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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
September 6, 2017

CETX $3.12 — (NASDAQ)

	2016A	2017E	2018E	2019E
Revenues (millions)	$93.7	$116.9	$132.1	$149.5
Earnings (loss) per share*	$0.58	$0.29	$0.72	$1.19

52-Week range	$8.41 – $2.71	Fiscal year ends:	September
Common shares out as of 8/7/17	10.2 million	Revenue per share (TTM)	$12.70
Approximate float	5.8 million	Price/Sales (TTM)	0.2X
Market capitalization	$32 million	Price/Sales (FY2019)E	0.2X
Tangible book value/share	$3.53	Price/Earnings (TTM)	6.0X
Price/tangible book value	0.9X	Price/Earnings (FY2019)E	2.6X

** to common shareholders*

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:

Maintaining Speculative Buy rating but lowering twelve-month price target to $4.50 per share from $5.00 due to reduced FY19 projections.

The outlook for company's Electronics Manufacturing Services (EMS) segment remains strong with growing demand from the medical, industrial and automotive markets helping to contribute to a 46% increase to $38 million in this segment's backlog as of July 31, 2017.

We reduced our average annual revenue growth outlook for the company's Industrial Products and Services (IPS) segment to 12% from 14% due primarily to the current US administration's plans to withdraw from the Paris Climate Accord.

In September 2017, Cemtrex announced an exchange offer to acquire Key Tronic Corporation (KTCC), a provider of electronic manufacturing services, by offering to exchange each outstanding share of common stock of Key Tronic for one share of Cemtrex common stock.

3Q17 revenue (10Q released 8/14/17) increased 12.5% to $27.8 million due primarily to the acquisition of Periscope in June 2016. 3Q17 EPS was $0.11 versus $0.16 in 3Q16. We projected revenue of $32 million and EPS of $0.12 per share.

For FY17, we project a 25% increase in revenue to $116.9 million and EPS of $0.29 (we previously projected $125.9 million in revenue and EPS of $0.37). Our reduced forecast reflects 3Q17 results and the US decision to withdraw from the Paris Climate accord.

For FY18 and FY19, we project a 13% increase in revenue to $132.1 million and $149.5 million, respectively. Our EPS forecast for each period is $0.72 and $1.19, respectively. We previously forecasted FY18 and FY19 EPS of $0.89 and $1.25 on revenue of $144.8 million and $154 million, respectively. Our reduced projections primarily reflect the uncertainty associated with sales of the company's environmental products in the US.

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

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Recommendation and Valuation

We are maintaining our **Speculative Buy** rating but lowering our twelve-month price target to $4.50 per share from $5.00 due to reduced FY19 projections.

CETX trades at a multiple of approximately 2.6X our 2019 earnings projection compared to 14.4X 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	2019 P/E	2019 EPS Growth
Ecolab	ECL	133.23	38,554	29.9	22.5	10.2%
Fluor Corporation	FLR	38.35	5,365	17.6	13.5	13.6%
Donaldson Company	DCI	46.39	6,081	28.3	22.2	8.9%
Jabil Circuit	JBL	30.87	5,533	17.5	10.9	9.7%
EMCOR Group	EME	65.63	3,884	19.3	16.2	5.2%
Stantec	STN	27.89	3,175	20.4	14.7	5.6%
Benchmark Electronics	BHE	32.45	1,620	21.2	15.9	17.9%
Tutor Perini Corporation	TPC	26.2	1,304	16.6	8.0	15.5%
Calgon Carbon Corporation	CCC	12.6	640	23.8	13.7	19.5%
CECO Environmental Corp.	CECE	7.54	261	8.7	NA	NMF
Sparton Corp.	SPA	23.11	228	22.7	NA	NMF
Hill International	HIL	4.85	252	53.9	NA	NMF
CUI Global	CUI	3.68	77	NMF	3.9	NMF
IEC Electronics	IEC	4.3	44	71.7	6.2	38.0%
Peer Average				**27.0**	**13.4**	**14.4%**
Cemtrex, Inc	**CETX**	**3.12**	**32**	**6.0**	**2.6**	**65.3%**
Source: Taglich Brothers estimates, Thomson Reuters						

While we project a higher growth rate for the company's earnings into 2019 versus its peers, CETX's valuation is likely to remain at a discount to its peers due to current litigation pressures (see risks section). We believe investors should accord a multiple of 4X (unchanged from our prior report) to our FY19 earnings estimate of $1.19 per share, discounted for execution risk, valuing the company at $4.50 per share.

Recent Developments

Cemtrex Announces Exchange Offer to Acquire Key Tronic – In September 2017, Cemtrex announced an exchange offer to acquire Key Tronic Corporation (KTCC), a provider of electronic manufacturing services, by offering to exchange each outstanding share of common stock of Key Tronic for one share of Cemtrex common stock. Cemtrex is seeking to acquire control of, and ultimately the entire interest in, Key Tronic. The exchange offer is the first step in Cemtrex's plan to acquire all of the outstanding shares of Key Tronic. It may take one or more transactions following this offering.

Cemtrex believes there is a great opportunity in a variety of electronics markets that the collective company could capitalize on.

For its fiscal year ended July 1, 2017, Key Tronic reported revenue of approximately $468 million and net income of $5.6 million or $0.51 per share.

<u>Significant Increase in EMS Division Backlog</u> - In August 2017, Cemtrex announced a 46% increase in its backlog for its Electronic Manufacturing Services (EMS) division. As of July 31, 2017, the company's 52-week backlog was at $38 million (a record high for the company), up from $26 million a year ago. The company said it expects to close on additional sales during the next 12 months.

<u>Former Sony Product Development Executive Appointed as VP of Advanced Technologies Subsidiary</u> – In August 2017, Cemtrex announced the appointment of Joe Novelli as VP of Cemtrex Advanced Technologies Inc., to pursue the development and commercialization of its Internet of Things (IoT) and wearable technology products.

For over 20 years, Novelli held numerous positions at Sony Electronics and Sharp as a developer of new products and market opportunities for a broad line of electronic products. Prior to joining Cemtrex, Novelli was VP of Solutions Planning for Sony's Digital Paper Solutions division. Novelli was also VP of Strategic Product Planning for Sony Audio products, as well as VP of Wireless Platform in Sony's Digital Reading Business Division.

<u>Development of Advanced Smart Desk</u> – In August 2017, Cemtrex announced that it is moving forward with the development of an advanced smart desk. The company's Advanced Technology team is leading the development of this product.

Cemtrex's smart desk (pictured at right) will have 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. A prototype of the smart desk is expected to be available by the end of 2017. Cemtrex anticipates a commercial product will be ready for sale in 2018.

This is the first proprietary IoT product development program for the company since announcing the formation of its Advanced Technologies subsidiary in July 2017.

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 (see chart below), 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 was focused on electronic manufacturing services primarily for major German automotive manufacturers. By the end of 2017, Cemtrex plans to consolidate the majority of its Paderborn operations into its Neulingen facility in order to create operational efficiencies.

In July 2017, announced the formation of its Advanced Technologies. The Advanced Technologies group will be focused on developing products for the IoT and wearable segments.

Segments

Cemtrex currently 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.

Source: Cemtrex Investor Presentation

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.

<u>Industrial Products and Services</u> – 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 in this segment can be seen in the chart at right.

Source: Cemtrex Investor Presentation

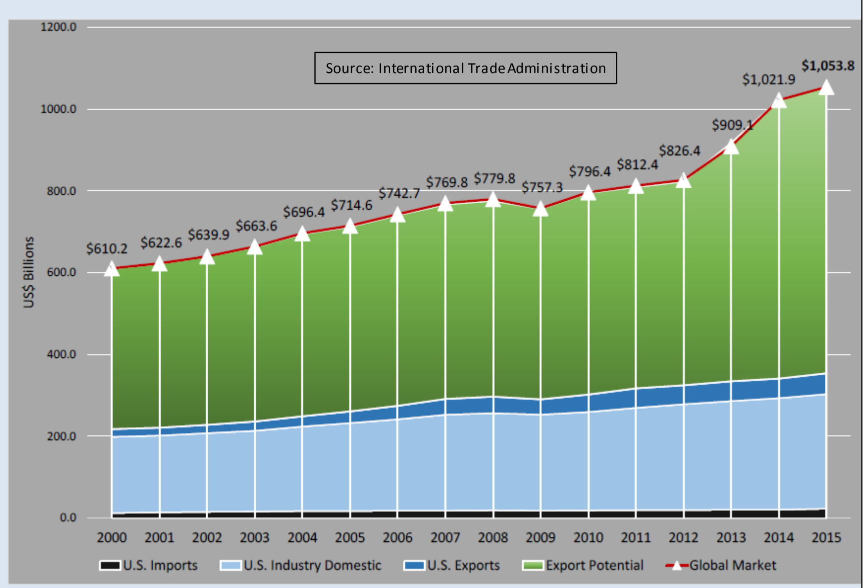
Markets

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

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

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

Figure 2: Global Environmental Technologies Market Overview



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 right).

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 a valuation of $22.1 billion by 2023. Driving this rate of growth will be the adverse impact of global warming leading governments across nations to implement stringent environmental regulations. In the emerging nations, rapid industrialization and the rise in global trade has also boosted the growth of the market. While the US currently plans to withdraw 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.

The latest research from the industrial research firm MAPI projected spending in the industrial equipment market to grow 4.9% in 2017, 5.5% in 2018, 4.7% in 2019, and 2.1% in 2020. MAPI cited a modest improvement in its machinery outlook over its December 2016 projection that was based on slightly stronger capital spending than previously anticipated.

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.

3Q and Nine-month 2017 Financial Results

3Q17 – Net income decreased to $1.2 million or $0.11 per share on a 13% increase in revenue to $27.8 million. Net income in 3Q16 was $1.4 million or $0.16 per share. We projected revenue of $32 million and net income of $1.2 million or $0.12 per share.

The increase in revenue was primarily due to the acquisition of Periscope in June 2016. Gross profit increased to $9.9 million from $8.2 million, with margins increasing to 35.7% from 33% as product mix improved (greater percentage of higher margin EMS sales).

Operating expenses increased 32% to $8.5 million or 30.7% of revenue from $6.5 million or 26.1% of revenue due primarily to the acquisition of Periscope. Other expense decreased to $50,000 from $143,000 due primarily to lower interest expense and a gain on the disposal of fixed assets. The company paid $172,000 in income tax which is based on the projected income tax from the company's US and international subsidiaries.

	Income Statement Nine Months Ended	
	6/17A	6/16A
Revenues	87,709	56,938
Cost of revenues	58,721	39,073
Gross profit	28,988	17,865
General and administrative	24,834	14,805
Operating income	4,154	3,060
Other income (expense)	(82)	559
Interest expense	(948)	(598)
Income before taxes	3,124	3,021
Income tax (benefit)	122	68
Net income / (loss)	3,002	2,953
Dividends on preferred stock	333	-
Net income (loss) to common	2,669	2,953
EPS to common	0.26	0.36
Shares Outstanding	10,214	8,185
Margin Analysis		
Gross margin	33.1%	31.4%
SG&A	28.3%	26.0%
Operating margin	4.7%	5.4%
Pretax margin	3.6%	5.3%
Tax rate	3.9%	2.3%
Year / Year Growth		
Total Revenues	54.0%	
Net Income	1.7%	
EPS	(27.6)%	

Source: Company filings

Nine-months 2017 – Net income remained relatively flat at $3 million on a 54% increase in revenue to $87.7 million. Including the impact of $333,000 of preferred dividends, net income to common was $2.7 million or $0.26 per share. Net income to common in the comparable period in 2016 was $3 million or $0.36 per share.

The increase in revenue was primarily due to the acquisition of Periscope in the last month of 3Q16 and AIS in the last month of 1Q16. Gross profit increased to $29 million from $17.9 million, with margins increasing to 33.1% from 31.4% as product mix improved (greater percentage of higher margin EMS sales).

Operating expenses increased to $24.8 million or 28.3% of revenue from $14.8 million or 26% of revenue due primarily to the acquisitions of Periscope and AIS. Other expense increased to $1 million from $39,000 due primarily to higher interest expense and a loss on the disposal of fixed assets. The company paid $122,000 in income tax which is based on the projected income tax from the company's US and international subsidiaries.

Liquidity - As of June 30, 2017, the company had cash of $14.1 million, of which $812,000 was restricted, a current ratio of 2.6X versus 2.7X for the pollution controls industry and 1.3X for the electronics manufacturing industry, $15 million of debt (of which $5.4 million is categorized as current), and approximately 57% of assets are covered by equity.

Cash used in operations in the first nine months of FY17 was approximately $1.2 million consisting of cash earnings of $4.1 million and a $5.2 million increase in working capital. The change in working capital was primarily due to increased inventory and accounts receivable, and decreased accrued expenses. Cash used in investing of $2 million consisted primarily of a $1.3 million purchase and retirement of common stock and $642,000 of capital expenditures. Cash provided by financing of $10.4 million consisted primarily of $12.8 million net proceeds from a subscription rights offering offset in part by a $1.9 million reduction in debt and $529,000 in dividend payments. Cash increased by $7.2 million to $13.2 million at June 30, 2017.

Cemtrex's current liabilities include $520,000 of convertible notes that mature in August with an interest rate of 10% and a conversion price of $6.50. Cemtrex also has $2.8 million outstanding on its revolving line of credit, $218,000 credit card payable, and the current portion of long-term liabilities was $2 million as of June 30, 2017.

Cemtrex's long-term liabilities include $5.5 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 $397,000 of notes payable to AIS at an interest rate of 6% that matures December 2018 and $3.8 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details are not disclosed.

Economic Outlook

In July 2017, the International Monetary Fund (IMF) kept its global economic growth forecast unchanged at 3.5% for 2017 and 3.6% for 2018. The IMF said that the pickup in global growth anticipated in its April 2017 forecast remained on track in its latest update.

The IMF lowered its economic growth estimate for the US to 2.1% in 2017 and 2018, down from its earlier (April 2017) growth forecast of 2.3% in 2017 and 2.5% in 2018. The downward revision reflects the uncertainties surrounding the President's plans to overhaul the economy. These uncertainties include the yet to be decided details about budget proposals to reduce the fiscal deficit and debt, to reprioritize public spending, and to revamp the tax system.

The second estimate of US GDP growth (released on August 30, 2017) showed the US economy grew at an annual rate of 3% in 2Q17, up from 1.2% growth in 1Q17. The 2Q17 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, and federal government spending. Partly offsetting these contributions to GDP growth were declines in housing investment and state and local government spending.

In Europe, the IMF raised its economic growth forecast to 1.9% in 2017 and 1.7% for 2018, up from 1.7% and 1.6%, respectively in its April 2017 forecast. The upward revision stems from stronger momentum in domestic demand than previously anticipated.

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 five years to 2016 (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. These competitive advantages in the IPS segment should enable CETX to grow at a rate faster than the overall industry's average annual growth rate of 7% into 2019. However, with the current US administration's plans to withdraw from the Paris Climate Accord, growth in this segment could be limited. We project CETX will grow this segment's sales by an average annual growth rate of approximately 12% into FY19.

Cemtrex's sales from its electronics manufacturing services segment improved with the June 2016 acquisition of Periscope, which added approximately $18.7 million to FY16 revenue. We believe that with a full year's contribution from Periscope in 2017, and a strong backlog in the EMS segment ($38 million as of July 31, 2017, up 46% from $26 million on July 31, 2016), Cemtrex will grow EMS segment revenue at an average annual growth rate of approximately 22% into FY19.

The table at right shows actual revenue for CETX's Industrial Products and Services (IPS) and Electronics Manufacturing and Services (EMS) segments along with our projections for FY17, FY18, and FY19.

Segment Revenue
(In thousands $)

	FY16A	FY17E	FY18E	FY19E	Avg. Annual Growth to 2019
IPS	49,244	56,024	62,100	69,000	12%
EMS	44,461	60,884	70,000	80,500	22%
Total Revenue	93,705	116,908	132,100	149,500	17%

Source: Company filings and Taglich Brothers' estimates

AIS, acquired in December 2015, had an annual run rate of $20 million in revenue in FY16. AIS should provide a significant increase to CETX's top and bottom lines over our forecast horizon since the acquisition did not occur until the last month of 1Q16.

When Cemtrex acquired Periscope in June 2016, the annual revenue contribution from this acquisition was expected to be over $30 million. However, reduced sales and a lack of expected new orders at Periscope resulted in the company's decision to consolidate the majority of Periscope's manufacturing operations to its Neulingen, Germany facility (to be completed by December 31, 2017) in an effort to improve efficiencies and reduce costs. The Paderborn facility will remain operational in a smaller capacity in order to support a select group of customers. Nevertheless, we expect the revenue contribution from Periscope to be significantly greater in FY17 than it was in FY16 as the company realizes a full year of sales from Periscope versus only four months in FY16.

Cemtrex's plans to set up an instruments & electronics manufacturing facility in India in 2018, which should help to bolster margins.

FY17 – We project a 25% increase in revenue to $116.9 million and net income to common of $3 million or $0.29 per share. Our reduced projections (prior was $125.9 million in revenue and $3.7 million net income to common or $0.37 per share) primarily reflect 3Q17 results and the US decision to withdraw from the Paris Climate accord which could reduce the need for Cemtrex's equipment that monitors and destroys greenhouse gases.

We project gross margins increasing to 33% from 31.2% in FY16 due primarily to increased overhead coverage. SG&A expenses are project to increase to $33.3 million (with margins of 28.5%) from $24.2 million (with margins of 25.8%) in FY16 due primarily to a full year inclusion of AIS and Periscope. We project interest expense of $1 million, up from $674,000 due primarily to a higher estimated interest rate.

We project $2.6 million cash from operations on cash earnings of $5.6 million and a $3 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory offset in part by increased accounts payable and accrued expenses. Cash from operations and $12.8 million proceeds from the recent rights offering should be partly offset by our projected $1 million of capital expenditures, $1 million of dividend payments, and $8.4 million to reduce debt, increasing cash by $3.7 million to $9.7 million at September 30, 2017.

FY18 – We project a 13% increase in revenue to $132.1 million and net income to common of $7.4 million or $0.72 per share. Our reduced projections (prior was $144.8 million in revenue and $9.1 million net income to common or $0.89 per share) primarily reflect the US decision to withdraw from the Paris Climate accord and lower IPS segment sales.

We project gross margins increasing to 34%, from 33% in FY17 due primarily to increased overhead coverage. SG&A expenses are project to increase to $35 million (with margins of 26.5%) from $33.3 million (with margins of 28.5%). We project lower interest expense to $200,000 from $1 million due to a lower average debt level and a lower estimated interest rate.

We project $8.6 million cash from operations on cash earnings of $11 million and a $2.4 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory offset in part by an increase in accounts payable. Cash from operations should cover our projected $1 million of capital expenditures and $1.4 million of dividend payments, increasing cash by $6.1 million to $15.8 million at September 30, 2018.

FY19 – We project a 13% increase in revenue to $149.5 million and net income to common of $12.2 million or $1.19 per share. Our reduced projections (prior was $154 million in revenue and $12.8 million net income to common or $1.25 per share) reflect the uncertainty associated with sales of the company's environmental products in the US.

We project gross margins increasing to 35%, from 34% in FY18 due primarily to increased overhead coverage. SG&A expenses are project to increase to $36.6 million (with margins of 24.5%) from $35 million (with margins of 26.5%). We project interest expense to remain at $200,000.

We project $13 million cash from operations on cash earnings of $15.7 million and a $2.7 million increase in working capital. The change in working capital will come primarily from increased receivables and inventory offset in part by an increase in accounts payable. Cash from operations should cover our projected $1 million of capital expenditures and $1.4 million of dividend payments, increasing cash by $10.5 million to $26.3 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 acquisition of Key Tronic Corp). 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.

Additional dilution – The recent rights offering added an additional 2.8 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.

Paris Climate Accord – The current US administration has elected not to participate in the Paris Climate Accord that is aimed at curbing greenhouse gas emissions. This withdrawal could lead to the loss of environmental business for Cemtrex in this region. While the company hopes to increase sales of its environmental products overseas, there can be no assurance that it will be successful in doing so.

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

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

Litigation risks – Cemtrex 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.

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 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 5.8 million shares in the float and the average daily volume is approximately 102,000 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 $)

	FY15A	FY16A	6/17A	FY17E	FY18E	FY19E
Cash and equivalents	1,487	6,046	13,241	9,712	15,845	26,347
Restricted cash	-	698	811	811	811	811
Short-term investments	-	-	-	-	-	-
Receivables	4,771	13,569	14,577	16,929	19,129	21,648
Inventory	6,369	14,072	16,566	17,082	19,024	21,204
Deferred tax asset	-	67	67	67	67	67
Prepaid expenses and other	894	2,475	2,102	2,102	2,102	2,102
Total current assets	13,521	36,927	47,364	46,703	56,978	72,179
Property and equipment	8,142	17,648	16,861	16,452	15,468	14,604
Goodwill	845	919	919	919	919	919
Due from related parties	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Other assets	36	540	85	85	85	85
Total assets	**22,544**	**56,034**	**65,229**	**64,159**	**73,450**	**87,787**
Accounts payable	4,386	7,733	8,026	9,387	10,454	11,652
Credit card payable	-	294	218	218	218	218
Sales tax payable	-	263	248	248	248	248
Accrued expenses	309	5,175	3,010	6,456	7,295	8,256
Accrued income taxes	74	1,043	1,139	1,139	1,139	1,139
Revolving line of credit	2,130	3,455	2,823	2,823	2,823	2,823
Deferred revenue	-	1,387	565	565	565	565
Convertible notes	1,274	3,748	520	-	-	-
Notes payable	-	-	-	-	-	-
Current portion of long-term liabilities	654	2,057	2,015	2,015	2,015	2,015
Total current liabilities	8,827	25,155	18,564	22,851	24,758	26,916
Deferred tax liabilities	-	94	94	94	94	94
Accrued expenses	-	-	-	-	-	-
Long-term debt	2,384	6,402	5,487	-	-	-
Mortgage payable	4,089	3,869	3,785	3,757	3,645	3,533
Notes payable	-	1,222	398	-	-	-
Notes payable-related party	119	3,600	-	-	-	-
Total liabilities	**15,419**	**40,342**	**28,328**	**26,702**	**28,497**	**30,543**
Preferred equity	**1**	**1**	**3**	**3**	**3**	**3**
Total stockholders' equity*	**7,125**	**15,692**	**36,898**	**37,456**	**44,953**	**57,244**
Total liabilities & stockholders' equity	**22,544**	**56,034**	**65,229**	**64,159**	**73,450**	**87,787**

*2017 includes $5.9 million of additional paid-in-capital from the issuance of pfd. and com. stock

Source: Company filings and Taglich Brothers' estimates

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

	FY15A	FY16A	FY17E	FY18E	FY19E
Revenues	56,887	93,705	116,909	132,100	149,500
Cost of revenues	40,565	64,491	78,285	87,186	97,175
Gross profit	16,322	29,214	38,624	44,914	52,325
General and administrative	13,821	24,150	33,335	35,000	36,600
Operating income	2,501	5,064	5,289	9,914	15,725
Other income (expense)	834	1,694	118	1,000	1,000
Interest expense	(496)	(674)	(1,048)	(200)	(200)
Income before taxes	2,839	6,084	4,359	10,714	16,525
Income tax (benefit)	1	1,090	338	1,875	2,892
Net income / (loss)	2,838	4,994	4,021	8,839	13,633
Dividends on preferred stock	-	-	1,034	1,402	1,402
Net income (loss) to common	2,838	4,994	2,987	7,437	12,231
EPS to common	0.40	0.58	0.29	0.72	1.19
Shares Outstanding	7,059	8,582	10,194	10,300	10,300
Margin Analysis					
Gross margin	28.7%	31.2%	33.0%	34.0%	35.0%
SG&A	24.3%	25.8%	28.5%	26.5%	24.5%
Operating margin	4.4%	5.4%	4.5%	7.5%	10.5%
Pretax margin	5.0%	6.5%	3.7%	8.1%	11.1%
Tax rate	0.0%	17.9%	7.8%	17.5%	17.5%
Year / Year Growth					
Total Revenues	19.4%	64.7%	24.8%	13.0%	13.2%
Net Income	6.3%	76.0%	(19.5)%	119.8%	54.2%
EPS	1.9%	44.7%	(49.6)%	146.4%	64.5%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY17E - FY19E
(in thousands $)

	12/16A	3/17A	6/17A	9/17E	FY17E	12/17E	3/18E	6/18E	9/18E	FY18E	12/18E	3/19E	6/19E	9/19E	FY19E
Revenues	29,397	30,505	27,807	29,200	116,909	31,600	32,550	33,500	34,450	132,100	35,500	36,750	38,000	39,250	149,500
Cost of revenues	19,699	21,147	17,875	19,564	78,285	20,856	21,483	22,110	22,737	87,186	23,075	23,888	24,700	25,513	97,175
Gross profit	9,698	9,358	9,932	9,636	38,624	10,744	11,067	11,390	11,713	44,914	12,425	12,863	13,300	13,738	52,325
General and administrative	7,713	8,595	8,527	8,500	33,335	8,370	8,620	8,890	9,120	35,000	8,700	9,000	9,300	9,600	36,600
Operating income	1,985	763	1,405	1,136	5,289	2,374	2,447	2,500	2,593	9,914	3,725	3,863	4,000	4,138	15,725
Other income (expense)	58	(295)	155	200	118	250	250	250	250	1,000	250	250	250	250	1,000
Interest expense	(397)	(346)	(205)	(100)	(1,048)	(50)	(50)	(50)	(50)	(200)	(50)	(50)	(50)	(50)	(200)
Income before taxes	1,646	122	1,355	1,236	4,359	2,574	2,647	2,700	2,793	10,714	3,925	4,063	4,200	4,338	16,525
Income tax (benefit)	241	(291)	172	216	338	450	463	473	489	1,875	687	711	735	759	2,892
Net income / (loss)	1,405	413	1,183	1,020	4,021	2,124	2,184	2,228	2,304	8,839	3,238	3,352	3,465	3,578	13,633
Dividends on preferred stock	-	333	-	701	1,034	-	701	-	701	1,402	-	701	-	701	1,402
Net income (loss) to common	1,405	80	1,183	319	2,987	2,124	1,483	2,228	1,603	7,437	3,238	2,651	3,465	2,877	12,231
EPS to common	0.14	0.01	0.11	0.03	0.29	0.21	0.14	0.22	0.16	0.72	0.31	0.26	0.34	0.28	1.19
Shares Outstanding	9,787	10,387	10,300	10,300	10,194	10,300	10,300	10,300	10,300	10,300	10,300	10,300	10,300	10,300	10,300
Margin Analysis															
Gross margin	33.0%	30.7%	35.7%	33.0%	33.0%	34.0%	34.0%	34.0%	34.0%	34.0%	35.0%	35.0%	35.0%	35.0%	35.0%
SG&A	26.2%	28.2%	30.7%	29.1%	28.5%	26.5%	26.5%	26.5%	26.5%	26.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Operating margin	6.8%	2.5%	5.1%	3.9%	4.5%	7.5%	7.5%	7.5%	7.5%	7.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Pretax margin	5.6%	0.4%	4.9%	4.2%	3.7%	8.1%	8.1%	8.1%	8.1%	8.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Tax rate	14.6%	(238.5)%	12.7%	17.5%	7.8%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Year / Year Growth															
Total Revenues	120.8%	61.3%	12.5%	(20.6)%	24.8%	7.5%	6.7%	20.5%	18.0%	13.0%	12.3%	12.9%	13.4%	13.9%	13.2%
Net Income	103.0%	(50.2)%	(17.3)%	(50.0)%	(19.5)%	51.1%	NMF	88.3%	126.0%	119.8%	52.5%	53.5%	55.6%	55.3%	54.2%
EPS	55.2%	(92.4)%	(28.8)%	(85.6)%	(49.6)%	43.6%	NMF	88.3%	(403.1)%	146.4%	52.5%	78.8%	55.6%	79.5%	64.5%

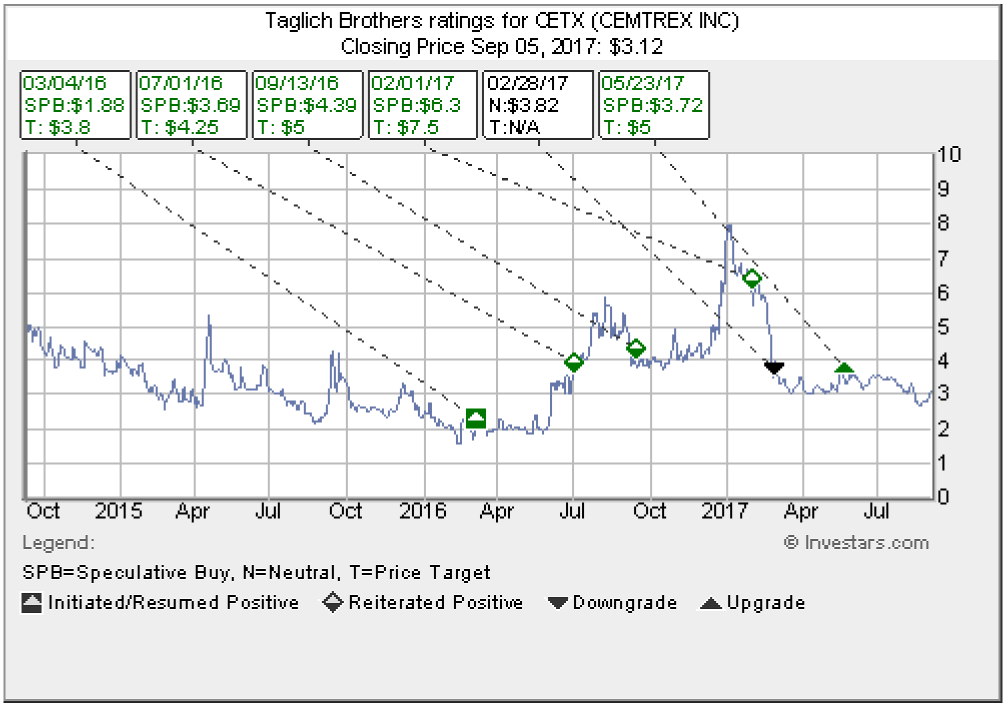
Source: Company filings and Taglich Brothers' estimates

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

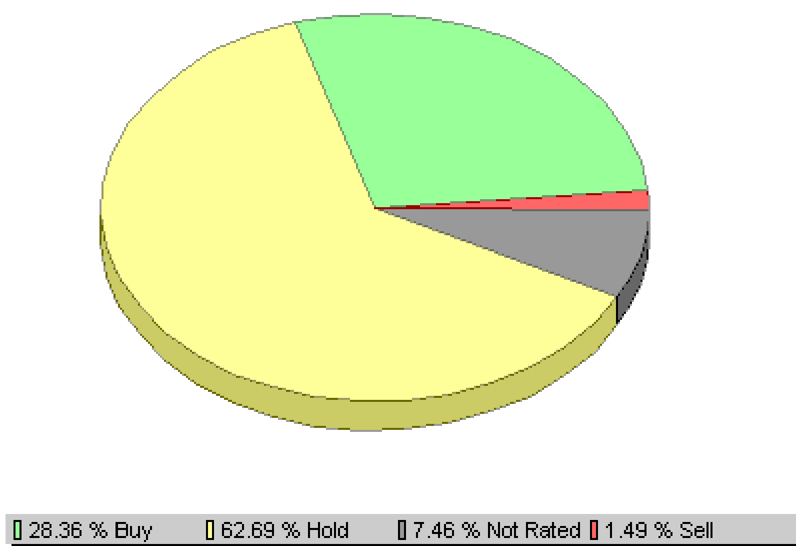
	FY15A	FY16A	9m17A	FY17E	FY18E	FY19E
Net income (loss)	2,838	4,994	3,002	4,021	8,839	13,633
Depreciation & amortization	772	2,296	1,742	2,196	1,984	1,864
Deferred revenue	-	1,127	(822)	(822)	-	-
Stock-based compensation	57	52	-	60	60	60
Shares issued for acquisition	-	1,000	-	-	-	-
Discounts on convertible debt	-	249	-	-	-	-
Deferred taxes	-	102	-	-	-	-
Goodwill	-	5	-	-	-	-
Interest expense on convertible debt	-	139	164	164	164	164
Cash earnings	3,667	9,964	4,086	5,619	11,047	15,721
Changes in assets and liabilities						
Restricted cash	-	(90)	(113)	(113)	-	-
Receivables	(733)	(5,586)	(1,008)	(3,360)	(2,200)	(2,520)
Due from related party	-	-	-	-	-	-
Inventory	(99)	764	(2,494)	(3,010)	(1,942)	(2,180)
Prepaid expenses and other	(363)	2,343	373	373	373	-
Other	17	(171)	455	455	-	-
Accounts payable	1,665	1,377	293	1,654	1,067	1,198
Credit card payable	-	67	(76)	(76)	-	-
Sales tax payable	-	85	(16)	(16)	-	-
Revolving line of credit	-	(6,117)	(632)	(632)	-	-
Accrued expenses	(131)	4,297	(2,165)	1,576	302	796
Income taxes payable	12	962	137	137	-	-
(Increase) decrease in working capital	368	(2,069)	(5,246)	(3,012)	(2,400)	(2,705)
Net cash provided by (used in) operations	**4,035**	**7,895**	**(1,160)**	**2,607**	**8,647**	**13,016**
Purchase of property and equipment	(1,516)	(664)	(642)	(1,000)	(1,000)	(1,000)
Gain (loss) on disposal of property and equipment	-	-	(25)	(25)		
Purchase of short-term investments	-	-	-	-	-	-
Redemption of short-term investments	560	-	-	-	-	-
Purchase and retirement of common stock	-	-	(1,345)	(1,345)	-	-
Investment in subsidiary	-	(16,483)	-	-	-	-
Net cash used in investing	**(956)**	**(17,147)**	**(2,012)**	**(2,370)**	**(1,000)**	**(1,000)**
Proceeds from rights offering	-	-	12,817	12,817	-	-
Dividends paid	-	-	(529)	(1,034)	(1,402)	(1,402)
Proceeds from notes payable	-	2,218	-	-	-	-
Payments on notes payable	-	(486)	(825)	(1,223)	-	-
Proceeds (payments) on affiliated loan	(1,751)	3,480	(120)	(148)	(112)	(112)
Proceeds from bank loans	-	5,176	-	-	-	-
Payments on bank loans	(2,026)	(1,656)	(976)	(6,463)	-	-
Payments on convertible notes	-	-	-	(520)	-	-
Proceeds from convertible notes	2,038	5,078	-	-	-	-
Net cash provided by (used in) financing	**(1,739)**	**13,810**	**10,367**	**3,429**	**(1,514)**	**(1,514)**
Net change in cash	**1,340**	**4,558**	**7,195**	**3,666**	**6,133**	**10,502**
Cash - beginning of period	**146**	**1,487**	**6,046**	**6,046**	**9,712**	**15,845**
Cash - end of period	**1,487**	**6,046**	**13,241**	**9,712**	**15,845**	**26,347**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**10**
Hold	**1**	**33**
Sell		
Not Rated		

Important Disclosures

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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)

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.