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CEMTREX, Inc. (CETX) – Buy Rating

January 26, 2023

An Emerging Leader in the High-Tech World of Video Security Supported by an Industrial Services Company

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Cemtrex is emerging today as a leader in the high-tech world of video surveillance. The company's is split into two operating divisions, high tech video (Vicon) and a rigging and industrial solutions company (AIS) which generates free cash. We view the rigging company as a means to an end and expect it to be eventually divested. We see potential in the video surveillance portion of the company to grow in the 20% plus range annually and at some point we expect it to be acquired at 4-5x revenues, suggesting plenty of upside to today's valuation.

Investment Highlights

We See Vicon as the Future of Cemtrex: Vicon is a global leader in advanced security and surveillance technology designed to safeguard businesses, schools, municipalities, hospitals and cities across the world. The company specializes in engineering complete security solutions that simplify deployment, operation, and ongoing maintenance. A good example is the company's four-in-one camera system that connects with one simple cable. The company today has over 10,000 installations and five decades of experience. The company typically operates in corrections (prisons), education, healthcare, government, law enforcement, property management, and a host of other applications. The Advanced Technologies segment generated approximately \$29M in revenues for fiscal (Sept.) 2022. Management has guided to a 16% growth rate (\$28M in fiscal 2023).

Advanced Industrial Services: This business includes rigging and Millwrighting, Process Piping, Electrical Services, Custom Fabrication, Transportation and Warehousing and Project Management. This unit generated approximately \$21M in revenues for the fiscal (Sept.) year 2022. Management guided to nominal growth of 3% this year.

A History of Reverse Splits has Created a Depressed Valuation. In our opinion the company's market capitalization of approximately \$4-5M and a negative enterprise value does not reflect the company's \$50M in annual revenues. The company may achieve break-even late next year or early 2025. Our understanding is that the AIS (industrial rigging and such) is generating free cash flow today and helping to offset expenses associated with Vicon. We see Vicon technology as high value and as its growth builds, we believe the probability of it being acquired by one of the major (deep pockets, large, capitalized competitors) becomes increasingly likely.

The Most Recent Quarter & Guidance: The company reported revenues of \$50.3M (Advanced Technologies was \$29.1M and Industrial services was \$21M). This translated into an operating loss of \$13.5M; however, the company has restructured and as a result operating expenses should be lower going forward. We model a loss of just \$2.3M in fiscal 2023, suggesting that the company's cash balance of \$10.6M is sufficient as the company drives towards becoming a cash flow positive operation. We also note a recent 35:1 reverse stock split.

Valuation: We project our model out to 2032. We apply a 30% risk rate applied in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models. We use a fully diluted outyear share count assuming multiple raises. The result is equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of \$8.0.

Risks to our thesis include: 1. Competitive risks 2. Intellectual Property 3. Economic. Management and Intellectual Capital 4. Reverse stock splits.

Current Price \$5.35
Price Target \$8.00



Source: Cemtrex

Stock Data

52-Week Range	\$3.15	-	\$27.30
Shares Outstanding (mil.)	794		
Market Capitalization (mil.)	\$4		
Enterprise Value (mil.)	-\$8		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.4		
Average Three Months Trading Volume (K)	2		
Insider Ownership	#N/A		
Institutional Ownership	#N/A		
Short interest (mil.)	3.1%		
Dividend / Yield	\$0.00/0.0%		

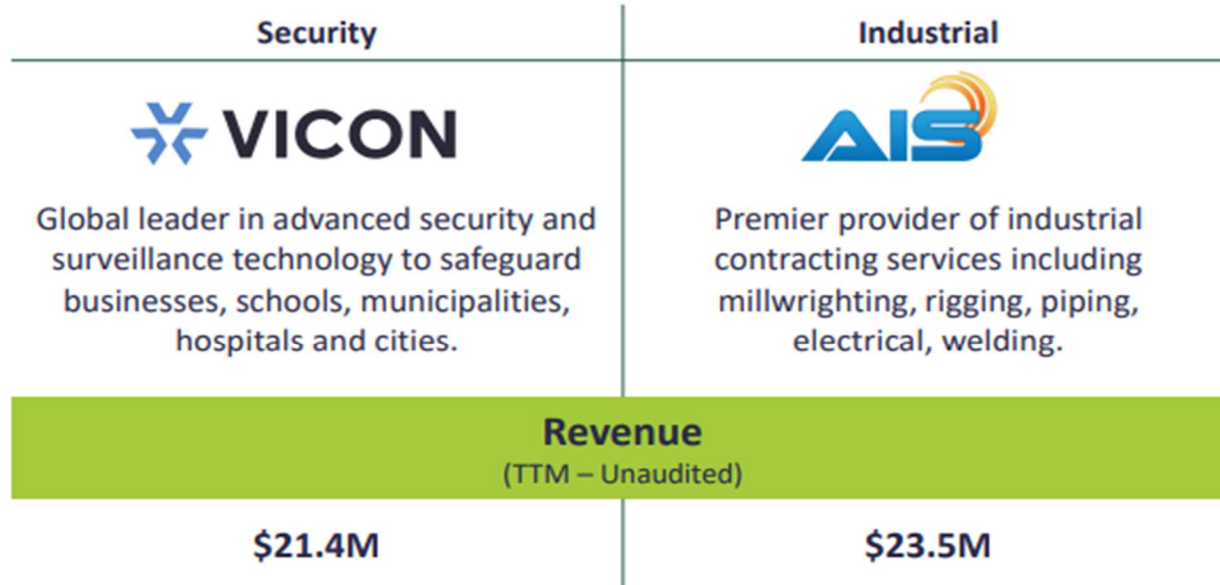


Company Description: *(adapted from the company's filings):* Centrex was incorporated in 1998 and has been through multiple evolutions to arrive where it is today, A company focused on two parts, one strategic and the other “opportunistic”. The two divisions are Vicon, a leader in surveillance technology, and AIS – Industrial services provider. The Advanced Technologies segment operates several brands that deliver cutting-edge software and hardware technologies. Advanced Industrial Services (“AIS”) offers single-source expertise and services for rigging, millwrighting, in plant maintenance, equipment erection, relocation, and disassembly to diversified customers. AIS installs high-precision equipment in a wide variety of industrial markets like automotive, printing & graphics, industrial automation, packaging, and chemicals, among others. They are a leading provider of reliability-driven maintenance and contracting solutions for the machinery, packaging, printing, chemical, and other manufacturing markets. The focus is on customers seeking to achieve greater asset utilization and reliability to cut costs and increase production from existing assets, including small projects, sustaining capital, turnarounds, maintenance, specialty welding services, and high-quality scaffolding.

Exhibit 1. Vicon Overview: Part of Centrex’s advanced technologies services, Vicon provides end-to-end video security solutions to address corporate, industrial, and governmental security challenges through video monitoring systems and analytics-based recognition systems, cameras, servers, and access control systems. Vicon’s Valerus video management software (VMS) is what security guards look at to monitor their systems and is used in alliance with Vicon’s physical cameras that are sold globally.

AIS Overview: Acquired by Centrex in 2015, AIS offers one-source expertise and capabilities in plant and equipment erection, relocation, and disassembly, and is the leading provider of reliability-driven maintenance and contracting solutions for the machinery, packaging, printing, chemical, and other manufacturing markets. AIS caters to customers seeking to achieve great asset utilization to cut costs and increase production from existing assets, including small projects, sustaining capital, specialty welding services, and high-quality scaffolding.

**Centrex is a holding company with operating brands
Vicon Industries and AIS – Advanced Industrial Services.**



Source: Centrex

Exhibit 2. Vicon – Industry Dynamics



- The video surveillance market has seen a shift from perpetual on-premise technologies to recurring subscription-based, cloud-based, scalable deployments, due to the growing usage of big data, deep learning, and artificial intelligence (AI).
- The use of AI in video surveillance eliminates the issue of human limitations and leverages techniques and software to make better decisions around security and threats, ultimately making the identification procedure simple.
- In addition, the use of big data and deep learning allows the system to store essentially unlimited amounts of data while using AI to constantly monitor and analyze footage in real-time.
- Regardless of what a company's security solution is, video surveillance is necessary, and it is only becoming more important.
- High repeat business, attractive growth margins.
- As we've seen with Ring, Blink, Arlo, etc., we are leveraging technology at the residential level, but it's important to have this at the enterprise level as well.
- The security industry tends to lag in technological advancements when compared to other industries that are technology-driven. Vicon wants to get ahead of this trend, as it is likely that in the next decade enterprises will go through a massive adoption of smart surveillance systems as they leverage the next generation of cloud and AI to drive better decision-making.

Source: Centrex

Exhibit 3. The Vicon Difference

**Delivering Innovation & Value
for Over 50 years.**



A Single-Source Supplier
Simplify purchasing and support.



Open Platform
Works with other open security platforms, cameras and hardware.



Centralized Platform
Monitor and track your entire security operation from a single interface.



Lower Total Cost of Ownership
No surprise fees, additional support charges, and no forced upgrades.



World Class Support
Our engineers are dedicated to resolving even your toughest challenges.

Source: Centrex

Exhibit 4. Complete Vicon Solution Through a Centralized Security Management System

License Plate Recognition (LPR)



Servers

Valerus VMS



Intelligent Cameras

VAX Access Control



Readers & Controllers

Source: Centrex

Exhibit 5. Valerus VMS – The Security Management System Hub



Centralized security

Monitor, search and respond to LPR, Access Control and video events



Simplify day-to-day maintenance

Track, troubleshoot and identify potential system issues with a global dashboard



Manage alarms

Customize alerts so the right person gets the right info at the right time



Expedite forensic searches

Expedite investigations with a suite of powerful search tools to find, review and export events



Protects data

Protects data in the case of hardware failures with redundancy and failover option



Streamline installation

Expedite installation and setup with auto-discovery and configuration tools



Secures the system

Protects the system with advanced cybersecurity settings and notifications



Monitor on-the-go

Access Valerus anytime and anywhere, and stream mobile video directly to the VMS

Source: Centrex

Exhibit 6. Deep-Learning AI Analytics



Deep-learning AI helps classify objects to expedite investigations, lower storage costs and reduce nuisance alarms.

- Proprietary algorithm requires less processing power, thereby reducing hardware costs for end-users
- When used in Vicon's Valerus VMS, operators can filter searches by people, vehicles or animals to reduce the amount of non-relevant video they have to watch
- Object-based recording options ensures the system records only relevant video, reducing total storage costs and requirements

Source: Centrex

Exhibit 7. Vicon Operations & Outlook

Revenues (Unaudited – Internal)					
\$ in Millions	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 (Est)
Net sales	\$24.2	\$24.1	\$20.7	\$23.5	\$28.5
GM%	43%	50%	39%	40%	48%

Outlook:

- No budget cuts
- Increased engineering and product teams substantially with 7 key hires from year to year
- Expect short term operating expenses to be higher as the products under development are being rolled out
- Expect ROI to start yielding 2-2 years out and beyond

Product Focus

- AI-based Analytics solutions – launching in Q2 FY2023
- Cloud based video surveillance as a service offering – launching in Q3 FY2023
- Software development done in low-cost countries for competitive advantage

Source: Centrex

Exhibit 8. AIS - Industry Dynamics and Outlook

- The global Industrial Services market size was valued at \$29.5B in 2020 and is projected to reach \$45.3B in 2028, growing at a CAGR of 5.53%¹
- Growth driven by an increase in demand for predictive maintenance services and the rise in the complexity of equipment
- The automotive industry is projected to hold the largest market share of industrial services market in the near term
- Global industrial control and factory automation market size is projected to reach \$197.8B by 2026 from \$133.1 B in 2021, at a CAGR of 8.2%²

AIS Outlook

- Strong balance sheet allows ability to offer more comprehensive services due to inventory of equipment
- Experienced management

Revenues (Unaudited – Internal)

\$ in Millions	FY 19	FY 20	FY21	FY 22	FY 23 (Est)
Net sales	\$20.0	\$17.8	\$19.0	\$21.2	\$21.8
GM%	36.3%	36.2%	33.6%	29.9%	33%

- With the boom of e-commerce continuing, one of the highest growth areas in AIS continues to be packaging.
- Due to its continued growth in the packaging space, AIS is present in the day-to-day consumer value chain.
- The increase in infrastructure-related development projects is escalating private participation in infrastructure (PPI).

Source: Centrex & footnotes 1 and 2 are to Centrex market sources

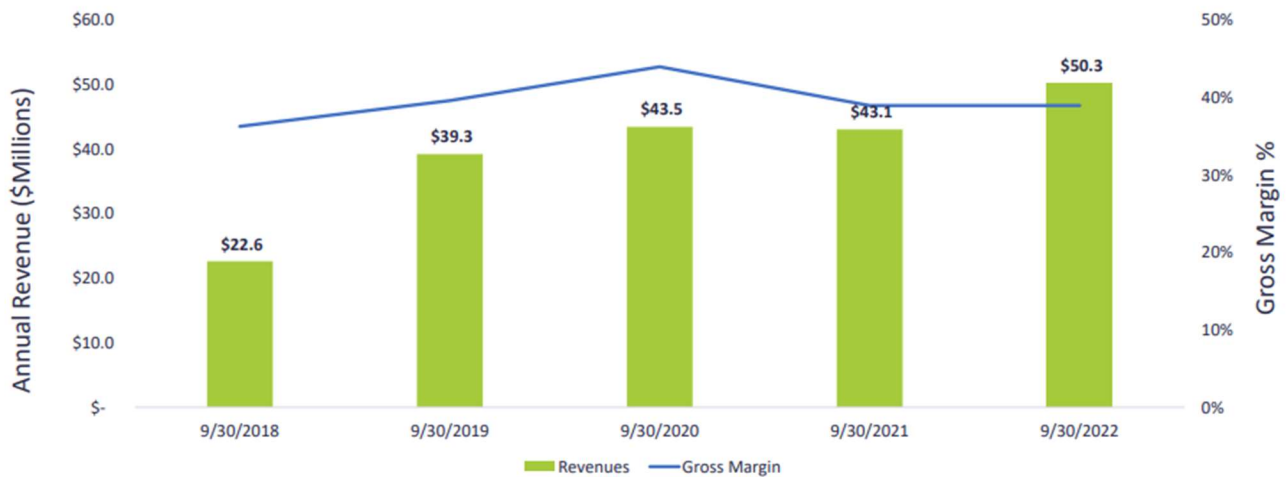
Exhibit 9. AIS Financial Results

\$ in millions	Three Months Ending September 30		Year Ended Ending September 30	
	2022	2021	2022	2021
Total Revenue	\$ 13.2	\$ 14.7	\$ 50.3	43.1
Gross Profit	\$ 5.6	\$ 4.9	\$ 19.4	17.0
Gross margin (%)	42%	33%	39%	39%
Net Income (loss)	\$ 1.1	\$ (8.4)	\$ (9.5)	(6.7)

Source: Centrex

Exhibit 10. AIS Financial Performance

Core business gives us a strong foundation to continue growing in high tech areas

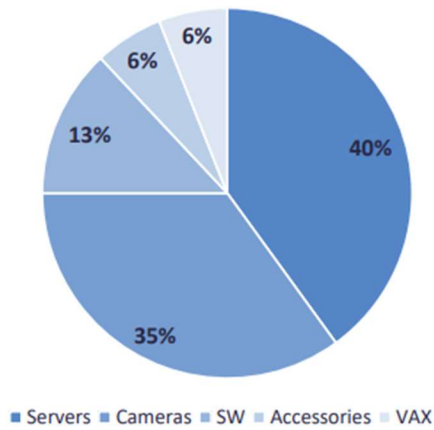


Source: Centrex

Exhibit 11. Vicon's Shift From AI-based Analytics solutions & Cloud-based VSaaS to Drive Recurring Revenue Growth

Vicon Model At Scale

Product Revenue Mix Today



Vicon Revenue Model

	Year 1	Year 2	Year 3	Year 4	Year 5
Recurring Revenue	\$ 2,000,000	\$ 4,000,000	\$ 6,000,000	\$ 8,000,000	\$ 10,000,000
Total Revenue	\$ 28,500,000	\$ 34,000,000	\$ 42,500,000	\$ 50,500,000	\$ 60,000,000
Gross Profit	\$ 12,825,000	\$ 16,905,000	\$ 21,675,000	\$ 26,765,000	\$ 33,000,000
Gross Margin	45%	49%	51%	53%	55%
Operating Income	\$ (375,000)	\$ 2,745,000	\$ 5,235,000	\$ 8,165,000	\$ 11,520,000
Operating Margin	-1%	8%	12%	16%	19%

Source: Centrex

Valuation: Our valuation for Cemtrex is based on revenue projections out to 2033. The subsequent revenues then flow to our income statement. To the income statement metrics, we then model a target valuation. We assume the company does raise additional capital, and as such, our valuation math is based on the 2033 fully diluted share count. Our valuation models include Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP). These models all use a 30% discount rate. We select 30% for micro-capitalized growth companies, and this represents our highest risk rate. The result of these three models is then equal-weighted and averaged and rounded to the nearest whole number to provide a 12-month target price.

Exhibit 12. Free Cash Flow Model

Average	\$	8
Price Target	\$	6
Year		2023

DCF Valuation Using FCF (mln):

units ('000)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(2,356)	24	2,454	5,528	11,401	15,322	6,545	27,272	36,074	46,756
Tax Rate	0%	0%	0%	0%	0%	10%	24%	24%	28%	0%
EBIT(1-t)	(2,356)	24	2,454	5,528	11,401	13,789	4,974	20,727	25,974	46,756
CapEx										
Depreciation										
Change in NWC										
FCF	(2,356)	24	2,454	5,528	11,401	13,789	4,974	20,727	25,974	46,756
PV of FCF	(2,356)	19	1,452	2,516	3,992	3,714	1,031	3,303	3,184	4,409
Discount Rate	30%									
Long Term Growth Rate	1%									
Terminal Cash Flow	162,841									
Terminal Value YE2030	15,356									
NPV	32,210									
NPV-Debt	-									
Shares out (thousands)	4,989	2032E								
NPV Per Share	\$ 6.46									

Exhibit 13. Discounted EPS Model

Current Year	2023
Year of EPS	2032
Earnings Multiple	15
Discount Factor	30%
Selected Year EPS	\$ 5.37
NPV	\$ 7.59

Source: Dawson James estimates

Discount Rate and Earnings Multiple Varies, Year is Constant							
		2032 EPS					
Earnings Multiple	7.6	5%	10%	15%	20%	25%	30%
	5	\$17.30	\$11.38	\$7.63	\$5.20	\$3.60	\$ 2.53
	10	\$34.61	\$22.77	\$15.26	\$10.41	\$7.21	\$ 5.06
	15	\$51.91	\$34.15	\$22.89	\$15.61	\$10.81	\$ 7.59
	20	\$69.22	\$45.54	\$30.52	\$20.81	\$14.41	\$ 10.13
	25	\$86.52	\$56.92	\$38.16	\$26.01	\$18.02	\$ 12.66
	30	\$103.83	\$68.31	\$45.79	\$31.22	\$21.62	\$ 15.19
	35	\$121.13	\$79.69	\$53.42	\$36.42	\$25.22	\$ 17.72
	40	\$138.44	\$91.08	\$61.05	\$41.62	\$28.82	\$ 20.25

Exhibit 14. Sum-of-the-Parts Model

Cemtrex	LT Gr	Discount Rate	Yrs. to Mkt Peak	% Success	Peak Sales MM's	Term Val
AIS - Industrial Contracting Services	1%	30%	5	70%	\$25	\$86
NPV						\$2.61
Vicon	1%	30%	7	70%	\$100	\$345
NPV						\$6.17
Other	1%	30%	7	70%	\$20	\$69
NPV						\$1.23
Net Margin						80%
MM Shrs OS (2032E)						5
Total						\$9

Source: Dawson James estimates

Risks to our thesis include 1. Competitive risks 2. Intellectual Property 3. Economic, Management, and Intellectual Capital. 4. We also note the company has a history of reverse stock splits.

1. Competitive Risks

- Most customers come from cyclical industries, resulting in cyclical buying behavior, and therefore may result in significant fluctuations in demand, selling prices, and profitability.
- The barriers to entry into these spaces are not difficult and makes it easy for competition to grow.
- There are many larger competitors who compete directly with Centrex and who have significantly greater financial, technological and research resources. This may serve to severely damage the company's ability to market and sell products at price levels that would allow them to achieve and maintain profit margins and positive cash flow.
- Competition and customer pressures may restrict their ability to increase prices in response to commodity and other input cost increases, which could cause a decrease in profit margin.

2. Intellectual Property

- Centrex heavily relies on its proprietary knowledge to maintain a competitive edge, while only using a combination of trade secrets and know-how to protect its intellectual property.
- Although Centrex has multiple patents and patent claims that it owns, they cannot assure that the various other aspects to their technologies patent applications will result in issued patents, or if patents are issued, that they will provide sufficient protections for technology against competitors.
- There is a low chance that, if needed, Centrex could defend their intellectual property rights against claims.

3. Economic Management and Intellectual Capital

- Due to the long-term nature of investments in acquisitions and other financial needs to support organic growth, including working capital, it is likely that the long-term and working capital needs will periodically exceed the short-term fluctuations in cash flow from operations.
- Growing net losses and substantial debt is expected to continue due to increased product development, sales and marketing and administrative expenses. This will reduce the company's ability to obtain additional financing for working capital.
- Financial success is significantly dependent on the engineering, sales, and marketing experience of Saagar Govil. There is no employment arrangement, and there can be no assurance that Saagar Govil will continue to provide Centrex services.
- As a "controlled company," approximately 90% of the outstanding voting shares, including common stock, are beneficially held by Saagar Govil.

4. Centrex has a history of reverse stock splits

- Dec 28, 2004 – 2/1 split
- August 21, 2007 – 52/1 split
- April 15, 2015 – 6/1
 - While common stock was traded on the OTCBB
- June 13, 2019 – 8/1
 - Primarily intended to bring Company into compliance with the minimum average closing share price requirement
- January 22, 2023 - 35:1 reverse stock split

Exhibit 15. Income Statement

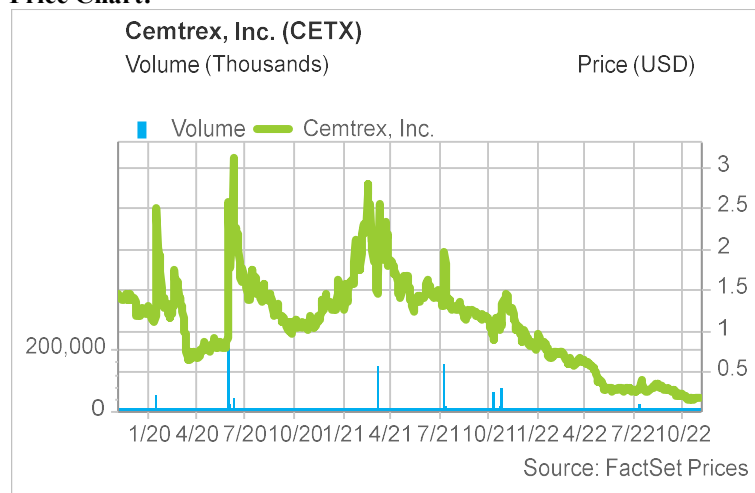
Centrex: Income Statement	Dec.	March	June	Sept.	Sept.														
YE September	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Product sales	-	-																	
AIS - Industrial Contracting Services	4,730	5,088	5,300	6,082	21,200	4,974	5,190	5,406	6,055	21,624	22,056	22,498	22,948	23,407	23,875	24,352	24,839	25,336	25,843
Vicon	6,200	6,400	6,800	9,700	29,100	7,697	8,032	8,366	9,370	33,465	39,154	46,593	55,446	65,426	77,203	91,100	107,498	126,847	149,680
Other Subsidiary Contributions	1,200	1,240	1,531																
Total Product Sales	10,672	12,728	13,631	15,782	50,275	13,298	13,876	14,454	16,189	57,816	66,489	76,462	87,931	101,121	116,289	133,732	153,792	176,861	203,390
Expenses																			
COGS	6,803	8,676	7,754	7,986	31,219	7,713	6,938	7,227	8,094	29,972	33,244	37,466	42,207	45,504	52,330	60,180	67,669	76,050	85,424
COGS %	64%	68%	57%	51%	62%	58%	50%	50%	50%	52%	50%	49%	48%	45%	45%	45%	44%	43%	42%
General and Administrative	6,612	6,757	6,949	7,438	27,756	5,980	6,240	6,500	7,280	26,000	28,600	31,460	34,606	38,067	41,873	46,061	50,667	55,733	61,307
Research & Development	1,312	1,115	1,048	1,377	4,852	966	1,008	1,050	1,176	4,200	4,620	5,082	5,590	6,149	6,764	7,441	8,185	9,003	9,903
Goodwill Impairment				3,316	3,316														
Total Operating Expenses	14,727	16,548	15,752	20,117	67,143	14,659	14,186	14,777	16,550	60,172	66,464	74,008	82,403	89,720	100,967	113,681	126,520	140,787	156,634
Loss from Operations	(4,055)	(3,819)	(2,121)	(6,874)	(16,868)	(1,361)	(310)	(323)	(362)	(2,356)	24	2,454	5,528	11,401	15,322	20,052	27,272	36,074	46,756
Other Expense																			
Other Income	930	335	2,072	3,928	7,265														
Interest Expense	(1,405)	(1,318)	(931)	(244)	(3,898)														
Total Other Expense	(475)	(983)	1,141	3,684	3,368	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Loss	(4,530)	(4,802)	(980)	(3,189)	(13,501)	(1,361)	(310)	(323)	(362)	(2,356)	24	2,454	5,528	11,401	15,322	20,052	27,272	36,074	46,756
Fx	59	(200)	(201)	(178)	(519)														
Less loss in non-controlling Interest	(52)	(81)	(51)	(88)	(271)														
Taxes			248	(39)	209	-	-	-	-	-	-	-	-	-	1,532	4,010	6,545	10,101	14,027
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%	24%	28%	30%
GAAP Net Income (loss)	(4,418)	(5,082)	(983)	(3,056)	(13,540)	(1,361)	(310)	(323)	(362)	(2,356)	24	2,454	5,528	11,401	13,789	16,041	20,727	25,974	32,729
GAAP-EPS	(0.19)	(0.21)	(0.04)	(0.08)	(0.52)	(1.71)	(0.11)	(0.11)	(0.13)	(2.07)	0.01	0.85	1.89	3.84	4.58	5.25	6.69	8.27	10.27
GAAP EPS (dil)	(0.19)	(0.21)	(0.04)	(0.08)	(0.52)	(1.71)	(0.08)	(0.08)	(0.09)	(0.77)	0.01	0.61	1.33	2.67	3.13	3.53	4.42	5.37	6.56
Wgt'd Avg Shrs (Bas)	23,097	24,089	25,778	26,300	24,832	794	2,794	2,825	2,828	2,310	2,849	2,889	2,930	2,971	3,013	3,055	3,098	3,141	3,185
Wgt'd Avg Shrs (Dil)	23,097	24,089	25,778	26,300	24,832	794	3,794	3,832	3,836	3,064	3,898	4,020	4,146	4,276	4,410	4,548	4,691	4,838	4,989

Source: Dawson James estimates, company reports

Companies mentioned in this report:

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – January 26, 2022 – Price Target \$8.0

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months.
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months.
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 26-Jan-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	69%	1	5%
Market Perform (Neutral)	9	28%	2	22%
Market Underperform (Sell)	1	3%	0	0%
Total	32	100%	3	9%

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.