TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

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 24, 2018

CETX $1.51 — (NASDAQ)

	2016A	2017A	2018E	2019E
Revenues (millions)	$93.7	$120.6	$91.1	$94.6
Earnings (loss) per share*	$0.58	$0.31	$(0.45)	$(0.54)

52-Week range	$3.57 – $1.30	Fiscal year ends:	September
Common shares out as of 8/8/18	11.9 million	Revenue per share (TTM)	$9.32
Approximate float	6.8 million	Price/Sales (TTM)	0.2X
Market capitalization	$18 million	Price/Sales (FY2019)E	0.2X
Tangible book value/share	$3.16	Price/Earnings (TTM)	NMF
Price/tangible book value	0.5X	Price/Earnings (FY2019)E	NMF

** To common shareholders*

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

Key investment considerations:

Maintaining Speculative Buy rating but lowering our twelve-month price target to $2.00 per share from $2.50 due to a reduced 2019 revenue forecast.

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

From May 2018 through the first ten days of August 2018, preorders for the company's SmartDesk ramped significantly and totaled 657. Delivery is expected in 1Q19 at selling prices ranging between $4,000 and $6,000 per desk and should be accretive to 1Q19 sales by at least $3 million using the median selling price.

The 3Q18 net loss to common was $(0.30) per share on a 31.1% decrease in revenue to $19.2 million. Net income to common in 3Q17 was $0.11 per share. We projected revenue of $20.9 million and a net loss to common of $(0.15) per share.

For FY18, we project a 24.5% decrease in revenue to $91.1 million and a net loss to common of $(0.45) per share. The decrease in our projections (prior was revenue of $95.7 million and a net loss to common of $(0.19) per share) primarily reflects 3Q18 results and higher R&D costs.

For FY19, we project a 3.9% increase in revenue to $94.6 million and a net loss to common of $(0.54) per share. The decrease from our prior projections of $96.4 million in revenue and a net loss to common of $(0.17) per share reflects higher R&D expenses and lower sales from the company's IT and EM segments. Partly offsetting the decline in sales should be increasing sales from the company's SmartDesk (AT segment).

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

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation and Valuation

We are maintaining our **Speculative Buy** rating but lowering our twelve-month price target to $2.00 per share from $2.50 due to a reduced 2019 revenue forecast. Our rating is based on a resumption of sales growth starting in 2019 driven by growing sales of the company's SmartDesk.

From May 2018 through the first ten days of August 2018, preorders for the company's SmartDesk ramped significantly and totaled 657. Delivery is expected in 1Q19 at selling prices ranging between $4,000 and $6,000 per desk and should be accretive to 1Q19 sales by at least $3 million using the median selling price.

CETX trades at a trailing and forward sales multiple discount compared to the peer group. We believe this is due to sales declines over the past twelve months.

Company	Symbol	Price	TTM Sales $M	TTM P/S	2019 P/S	2019 Sales Growth
Ecolab	ECL	159.4	14,375	3.2	3.0	5.6%
Fluor Corporation	FLR	59.43	19,677	0.4	0.4	5.2%
Donaldson Company	DCI	59.18	2,734	2.8	2.5	5.6%
Jabil Circuit	JBL	29.86	21,347	0.2	0.2	4.2%
EMCOR Group	EME	75.01	7,754	0.6	0.5	3.5%
Stantec	STN	25.7	2,690	1.1	1.0	5.5%
Benchmark Electronics	BHE	25.15	2,552	0.5	0.5	3.7%
Tutor Perini Corporation	TPC	20.05	4,541	0.2	0.2	11.5%
Calgon Carbon Corporation	CCC	21.5	619	1.8	NA	NA
CECO Environmental Corp.	CECE	8.1	314	0.9	0.8	5.2%
Sparton Corp.	SPA	14.76	375	0.4	NA	NA
Hill International	HIL	4.1	497	0.4	NA	NA
CUI Global	CUI	2.35	88	0.8	0.6	30.1%
IEC Electronics	IEC	5.47	110	0.5	0.4	13.8%
Peer Average				**1.0**	**0.9**	**8.5%**
Cemtrex, Inc	**CETX**	**1.51**	**105**	**0.2**	**0.2**	**3.9%**
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 (unchanged) on our FY19 sales per share projection of $6.88 based on the anticipated resumption of sales growth in 2019. Applying a multiple of 0.3X to our FY19 sales projection, we derive a valuation of approximately $2.00 per share.

Significant Developments

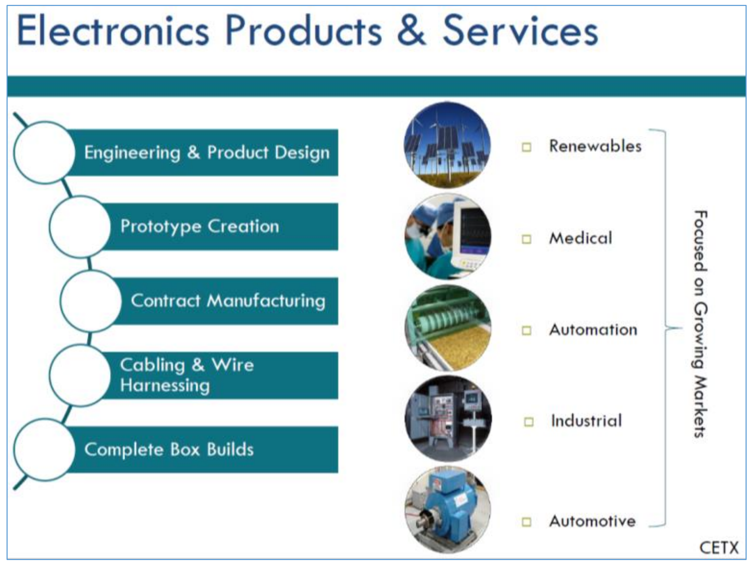
SmartDesk Preorders – In August 2018, Cemtrex announced that it received preorders for its SmartDesk since it began taking preorders in May 2018. The SmartDesk's selling price is between $4000 and $6000 per desk based upon its configuration. The preorder trend for the company's SmartDesk is: May: 9 units, June: 128 units, July: 165 units, and August: 355 units (as of August 10, 2018). The Company expects to ship these preorders in 1Q19. Cemtrex anticipates increasing demand for its SmartDesk as it increases its marketing efforts and deliveries start taking place.

Cemtrex's Virtual Reality Gaming Rights Licensed to Sci-Fi Series, Star Force – In August 2018, Cemtrex announced it entered into an exclusive licensing agreement with best-selling author, B.V. Larson, to develop and publish video games based on the author's popular series, Star Force. The agreement grants Cemtrex exclusive rights to publish games on VR, console, PC, and handheld devices.

Over $20 Million in New EMS Orders Received in 2Q18 – In July 2018, Cemtrex announced it received over $20 million in new orders from its Electronics Manufacturing (EM) segment in 2Q18. The new orders were primarily from customers that produce medical devices, industrial technology products, and automation and measurement devices. Entering 4Q18, the company's EM backlog exceeded $50 million, which it believes should result in organic growth of 10% over the next twelve months.

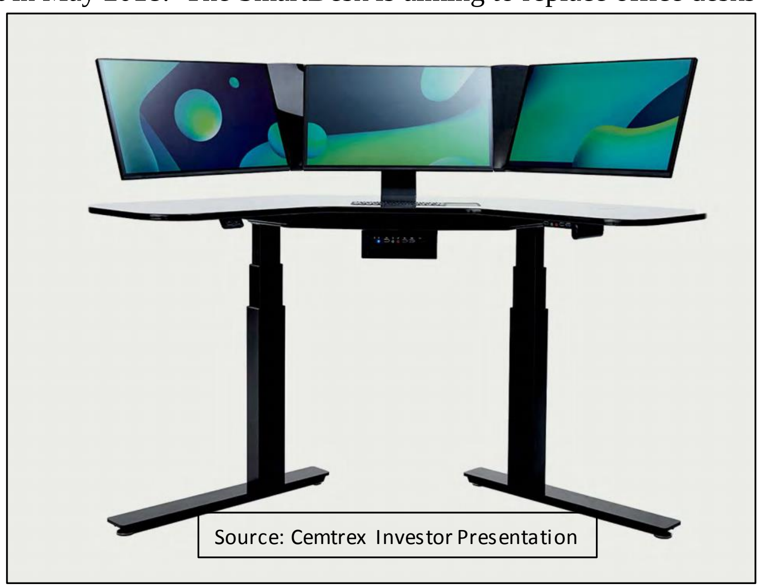
Business

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



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

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


Source: Cemtrex Investor Presentation

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

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

Segments

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

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

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

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

Source: Cemtrex Investor Presentation

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

Source: Cemtrex Investor Presentation

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. Cemtrex's advanced technologies include IoT, Wearables and Smart Devices, such as its SmartDesk (preorders received in 2018). 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 Report Sellers valued the electronics contract manufacturing services market at $16.1 billion in 2016 and projected it to grow at an annual growth rate of more than 8.1% from 2017 to 2025. Driving that growth is the rising need for EMS services worldwide and the evolution of innovative products such as home monitoring systems.

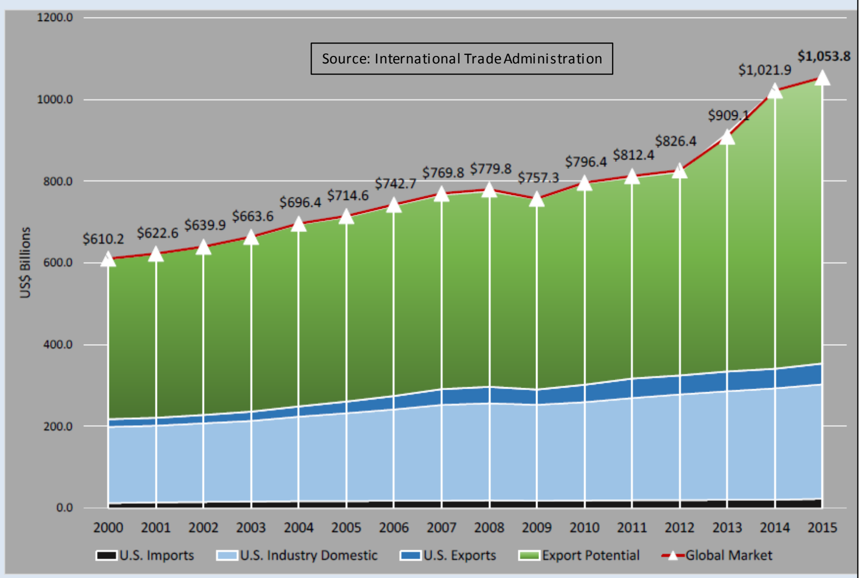
According to Stratistics MRC, the global auto electronics market accounted for $173.1 billion in 2016 and is expected to reach $401.7 billion by 2023 growing at a CAGR of 12.8%. Technological advancements in electronics industry has offered the automotive sector a well maintained and safe driving experience. 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 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.

Figure 2: Global Environmental Technologies Market Overview



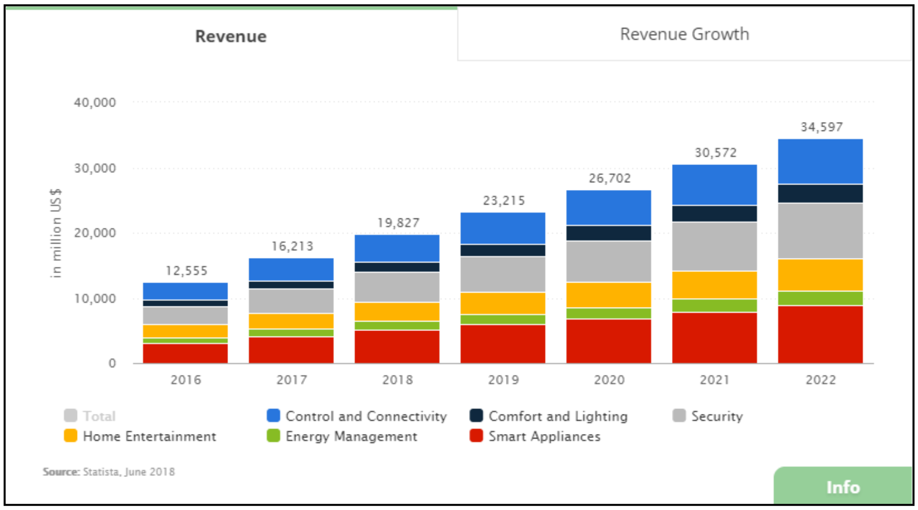
The ET industry evolved in response to concerns about the risks and costs of pollution and the enactment of pollution control legislation and regulations in the US and around the world. The ITA cited some key industry facts concerning the global ET market including a total market value of $1.1 trillion 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).

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.

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



Competition

Cemtrex faces substantial competition in each of its principal markets. Several companies market products that compete directly with the company's products while other companies offer products that potential customers may consider to be acceptable alternatives to Cemtrex's products and services. The company faces direct competition from companies that are larger and have greater financial resources than Cemtrex. Some of these larger competitors include Ecolab, Jabil Circuit, and EMCOR Group.

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 9M18 Financial Results

3Q18 – The net loss to common was $3.5 million or $(0.30) per share on a 31.1% decrease in revenue to $19.2 million. The net loss included $915,000 in preferred dividends and a $779,000 loss related to equity interests. Net income to common in 3Q17 was $1.2 million or $0.11 per share. We projected revenue of $20.9 million and a net loss to common of $1.7 million or $(0.15) per share.

The lower revenue reflects a 21.8% decrease in Electronics Manufacturing Services (EMS) sales to $11.2 million and a 43.2% decrease in Industrial Products and Services (IPS) sales to $7.6 million. The newly introduced Advanced Technologies segment's sales were $300,000. There were no sales in the Advanced Technologies segment in 2017.

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

Gross profit decreased 26.9% to $7.3 million while margins increased to 37.9% from 35.7% as a result of cost controls. Operating expenses remained relatively flat at $8.5 million or 44.3% of revenue. Operating expenses consisted of general and administrative expenses of $6.2 million, down 26.7% from $8.5 million, and research and development expenses of $2.2 million. The decline in G&A expenses stems from costs containment measures. Partly offsetting the decrease in G&A expenses was spending on R&D related to the development of the company's SmartDesk and virtual reality (VR) applications. There were no R&D expenses in 2017.

Other expense was $198,000 versus income of $155,000 while interest expense increased to $375,000 from $205,000 as a result of a one-time expense related to the short-term note payable in 3Q18. The company paid minimal taxes in 3Q18 versus $172,000 in 3Q17. The provision for income tax is based upon the projected income tax from the company's US and international subsidiaries.

Nine-months 2018 – The net loss to common was $2.3 million or $(0.22) per share on an 18% decrease in revenue to $72 million. The net loss included $915,000 in preferred dividends and a $779,000 loss related to equity interests. Net income to common in the comparable period was $2.7 million or $0.26 per share.

The lower revenue reflects an 8.3% decrease in Electronics Manufacturing Services (EMS) sales to $41.9 million and a 30.6% decrease in Industrial Products and Services (IPS) sales to $29.2 million. The newly introduced Advanced Technologies segment's sales were $931,000. There were no sales in the Advanced Technologies segment in 2017.

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

Gross profit decreased 12.7% to $25.3 million while margins increased to 35.2% from 33.1% as a result of cost controls. Operating expenses increased 2.7% to $25.5 million or 35.4% of revenue. Operating expenses consisted of general and administrative expenses of $23 million, down 7.2% from $24.8 million, and research and development expenses of $2.5 million. The decline in G&A expenses stems from costs containment measures. Partly offsetting the decrease in G&A expenses was spending on R&D related to the development of the company's SmartDesk and virtual reality (VR) applications. There were no R&D expenses in 2017.

	Income Statement Nine Months Ended	
	6/18A	6/17A
Revenues	71,959	87,709
Cost of revenues	46,664	58,721
Gross profit	25,295	28,988
Research and development	2,453	-
General and administrative	23,042	24,834
Operating income	(200)	4,154
Other income (expense)	601	(82)
Interest expense	(948)	(948)
Income before taxes	(547)	3,124
Loss on equity interests	(779)	-
Income tax (benefit)	102	122
Net income / (loss)	(1,428)	3,002
Dividends on preferred stock	915	333
Net income (loss) to common	(2,343)	2,669
EPS to common	(0.22)	0.26
Shares Outstanding	10,895	10,214
Margin Analysis		
Gross margin	35.2%	33.1%
R&D	3.4%	0.0%
SG&A	32.0%	28.3%
Operating margin	(0.3)%	4.7%
Pretax margin	(0.8)%	3.6%
Tax rate	(18.6)%	3.9%
Year / Year Growth		
Total Revenues	(18.0)%	
Net Income	(147.6)%	
EPS	(182.3)%	

Source: Company filings

Other income was $601,000 versus an expense of $82,000 due primarily to one-time income on debt forgiveness related to the consolidation of Cemtrex' manufacturing facilities in Germany. Interest expense remained flat at $948,000. The company paid minimal taxes of $102,000 versus $122,000 in the year ago period.

Liquidity - As of June 30, 2018, the company had cash of $6.2 million, of which $1.6 million was restricted, a current ratio of 1.8 versus 2.1 for the pollution controls industry and 1.2 for the electronics manufacturing industry, $13.7 million of debt (of which $5 million is categorized as current), and approximately 58% of assets are covered by equity.

In the first nine months of FY18, cash provided by operations was $7.7 million consisting of cash earnings of $2.8 million and a $4.9 million decrease in working capital. The decrease in working capital was due primarily to decreased inventory and receivables offset in part by a decrease in accruals and an increase in prepaid expenses. Cash used in investing of $12.8 million consisted solely of capital expenditures. Cash used in financing of $618,000 consisted primarily of a net decrease in debt. Cash decreased by $5.8 million to $6.2 million at June 30, 2018.

Cemtrex's current liabilities include $3.4 million of notes payable outstanding, $1.4 million outstanding on its revolving line of credit, $271,000 credit card payable, and the current portion of long-term liabilities was $1.9 million as of June 30, 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 had $452,000 of notes payable to AIS at an interest rate of 6% that matures December 2018 and $3.6 million remaining mortgage debt that carries an interest rate of 3% payable over 17 years. Covenant details were not disclosed.

Subsequent to 2Q18, $400,000 of short-term notes payable was paid with 218,145 shares of common stock and Cemtrex entered into an underwriting agreement with Aegis Capital Corp. relating to the public offering of 1 million shares of CETX common stock at a price of $1.65 per share. The company intends to use the proceeds from this offering to further the development, sales and marketing of its SmartDesk.

Economic Outlook

In July 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from April 2018. The growth estimates assume gradual monetary tightening but still favorable financial conditions. Domestic demand growth is expected to continue at a strong pace even as overall output growth slows.

The IMF kept its economic growth estimate for the US at 2.9% in 2018 and 2.7% in 2019, unchanged from its April 2018 forecast. The IMF said that substantial fiscal stimulus together with already robust private demand should lift output and lower the unemployment rate below levels to 50 year lows. Imports are set to pick up with stronger domestic demand.

The second estimate of US GDP growth (released on August 29, 2018) showed the US economy grew at an annual rate of 4.2% in 2Q18, up from 2.2% in 1Q18. The 2Q18 US GDP growth estimate primarily reflects increases in consumer spending, exports, business investment, and government spending.

In Europe, the IMF lowered its economic growth forecast to 2.2% for 2018 and 1.9% for 2019, down from 2.4% and 2%, respectively, from April 2018. The downward revision reflects softer than expected economic activity in early 2018.

Because Cemtrex's business is conducted globally, the decreased economic growth projections in Europe 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 FY18 and FY19.

The company lost two Electronics Manufacturing (EM) 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 EM revenues in FY18 and FY19. Partly offsetting lower sales are orders of over $20 million in 3Q18 bringing this segments' backlog to over $50 million as of July 2018.

In 1Q18, Cemtrex completed the consolidation of its two German EM factories into one location in Neulingen, Germany which should help to lower expenses and increase margins.

The declining sales in the company's IT and EM segments should be mitigated as sales in the company's new Advanced Technologies (AT) segment gain traction from customer acceptance of its SmartDesk. From May 2018 through the first ten days of August 2018, preorders for the company's SmartDesk ramped significantly and totaled 657. Delivery is expected in 1Q19 at selling prices ranging between $4,000 and $6,000 per desk and should be accretive to 1Q19 sales by at least $3 million.

Segment Revenue
(In thousands $)

	12/16A	3/17A	6/17A	9/17A	FY17A	6M/18A	6/18A	9/18E	FY18E	12/18E	3/19E	6/19E	9/19E	FY19E
AT	-	-	-	-	-	631	300	300	1,231	3,000	3,500	4,000	4,500	15,000
IT	13,241	15,316	13,467	14,545	56,569	21,507	7,647	7,600	36,754	7,600	7,600	7,600	7,600	30,400
EM	16,156	15,189	14,339	18,375	64,059	30,658	11,217	11,200	53,075	12,000	12,200	12,400	12,600	49,200
Total Revenue	29,397	30,505	27,806	32,920	120,628	52,796	19,164	19,100	91,060	22,600	23,300	24,000	24,700	94,600

Source: Company filings and Taglich Brothers' estimates

FY18 – We project a 24.5% decrease in revenue to $91.1 million and a net loss to common of $5.1 million or $(0.45) per share. The decrease in our projections (prior was revenue of $95.7 million and a net loss to common of $2 million or $(0.19) per share) primarily reflects 3Q18 results and higher R&D costs than anticipated.

We project gross margins increasing to 35.2%, from 33.1% in FY17 due primarily to cost containment measures. R&D expenses are projected at $4.7 million as the company continues to invest in developing its smart technology products and virtual reality applications. SG&A expenses are project to decrease to $29.3 million (with margins of 32.2%) from $34.8 million (with margins of 28.8%) as a result of the plant consolidation in Germany. We project interest expense increasing to $1.3 million from $924,000 due to a higher average debt balance.

We project $2.1 million cash from operations primarily from cash earnings. Cash from operations and a net increase in debt and equity is unlikely to cover our projected $13 million of capital expenditures, decreasing cash by $9.1 million to $1.3 million at September 30, 2018.

FY19 – We project a 3.9% increase in revenue to $94.6 million and a net loss to common of $7.4 million or $(0.54) per share. The decrease from our prior projections of $96.4 million in revenue and a net loss to common of $2 million or $(0.17) per share reflects higher than anticipated R&D expenses and lower sales from the company's IT and EM segments. Partly offsetting the decline in sales from these two segments should be increasing sales from the company's SmartDesk (AT segment).

We project gross margins of 35.3%, in line with 2018 gross margins. R&D expenses are projected at $9 million as the company recognizes a full year of R&D spending. SG&A expenses are project to remain flat at $29.3 million (with margins of 31%) due to continued cost containment measures and a full year of savings from the plant consolidation in Germany. We project interest expense increasing to $1.4 million from $1.3 million due to a higher average debt balance.

We project $2.8 million cash used in operations on a cash loss of $1.7 million and a $1.1 million increase in working capital. The increase in working capital will come primarily from increased receivables and inventory. A net $5.2 million increase in debt is unlikely to cover cash used in operations and $3 million of capital expenditures, decreasing cash by $597,000 to $711,000 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 strategy involves growth through acquisitions. Risks associated with this type of strategy include being able to identify suitable acquisition candidates, successfully integrating and managing acquired businesses, obtaining acceptable financing, and lower than expected revenue from acquisitions.

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

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

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

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

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 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 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 6.8 million shares in the float and the average daily volume is approximately 76,000 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	FY17A	6/18A	FY18E	FY19E
Cash and equivalents	1,487	6,046	10,443	4,604	1,308	711
Restricted cash	-	698	1,532	1,592	1,592	1,592
Receivables	4,771	13,569	15,461	11,710	11,671	12,125
Inventory	6,369	14,072	17,272	11,482	12,632	13,107
Deferred tax asset	-	67	-	-	-	-
Prepaid expenses and other	894	2,475	1,721	3,847	3,847	3,847
Total current assets	13,521	36,927	46,429	33,235	31,050	31,383
Property and equipment	8,142	17,648	20,118	29,918	29,554	28,953
Goodwill	845	919	3,323	3,323	3,323	3,323
Investment in Vicon Technologies	-	-	-	2,135	2,135	2,135
Other assets	36	540	311	100	100	100
Total assets	**22,544**	**56,034**	**70,181**	**68,711**	**66,162**	**65,894**
Accounts payable	4,386	7,733	6,945	6,625	5,079	5,270
Credit card payable	-	294	165	271	271	271
Sales tax payable	-	263	551	522	522	522
Accrued expenses	309	5,175	3,614	2,551	2,728	2,834
Accrued income taxes	74	1,043	1,554	699	699	699
Revolving line of credit	2,130	3,455	4,466	1,370	1,370	1,370
Deferred revenue	-	1,387	463	636	636	636
Convertible notes	1,274	3,748	220	-	-	-
Notes payable	-	-	-	3,400	3,000	2,600
Current portion of long-term liabilities	654	2,057	2,084	1,912	1,912	1,912
Total current liabilities	8,827	25,155	20,062	17,986	16,217	16,115
Deferred tax liabilities	-	94	1,891	1,894	1,894	1,894
Long-term debt	2,384	6,402	5,175	4,569	5,369	5,924
Mortgage payable	4,089	3,869	3,820	3,627	3,563	3,306
Notes payable	-	1,222	241	452	352	5,352
Notes payable-related party	119	3,600	-	-	-	-
Total liabilities	**15,419**	**40,342**	**31,189**	**28,528**	**27,395**	**32,591**
Preferred equity	**1**	**1**	**3**	**3**	**3**	**3**
Total stockholders' equity	**7,125**	**15,692**	**38,992**	**40,183**	**38,767**	**33,303**
Total liabilities & stockholders' equity	**22,544**	**56,034**	**70,181**	**68,711**	**66,162**	**65,894**

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

Source: Company filings and Taglich Brothers' estimates

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

	FY15A	FY16A	FY17A	FY18E	FY19E
Revenues	56,887	93,705	120,628	91,059	94,600
Cost of revenues	40,565	64,491	80,715	59,031	61,254
Gross profit	16,322	29,214	39,913	32,028	33,347
Research and development	-	-	-	4,703	9,000
General and administrative	13,821	24,150	34,798	29,292	29,300
Operating income	2,501	5,064	5,115	(1,967)	(4,954)
Other income (expense)	834	1,694	314	851	1,000
Interest expense	(496)	(674)	(924)	(1,263)	(1,440)
Income before taxes	2,839	6,084	4,505	(2,379)	(5,394)
Loss on equity interests	-	-	-	(779)	-
Income tax (benefit)	1	1,090	115	137	140
Net income / (loss)	2,838	4,994	4,390	(3,295)	(5,534)
Dividends on preferred stock	-	-	1,201	1,830	1,830
Net income (loss) to common	2,838	4,994	3,189	(5,125)	(7,364)
EPS to common	0.40	0.58	0.31	(0.45)	(0.54)
Shares Outstanding	7,059	8,582	10,176	11,287	13,750
Margin Analysis					
Gross margin	28.7%	31.2%	33.1%	35.2%	35.3%
Research and development			0.0%	5.2%	9.5%
SG&A	24.3%	25.8%	28.8%	32.2%	31.0%
Operating margin	4.4%	5.4%	4.2%	(2.2)%	(5.2)%
Pretax margin	5.0%	6.5%	3.7%	(2.6)%	(5.7)%
Tax rate	0.0%	17.9%	2.6%	(5.8)%	(2.6)%
Year / Year Growth					
Total Revenues	19.4%	64.7%	28.7%	(24.5)%	3.9%
Net Income	6.3%	76.0%	(12.1)%	(175.1)%	67.9%
EPS	1.9%	44.7%	(46.1)%	(244.9)%	17.9%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY17A - FY19E
(in thousands $)

	12/16A	3/17A	6/17A	9/17A	FY17A	6M/18A	6/18A	9/18E	FY18E	12/18E	3/19E	6/19E	9/19E	FY19E
Revenues	29,397	30,505	27,807	32,919	120,628	52,795	19,164	19,100	91,059	22,600	23,300	24,000	24,700	94,600
Cost of revenues	19,699	21,147	17,875	21,994	80,715	34,763	11,901	12,367	59,031	14,634	15,087	15,540	15,993	61,254
Gross profit	9,698	9,358	9,932	10,925	39,913	18,032	7,263	6,733	32,028	7,967	8,213	8,460	8,707	33,347
Research and development	-	-	-	-	-	207	2,246	2,250	4,703	2,250	2,250	2,250	2,250	9,000
General and administrative	7,713	8,595	8,527	9,963	34,798	16,794	6,248	6,250	29,292	7,100	7,250	7,400	7,550	29,300
Operating income	1,985	763	1,405	962	5,115	1,031	(1,231)	(1,767)	(1,967)	(1,384)	(1,287)	(1,190)	(1,093)	(4,954)
Other income (expense)	58	(295)	155	396	314	799	(198)	250	851	250	250	250	250	1,000
Interest expense	(397)	(346)	(205)	24	(924)	(573)	(375)	(315)	(1,263)	(360)	(360)	(360)	(360)	(1,440)
Income before taxes	1,646	122	1,355	1,382	4,505	1,257	(1,804)	(1,832)	(2,379)	(1,494)	(1,397)	(1,300)	(1,203)	(5,394)
Loss on equity interests	-	-	-	-	-	-	(779)	-	(779)	-	-	-	-	-
Income tax (benefit)	241	(291)	172	(7)	115	102	-	35	137	35	35	35	35	140
Net income / (loss)	1,405	413	1,183	1,389	4,390	1,155	(2,583)	(1,867)	(3,295)	(1,529)	(1,432)	(1,335)	(1,238)	(5,534)
Dividends on preferred stock	-	333	-	868	1,201	-	915	915	1,830	-	915	-	915	1,830
Net income (loss) to common	1,405	80	1,183	521	3,189	1,155	(3,498)	(2,782)	(5,125)	(1,529)	(2,347)	(1,335)	(2,153)	(7,364)
EPS to common	0.14	0.01	0.11	0.05	0.31	0.10	(0.30)	(0.23)	(0.45)	(0.11)	(0.17)	(0.10)	(0.15)	(0.54)
Shares Outstanding	9,787	10,387	10,300	10,230	10,176	11,596	11,596	11,900	11,287	13,500	13,500	14,000	14,000	13,750
Margin Analysis														
Gross margin	33.0%	30.7%	35.7%	33.2%	33.1%	34.2%	37.9%	35.3%	35.2%	35.3%	35.3%	35.3%	35.3%	35.3%
Research and development	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	11.7%	11.8%	5.2%	10.0%	9.7%	9.4%	9.1%	9.5%
SG&A	26.2%	28.2%	30.7%	30.3%	28.8%	31.8%	32.6%	32.7%	32.2%	31.4%	31.1%	30.8%	30.6%	31.0%
Operating margin	6.8%	2.5%	5.1%	2.9%	4.2%	2.0%	(6.4)%	(9.3)%	(2.2)%	(6.1)%	(5.5)%	(5.0)%	-4.4%	(5.2)%
Pretax margin	5.6%	0.4%	4.9%	4.2%	3.7%	2.4%	(9.4)%	(9.6)%	(2.6)%	(6.6)%	(6.0)%	-5.4%	-4.9%	(5.7)%
Tax rate	14.6%	(238.5)%	12.7%	(0.5)%	2.6%	8.1%	0.0%	(1.9)%	(5.8)%	(2.3)%	(2.5)%	(2.7)%	(2.9)%	(2.6)%
Year / Year Growth														
Total Revenues	120.8%	61.3%	12.5%	(10.5)%	28.7%	73.1%	(31.1)%	(42.0)%	(24.5)%	(30.2)%	13.1%	25.2%	29.3%	3.9%
Net Income	103.0%	(50.2)%	(17.3)%	(31.9)%	(12.1)%	179.7%	(318.3)%	(234.4)%	(175.1)%	(308.8)%	(438.5)%	48.3%	(33.7)%	67.9%
EPS	55.2%	(92.4)%	(28.8)%	(76.3)%	(46.1)%	1193.2%	(362.6)%	(559.1)%	(244.9)%	(264.7)%	(539.7)%	68.4%	(34.2)%	17.9%

Source: Company filings and Taglich Brothers' estimates

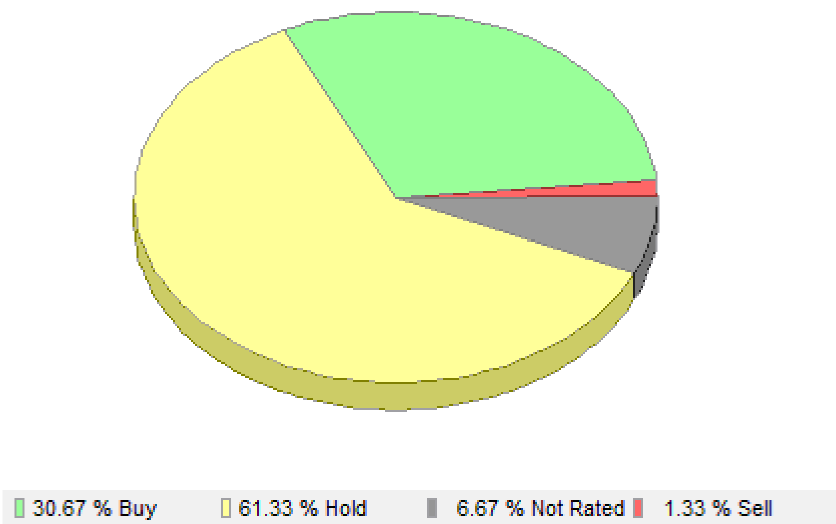
Statement of Cash Flows for the Periods Ended
(in thousands $)

	FY15A	FY16A	FY17A	9m18A	FY18E	FY19E
Net income (loss)	2,838	4,994	4,390	(1,428)	(3,295)	(5,534)
Depreciation & amortization	772	2,296	3,142	2,584	3,679	3,601
Deferred revenue	-	1,127	(924)	173	173	-
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	-	-	-	600	600	-
Deferred taxes	-	102	(540)	3	3	-
Loss in equity interests	-	-	-	779	779	
Interest expense on convertible debt	-	144	164	109	200	200
Cash earnings	3,667	9,964	6,408	2,820	2,209	(1,663)
Changes in assets and liabilities						
Restricted cash	-	(90)	(833)	-	-	-
Receivables	(733)	(5,586)	(1,892)	3,750	3,790	(454)
Inventory	(99)	764	(3,200)	5,190	4,640	(476)
Prepaid expenses and other	(363)	2,343	754	(2,126)	(2,126)	-
Other	17	(171)	228	212	211	-
Accounts payable	1,665	1,377	(788)	(320)	(1,866)	191
Credit card payable	-	67	(129)	106	106	-
Sales tax payable	-	85	287	(29)	(29)	-
Revolving line of credit	-	(6,117)	1,011	-	(3,096)	-
Accrued expenses	(131)	4,297	(1,249)	(1,063)	(853)	(351)
Income taxes payable	12	962	511	(855)	(855)	-
(Increase) decrease in working capital	368	(2,069)	(5,300)	4,865	(78)	(1,089)
Net cash provided by (used in) operations	**4,035**	**7,895**	**1,108**	**7,685**	**2,131**	**(2,752)**
Purchase of property and equipment	(1,516)	(664)	(5,678)	(12,846)	(13,000)	(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)**	**(12,846)**	**(13,000)**	**(3,000)**
Proceeds from stock/rights offering	-	-	12,817	-	1,650	-
Dividends paid	-	-	(529)	-	-	-
Proceeds from notes payable	-	2,218	-	4,025	4,025	5,000
Payments on notes payable	-	(486)	(981)	(302)	(400)	(400)
Proceeds (payments) on affiliated loan	(1,751)	3,480	(259)	-	-	-
Proceeds from bank loans	-	5,176	-	-	1,000	2,000
Payments on bank loans	(2,026)	(1,656)	(802)	(1,245)	(1,445)	(1,445)
Revolving line of credit	-	-	-	(3,096)	(3,096)	-
Proceeds from convertible notes	2,038	5,078	-	-	-	-
Net cash provided by (used in) financing	**(1,739)**	**13,810**	**10,246**	**(618)**	**1,734**	**5,155**
Net change in cash	**1,340**	**4,558**	**4,397**	**(5,779)**	**(9,135)**	**(597)**
Cash - beginning of period	**146**	**1,487**	**6,046**	**11,975**	**10,443**	**1,308**
Cash - end of period	**1,487**	**6,046**	**10,443**	**6,196**	**1,308**	**711**

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	**3**	**12**
Hold		
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.