

Research Report – Update

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

Cemtrex, Inc.

Speculative Buy

John Nobile

July 11, 2018

CETX \$2.06 — (NASDAQ)

	<u>2016A</u>	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Revenues (millions)	\$93.7	\$120.6	\$95.7	\$96.4
Earnings (loss) per share*	\$0.58	\$0.31	\$(0.19)	\$(0.17)

52-Week range	\$3.71 – \$1.90	Fiscal year ends:	September
Common shares out as of 5/8/18	11.6 million	Revenue per share (TTM)	\$10.86
Approximate float	5.8 million	Price/Sales (TTM)	0.2X
Market capitalization	\$24 million	Price/Sales (FY2019)E	0.2X
Tangible book value/share	\$3.44	Price/Earnings (TTM)	7.4X
Price/tangible book value	0.6X	Price/Earnings (FY2019)E	NMF

* To common shareholders

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

Key investment considerations:

Maintaining Speculative Buy rating but lowering our twelve-month price target to \$2.50 per share from \$4.00 due to diminished 2019 projections.

The near-term outlook for CETX' Electronics Manufacturing Services (EMS) and Industrial Products (IPS) segments have weakened. However, we expect a return to sales growth starting in 2H19 stemming from new EMS business and the overall growth in the global environmental technology market.

In June 2018, Cemtrex announced that it received record preorders for its SmartDesk since its showing at Pepcom's Digital East Event. In March 2018, Cemtrex entered into an agreement to acquire ownership of approximately 46% of the outstanding common stock of surveillance system provider Vicon Industries.

2Q18 revenue (10Q released 5/15/18) decreased 32.5% to \$20.6 million with EPS improving to \$0.04 from \$0.01 in 2Q17. We projected revenue of \$29.9 million and EPS of \$0.02.

For FY18, we project a 20.7% decrease in revenue to \$95.7 million and a net loss to common of \$(0.19) per share. The decrease in our projections (prior was revenue of \$126.3 million and EPS of \$0.40) primarily reflects 2Q18 results, the loss of two customers in the EMS segment, and the adverse effect from US emission deregulation.

For FY19, we project a 0.7% increase in revenue to \$96.4 million and a net loss to common of \$2 million or \$(0.17) per share. The decrease in our projections (prior was revenue of \$141.8 million and EPS of \$0.85) primarily reflects a greater reduction in demand for the company's products in both segments than originally anticipated.

Our estimates do not include sales from the company's SmartDesk product. We will incorporate SmartDesk projections when the company provides metrics on the orders it has received.

***Please view our disclosures on pages 14 - 16.**

Recommendation and Valuation

We are maintaining our **Speculative Buy** rating but lowering our twelve-month price target to \$2.50 per share from \$4.00 due to diminished 2019 projections. Our rating is based on a resumption of sales growth starting in 2H19 and the potential for further growth from SmartDesk sales.

Our projections will not include sales from the company's SmartDesk product, which launched in May 2018, until the company provides metrics on the orders it has received.

We are changing our valuation on Cemtrex to a sales based model from an earnings based model due to our projected losses through 2019. CETX trades at a trailing and forward sales discount compared to the peer group. We believe this is due to the sales decline in 2Q18 and weak sales through 2019. 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	TTM			2019 Sales Growth
			Sales \$M	TTM P/S	2019 P/S	
Ecolab	ECL	142.91	14,148	2.9	2.7	5.0%
Fluor Corporation	FLR	49.76	19,509	0.4	0.4	3.6%
Donaldson Company	DCI	46	2,670	2.3	2.1	5.7%
Jabil Circuit	JBL	29.05	21,347	0.2	0.2	4.2%
EMCOR Group	EME	78.27	7,696	0.6	0.6	4.3%
Stantec	STN	26.01	2,695	1.1	1.0	4.9%
Benchmark Electronics	BHE	30.2	2,508	0.6	0.5	6.7%
Tutor Perini Corporation	TPC	18.5	4,668	0.2	0.2	6.0%
Calgon Carbon Corporation	CCC	21.5	619	1.8	NA	NMF
CECO Environmental Corp.	CECE	6.48	327	0.7	0.7	5.2%
Sparton Corp.	SPA	17.13	379	0.4	NA	NMF
Hill International	HIL	5.95	497	0.6	0.8	3.6%
CUI Global	CUI	2.91	87	0.9	0.7	30.7%
IEC Electronics	IEC	6.16	107	0.6	0.5	10.9%
Peer Average				1.0	0.9	7.6%
Cemtrex, Inc	CETX	2.06	114	0.2	0.2	0.7%

Source: Thomson Reuters, Taglich Brothers estimates

CETX's valuation is likely to remain at a discount to its peers until sales growth resumes. We believe investors should accord shares of CETX a multiple of 0.3X FY19 sales of \$8.31 based on a resumption of sales growth we project starting in 2H19. Applying a multiple of 0.3X to our FY19 sales projection, we derive a valuation of approximately \$2.50 per share.

Significant Developments

Cemtrex' SmartDesk – In June 2018, Cemtrex announced that it received record preorders for its SmartDesk since its showing at Pepcom's Digital East Event. The company's SmartDesk is an advanced workstation offering a 72-inch, high resolution multi-touch display (with integrated proprietary touch and touchless gestures, as well as the ability to draw and scan documents directly on the desk), wireless connectivity for full access to the cloud, and next generation wireless charging capabilities for mobile devices.

Cemtrex Acquires Stake in Vicon Industries – In March 2018, Cemtrex entered into an agreement to acquire ownership of approximately 46% of the outstanding common stock of Vicon Industries, Inc., a provider of security and video surveillance systems. The value of the investment was approximately \$3.1 million.

Business

Founded in 2000 and headquartered in Farmingdale, NY, Centrex is a provider of electronic manufacturing services, industrial contracting services, and industrial air filtration & environmental control 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 (see chart at right), industrial air filtration and contracting services.

In October 2013, Centrex expanded into electronics manufacturing and services with the acquisition of privately held ROB Group, an electronics manufacturer located in Neulingen, Germany.

In December 2015, Centrex 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 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) 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. A few key features include a high resolution multi-touch display with the ability to draw and scan documents directly on the desk, wireless connectivity for full access to the cloud, and next generation wireless charging capabilities for mobile devices.

Segments

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

Electronics Manufacturing and Services – Centrex’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. Major customers in this segment can be seen in the chart at right.



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.

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. 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.



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 ResearchandMarkets estimated the electronics contract manufacturing services market at \$425 billion in 2016 and projected it to grow to \$551 billion in 2021 for a compound annual growth rate of approximately 5.3%. ResearchandMarkets said that growth will be fueled by demand for EMS services.

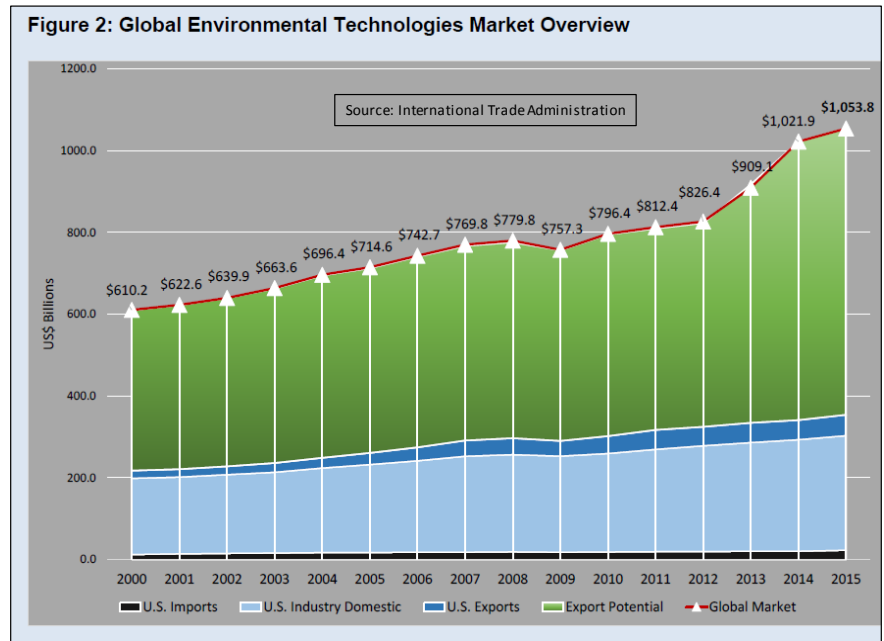
According to Statistics MRC, the global auto electronics market accounted for \$173.1 billion in 2016 and is expected to reach \$401.7 billion by 2023 growing at a CAGR of 12.8%. Technological advancements in electronics industry has offered the automotive sector a well maintained and safe driving experience. Emergency call systems, accident data recording and alcohol ignition lock systems are some of the factors driving market growth.

Global Market Insights reports that over 40% of a car's onboard components are currently based on electronics and that percentage is expected to rise with the improvement in current regulations governing the automotive electronics market.

Industrial Products and Services – 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 reaching revenue of \$22.1 billion by 2023. Driving growth will be 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.

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.

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.

2Q and 1H18 Financial Results

2Q18 – Net income to common increased to \$423,000 or \$0.04 per share on a 32.5% decrease in revenue to \$20.6 million. Net income to common in 2Q17 was \$80,000 or \$0.01 per share and included \$333,000 in preferred dividends. We projected revenue of \$29.9 million and net income to common of \$211,000 or \$0.02 per share.

The lower revenue reflects a 27.4% decrease in Electronics Manufacturing Services (EMS) sales to \$11 million and a 37.5% decrease in Industrial Products and Services (IPS) sales to \$9.6 million. The decrease in EMS revenue was primarily due to the loss of two customers, one as a result of consolidation and the other due to obsolescence of their product. The decrease in IPS revenue was primarily due to lower environmental control products demand as a result of deregulation of emission standards in the US.

Gross profit decreased 16.2% to \$7.8 million while margins increased to 38.1% from 30.7% as a result of cost controls. Operating expenses decreased 10.6% to \$7.7 million or 37.3% of revenue from \$8.6 million or 28.2% of revenue. The decrease in operating expenses was primarily due to a 13.5% decline in G&A expenses stemming from costs containment measures. Partly offsetting the decrease in G&A expenses was spending on R&D of \$246,000 related to the development of the company's SmartDesk. There were no R&D expenses in 1Q17.

Other income increased to \$507,000 from an expense of \$295,000 while interest expense decreased to \$204,000 from \$346,000 as a result of one-time income on debt forgiveness related to the consolidation of Cemtrex' manufacturing facilities in Germany. The company paid \$43,000 in taxes versus a benefit of \$291,000 in 2Q17. The provision for income tax is based upon the projected income tax from the company's US and international subsidiaries.

1H18 – Net income to common decreased 36.5% to \$1.2 million or \$0.11 per share on an 11.6% decrease in revenue to \$53 million.

The decrease in revenue reflects a 24.7% reduction in Industrial Products and Services (IPS) sales to \$21.5 million. Electronics Manufacturing Services (EMS) revenue remained flat at \$31.5 million. The decrease in IPS revenue was primarily due to lower environmental product demand.

Gross profit decreased 3.6% to \$18.4 million while margins increased to 34.7% from 31.8% as a result of cost controls. Operating expenses increased 6.3% to \$17.3 million or 32.7% of revenue from \$16.3 million or 27.2% of revenue. The increase in operating expenses was primarily due to a 3.9% increase in G&A expenses stemming from increased marketing activities and R&D expenses of \$395,000 related to the development of the company's SmartDesk. There were no research and development expenses in 1H17.

	Income Statement	
	Six Months Ended	
	3/18A	3/17A
Revenues	52,983	59,902
Cost of revenues	34,614	40,846
Gross profit	18,369	19,056
Research and development	395	-
General and administrative	16,943	16,307
Operating income	1,031	2,749
Other income (expense)	799	(237)
Interest expense	(573)	(743)
Income before taxes	1,257	1,769
Income tax (benefit)	102	(50)
Net income / (loss)	1,155	1,819
Dividends on preferred stock	-	-
Net income (loss) to common	1,155	1,819
EPS to common	0.11	0.18
Shares Outstanding	10,645	10,262
<u>Margin Analysis</u>		
Gross margin	34.7%	31.8%
R&D	0.7%	0.0%
SG&A	32.0%	27.2%
Operating margin	1.9%	4.6%
Pretax margin	2.4%	3.0%
Tax rate	8.1%	(2.8)%
<u>Year / Year Growth</u>		
Total Revenues	(11.6)%	
Net Income	(36.5)%	
EPS	(38.8)%	
Source: Company filings		

Other income was \$256,000 compared to an expense of \$980,000 due in part to interest expense decreasing to \$573,000 from \$743,000 as a result of one-time income on debt forgiveness related to the consolidation of Cemtrex' manufacturing facilities in Germany. The company paid \$102,000 in taxes versus a benefit of \$50,000 in 1H17.

Liquidity - As of March 31, 2018, the company had cash of \$10.9 million, of which \$1.6 million was restricted, a current ratio of 2.4 versus 2.1 for the pollution controls industry and 1.2 for the electronics manufacturing industry, \$16.4 million of debt (of which \$5.5 million is categorized as current), and approximately 60% of assets are covered by equity.

In the first six months of FY18, cash provided by operations was \$5.6 million consisting of cash earnings of \$4.4 million and a \$1.2 million decrease in working capital. The decrease in working capital was due primarily to decreased inventory and receivables offset in part by a decrease in accruals and an increase in prepaid expenses. Cash used in investing of \$8 million consisted solely of capital expenditures. Cash provided by financing of \$1.3 million consisted primarily of proceeds from notes payable. Cash decreased by \$1.1 million to \$10.9 million at March 31, 2018.

Cemtrex's current liabilities include \$3.3 million outstanding on its revolving line of credit, \$192,000 credit card payable, and the current portion of long-term liabilities was \$2 million as of March 31, 2018.

Cemtrex's long-term liabilities include \$4.6 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 has \$2.4 million of notes payable to AIS at an interest rate of 6% that matures December 2018 and \$3.9 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details were not disclosed.

Economic Outlook

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects stronger than expected US economic growth due to firmer external demand, and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The third estimate of US GDP growth (released on June 28, 2018) showed the US economy grew at an annual rate of 2% in 1Q18, down from 2.9% growth in 4Q17. The 1Q18 US GDP growth estimate primarily reflects increases in business investment, consumer spending, exports, and government spending.

In Europe, the IMF raised its economic growth forecast to 2.4% for 2018 but kept it unchanged at 2% for 2019. The 2018 forecast is up from 2.2% forecasted in April. The upward revision reflects stronger-than-expected domestic demand for its currency, supportive monetary policy, and improved external demand prospects.

Because Cemtrex's business is conducted globally, the increased economic growth projections domestically and abroad should allow for continued growth.

Projections

In 1Q18, Cemtrex completed the consolidation of its two German EMS factories into one location in Neulingen, Germany. The company lost two EMS customers going into 2018, one as result of consolidation and the other due to obsolescence of their product. We expect the loss of these customers will result in lower EMS revenues in FY18 and FY19.

With the deregulation of emission standards in the US, growth in the IPS segment should be limited. We project CETX' sales in this segment will decline in FY18 and grow moderately in FY19.

The recent consolidation of Cemtrex' two German EMS factories into one location in Neulingen, Germany should help to lower expenses and increase margins.

Our projections will not include sales from the company's SmartDesk product, which launched in May 2018, until the company provides metrics on the orders it has received.

FY18 – We project a 20.7% decrease in revenue to \$95.7 million and a net loss to common of \$2 million or \$(0.19) per share. The decrease in our projections (prior was revenue of \$126.3 million and net income to common of \$4.2 million or \$0.40 per share) primarily reflects 2Q18 results, the loss of two customers in the EMS segment, the adverse effect from deregulation of emission standards in the US, and higher R&D costs.

We project gross margins increasing to 34.9%, from 33.1% in FY17 due primarily to cost containment measures. R&D expenses are projected at \$1.5 million as the company began an R&D program in 1Q18. SG&A expenses are project to decrease to \$32.3 million (with margins of 33.7%) from \$34.8 million (with margins of 28.8%) as a result of the recent consolidation in Germany. We project interest expense decreasing to \$709,000 from \$924,000 due to a lower average debt balance.

We project \$5.2 million cash from operations on cash earnings of \$5.5 million and a \$279,000 increase in working capital. Cash from operations and a \$2.3 million proceeds from notes payable should not cover our projected \$9 million of capital expenditures, \$2.1 million repayment of debt, and \$1.8 million of dividend payments, decreasing cash by \$5.4 million to \$5 million at September 30, 2018.

FY19 – We project a 0.7% increase in revenue to \$96.4 million and a net loss to common of \$2 million or \$(0.17) per share. The decrease from our prior projections of \$141.8 million in revenue and net income to common of \$9.1 million or \$0.85 per share reflects a greater reduction in demand for the company's products in both segments than originally anticipated and higher R&D costs.

We project gross margins increasing to 35.3%, from 34.9% in FY18 due primarily to increased overhead coverage. R&D expenses are projected at \$3.6 million as the company recognizes a full year of higher R&D spending. SG&A expenses are project to decrease to \$31.4 million (with margins of 32.6%) from \$32.3 million (with margins of 33.7%) due to continued cost containment measures and a full year of savings from the plant consolidation in Germany. We project interest expense decreasing to \$630,000 from \$709,000 as the company repays debt.

We project \$3.6 million cash from operations on cash earnings of \$4 million and a \$402,000 increase in working capital. The increase in working capital will come primarily from increased receivables and inventory. Cash from operations should not cover our projected \$3 million of capital expenditures, \$2.1 million repayment of debt, and \$1.8 million of dividend payments, decreasing cash by \$3.4 million to \$1.6 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 (of which the latest involves the potential acquisitions of Key Tronic Corp and a Virtual Reality Software Studio). 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.

Paris Climate Accord – The current US administration has withdrawn from the Paris Climate Accord that is aimed at curbing greenhouse gas emissions. This withdrawal could lead 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.

Litigation risks – Centrex is currently the target of class action law suits alleging the company made materially false and misleading statements about its business, operations, and prospects. The company believes the law suits are meritless and intends to defend itself. This could lead to increased professional fees beyond what we have factored into our estimates or potential judgements or settlements that could adversely affect the company.

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.

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 5.8 million shares in the float and the average daily volume is approximately 50,000 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>FY15A</u>	<u>FY16A</u>	<u>FY17A</u>	<u>3/18A</u>	<u>FY18E</u>	<u>FY19E</u>
Cash and equivalents	1,487	6,046	10,443	9,253	4,904	1,542
Restricted cash	-	698	1,532	1,606	1,606	1,606
Short-term investments	-	-	-	-	-	-
Receivables	4,771	13,569	15,461	13,233	12,264	12,356
Inventory	6,369	14,072	17,272	11,744	13,323	13,357
Deferred tax asset	-	67	-	-	-	-
Prepaid expenses and other	<u>894</u>	<u>2,475</u>	<u>1,721</u>	<u>3,085</u>	<u>3,085</u>	<u>3,085</u>
Total current assets	13,521	36,927	46,429	38,921	35,182	31,946
Property and equipment	8,142	17,648	20,118	26,422	25,258	24,422
Goodwill	845	919	3,323	3,323	3,323	3,323
Investment in Vicon Technologies	-	-	-	2,914	2,914	2,914
Other assets	<u>36</u>	<u>540</u>	<u>311</u>	<u>577</u>	<u>577</u>	<u>577</u>
Total assets	<u>22,544</u>	<u>56,034</u>	<u>70,181</u>	<u>72,157</u>	<u>67,254</u>	<u>63,182</u>
Accounts payable	4,386	7,733	6,945	6,586	5,357	5,371
Credit card payable	-	294	165	192	192	192
Sales tax payable	-	263	551	-	-	-
Accrued expenses	309	5,175	3,614	1,938	2,867	2,888
Accrued income taxes	74	1,043	1,554	966	966	966
Revolving line of credit	2,130	3,455	4,466	3,289	3,289	3,289
Deferred revenue	-	1,387	463	1,244	1,244	1,244
Convertible notes	1,274	3,748	220	-	-	-
Current portion of long-term liabilities	<u>654</u>	<u>2,057</u>	<u>2,084</u>	<u>2,016</u>	<u>2,016</u>	<u>2,016</u>
Total current liabilities	8,827	25,155	20,062	16,231	15,931	15,966
Deferred tax liabilities	-	94	1,891	1,894	1,894	1,894
Accrued expenses	-	-	-	-	-	-
Long-term debt	2,384	6,402	5,175	4,571	3,765	2,165
Mortgage payable	4,089	3,869	3,820	3,945	3,645	3,533
Notes payable	-	1,222	241	2,352	2,096	1,596
Notes payable-related party	<u>119</u>	<u>3,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	15,419	40,342	31,189	28,993	27,331	25,154
Preferred equity	1	1	3	3	3	3
Total stockholders' equity	<u>7,125</u>	<u>15,692</u>	<u>38,992</u>	<u>43,164</u>	<u>39,924</u>	<u>38,028</u>
Total liabilities & stockholders' equity	<u>22,544</u>	<u>56,034</u>	<u>70,181</u>	<u>72,157</u>	<u>67,254</u>	<u>63,182</u>

* FY18 Includes \$3 million of additional paid-in-capital related to the issuance of common stock

Source: Company filings and Taglich Brothers' estimates

Cemtrex, Inc.

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

	<u>FY15A</u>	<u>FY16A</u>	<u>FY17A</u>	<u>FY18E</u>	<u>FY19E</u>
Revenues	56,887	93,705	120,628	95,683	96,400
Cost of revenues	<u>40,565</u>	<u>64,491</u>	<u>80,715</u>	<u>62,262</u>	<u>62,419</u>
Gross profit	16,322	29,214	39,913	33,421	33,981
Research and development			-	2,195	3,600
General and administrative	<u>13,821</u>	<u>24,150</u>	<u>34,798</u>	<u>32,293</u>	<u>31,400</u>
Operating income	2,501	5,064	5,115	(1,067)	(1,019)
Other income (expense)	834	1,694	314	1,499	1,500
Interest expense	<u>(496)</u>	<u>(674)</u>	<u>(924)</u>	<u>(799)</u>	<u>(630)</u>
Income before taxes	2,839	6,084	4,505	(367)	(149)
Income tax (benefit)	<u>1</u>	<u>1,090</u>	<u>115</u>	<u>(60)</u>	<u>(15)</u>
Net income / (loss)	<u>2,838</u>	<u>4,994</u>	<u>4,390</u>	<u>(307)</u>	<u>(134)</u>
Dividends on preferred stock	<u>-</u>	<u>-</u>	<u>1,201</u>	<u>1,832</u>	<u>1,832</u>
Net income (loss) to common	<u>2,838</u>	<u>4,994</u>	<u>3,189</u>	<u>(2,139)</u>	<u>(1,966)</u>
EPS to common	<u>0.40</u>	<u>0.58</u>	<u>0.31</u>	<u>(0.19)</u>	<u>(0.17)</u>
Shares Outstanding	7,059	8,582	10,176	11,024	11,600
<u>Margin Analysis</u>					
Gross margin	28.7%	31.2%	33.1%	34.9%	35.3%
Research and development			0.0%	2.3%	3.7%
SG&A	24.3%	25.8%	28.8%	33.7%	32.6%
Operating margin	4.4%	5.4%	4.2%	(1.1)%	(1.1)%
Pretax margin	5.0%	6.5%	3.7%	(0.4)%	(0.2)%
Tax rate	0.0%	17.9%	2.6%	16.5%	10.0%
<u>Year / Year Growth</u>					
Total Revenues	19.4%	64.7%	28.7%	(20.7)%	0.7%
Net Income	6.3%	76.0%	(12.1)%	(107.0)%	(56.3)%
EPS	1.9%	44.7%	(46.1)%	(161.9)%	(12.6)%

Source: Company filings and Taglich Brothers' estimates

Cemtrex, Inc.

Quarterly Income Statements FY17A - FY19E
(in thousands \$)

	12/16A	3/17A	6/17A	9/17A	FY17A	12/17A	3/18A	6/18E	9/18E	FY18E	12/18E	3/19E	6/19E	9/19E	FY19E
Revenues	29,397	30,505	27,807	32,919	120,628	32,382	20,601	20,850	21,850	95,683	22,900	23,700	24,500	25,300	96,400
Cost of revenues	19,699	21,147	17,875	21,994	80,715	21,857	12,757	13,500	14,148	62,262	14,828	15,346	15,864	16,382	62,419
Gross profit	9,698	9,358	9,932	10,925	39,913	10,525	7,844	7,350	7,702	33,421	8,072	8,354	8,636	8,918	33,981
Research and development	-	-	-	-	-	149	246	900	900	2,195	900	900	900	900	3,600
General and administrative	7,713	8,595	8,527	9,963	34,798	9,508	7,435	7,550	7,800	32,293	7,800	7,835	7,865	7,900	31,400
Operating income	1,985	763	1,405	962	5,115	868	163	(1,100)	(998)	(1,067)	(628)	(381)	(129)	118	(1,019)
Other income (expense)	58	(295)	155	396	314	292	507	350	350	1,499	375	375	375	375	1,500
Interest expense	(397)	(346)	(205)	24	(924)	(369)	(204)	(113)	(113)	(799)	(158)	(158)	(157)	(157)	(630)
Income before taxes	1,646	122	1,355	1,382	4,505	791	466	(863)	(761)	(367)	(411)	(164)	89	336	(149)
Income tax (benefit)	241	(291)	172	(7)	115	59	43	(86)	(76)	(60)	(41)	(16)	9	34	(15)
Net income / (loss)	1,405	413	1,183	1,389	4,390	732	423	(777)	(685)	(307)	(370)	(147)	80	303	(134)
Dividends on preferred stock	-	333	-	868	1,201	-	-	916	916	1,832	-	916	-	916	1,832
Net income (loss) to common	1,405	80	1,183	521	3,189	732	423	(1,693)	(1,601)	(2,139)	(370)	(1,063)	80	(613)	(1,966)
EPS to common	0.14	0.01	0.11	0.05	0.31	0.07	0.04	(0.15)	(0.14)	(0.19)	(0.03)	(0.09)	0.01	(0.05)	(0.17)
Shares Outstanding	9,787	10,387	10,300	10,230	10,176	10,645	10,700	11,150	11,600	11,024	11,600	11,600	11,600	11,600	11,600
<u>Margin Analysis</u>															
Gross margin	33.0%	30.7%	35.7%	33.2%	33.1%	32.5%	38.1%	35.3%	35.3%	34.9%	35.3%	35.3%	35.3%	35.3%	35.3%
Research and development	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	1.2%	4.3%	4.1%	2.3%	3.9%	3.8%	3.7%	3.6%	3.7%
SG&A	26.2%	28.2%	30.7%	30.3%	28.8%	29.4%	36.1%	36.2%	35.7%	33.7%	34.1%	33.1%	32.1%	31.2%	32.6%
Operating margin	6.8%	2.5%	5.1%	2.9%	4.2%	2.7%	0.8%	(5.3)%	(4.6)%	(1.1)%	(2.7)%	(1.6)%	(0.5)%	0.5%	(1.1)%
Pretax margin	5.6%	0.4%	4.9%	4.2%	3.7%	2.4%	2.3%	(4.1)%	(3.5)%	(0.4)%	(1.8)%	(0.7)%	0.4%	1.3%	(0.2)%
Tax rate	14.6%	(238.5)%	12.7%	(0.5)%	2.6%	7.5%	10.0%	10.0%	10.0%	16.5%	10.0%	10.0%	10.0%	10.0%	10.0%
<u>Year / Year Growth</u>															
Total Revenues	120.8%	61.3%	12.5%	(10.5)%	28.7%	10.2%	(32.5)%	(25.0)%	(33.6)%	(20.7)%	(29.3)%	15.0%	17.5%	15.8%	0.7%
Net Income	103.0%	(50.2)%	(17.3)%	(31.9)%	(12.1)%	(47.9)%	2.4%	(165.7)%	(149.3)%	(107.0)%	(150.5)%	(134.8)%	110.3%	(144.2)%	(56.3)%
EPS	55.2%	(92.4)%	(28.8)%	(76.3)%	(46.1)%	(52.1)%	413.3%	(232.2)%	(371.0)%	(161.9)%	(146.3)%	(331.9)%	104.6%	(61.7)%	(12.6)%

Source: Company filings and Taglich Brothers' estimates

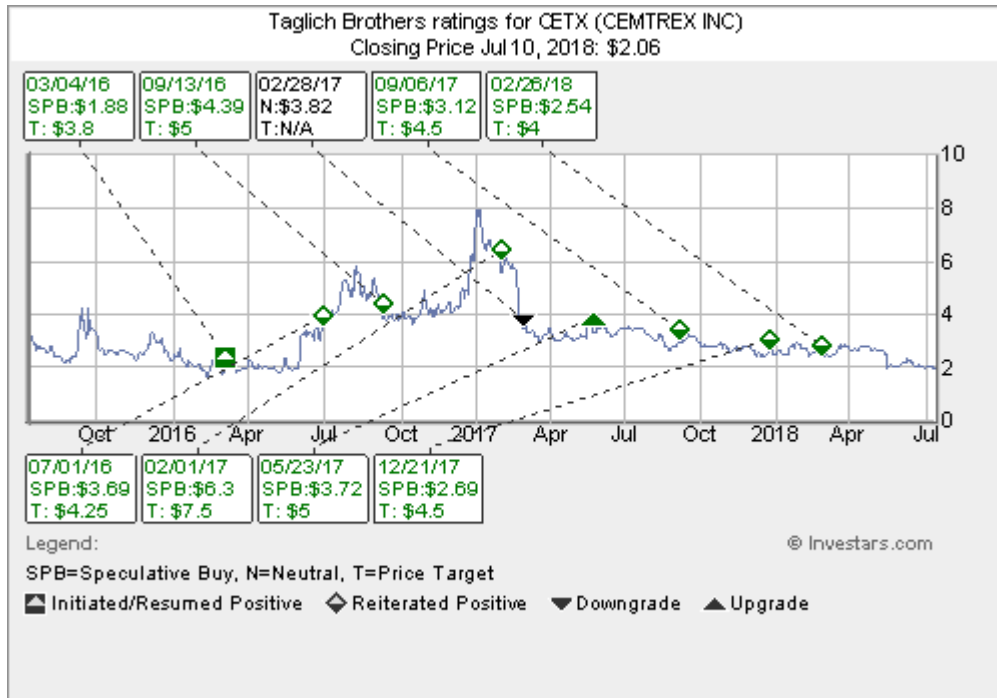
Centrex, Inc.

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

	FY15A	FY16A	FY17A	6m18A	FY18E	FY19E
Net income (loss)	2,838	4,994	4,390	1,155	(307)	(134)
Depreciation & amortization	772	2,296	3,142	1,722	3,975	3,836
Deferred revenue	-	1,127	(924)	780	780	-
Stock-based compensation	57	52	67	-	70	70
Shares issued for professional services	-	-	109	-	-	-
Shares issued for acquisition	-	1,000	-	-	-	-
Discounts on convertible debt	-	249	-	-	-	-
Change in allowance for inventory obsolescence	-	-	-	651	651	-
Deferred taxes	-	102	(540)	3	3	-
Interest expense on convertible debt	-	144	164	109	200	200
Cash earnings	3,667	9,964	6,408	4,420	5,372	3,972
<i>Changes in assets and liabilities</i>						
Restricted cash	-	(90)	(833)	-	-	-
Receivables	(733)	(5,586)	(1,892)	2,228	3,197	(92)
Due from related party	-	-	-	-	-	-
Inventory	(99)	764	(3,200)	4,877	3,949	(34)
Prepaid expenses and other	(363)	2,343	754	(1,364)	(1,364)	-
Other	17	(171)	228	(265)	(266)	-
Accounts payable	1,665	1,377	(788)	(359)	(1,588)	13
Credit card payable	-	67	(129)	27	27	-
Sales tax payable	-	85	287	(550)	(550)	-
Revolving line of credit	-	(6,117)	1,011	(1,177)	(1,177)	-
Accrued expenses	(131)	4,297	(1,249)	(1,677)	(3,095)	(290)
Income taxes payable	12	962	511	(587)	588	-
(Increase) decrease in working capital	368	(2,069)	(5,300)	1,153	(279)	(402)
Net cash provided by (used in) operations	4,035	7,895	1,108	5,573	5,093	3,570
Purchase of property and equipment	(1,516)	(664)	(5,678)	(7,950)	(9,000)	(3,000)
Gain (loss) on disposal of property and equipment	-	-	66	-	-	-
Redemption of short-term investments	560	-	-	-	-	-
Purchase and retirement of common stock	-	-	(1,345)	-	-	-
Investment in subsidiary	-	(16,483)	-	-	-	-
Net cash used in investing	(956)	(17,147)	(6,957)	(7,950)	(9,000)	(3,000)
Proceeds from rights offering	-	-	12,817	-	-	-
Dividends paid	-	-	(529)	-	(1,832)	(1,832)
Proceeds from notes payable	-	2,218	-	2,300	2,300	-
Payments on notes payable	-	(486)	(981)	(244)	(500)	(500)
Proceeds (payments) on affiliated loan	(1,751)	3,480	(259)	-	-	-
Proceeds from bank loans	-	5,176	-	-	-	-
Payments on bank loans	(2,026)	(1,656)	(802)	(794)	(1,600)	(1,600)
Proceeds from convertible notes	2,038	5,078	-	-	-	-
Net cash provided by (used in) financing	(1,739)	13,810	10,246	1,262	(1,632)	(3,932)
Net change in cash	1,340	4,558	4,397	(1,115)	(5,539)	(3,362)
Cash - beginning of period	146	1,487	6,046	11,974	10,443	4,904
Cash - end of period	1,487	6,046	10,443	10,859	4,904	1,542

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



■ 32.43 % Buy ■ 59.46 % Hold ■ 6.76 % Not Rated ■ 1.35 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	12
Hold		
Sell		
Not Rated	1	50

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.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

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.