

Member FINRA/SIPC

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

CEMTREX, Inc. (CETX) – Buy Rating

August 11, 2023

Cemtrex Reports Fiscal 3rd Quarter – Vicon Organic Growth

Cemtrex reported revenues of \$14.7M, which was down sequentially from the prior quarter's \$16M. Vicon continues to be the growth driver delivering revenues of \$9M. Border protection services was highlighted as a source of growth in the division. They closed the acquisition of Heisey Mechanical Ltd. adding \$11M in revenues to the AIS division. The company reported a net loss of \$1.1M and closed the period with \$6.4M in cash and equivalents.

Investment Highlights

Vicon Growth: (press release): “Turning to our Security segment, Vicon year over year revenues improved 36%, driven by strong demand from customers for its award-winning Roughneck cameras and Valerus video management software solutions. Vicon orders included a follow-up \$1.1 million order from a current large border protection customer in Texas to expand its security technology system with new security solutions, a follow-on to its \$1.5 million order earlier in the year. Increasing modernization of the current security infrastructure is accelerating the growth of the border security market, driven by the rise of geopolitical instabilities and an increase in border threat assessments.”

Vicon Guidance: (press release): “We believe revenues for Vicon Industries, based on our current demand, will exceed our earlier expectations of \$28.0 million for fiscal year 2023 given the growing demand for our products and solutions. Additionally, we see further opportunity to grow our Gross Margin Percent in fiscal year 2024.”

Advanced Industrial Services: (press release): “Revenue for our Industrial services segment, AIS, increased 5% during the quarter mainly due to increased demand for our services. We believe AIS will continue to expand revenues and may exceed our original 3% target of \$21.8 million for fiscal year 2023 driven by continued strength in the Industrial Services market. The Gross Profit Margin for AIS improved to 36% for the quarter compared to 30% for the prior year quarter driven by lower subcontractor costs. The Gross Margin Percent is expected to maintain or exceed approximately 34% for the fiscal year 2023 for Advanced Industrial Services. Looking ahead, we believe that continued reshoring of manufacturing to the US as well investments in US infrastructure will play a key role in AIS’ long-term growth.”

Heisey Acquisition Update: (press release): “Recently we closed on the highly synergistic acquisition of Heisey Mechanical, which is focused on steel fabrication and contracting primarily to the commercial and industrial water treatment industry, as well as other service industries. The acquisition brings over \$11.6 million in immediately accretive annual revenue and approximately \$775K in adjusted EBITDA...”

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.

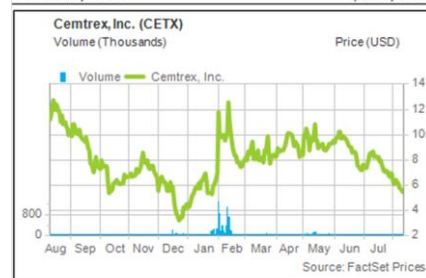
Jason H. Kolbert
 Managing Director & Senior Analyst
 jkolbert@dawsonjames.com

Current Price \$5.47
 Price Target \$23.00



Source: Cemtrex

Stock Data			
52-Week Range	\$3.15	-	\$14.46
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$4		
Enterprise Value (mil.)	-\$3		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.4		
Average Three Months Trading Volume (K)	93		
Insider Ownership	6.8%		
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

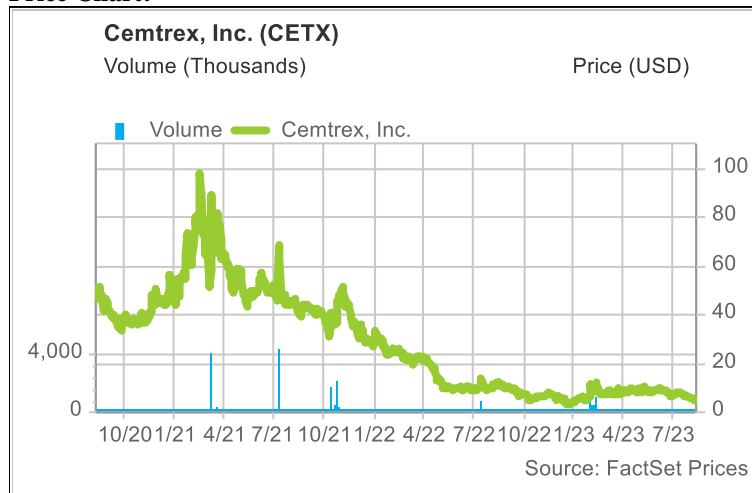
Centrex: Income Statement		Sept.														
: YE September		2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Product sales																
AIS - Industrial Contracting Services		21,200	4,359	6,200	5,730	8,000	24,290	35,775	36,491	37,221	37,965	38,724	39,499	40,289	41,095	41,917
Vicon		29,100	7,005	9,873	9,000	7,587	33,465	39,154	46,593	55,446	65,426	77,203	91,100	107,498	126,847	149,680
Other Subsidiary Contributions			606													
Total Product Sales		50,275	11,970	16,073	14,730	15,042	57,816	66,489	76,462	87,931	101,121	116,289	133,732	153,792	176,861	203,390
Expenses																
COGS		31,219	6,928	8,735	8,249	8,424	32,335	38,563	42,054	43,966	45,504	52,330	60,180	67,669	76,050	85,424
COGS %		62%	58%	54%	56%	56%	56%	58%	55%	50%	45%	45%	45%	44%	43%	42%
General and Administrative		27,756	5,456	5,318	5,377	9,849	26,000	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	-3	4,200	4,620	5,082	5,590	6,149	6,764	7,441	8,185	9,003	9,903
Goodwill Impairment		3,316														
Total Operating Expenses		67,143	13,922	15,669	14,676	18,269	62,535	71,783	78,596	84,162	89,720	100,967	113,681	126,520	140,787	156,634
Loss from Operations		(16,868)	(1,951)	405	54	(3,227)	(4,719)	(5,295)	(2,134)	3,769	11,401	15,322	20,052	27,272	36,074	46,756
Other Expense																
Other Income		7,265	(17)	377	35											
Interest Expense		(3,898)	(1,128)	(1,335)	1,254											
Total Other Expense		3,368	(1,145)	(959)	1,289	-	-	-	-	-	-	-	-	-	-	-
Net Loss		(13,501)	(3,097)	(554)	(1,166)	(3,227)	(4,719)	(5,295)	(2,134)	3,769	11,401	15,322	20,052	27,272	36,074	46,756
Fx & or discontinued Ops		(519)	(3,240)		(1,185)											
Less loss in non-controlling Interest		(271)	(59)		13											
Taxes		209	-	-	-	-	-	-	-	-	-	1,532	4,010	6,545	10,101	14,027
Tax Rate		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%	24%	28%	30%
GAAP Net Income (loss)		(13,540)	(6,277)	(595)	(1,147)	(3,227)	(11,245)	(5,295)	(2,134)	3,769	11,401	13,789	16,041	20,727	25,974	32,729
GAAP-EPS		(0.52)	(8.24)	(0.73)	(1.28)	(3.59)	(13.84)	(2.29)	(0.49)	0.85	2.53	3.02	3.46	4.41	5.45	6.77
GAAP EPS (dil)		(0.52)	(8.24)	(0.73)	(1.28)	(3.59)	(13.33)	(1.52)	(0.48)	0.82	2.40	2.82	3.18	3.99	4.84	5.92
Wgtd Avg Shrs (Bas)		24,832	762	815	898	899	843	3,475	4,384	4,446	4,508	4,572	4,636	4,701	4,767	4,834
Wgtd Avg Shrs (Dil)		24,832	762	815	898	899	843	3,482	4,457	4,597	4,741	4,889	5,043	5,201	5,363	5,531

Source: Company reports and Dawson James

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
 Update Report – Buy – June 9, 2023 – Price Target \$23.0
 Update Report – Buy – August 11, 2023 – Price Target \$23.0

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has not engaged in investment banking relationships with the subject company in the prior twelve months, as a manager or co-manager of a public offering and has not received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has received other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of August 3, 2023, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm 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.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

Ratings Definitions:

- 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 3-Aug-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	69%	3	8.60%
Market Perform (Neutral)	11	31%	3	8.60%
Market Underperform (Sell)	0	0%	0	0%
Total	35	100%	6	17.20%

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.