forward multiple of 0.1X (unchanged). We believe investors should accord shares of CETX a multiple of 0.2X (unchanged) on our FY20 sales per share projection of \$9.36. Applying a multiple of 0.2X to our FY20 sales projection of \$9.53, discounted to account for execution risk, we derive a valuation of approximately \$1.50 per share.

SmartDesk Developments

February 7, 2019 - Cemtrex announced ten new enterprise customers have entered into Cemtrex's Enterprise Sales Program, which means they have signed an NDA and are actively performing due diligence of Cemtrex's SmartDesk at their own sites.

All ten new customer engagements have been generated as a result of the International Consumer Electronics Show in Las Vegas in January 2019 and related marketing activities. As part of Cemtrex's Enterprise Sales Program, customers must have SmartDesk minimum requirements of over 1,000 units.

Cemtrex is now engaged with over 25 Enterprise customers that are in the process of evaluating SmartDesks for their offices. Based on the average selling price of the product, this represents a potential sales pipeline of over \$125 million.

February 19, 2019 - Centrex announced Johns Hopkins University was evaluating its offering for potential wide scale use on its campus.

February 25, 2019 - Centrex announced the launch of its commercial leasing and SmartDesk subscription programs designed to offer alternative SmartDesk purchase options for organizations other than direct purchasing.

The commercial leasing and SmartDesk subscription programs would allow participants to lease or rent SmartDesks for periods of 24 to 36 months. When the subscription period ends, participants can upgrade to the latest generation of SmartDesks or opt to keep their current model.

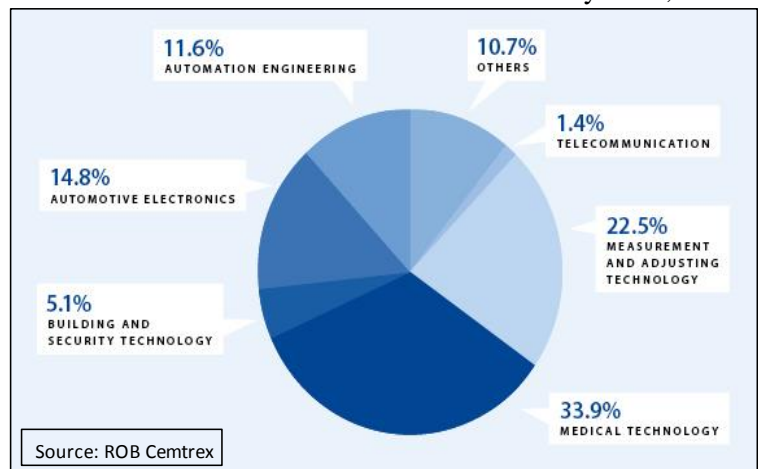
February 26, 2019 - Centrex announced H Mart will evaluate its SmartDesk offering for use on its corporate campus. H Mart is a billion-dollar grocery store chain that specializes in Asian foods at over 80 locations across the world.

The SmartDesk Enterprise Sales Program allows large organizations to evaluate the SmartDesk for their internal use before purchasing on a larger scale. The enterprise sales cycle, once an evaluation begins, is expected to last two to three months.

Business

Founded in 2000 and headquartered in Long Island City, NY, Centrex 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.

Centrex 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.



In July 2017, Centrex 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.

Centrex'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, Centrex acquired approximately 46% of the outstanding common stock of Vicon Industries, Inc., a provider of security and video surveillance systems. In February 2019, Vicon was consolidated into Centrex's operations.

Segments

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

Electronics Manufacturing Services – Centrex'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.

Centrex has the ability to produce assemblies requiring mechanical, as well as electronic capabilities. Centrex 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.



Industrial Technology – Centrex 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.



Advanced Technologies – 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. Centrex'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

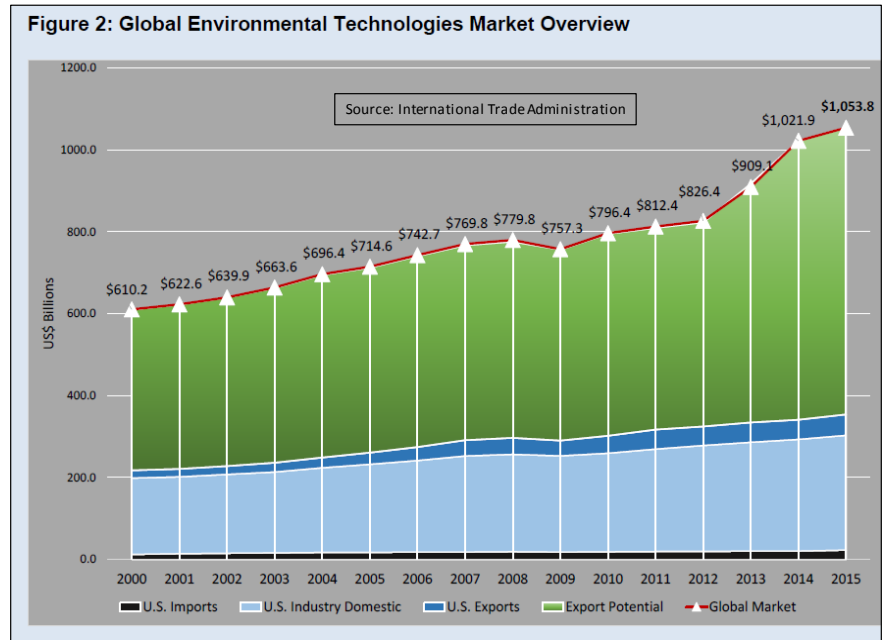
Electronics Manufacturing Services – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. The latest research from Market Insights Report valued 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.

Industrial Technology – 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).

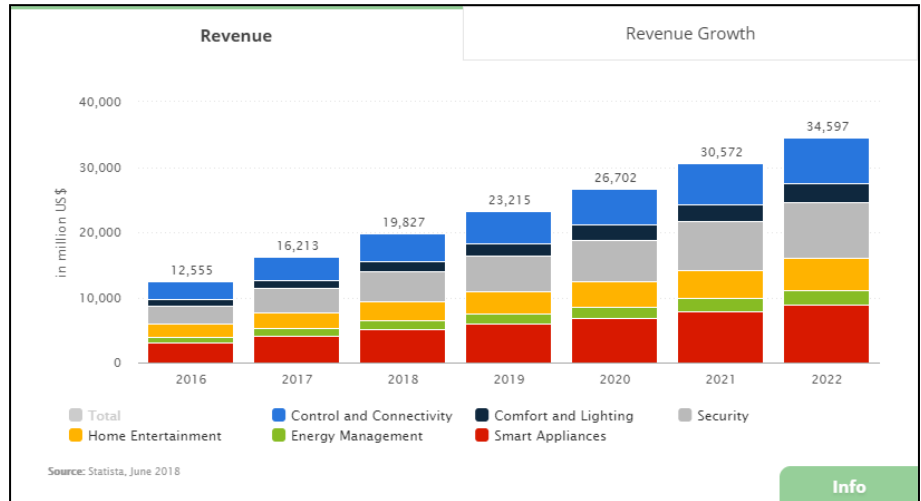


Global growth for the emission control systems market is projected at over 7% annually into 2023. Transparency Market Research projects the global industrial emission control systems market to grow at a compound annual growth rate (CAGR) of 7.3% between 2015 and 2023 with revenue of \$22.1 billion. Growth 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

Centrex 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 Centrex’s products and services. The company faces direct competition from companies that are larger and have greater financial resources than Centrex. 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.

Centrex 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.

1Q19 Results

The net loss to common was \$3.1 million or \$(0.24) per share on a 46.6% decrease in revenue to \$17.3 million. The net loss included \$958,000 in preferred dividends and a \$343,000 loss related to equity interests. In 1Q18, net income to common was \$732,000 or \$0.07 per share. We projected 1Q19 revenue of \$21.2 million and a net loss to common of \$2.9 million or \$(0.22) per share.

The lower revenue reflects a 46.1% decrease in Electronics Manufacturing (EM) sales to \$11 million and a 51.5% decrease in Industrial Technology (IT) sales to \$5.8 million. The newly introduced Advanced Technologies (AT) segment’s sales were \$468,000. There were no sales in the Advanced Technologies segment in 2018.

The decrease in EM 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 IT revenue was primarily due to lower demand for environmental control products globally and the deregulation of emission standards in the US.

Gross profit decreased 33.5% to \$7 million while margins increased to 40.5% from 32.5% as a result of expense reductions and a shift to higher margin projects. Operating expenses decreased 10.7% to \$8.6 million or 49.9% of revenue from \$9.7 million or 29.9% of revenue. Operating expenses consisted of general and administrative expenses of \$8.2 million, down 13.3% from \$9.5 million, and research and development expenses of \$380,000 compared to \$149,000 in 1Q18. The decrease in G&A expenses is a result of expense reductions. Spending on R&D related to the development of the company's SmartDesk and virtual reality applications also contributed to the increase in operating expenses.

Other income was \$48,000 versus \$292,000 while interest expense decreased to \$189,000 from \$368,000. The company recorded \$66,000 of income tax versus \$59,000 in 1Q18. The provision for income tax is based upon the projected income tax from the company's US and international subsidiaries.

Liquidity - As of December 31, 2018, the company had cash of \$2.2 million, of which \$1.4 million was restricted, a current ratio of 1.4 versus 2.1 for the pollution controls industry and 1.2 for the electronics manufacturing industry, \$13.7 million of debt (of which \$6 million is categorized as current), and approximately 50% of assets are covered by equity.

In 1Q19, cash provided by operations was \$5.8 million consisting of cash burn of \$714,000 and a \$6.5 million decrease in working capital. The decrease in working capital was due primarily to increased accruals and decreased receivables. Cash used in investing of \$548,000 consisted solely of capital expenditures. Cash used in financing of \$5.4 million consisted primarily of debt payments. Cash decreased by \$137,000 to \$2.2 million at December 31, 2018.

Cemtrex's current liabilities include \$343,000 outstanding on its revolving line of credit, \$1.3 million outstanding on a bank loan with Deutsche Bank, \$2.7 million of notes payable outstanding, and the current portion of long-term liabilities was \$1.6 million as of December 31, 2018.

Cemtrex's long-term liabilities include \$3.9 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 \$309,000 promissory note payable at treasury bill rates that matures in 2022 and \$3.5 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details were not disclosed.

In November 2018, Cemtrex commenced a subscription rights offering. The offering was 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 expired on December 21, 2018. As of December 31, 2018, 201,002 shares of common stock were issued for net proceeds of \$139,000.

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.

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

Cemtrex's business is conducted globally, which means a decrease in global economic growth 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 FY20.

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 2H19 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. In 1Q19, deliveries of the company's SmartDesk began at a moderate pace. A significant ramp is expected in 2Q19 (see table below).

	Segment Revenue (in thousands \$)															
	<u>FY17A</u>	<u>12/17A</u>	<u>3/18A</u>	<u>6/18A</u>	<u>9/18A</u>	<u>FY18A</u>	<u>12/18A</u>	<u>3/19E</u>	<u>6/19E</u>	<u>9/19E</u>	<u>FY19E</u>	<u>12/19E</u>	<u>3/20E</u>	<u>6/20E</u>	<u>9/20E</u>	<u>FY20E</u>
AT	-	-	631	300	834	1,765	468	6,200	12,000	13,000	31,668	13,500	14,400	15,000	16,000	58,900
IT	56,569	11,939	9,568	7,647	6,486	35,640	5,790	5,000	5,000	5,000	20,790	5,000	5,000	5,000	5,000	20,000
EM	<u>64,059</u>	<u>20,443</u>	<u>10,215</u>	<u>11,217</u>	<u>10,656</u>	<u>52,531</u>	<u>11,026</u>	<u>11,700</u>	<u>12,500</u>	<u>13,000</u>	<u>48,226</u>	<u>13,225</u>	<u>13,325</u>	<u>13,425</u>	<u>13,525</u>	<u>53,500</u>
Total Revenue	120,628	32,382	20,414	19,164	17,976	89,936	17,284	22,900	29,500	31,000	100,684	31,725	32,725	33,425	34,525	132,400

Source: Company filings and Taglich Brothers' estimates

FY19 – We project an 11.9% increase in revenue to \$100.7 million (prior was \$103.3 million) and a net loss to common of \$8.7 million or \$(0.63) per share (prior was \$7.1 million or \$(0.54) per share). Our reduced projections reflect 1Q19 results and continued declines in the IT segment.

R&D expenses are projected to be substantially less than originally anticipated as the bulk of developmental spending for the company's SmartDesk occurred in FY18.

We project gross margins of 38.7% to reflect Vicon's higher margins and R&D expenses of \$4.3 million. SG&A expenses are project to increase 10.7% to \$40.6 million (with margins of 40.4%) due primarily to the inclusion of Vicon (consolidated in February 2019) offset in part by cost containment measures. We project interest expense of \$940,000.

We project \$983,000 cash provided by operations on cash burn of \$1.3 million and a \$2.2 million decrease in working capital. The decrease in working capital should be due primarily to increased payables and accruals. Cash from operations and a net \$976,000 increase in debt is unlikely to cover \$2.5 million of capital expenditures, decreasing cash (includes restricted cash) by \$408,000 to \$1.9 million at September 30, 2019.

FY20 – We project a 31.5% increase in revenue to \$132.4 million (prior was \$125.8 million) and a net loss to common of \$409,000 or \$(0.03) per share (prior was \$3.5 million or \$(0.27) per share). Our projections reflect a full year's consolidation of Vicon. Excluding the impact from the consolidation of Vicon in each period, we

expect sales growth of 23.4% to \$107 million in FY20 from \$86.7 million in FY19. Growth should be driven primarily by increasing demand for the company's SmartDesk product (AT segment).

We project gross margins of 39.1%, in line with projected 2019 gross margins. We anticipate R&D expenses increasing to \$5.2 million from \$4.3 million due primarily to a full year's consolidation of Vicon and continued development of the company's smart technology. SG&A expenses are projected to increase 13.2% to \$46 million (with margins of 34.7%) due primarily to Vicon. We project interest expense of \$1 million.

We project \$6.3 million cash provided by operations on cash earnings of \$5.6 million and a \$667,000 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 \$3.3 million decrease in debt, and \$2.5 million of capital expenditures, should result in a \$445,000 increase in cash (includes restricted cash) to \$2.4 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 Centrex. Other companies offer products that potential customers may consider to be acceptable alternatives to Centrex'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 Centrex 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 Centrex'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 Centrex 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.

Material weakness in internal controls – As of December 31, 2018, management of Centrex concluded there was a material weakness in its internal control over financial reporting. The weakness relates to the company lacking sufficient, qualified, accounting personnel. In order to mitigate the material weakness, Centrex is taking steps to improve its internal controls by obtaining additional qualified accounting personnel.

Potential delisting – In January 2019, Centrex 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.

Centrex 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 Centrex have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 8.2 million shares in the float and the average daily volume is approximately 138,000 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.

Cemtrex, Inc.

Consolidated Balance Sheets
(in thousands \$)

	<u>FY17A</u>	<u>FY18A</u>	<u>12/18A</u>	<u>FY19E*</u>	<u>FY20E*</u>
Cash and equivalents	10,443	974	819	548	1,003
Restricted cash	1,532	1,342	1,360	1,360	1,360
Receivables	15,461	14,111	11,580	13,984	15,814
Inventory	17,272	11,354	13,362	11,654	12,028
Prepaid expenses and other	<u>1,721</u>	<u>4,133</u>	<u>3,776</u>	<u>3,776</u>	<u>3,776</u>
Total current assets	46,429	31,914	30,897	31,322	33,981
Property and equipment	20,118	27,301	26,343	25,946	24,773
Goodwill	3,323	3,323	3,323	3,323	3,323
Investment in Vicon Technologies	-	1,699	1,356	1,356	1,356
Other assets	<u>311</u>	<u>3,094</u>	<u>3,166</u>	<u>3,166</u>	<u>3,166</u>
Total assets	<u>70,181</u>	<u>67,331</u>	<u>65,085</u>	<u>65,113</u>	<u>66,599</u>
Accounts payable	7,110	7,068	9,077	7,456	9,728
Short-term liabilities	6,770	10,914	5,969	5,969	5,969
Deposits from customers	-	51	328	328	328
Accrued expenses	4,165	2,334	5,896	3,524	4,369
Accrued income taxes	1,554	565	425	425	425
Deferred revenue	<u>463</u>	<u>970</u>	<u>977</u>	<u>977</u>	<u>977</u>
Total current liabilities	20,062	21,902	22,672	18,679	21,796
Deferred tax liabilities	1,891	2,052	2,052	2,052	2,052
Long-term debt	5,175	4,251	3,944	10,444	7,144
Mortgage payable	3,820	3,568	3,461	3,316	3,064
Notes payable	<u>241</u>	<u>277</u>	<u>309</u>	<u>309</u>	<u>309</u>
Total liabilities	31,189	32,050	32,438	34,800	34,365
Preferred equity	3	3	3	3	3
Total stockholders' equity	<u>38,992</u>	<u>35,281</u>	<u>32,647</u>	<u>30,313</u>	<u>32,234</u>
Total liabilities & stockholders' equity	<u>70,181</u>	<u>67,331</u>	<u>65,085</u>	<u>65,113</u>	<u>66,599</u>

*Excludes Vicon's consolidated balance sheet

Source: Company filings and Taglich Brothers' estimates

Cemtrex, Inc.

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

	<u>FY17A</u>	<u>FY18A</u>	<u>FY19E</u>	<u>FY20E</u>
Revenues	120,628	89,937	100,684	132,400
Cost of revenues	<u>80,715</u>	<u>58,551</u>	<u>61,768</u>	<u>80,587</u>
Gross profit	39,913	31,386	38,916	51,813
Research and development	-	5,559	4,280	5,200
General and administrative	<u>34,798</u>	<u>36,727</u>	<u>40,640</u>	<u>46,000</u>
Operating income	5,115	(10,900)	(6,004)	613
Other income (expense)	314	1,523	198	200
Interest expense	<u>(924)</u>	<u>(1,248)</u>	<u>(940)</u>	<u>(1,000)</u>
Income before taxes	4,505	(10,625)	(6,746)	(187)
Loss on equity interests	-	(1,215)	(515)	-
Minority interest	-	-	(1,377)	(1,608)
Income tax (benefit)	<u>115</u>	<u>(2,600)</u>	<u>66</u>	<u>-</u>
Net income / (loss)	<u>4,390</u>	<u>(9,240)</u>	<u>(5,950)</u>	<u>1,421</u>
Dividends on preferred stock	<u>1,201</u>	<u>915</u>	<u>2,788</u>	<u>1,830</u>
Net income (loss) to common	<u>3,189</u>	<u>(10,155)</u>	<u>(8,738)</u>	<u>(409)</u>
EPS to common	<u>0.31</u>	<u>(0.90)</u>	<u>(0.63)</u>	<u>(0.03)</u>
Shares Outstanding	10,176	11,236	13,890	14,150
<u>Margin Analysis</u>				
Gross margin	33.1%	34.9%	38.7%	39.1%
Research and development	0.0%	6.2%	4.3%	3.9%
SG&A	28.8%	40.8%	40.4%	34.7%
Operating margin	4.2%	(12.1)%	(6.0)%	0.5%
Pretax margin	3.7%	(11.8)%	(6.7)%	(0.1)%
Tax rate	2.6%	24.5%	(1.0)%	0.0%
<u>Year / Year Growth</u>				
Total Revenues	28.7%	(25.4)%	11.9%	31.5%
Net Income	(12.1)%	(310.5)%	(35.6)%	(123.9)%
EPS	(46.1)%	(388.4)%	(30.4)%	(95.4)%

*Estimates consolidated to include Vicon

Source: Company filings and Taglich Brothers' estimates

Cemtrex, Inc.

Quarterly Income Statements FY18A - FY20E*
(in thousands \$)

	<u>12/17A</u>	<u>3/18A</u>	<u>6/18A</u>	<u>9/18A</u>	<u>FY18A</u>	<u>12/18A</u>	<u>3/19E</u>	<u>6/19E</u>	<u>9/19E</u>	<u>FY19E</u>	<u>12/19E</u>	<u>3/20E</u>	<u>6/20E</u>	<u>9/20E</u>	<u>FY20E</u>
Revenues	32,382	20,414	19,164	17,978	89,937	17,284	22,900	29,500	31,000	100,684	31,725	32,725	33,425	34,525	132,400
Cost of revenues	<u>21,857</u>	<u>12,757</u>	<u>11,901</u>	<u>11,887</u>	<u>58,551</u>	<u>10,289</u>	<u>14,198</u>	<u>18,216</u>	<u>19,065</u>	<u>61,768</u>	<u>19,432</u>	<u>19,962</u>	<u>20,306</u>	<u>20,888</u>	<u>80,587</u>
Gross profit	10,525	7,657	7,263	6,091	31,386	6,995	8,702	11,284	11,935	38,916	12,293	12,763	13,119	13,637	51,813
Research and development	149	246	2,246	3,106	5,559	380	1,300	1,300	1,300	4,280	1,300	1,300	1,300	1,300	5,200
General and administrative	<u>9,508</u>	<u>7,435</u>	<u>6,248</u>	<u>13,685</u>	<u>36,727</u>	<u>8,240</u>	<u>10,800</u>	<u>10,800</u>	<u>10,800</u>	<u>40,640</u>	<u>11,500</u>	<u>11,500</u>	<u>11,500</u>	<u>11,500</u>	<u>46,000</u>
Operating income	868	(24)	(1,231)	(10,700)	(10,900)	(1,625)	(3,398)	(816)	(165)	(6,004)	(507)	(37)	319	837	613
Other income (expense)	292	507	(198)	922	1,523	48	50	50	50	198	50	50	50	50	200
Interest expense	<u>(369)</u>	<u>(204)</u>	<u>(375)</u>	<u>(300)</u>	<u>(1,248)</u>	<u>(190)</u>	<u>(250)</u>	<u>(250)</u>	<u>(250)</u>	<u>(940)</u>	<u>(250)</u>	<u>(250)</u>	<u>(250)</u>	<u>(250)</u>	<u>(1,000)</u>
Income before taxes	791	279	(1,804)	(10,078)	(10,625)	(1,767)	(3,598)	(1,016)	(365)	(6,746)	(707)	(237)	119	637	(187)
Loss on equity interests	-	-	(779)	(436)	(1,215)	(343)	(172)	-	-	(515)	-	-	-	-	-
Minority interest	-	-	-	-	-	-	(573)	(402)	(402)	(1,377)	(402)	(402)	(402)	(402)	(1,608)
Income tax (benefit)	<u>59</u>	<u>43</u>	<u>-</u>	<u>(2,702)</u>	<u>(2,600)</u>	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income / (loss)	<u>732</u>	<u>236</u>	<u>(2,583)</u>	<u>(7,812)</u>	<u>(9,240)</u>	<u>(2,176)</u>	<u>(3,197)</u>	<u>(614)</u>	<u>37</u>	<u>(5,950)</u>	<u>(305)</u>	<u>165</u>	<u>521</u>	<u>1,039</u>	<u>1,421</u>
Dividends on preferred stock	<u>-</u>	<u>-</u>	<u>915</u>	<u>-</u>	<u>915</u>	<u>958</u>	<u>915</u>	<u>-</u>	<u>915</u>	<u>2,788</u>	<u>-</u>	<u>915</u>	<u>-</u>	<u>915</u>	<u>1,830</u>
Net income (loss) to common	<u>732</u>	<u>236</u>	<u>(3,498)</u>	<u>(7,812)</u>	<u>(10,155)</u>	<u>(3,134)</u>	<u>(4,112)</u>	<u>(614)</u>	<u>(878)</u>	<u>(8,738)</u>	<u>(305)</u>	<u>(750)</u>	<u>521</u>	<u>124</u>	<u>(409)</u>
EPS to common	<u>0.07</u>	<u>0.02</u>	<u>(0.30)</u>	<u>(0.67)</u>	<u>(0.90)</u>	<u>(0.24)</u>	<u>(0.29)</u>	<u>(0.04)</u>	<u>(0.06)</u>	<u>(0.63)</u>	<u>(0.02)</u>	<u>(0.05)</u>	<u>0.04</u>	<u>0.01</u>	<u>(0.03)</u>
Shares Outstanding	10,645	10,700	11,596	11,645	11,236	13,110	14,150	14,150	14,150	13,890	14,150	14,150	14,150	14,150	14,150
<u>Margin Analysis</u>															
Gross margin	32.5%	37.5%	37.9%	33.9%	34.9%	40.5%	38.0%	38.3%	38.5%	38.7%	38.8%	39.0%	39.3%	39.5%	39.1%
Research and development	0.5%	1.2%	11.7%	17.3%	6.2%	2.2%	5.7%	4.4%	4.2%	4.3%	4.1%	4.0%	3.9%	3.8%	3.9%
SG&A	29.4%	36.4%	32.6%	76.1%	40.8%	47.7%	47.2%	36.6%	34.8%	40.4%	36.2%	35.1%	34.4%	33.3%	34.7%
Operating margin	2.7%	(0.1)%	(6.4)%	(59.5)%	(12.1)%	(9.4)%	(14.8)%	(2.8)%	(0.5)%	(6.0)%	(1.6)%	(0.1)%	1.0%	2.4%	0.5%
Pretax margin	2.4%	1.4%	(9.4)%	(56.1)%	(11.8)%	(10.2)%	(15.7)%	(3.4)%	(1.2)%	(6.7)%	(2.2)%	(0.7)%	0.4%	1.8%	(0.1)%
Tax rate	7.5%	15.4%	0.0%	26.8%	24.5%	(3.7)%	0.0%	0.0%	0.0%	(1.0)%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Year / Year Growth</u>															
Total Revenues	10.2%	(33.1)%	(31.1)%	(45.4)%	(25.4)%	(46.6)%	12.2%	53.9%	72.4%	11.9%	(64.7)%	89.3%	13.3%	11.4%	31.5%
Net Income	(47.9)%	(42.9)%	(318.3)%	(662.4)%	(310.5)%	(397.3)%	NMF	76.2%	NMF	(35.6)%	(96.7)%	NMF	184.9%	NMF	(123.9)%
EPS	(52.1)%	186.4%	(362.6)%	(1417.2)%	(388.4)%	(447.6)%	NMF	85.6%	NMF	(30.4)%	(97.6)%	NMF	184.9%	NMF	(95.4)%

*Estimates consolidated to include Vicon

Source: Company filings and Taglich Brothers' estimates

Cemtrex, Inc.

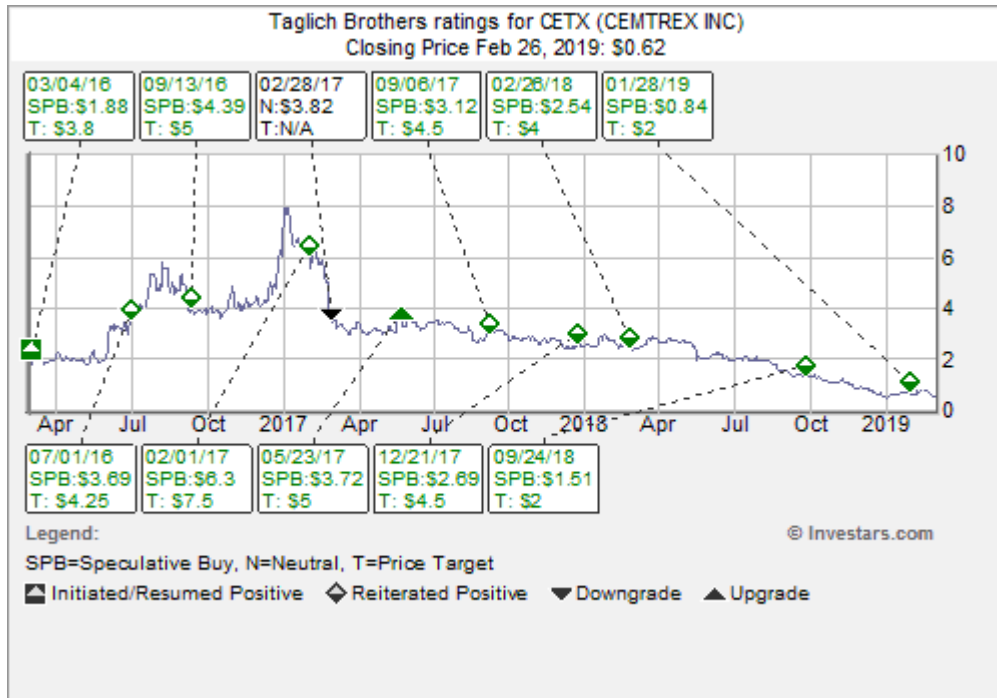
Statement of Cash Flows for the Periods Ended
(in thousands \$)

	FY17A	FY18A	3M19A	FY19E*	FY20E*
Net income (loss)	4,390	(9,240)	(2,176)	(5,950)	1,421
Depreciation & amortization	3,142	4,181	1,077	3,855	3,673
Deferred revenue	(924)	507	6	-	-
Stock-based compensation	67	408	36	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	343	343	-
Interest expense on convertible debt	164	109	-	-	-
Cash earnings	6,474	(4,433)	(714)	(1,252)	5,594
<i>Changes in assets and liabilities</i>					
Receivables	(1,893)	1,350	2,531	127	(1,831)
Inventory	(3,200)	5,317	(2,008)	(300)	(374)
Prepaid expenses and other	754	(2,412)	357	357	-
Other	228	186	(72)	335	(246)
Accounts payable	(918)	(42)	2,009	388	2,272
Deposits from customers	-	51	278	278	-
Accrued expenses	(961)	(1,831)	3,562	1,190	845
Income taxes payable	511	(988)	(141)	(140)	-
(Increase) decrease in working capital	(5,479)	1,631	6,516	2,235	667
Net cash provided by (used in) operations	995	(2,802)	5,802	983	6,261
Purchase of property and equipment	(5,678)	(12,207)	(548)	(2,500)	(2,500)
Net cash used in investing	(5,678)	(12,207)	(548)	(2,500)	(2,500)
Net proceeds from stock/rights offering	12,734	1,503	139	139	-
Dividends paid	(529)	-	-	-	-
Proceeds from notes payable	-	4,025	-	-	-
Payments on notes payable	(981)	(565)	(144)	(144)	-
Proceeds from secured loan	-	3,680	-	6,500	-
Payments on secured loan	-	(189)	(2,155)	(2,155)	(3,300)
Proceeds (payments) on affiliated loan	(259)	-	-	-	-
Payments on bank loans	(802)	(1,272)	(779)	(779)	-
Revolving line of credit	1,095	(1,827)	(2,446)	(2,446)	-
Purchase and retirement of common stock	(1,345)	-	-	-	-
Payments on capital lease obligations	-	(4)	(6)	(6)	(6)
Net cash provided by (used in) financing	9,913	5,351	(5,391)	1,109	(3,306)
Net change in cash	5,231	(9,659)	(137)	(408)	455
Cash - beginning of period	6,744	11,975	2,316	2,316	1,908
Cash - end of period	11,975	2,316	2,179	1,908	2,363

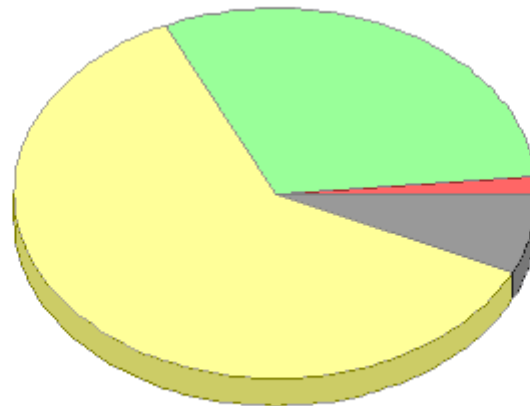
*Excludes Vicon's consolidated cash flow statement

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



30.56 % Buy 61.1 % Hold 6.94 % Not Rated 1.39 % Sell

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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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.