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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
December 21, 2017

CETX $2.67 — (NASDAQ)

	2016A	2017A	2018E	2019E
Revenues (millions)	$93.7	$120.6	$135.4	$152.1
Earnings (loss) per share*	$0.58	$0.31	$0.67	$1.14

52-Week range	$8.41 – $2.38	Fiscal year ends:	September
Common shares out as of 12/5/17	10.6 million	Revenue per share (TTM)	$11.85
Approximate float	5.7 million	Price/Sales (TTM)	0.2X
Market capitalization	$28 million	Price/Sales (FY2019)E	0.2X
Tangible book value/share	$3.43	Price/Earnings (TTM)	8.6X
Price/tangible book value	0.8X	Price/Earnings (FY2019)E	2.3X

** to common shareholders*

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

Key investment considerations:

Maintaining Speculative Buy rating and twelve-month price target of $4.50 per share.

Acquisitions that occurred in FY16 along with growing demand for the company's products in its industrial products and electronics manufacturing services segments enabled strong revenue growth in FY17.

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 in this segment's backlog in 4Q17 to $38 million.

In December 2017, Cemtrex announced its intent to release its Smart Desk IoT product in May 2018. In November 2017, Cemtrex' signed a letter of intent to acquire a virtual reality software development studio headquartered in NYC. In October 2017, the company revised its exchange offer for Key Tronic Corporation to $11 per share.

4Q17 revenue (10K released 12/13/17) decreased 10.5% to $32.9 million and EPS decreased to $0.05 from $0.22 in 4Q16. The current period includes dividends of approximately $0.08 versus nil in 4Q16.

For FY18, we project a 12% increase in revenue to $135.4 million and EPS of $0.67. The increase in our revenue projection (from $132.1 million) reflects continued strong growth in the EMS segment. Our reduced EPS projection (from $0.72) on higher revenue is primarily due to a $600,000 reduction in other income.

For FY19, we project a 12% increase in revenue to $152.1 million and EPS of $1.14. The increase in our revenue projection (from $149.5 million) reflects continued strong growth in the EMS segment. Our reduced EPS projection (from $1.19) on unchanged income is due to higher average shares outstanding.

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

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 and twelve-month price target of $4.50 per share.

CETX trades at a multiple of approximately 2.3X our 2019 earnings projection compared to 14.9X 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	135.09	39,029	29.7	23.0	11.0%
Fluor Corporation	FLR	50.62	7,080	18.0	17.6	16.7%
Donaldson Company	DCI	48.96	6,360	27.7	20.1	9.9%
Jabil Circuit	JBL	26.75	4,725	12.0	8.6	6.2%
EMCOR Group	EME	82.17	4,833	22.6	18.6	8.9%
Stantec	STN	27.44	3,126	19.7	14.6	8.7%
Benchmark Electronics	BHE	29.5	1,467	18.9	15.1	20.4%
Tutor Perini Corporation	TPC	27	1,344	18.2	8.7	20.9%
Calgon Carbon Corporation	CCC	21.45	1,090	37.6	24.4	22.2%
CECO Environmental Corp.	CECE	5.06	176	7.7	NA	NMF
Sparton Corp.	SPA	23.05	227	18.4	NA	NMF
Hill International	HIL	5.5	285	61.1	NA	NMF
CUI Global	CUI	2.55	72	NMF	9.1	NMF
IEC Electronics	IEC	4.11	42	11.1	4.6	30.9%
Peer Average				**23.3**	**14.9**	**15.6%**
Cemtrex, Inc	**CETX**	**2.67**	**28**	**8.6**	**2.3**	**70.1%**
Source: Thomson Reuters, Taglich Brothers estimates						

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 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 $1.14 per share, valuing the company at approximately $4.50 per share.

Recent Developments

Update on Launch of Smart Desk – In December 2017, Cemtrex announced plans to release its Smart Desk IoT product in May 2018. The Smart Desk is targeting the office place market and is designed to help companies adopt the most advanced technologies available and increase employees' productivity.

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.

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

Cemtrex Signs Letter of Intent to Acquire Virtual Reality Software Studio – In November 2017, Cemtrex announced it signed a letter of intent to acquire a virtual reality software development studio headquartered in New York City. The studio employs over 30 programmers with experience in prototype development and interaction design. Annual sales are estimated at over $1.5 million.

Terms of the deal have not been announced. Due to the confidentiality agreement in place, Cemtrex plans to provide details about the acquired company after closing the transaction which is expected to take place by end of the year.

Cemtrex Revises Exchange Offer for Key Tronic – In October 2017, Cemtrex revised its exchange offer for Key Tronic Corporation to $11 per share by offering to exchange each outstanding share of Key Tronic common stock for one series 2 unit consisting of one $10, 4% debenture due 2024, and 1/3rd share of Cemtrex common stock. The original offer was for the exchange of each outstanding share of common stock of Key Tronic for one share of Cemtrex common stock.

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

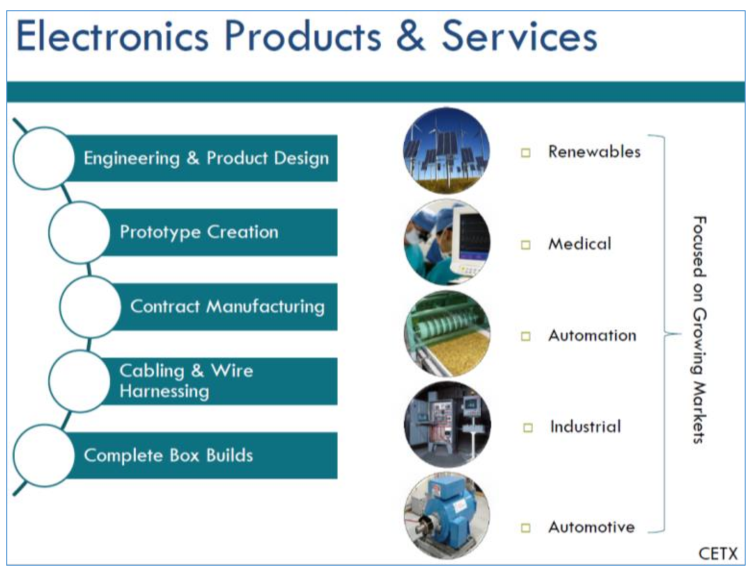
For its fiscal year ended July 1, 2017, Key Tronic reported revenue of approximately $468 million and net income of $5.6 million or $0.51 per share.

The revised exchange offer is the first step in Cemtrex's plan to acquire all of the outstanding shares of Key Tronic, which may not be completed through this offering and may be accomplished through one or more transactions following this offering. There can be no assurance that Cemtrex will be able to gain control of Key Tronic.

Business

Founded in 2000 and headquartered in Farmingdale, NY, Cemtrex is a provider of electronic manufacturing services, industrial contracting services, 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 at right), 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 May 2016, Cemtrex acquired Periscope, located in Paderborn, Germany. Periscope was focused on electronic manufacturing services primarily for major German automotive manufacturers. Cemtrex plans to consolidate the majority of its Paderborn operations into its Neulingen facility by the end of calendar 2017 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.

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

In July 2017, the company set up its Advanced Technologies subsidiary to leverage its design and engineering experience by developing and manufacturing proprietary advanced electronic products for third parties and IoT applications. Cemtrex plans to pursue collaborative partnerships with OEMs that are looking to incorporate intelligence and connectivity into their everyday products such as: furniture, consumer wearables, industrial safety wearables, and other enterprise and consumer devices.

Industrial Products and Services – Cemtrex provides services for plant equipment erection, relocation, and maintenance. This segment also sells a complete line of air filtration and environmental control products to a wide variety of industrial customers worldwide. 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

Markets

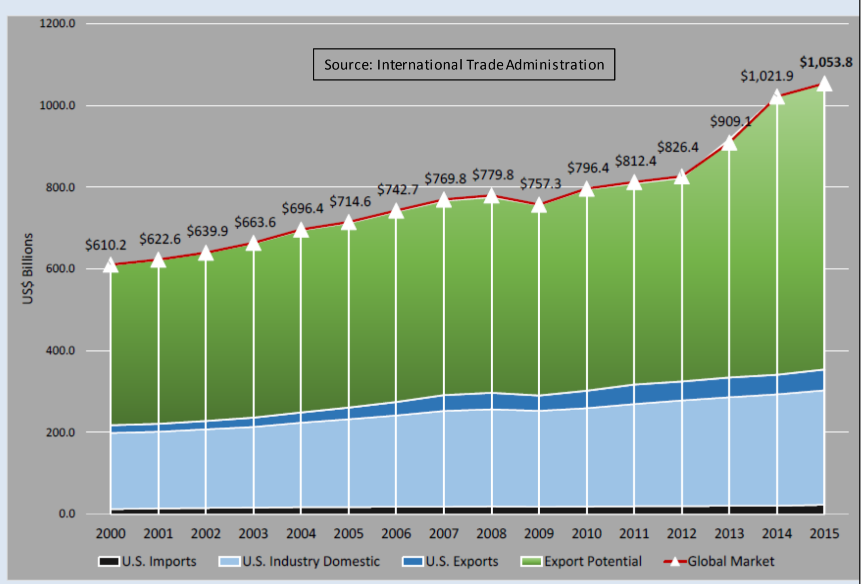
Electronics Manufacturing Services – The term electronics manufacturing services refers to companies that test, manufacture, distribute, and provide return/repair services of electronic components and assemblies for original equipment manufacturers. The latest research from Research and Markets estimated the electronics contract manufacturing services market at $425 billion in 2016 and projected it to grow to $551 billion in 2021 for a compound annual growth rate of approximately 5.3%. Research and Markets said that growth will be fueled by demand for EMS services.

A September 2017 report by Global Market Insights (GMI) estimated the global automotive electronics market was valued at over $206.3 billion in 2016 and should surpass $395.9 billion by 2024. The GMI report observed that increasing automotive electronics adoption to deliver safety features including vehicle data recorder systems, emergency call systems and alcohol ignition interlocks are anticipated to fuel market demand. Over 40% of a car's onboard components are currently based on electronics and that percentage is expected to rise with the improvement in current regulations governing the automotive electronics market.

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

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

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).

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.

4Q and FY 2017 Financial Results

<u>4Q17</u> – Net income to common decreased to $521,000 or $0.05 per share on a 10.5% decrease in revenue to $32.9 million. Net income to common in 4Q16 was $2.1 million or $0.21 per share. Excluding the impact of dividends (which were not declared 4Q16), 4Q17 net income was $1.4 million or $0.13 per share. We projected revenue of $29.2 million and net income to common of $319,000 or $0.03 per share.

Gross profit decreased to $10.9 million from $11.3 million, with margins increasing to 33.2% from 30.9%. Operating expenses increased 6.6% to $10 million or 30.3% of revenue from $9.3 million or 25.4% of revenue. Other income decreased to $396,000 from $1.1 million. The company recognized a $7,000 tax benefit versus paying $1 million in taxes in 4Q16.

<u>*FY 2017*</u> – Net income to common was $3.2 million or $0.31 per share on revenue growth of 29% to $120.6 million. In FY16, net income to common was $5 million or $0.59 per share on revenue of $93.7 million. Excluding the impact of dividends (which were not declared 2016), income was $4.4 million or $0.43 per share in 2017.

The increase in revenue was primarily due to the acquisitions of AIS and Periscope in 2016, as well as increased sales in CETX's existing businesses. The company's IPS segment's revenue increased by $7.3 million or 15%, to $56.6 million from $49.2 million. The EMS segment's revenues increased by $19.6 million or 44% to $64.1 million from $44.5 million.

Gross profit increased to $39.9 million from $29.2 million with margins increasing to 33.1% from 31.2% due to higher margin projects.

Operating expenses increased $10.6 million or 44% to $34.8 million from $24.1 million for operating expense margins of 28.8% and 25.8%, respectively. The increase in operating expenses was the result of increased research and development costs, increased sales and marketing expenses, and costs related to acquisitions.

Other income decreased to $314,000 from $1.7 million due to one-time other income generated in 2016. Interest expense increased to $924,000 from $674,000 due to a higher revolving line of credit balance and interest paid on convertible notes.

The company paid $115,000 in income taxes compared to $1.1 million in 2016. The provision for income tax is based upon the projected income tax from the company's US and international subsidiaries.

Liquidity - As of September 30, 2017, the company had cash of $12 million, of which $1.5 million was restricted, a current ratio of 2.3 versus 2.7 for the pollution controls industry and 1.3 for the electronics manufacturing industry, $16 million of debt (of which $6.8 million is categorized as current), and approximately 56% of assets are covered by equity.

In FY17, cash provided by operations in FY17 was $1.1 million consisting of cash earnings of $6.4 million and a $5.3 million increase in working capital. Working capital increased due primarily to increased inventory and receivables, and decreased accrued expenses. Cash used in investing of $7 million consisted primarily of $5.7 million of capital expenditures and a $1.3 million purchase and retirement of common stock. Cash provided by financing of $10.2 million consisted primarily of $12.8 million net proceeds from a subscription rights offering offset in part by a $2 million reduction in debt and $529,000 in dividend payments. Cash increased by $4.4 million to $10.4 million at September 30, 2017.

Cemtrex's current liabilities include $220,000 of convertible notes that mature in August with an interest rate of 10% and a conversion price of $6.50. Cemtrex also has $4.5 million outstanding on its revolving line of credit, $165,000 credit card payable, and the current portion of long-term liabilities was $2.1 million as of September 30, 2017.

Cemtrex's long-term liabilities include $5.2 million of bank loans from Sparkasse Bank of Germany and Fulton Bank with interest rates varying from LIBOR plus 2.25% to 4.95%, and maturities varying from October 2021 to December 2022. The company also has $241,000 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 October 2017, the International Monetary Fund (IMF) raised its global economic growth forecast to 3.6% for 2017 and 3.7% for 2018, up 0.1% from its July 2017 forecast for both periods. The IMF said the upward revision was due to better than expected growth outcomes in 1H17 in the euro area, Japan, emerging Asia, emerging Europe, and Russia.

In October 2017, the IMF raised its economic growth estimate for the US to 2.2% in 2017 and 2.3% in 2018, up from its earlier (July 2017) growth forecast of 2.1% for both years. The upward revision reflects strong, broad based US economic activity in 1H17.

The second estimate of US GDP growth (released on November 29, 2017) showed the US economy grew at an annual rate of 3.3% in 3Q17, up from 3.1% in 2Q17. The 3Q17 US GDP growth estimate primarily reflects increases in consumer spending, inventory investment, business investment, and exports. Partly offsetting these contributions to GDP growth was a decrease in housing investment.

In Europe, the IMF raised its economic growth forecast to 2.1% in 2017 and 1.9% for 2018, up from 1.9% and 1.7%, respectively in its July 2017 forecast. The upward revision stems from stronger momentum in domestic demand than previously anticipated.

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

Projections

Cemtrex's sales of industrial products and services have averaged 37% annual growth over the five years prior to the acquisition of AIS in FY16 while the overall environmental technologies industry averaged annual growth of approximately 5%. Since the acquisition of AIS, CETX grew industrial product sales by 15%. 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 9% into FY19.

Cemtrex's sales from its electronics manufacturing services segment improved after the June 2016 acquisition of Periscope, which was the primary driver of this segment's 44% increase in FY17 sales. We believe that with CETX's strong backlog in this segment ($38 million in 4Q17, up 46% from $26 million in 4Q16), Cemtrex will grow EMS segment revenue at an average annual growth rate of approximately 15% 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 FY18 and FY19.

Segment Revenue
(In thousands $)

	FY16A	FY17A	FY18E	FY19E	Avg. Annual Growth to 2019
IPS	49,244	56,569	61,700	67,400	9%
EMS	44,461	64,059	73,700	84,700	15%
Total Revenue	93,705	120,628	135,400	152,100	12%

Source: Company filings and Taglich Brothers' estimates

Our estimates do not include sales from the company's smart desk product, which is expected to launch in May 2018. We will incorporate this into our model when we can better gauge the market's acceptance of this new product.

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

FY18 – We project a 12% increase in revenue to $135.4 million and net income to common of $7.1 million or $0.67 per share. The increase in our revenue projection (prior was $132.1 million) reflects continued strong growth in the EMS segment. Our reduced net income to common projection (prior was $7.4 million or $0.72 per share) on higher revenue is primarily due to a $600,000 reduction in other income.

We project gross margins increasing to 33.9%, from 33.1% in FY17 due primarily to increased overhead coverage. SG&A expenses are project to increase to $35.9 million (with margins of 26.5%) from $34.8 million (with margins of 28.8%). We project lower interest expense to $360,000 from $924,000 due to a reduced level of debt.

We project $7.3 million cash from operations on cash earnings of $11.7 million and a $4.4 million increase in working capital. The increase in working capital will come primarily from increased receivables and inventory. Cash from operations should cover our projected $2.5 million of capital expenditures, $5.2 million debt payments, and $1.4 million of dividend payments, decreasing cash by $2.2 million to $8.2 million at September 30, 2018.

FY19 – We project a 12% increase in revenue to $152.1 million and net income to common of $12.2 million or $1.14 per share. The increase in our revenue projection (prior was $149.5 million) reflects continued strong growth in the EMS segment. Our reduced EPS projection (prior was $1.19 per share) on unchanged income is due to higher average shares outstanding to 10.7 million from 10.3 million.

We project gross margins increasing to 35%, from 33.9% in FY18 due primarily to increased overhead coverage. SG&A expenses are project to increase to $37.3 million (with margins of 24.5%) from $35.9 million (with margins of 26.5%). We project interest expense to remain at $360,000.

We project $13.7 million cash from operations on cash earnings of $16.7 million and a $3 million increase in working capital. The increase 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 $2.5 million of capital expenditures and $1.4 million of dividend payments, increasing cash by $9.8 million to $18 million at September 30, 2019.

Risks

In our view, these are the principal risks underlying the stock.

Dependence upon market acceptance of the company's technology - Failure to increase market acceptance of the company's environmental control products or electronics manufacturing services could adversely impact the company's revenues.

Acquisition/Integration risks – The company's current strategy involves growth through acquisitions (of which the latest involves the potential acquisitions of Key Tronic Corp and a Virtual Reality Software Studio). Risks associated with this type of strategy include being able to identify suitable acquisition candidates, successfully integrating and managing acquired businesses, obtaining acceptable financing, and lower than expected revenue from acquisitions.

Competition - Several companies market products that compete directly with 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 5.7 million shares in the float and the average daily volume is approximately 77,000 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	FY18E	FY19E
Cash and equivalents	1,487	6,046	10,443	8,211	18,009
Restricted cash	-	698	1,532	1,532	1,532
Short-term investments	-	-	-	-	-
Receivables	4,771	13,569	15,461	17,354	19,495
Inventory	6,369	14,072	17,272	19,158	21,156
Deferred tax asset	-	67	-	-	-
Prepaid expenses and other	894	2,475	1,721	1,721	1,721
Total current assets	13,521	36,927	46,429	47,976	61,913
Property and equipment	8,142	17,648	20,118	19,681	19,208
Goodwill	845	919	3,323	3,323	3,323
Due from related parties	-	-	-	-	-
Notes receivable	-	-	-	-	-
Other assets	36	540	311	311	311
Total assets	**22,544**	**56,034**	**70,181**	**71,291**	**84,755**
Accounts payable	4,386	7,733	6,945	7,703	8,507
Credit card payable	-	294	165	165	165
Sales tax payable	-	263	551	551	551
Accrued expenses	309	5,175	3,614	4,057	4,557
Accrued income taxes	74	1,043	1,554	1,554	1,554
Revolving line of credit	2,130	3,455	4,466	3,000	3,000
Deferred revenue	-	1,387	463	463	463
Convertible notes	1,274	3,748	220	-	-
Notes payable	-	-	-	-	-
Current portion of long-term liabilities	654	2,057	2,084	2,084	2,084
Total current liabilities	8,827	25,155	20,062	19,577	20,881
Deferred tax liabilities	-	94	1,891	1,891	1,891
Accrued expenses	-	-	-	-	-
Long-term debt	2,384	6,402	5,175	-	-
Mortgage payable	4,089	3,869	3,820	3,645	3,533
Notes payable	-	1,222	241	-	-
Notes payable-related party	119	3,600	-	-	-
Total liabilities	**15,419**	**40,342**	**31,189**	**25,113**	**26,305**
Preferred equity	**1**	**1**	**3**	**3**	**3**
Total stockholders' equity	**7,125**	**15,692**	**38,992**	**46,178**	**58,450**
Total liabilities & stockholders' equity	**22,544**	**56,034**	**70,181**	**71,291**	**84,755**

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	135,400	152,100
Cost of revenues	40,565	64,491	80,715	89,529	98,865
Gross profit	16,322	29,214	39,913	45,871	53,235
General and administrative	13,821	24,150	34,798	35,890	37,270
Operating income	2,501	5,064	5,115	9,981	15,965
Other income (expense)	834	1,694	314	400	400
Interest expense	(496)	(674)	(924)	(360)	(360)
Income before taxes	2,839	6,084	4,505	10,021	16,005
Income tax (benefit)	1	1,090	115	1,503	2,401
Net income / (loss)	2,838	4,994	4,390	8,518	13,604
Dividends on preferred stock	-	-	1,201	1,402	1,402
Net income (loss) to common	2,838	4,994	3,189	7,116	12,202
EPS to common	0.40	0.58	0.31	0.67	1.14
Shares Outstanding	7,059	8,582	10,176	10,700	10,700
Margin Analysis					
Gross margin	28.7%	31.2%	33.1%	33.9%	35.0%
SG&A	24.3%	25.8%	28.8%	26.5%	24.5%
Operating margin	4.4%	5.4%	4.2%	7.4%	10.5%
Pretax margin	5.0%	6.5%	3.7%	7.4%	10.5%
Tax rate	0.0%	17.9%	2.6%	15.0%	15.0%
Year / Year Growth					
Total Revenues	19.4%	64.7%	28.7%	12.2%	12.3%
Net Income	6.3%	76.0%	(12.1)%	94.0%	59.7%
EPS	1.9%	44.7%	(46.1)%	112.2%	71.5%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY17A - FY19E
(in thousands $)

	12/16A	3/17A	6/17A	9/17A	FY17A	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	32,919	120,628	32,950	33,550	34,150	34,750	135,400	36,150	37,400	38,650	39,900	152,100
Cost of revenues	19,699	21,147	17,875	21,994	80,715	21,912	22,143	22,539	22,935	89,529	23,498	24,310	25,123	25,935	98,865
Gross profit	9,698	9,358	9,932	10,925	39,913	11,038	11,407	11,611	11,815	45,871	12,653	13,090	13,528	13,965	53,235
General and administrative	7,713	8,595	8,527	9,963	34,798	8,740	8,890	9,050	9,210	35,890	8,860	9,160	9,470	9,780	37,270
Operating income	1,985	763	1,405	962	5,115	2,298	2,517	2,561	2,605	9,981	3,793	3,930	4,058	4,185	15,965
Other income (expense)	58	(295)	155	396	314	100	100	100	100	400	100	100	100	100	400
Interest expense	(397)	(346)	(205)	24	(924)	(90)	(90)	(90)	(90)	(360)	(90)	(90)	(90)	(90)	(360)
Income before taxes	1,646	122	1,355	1,382	4,505	2,308	2,527	2,571	2,615	10,021	3,803	3,940	4,068	4,195	16,005
Income tax (benefit)	241	(291)	172	(7)	115	346	379	386	392	1,503	570	591	610	629	2,401
Net income / (loss)	1,405	413	1,183	1,389	4,390	1,962	2,148	2,185	2,223	8,518	3,232	3,349	3,457	3,566	13,604
Dividends on preferred stock	-	333	-	868	1,201	-	701	-	701	1,402	-	701	-	701	1,402
Net income (loss) to common	1,405	80	1,183	521	3,189	1,962	1,447	2,185	1,522	7,116	3,232	2,648	3,457	2,865	12,202
EPS to common	0.14	0.01	0.11	0.05	0.31	0.18	0.14	0.20	0.14	0.67	0.30	0.25	0.32	0.27	1.14
Shares Outstanding	9,787	10,387	10,300	10,230	10,176	10,700	10,700	10,700	10,700	10,700	10,700	10,700	10,700	10,700	10,700
Margin Analysis															
Gross margin	33.0%	30.7%	35.7%	33.2%	33.1%	33.5%	34.0%	34.0%	34.0%	33.9%	35.0%	35.0%	35.0%	35.0%	35.0%
SG&A	26.2%	28.2%	30.7%	30.3%	28.8%	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%	2.9%	4.2%	7.0%	7.5%	7.5%	7.5%	7.4%	10.5%	10.5%	10.5%	10.5%	10.5%
Pretax margin	5.6%	0.4%	4.9%	4.2%	3.7%	7.0%	7.5%	7.5%	7.5%	7.4%	10.5%	10.5%	10.5%	10.5%	10.5%
Tax rate	14.6%	(238.5)%	12.7%	(0.5)%	2.6%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Year / Year Growth															
Total Revenues	120.8%	61.3%	12.5%	(10.5)%	28.7%	12.1%	10.0%	22.8%	5.6%	12.2%	9.7%	11.5%	13.2%	14.8%	12.3%
Net Income	103.0%	(50.2)%	(17.3)%	(31.9)%	(12.1)%	39.6%	NMF	84.7%	60.0%	94.0%	64.7%	55.9%	58.2%	60.4%	59.7%
EPS	55.2%	(92.4)%	(28.8)%	(76.3)%	(46.1)%	27.7%	NMF	77.8%	(179.3)%	112.2%	64.7%	83.0%	58.2%	88.3%	71.5%

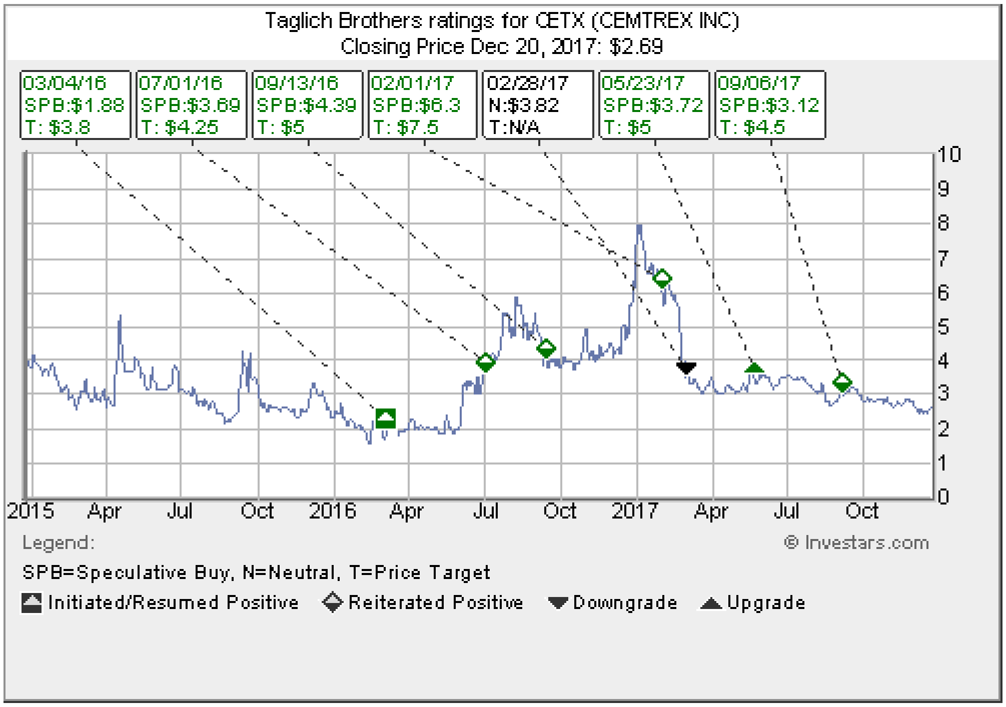
Source: Company filings and Taglich Brothers' estimates

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

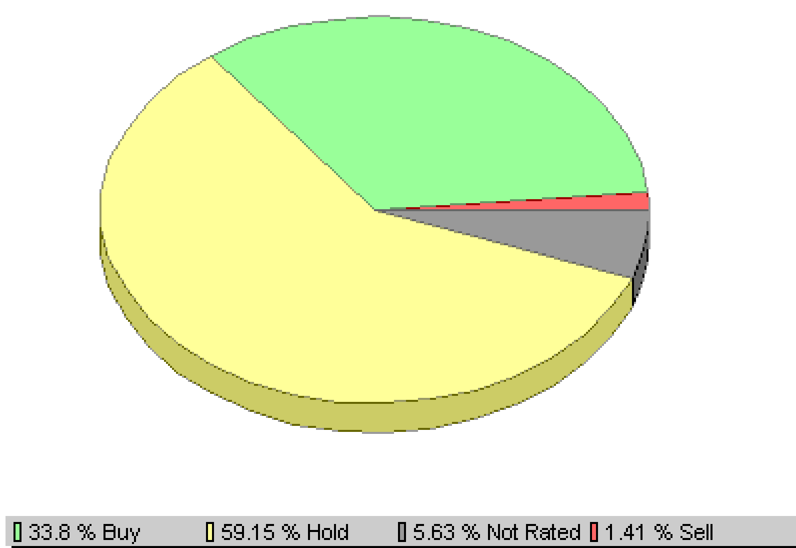
	FY15A	FY16A	FY17A	FY18E	FY19E
Net income (loss)	2,838	4,994	4,390	8,518	13,604
Depreciation & amortization	772	2,296	3,142	3,052	2,973
Deferred revenue	-	1,127	(924)	-	-
Stock-based compensation	57	52	67	70	70
Shares issued for professional services	-	-	109	-	-
Shares issued for acquisition	-	1,000	-	-	-
Discounts on convertible debt	-	249	-	-	-
Interest expense on convertible debt	-	139	164	28	28
Deferred taxes	-	102	(540)	-	-
Interest expense on convertible debt	-	5	-	-	-
Cash earnings	3,667	9,964	6,408	11,668	16,675
Changes in assets and liabilities					
Restricted cash	-	(90)	(833)	-	-
Receivables	(733)	(5,586)	(1,892)	(1,893)	(2,140)
Due from related party	-	-	-	-	-
Inventory	(99)	764	(3,200)	(1,886)	(1,998)
Prepaid expenses and other	(363)	2,343	754	-	-
Other	17	(171)	228	-	-
Accounts payable	1,665	1,377	(788)	758	803
Credit card payable	-	67	(129)	-	-
Sales tax payable	-	85	287	-	-
Revolving line of credit	-	(6,117)	1,011	(1,466)	-
Accrued expenses	(131)	4,297	(1,249)	125	360
Income taxes payable	12	962	511	-	-
(Increase) decrease in working capital	368	(2,069)	(5,300)	(4,362)	(2,975)
Net cash provided by (used in) operations	**4,035**	**7,895**	**1,108**	**7,306**	**13,700**
Purchase of property and equipment	(1,516)	(664)	(5,678)	(2,500)	(2,500)
Gain (loss) on disposal of property and equipment	-	-	66	-	-
Purchase of short-term investments	-	-	-	-	-
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)**	**(2,500)**	**(2,500)**
Proceeds from rights offering	-	-	12,817	-	-
Dividends paid	-	-	(529)	(1,402)	(1,402)
Proceeds from notes payable	-	2,218	-	-	-
Payments on notes payable	-	(486)	(981)	(461)	-
Proceeds (payments) on affiliated loan	(1,751)	3,480	(259)	-	-
Proceeds from bank loans	-	5,176	-	-	-
Payments on bank loans	(2,026)	(1,656)	(802)	(5,175)	-
Payments on convertible notes	-	-	-	-	-
Proceeds from convertible notes	2,038	5,078	-	-	-
Net cash provided by (used in) financing	**(1,739)**	**13,810**	**10,246**	**(7,038)**	**(1,402)**
Net change in cash	**1,340**	**4,558**	**4,397**	**(2,232)**	**9,798**
Cash - beginning of period	**146**	**1,487**	**6,046**	**10,443**	**8,211**
Cash - end of period	**1,487**	**6,046**	**10,443**	**8,211**	**18,009**

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		
Sell		
Not Rated	**1**	**33**

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.