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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

## CEMTREX, Inc. (CETX) – Buy Rating

May 12, 2023

### Cemtrex Reports a Strong Quarter - Exceeding Expectations

**Jason H. Kolbert**  
 Managing Director & Senior Analyst  
 jkolbert@dawsonjames.com

*Cemtrex announced a strong quarter with revenues up at both the Vicon and AIS divisions. Total revenue was \$ 16.1M with strong growth from Vicon – security revenues. Several large orders included border protection and a UK order too, \$0.8M. Roughneck is rolling out (AI-based analytics coupled with cameras). Gross margins expanded in the period too. All in all, we see the restructuring as paying off as the company now appears laser-focused on its two key segments, Vicon and AIS. Management hinted that full year estimates may rise.*

### Investment Highlights

**Roughneck AI: Cemtrex – This is a Novel Edge-based Analytics Provide More Efficient Searches and Real Time, Meaningful Alarms.** The advanced security technology and industrial services company released a new suite of AI-based analytics in an enhanced Vicon Roughneck AI Camera series, further improving its unified VMS platform for controlling video, access control, license plate recognition (LPR), and other integrated applications.

**What is it?** Vicon's enhanced lineup of Roughneck AI Cameras and latest VMS release — Valerus 23.1 — combine to deliver powerful object classification, tracking, recording and forensic searching. Vicon's Roughneck AI Cameras, with impressive features including advanced analytics, smart/adaptive IR, Starlight low-light technology, and -40° operating temps, now include built-in AI-based analytics. Vicon's AI-based analytics intelligently identify people and vehicles to help customers perform more meaningful searches in Valerus and diminish nuisance alarms triggered by irrelevant motion. This tight integration between its enhanced cameras and Valerus further improves Vicon's established position as an end-to-end solutions provider.

**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. We are estimating \$33.4M for 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. Growth appears to be picking up with \$6.2M in revenues reported in the period.

**Valuation:** We project our model out to 2032. We lower our discount rate from 30% to 15%. We apply this 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 \$23.0.

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

Current Price	\$10.88
Price Target	\$23.00



Source: Cemtrex

Stock Data			
52-Week Range	\$3.15	-	\$17.96
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$8		
Enterprise Value (mil.)	\$1		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.4		
Average Three Months Trading Volume (K)	1,087		
Insider Ownership	4.7%		
Institutional Ownership	0.5%		
Short interest (mil.)	0.5%		
Dividend / Yield	\$0.00/0.0%		



**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 1. Income Statement**

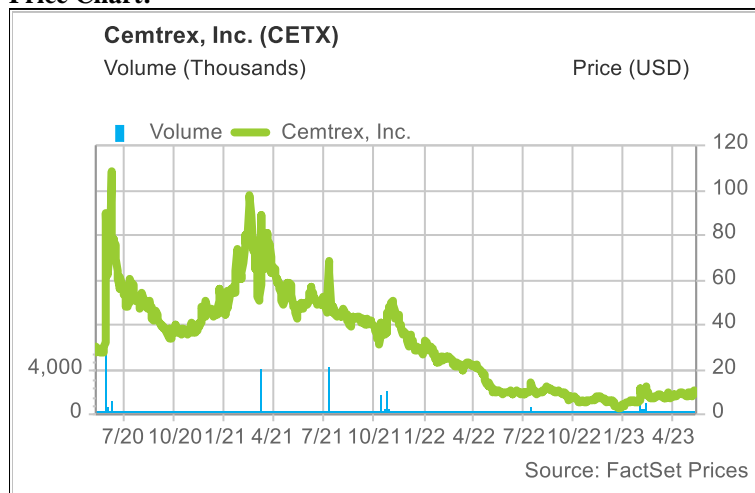
Cemtrex: Income Statement		Sept.																	
YE September	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Product sales</b>																			
AIS - Industrial Contracting Services	21,200	4,359	6,200	5,406	5,659	21,624	5,073	5,294	5,514	6,176	22,056	22,498	22,948	23,407	23,875	24,352	24,839	25,336	25,843
Vicon	29,100	7,005	9,873	8,366	8,221	33,465	9,005	9,397	9,789	10,963	39,154	46,593	55,446	65,426	77,203	91,100	107,498	126,847	149,680
Other Subsidiary Contributions		606																	
<b>Total Product Sales</b>	<b>50,275</b>	<b>11,970</b>	<b>16,073</b>	<b>14,454</b>	<b>15,318</b>	<b>57,816</b>	<b>15,292</b>	<b>15,957</b>	<b>16,622</b>	<b>18,617</b>	<b>66,489</b>	<b>76,462</b>	<b>87,931</b>	<b>101,121</b>	<b>116,289</b>	<b>133,732</b>	<b>153,792</b>	<b>176,861</b>	<b>203,390</b>
<b>Expenses</b>																			
COGS	31,219	6,928	8,735	7,855	8,325	31,842	7,646	7,979	8,311	9,308	33,244	37,466	42,207	45,504	52,330	60,180	67,669	76,050	85,424
COGS %	62%	58%	54%	54%	54%	55%	50%	50%	50%	50%	50%	49%	48%	45%	45%	45%	44%	43%	42%
General and Administrative	27,756	5,456	5,318	6,500	8,726	26,000	6,578	6,864	7,150	8,008	28,600	31,460	34,606	38,067	41,873	46,061	50,667	55,733	61,307
Research & Development	4,852	1,538	1,615	1,050	-4	4,200	1,063	1,109	1,155	1,294	4,620	5,082	5,590	6,149	6,764	7,441	8,185	9,003	9,903
Goodwill Impairment	3,316																		
<b>Total Operating Expenses</b>	<b>67,143</b>	<b>13,922</b>	<b>15,669</b>	<b>15,405</b>	<b>17,047</b>	<b>62,042</b>	<b>15,287</b>	<b>15,951</b>	<b>16,616</b>	<b>18,610</b>	<b>66,464</b>	<b>74,008</b>	<b>82,403</b>	<b>89,720</b>	<b>100,967</b>	<b>113,681</b>	<b>126,520</b>	<b>140,787</b>	<b>156,634</b>
Loss from Operations	(16,868)	(1,951)	405	(951)	(1,729)	(4,226)	6	6	6	7	24	2,454	5,528	11,401	15,322	20,052	27,272	36,074	46,756
<b>Other Expense</b>																			
Other Income	7,265	(17)	377																
Interest Expense	(3,898)	(1,128)	(1,335)																
<b>Total Other Expense</b>	<b>3,368</b>	<b>(1,145)</b>	<b>(959)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Loss</b>	<b>(13,501)</b>	<b>(3,097)</b>	<b>(554)</b>	<b>(951)</b>	<b>(1,729)</b>	<b>(4,226)</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>24</b>	<b>2,454</b>	<b>5,528</b>	<b>11,401</b>	<b>15,322</b>	<b>20,052</b>	<b>27,272</b>	<b>36,074</b>	<b>46,756</b>
Fx & or discontinued Ops	(519)	(3,240)																	
Less loss in non-controlling Interest	(271)	(59)																	
Taxes	209	-	-	-	-	-	-	-	-	-	-	-	-	-	1,532	4,010	6,545	10,101	14,027
<b>Tax Rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>24%</b>	<b>28%</b>	<b>30%</b>
<b>GAAP Net Income (loss)</b>	<b>(13,540)</b>	<b>(6,277)</b>	<b>(595)</b>	<b>(951)</b>	<b>(1,729)</b>	<b>(9,551)</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>24</b>	<b>2,454</b>	<b>5,528</b>	<b>11,401</b>	<b>13,789</b>	<b>16,041</b>	<b>20,727</b>	<b>25,974</b>	<b>32,729</b>
<b>GAAP-EPS</b>	<b>(0.52)</b>	<b>(8.24)</b>	<b>(0.73)</b>	<b>(0.34)</b>	<b>(0.62)</b>	<b>(9.93)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>0.86</b>	<b>1.91</b>	<b>3.88</b>	<b>4.63</b>	<b>5.31</b>	<b>6.77</b>	<b>8.36</b>	<b>10.39</b>
GAAP EPS (dil)	(0.52)	(8.24)	(0.73)	(0.25)	(0.45)	(4.16)	0.00	0.00	0.00	0.00	0.01	0.62	1.34	2.69	3.15	3.56	4.46	5.41	6.62
Wgtd Avg Shrs (Bas)	24,832	762	815	2,793	2,796	1,791	2,799	2,801	2,832	2,835	2,817	2,856	2,896	2,937	2,978	3,020	3,063	3,105	3,149
Wgtd Avg Shrs (Dil)	24,832	762	815	3,800	3,804	2,295	3,808	3,846	3,884	3,923	3,865	3,986	4,111	4,240	4,373	4,510	4,651	4,797	4,947

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, 2023 – Price Target \$8.0  
 Price Target Change – Buy – February 6, 2023 – Price Target \$8.0 to \$23.0  
 Update Report – Buy – March 23, 2023 – Price Target \$23.0  
 Update Report – Buy – May 12, 2023 – Price Target \$23.0

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Current as of 1-May-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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