

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

February 1, 2024

### Cemtrex Receives \$3.8 Million for Two Advanced Industrial Services (AIS) Projects

Cemtrex reports it has received \$3.8 million in new orders through its Advanced Industrial Services (“AIS”) subsidiary for two projects. These include a \$2.2M order for a geothermal system update for a Northeastern School District, and a \$1.6M order for the fabrication of a key component for a motion control technologies company. We project AIS could realize \$36M in revenues versus Vicon - \$40M in 2024.

### Investment Highlights

**What is AIS – Advanced Industrial Services, a subsidiary of Cemtrex, Inc.?** It is an industrial contracting services business focused on millwrighting, rigging, piping, electrical, welding. “AIS installs high precision equipment in a wide variety of industrial markets including automotive, printing & graphics, industrial automation, packaging, and chemicals. AIS owns and operates a fleet of custom designed specialty equipment to assure safe and quick installation of production equipment.”

**Business Outlook for 2024: (corporate press release):** “During the fourth quarter, a large correctional facility, and current end-customer, upgraded its security technology system with new Valerus software and hardware with a \$1.5 million order. As customers seek to modernize their current security infrastructure, Vicon continues to stand out with its advanced technologies and products. Recently Vicon launched a new cloud security platform, called Anavio, that integrates video, access, and intercom in one easy-to-use system, powered by AI and face-based authentication. This new cloud platform allows us to create more value in our business by evolving Vicon into a recurring revenue business model. Additionally, with AI at the core of our roadmap for Anavio, we’re excited to layer in new capabilities and benefits for our customers to deliver the most cutting-edge security solutions over the months and years to come. With the launch of Anavio along with continued improvements to our core software platform Valerus, we expect to drive further growth and see additional opportunity to grow gross margin in 2024.”

**Heisey Acquisition Update:** The acquisition (now closed) adds over \$11.6 million in what is expected to be accretive annual revenues. We note that the company announced a \$1.0 million order through its subsidiary, Advanced Industrial Services (“AIS”), for the Pennsylvania Stewartstown Borough Authority, Stewartstown WWTP Sludge Dewatering improvements project. Heisey contributed to the reported 18% revenue growth (\$25M for the full year).

**Valuation:** We project our model out to 2032. Given the difficult of the macro environment we are returned our risk rating to 30% from 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 \$11.0.

**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 \$4.10  
Price Target \$11.00



Source: Cemtrex

Stock Data			
52-Week Range	\$2.93	-	\$14.46
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$3		
Enterprise Value (mil.)	-\$3		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.7		
Average Three Months Trading Volume (K)	6		
Insider Ownership	5.9%		
Institutional Ownership	0.6%		
Short interest (mil.)	0.4%		
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**

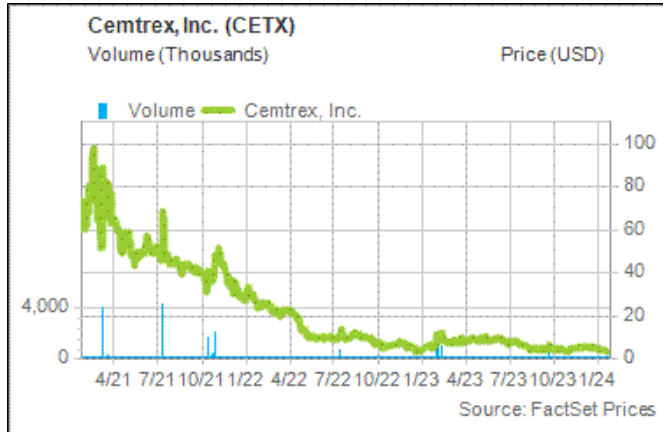
Centrex: Income Statement		Sept.													
YE September	2022A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Product sales</b>															
AIS - Industrial Contracting Services	21,200	25,006	8,396	8,761	9,127	10,222	36,506	37,236	37,981	38,741	39,515	40,306	41,112	41,934	42,773
Vicon	29,100	34,700	9,338	9,744	10,150	11,368	40,599	48,313	57,492	67,841	80,052	94,462	111,465	131,528	155,203
Other Subsidiary Contributions															
<b>Total Product Sales</b>	<b>50,275</b>	<b>59,706</b>	<b>15,792</b>	<b>16,479</b>	<b>17,165</b>	<b>19,225</b>	<b>68,662</b>	<b>78,961</b>	<b>90,805</b>	<b>104,426</b>	<b>120,090</b>	<b>138,104</b>	<b>158,819</b>	<b>182,642</b>	<b>210,038</b>
<b>Expenses</b>															
COGS	31,219	33,683	9,159	9,558	9,956	11,151	39,824	43,429	45,403	46,992	54,041	62,147	69,880	78,536	88,216
COGS %	62%	56%	58%	58%	58%	58%	58%	55%	50%	45%	45%	45%	44%	43%	42%
General and Administrative	27,756	26,006	6,580	6,866	7,152	8,010	28,607	31,468	34,615	38,076	41,884	46,072	50,679	55,747	61,322
Research & Development	4,852	3,268	827	863	899	1,007	3,595	3,954	4,350	4,785	5,263	5,789	6,368	7,005	7,706
Goodwill Impairment	3,316														
<b>Total Operating Expenses</b>	<b>67,143</b>	<b>62,957</b>	<b>16,566</b>	<b>17,286</b>	<b>18,006</b>	<b>20,167</b>	<b>72,026</b>	<b>78,851</b>	<b>84,367</b>	<b>89,853</b>	<b>101,187</b>	<b>114,008</b>	<b>126,928</b>	<b>141,289</b>	<b>157,244</b>
Loss from Operations	(16,868)	(3,251)	(774)	(807)	(841)	(942)	(3,364)	110	6,438	14,574	18,903	24,095	31,891	41,353	52,795
<b>Other Expense</b>															
Other Income	7,265	477													
Interest Expense	(3,898)	(4,966)													
<b>Total Other Expense</b>	<b>3,368</b>	<b>(4,490)</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>(5,740)</b>	<b>(774)</b>	<b>(807)</b>	<b>(841)</b>	<b>(942)</b>	<b>(3,364)</b>	<b>110</b>	<b>6,438</b>	<b>14,574</b>	<b>18,903</b>	<b>24,095</b>	<b>31,891</b>	<b>41,353</b>	<b>52,795</b>
Fx & or discontinued Ops	(519)														
Less loss in non-controlling Interest	(271)														
Taxes	209	(350)	-	-	-	-	-	-	-	-	1,890	4,819	7,654	11,579	15,838
<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>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>(9,289)</b>	<b>(774)</b>	<b>(807)</b>	<b>(841)</b>	<b>(942)</b>	<b>(3,364)</b>	<b>110</b>	<b>6,438</b>	<b>14,574</b>	<b>17,012</b>	<b>19,276</b>	<b>24,237</b>	<b>29,775</b>	<b>36,956</b>
<b>GAAP-EPS</b>	<b>(0.52)</b>	<b>(10.68)</b>	<b>(0.86)</b>	<b>(0.19)</b>	<b>(0.19)</b>	<b>(0.22)</b>	<b>(1.46)</b>	<b>0.03</b>	<b>1.45</b>	<b>3.23</b>	<b>3.72</b>	<b>4.16</b>	<b>5.15</b>	<b>6.24</b>	<b>7.64</b>
GAAP EPS (dil)	(0.52)	(10.68)	(0.86)	(0.19)	(0.19)	(0.21)	(0.97)	0.02	1.40	3.07	3.48	3.82	4.66	5.55	6.68
Wgt'd Avg Shrs (Bas)	24,832	870	900	4,300	4,347	4,352	3,475	4,384	4,446	4,508	4,572	4,636	4,701	4,767	4,834
Wgt'd Avg Shrs (Dil)	24,832	870	900	4,300	4,343	4,386	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  
 Price Target Change – Buy – December 11, 2023 – Price Target \$11.0  
 Update Report – Buy – January 26, 2024 – Price Target \$11.0  
 Update Report – Buy – February 1, 2024 – Price Target \$11.0

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 January 18, 2024, 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 30-Jan-24

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	20	58.82%	4	11.80%
Market Perform (Neutral)	14	41.18%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	6	17.70%

#### **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.