

Cemtrex – insights / highlights October 2023

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Cemtrex overview

Cemtrex: Vicon and Advanced Industrial Services, making demonstrable progress as visible from results in the last two quarters, which could be the beginning of a turning point in the company's overall future (firing on all cylinders).

Cemtrex restructured in November of 2022 to hone in on two businesses, AIS and Vicon, with a vision to get the company on a path towards sustainable and profitable growth. Since that restructuring, two quarters have been reported. Both have been profitable on an operating basis, and top line growth has been tremendous. Both key metrics are indicative of the business setup in terms of overall growth.

Vicon: security business, end-to-end solution of security technology solutions. Business including security for all sorts of government facilities, three letter agencies, state and local agencies, hospitals, courthouses, schools, universities, airports, border protections and correction facilities (big vertical).

Business sells cameras and software, video management software, and storage hardware. Business rapidly changing due to AI and cloud and so forth, with enormous potential, and growing overall need for surveillance in a changing world.

Vicon business is growing, last reported quarter showed more than 30% growth year over year. Potential and expectation to grow comfortably 15 to 20% organically over the next several years on average.

This segment is profitable, and with continuously growing sales, should contribute more and more cash. The plan was to have 28 million in revenue this year, which is well exceeded, should probably be in low 30s now. Cemtrex sees continued growth in this business, through new and existing customers.

AIS: industrial side of business, doing well, continuing to see organic growth north of 5%. Recently acquired Heisey Mechanical, which will add about 10, 11 million in revenue on average. The company was doing about 21, 22 million in sales. Cemtrex now growing that business almost by 50%, setting up for continued success with that business. AIS's key value is being an industrial services provider to many of the best of the best in terms of the US-based manufacturing companies, like Bell & Evans, like PPG, Mars Chocolate, Hexcel, to install machinery, equipment, repair factories, do electrical work, rigging, millwrighting, piping, fabrication work. Well positioned business with less and less skilled workers who

can do this kind of labor and provide this kind of service, allowing pricing power, and helped by US reinvestment and infrastructure spending.

Long term: platform with continued acquisition at low valuations, low multiples, building and scaling the business through smart acquisitions.

Taken together: continued opportunity and momentum in both segments.

Q&A:

- What's the plan for the term loan: refinance or perhaps issue stock?

One solution is to grow into that. Looking at the last two quarters with an operating profit, the hope and expectation is to continue to grow our earnings and cashflow as the company is right at the cusp of that right now. In doing so, the company should be able to pay down more debt through cashflow.

The two businesses together last year did about 45 million in sales. This year, probably on track for the mid-fifties. Next year, tracking for mid-sixties, so there's potential for consistent growth, allowing for sizable earnings that in turn allow repayment of debt and convince new lenders to refinance and restructure that debt, push it out into a different structure that may be more favorable to the company.

This is a number one priority: growing the business to be able to service that debt more manageably, find lenders who may be willing to help bridge that gap and help push that debt out and restructure it in a way where the company can satisfy it to the best of its ability.

The plan is always to limit the amount of equity the company would need to issue, and that strategy will continue to the best possible extent.

- CETXP: we've seen insider purchases, corporate buyback program, what's the end game, is the company going to keep it forever or retire it? And if there is a plan there, what would be the timetable for that?

After several efforts including personal purchases, the company is currently in a blackout period. If the price will not go over a dollar, a reverse split (2:1) may be needed, which shouldn't be the worst thing, with one million instead of two million shares outstanding. Long-term, harder to say. One path is to pay dividends when the company is able to from a cash flow perspective. The other is to buy it back over time and retire it in some shape or form. Part of Cemtrex' thinking is that maybe CETXP is one of the reasons why the common stock is depressed, and so removing CETXP may drive some appreciation in the common, but that's not sure. An answer may become clearer as Cemtrex continues to execute and build a business.

- How do you see the enterprise value in comparison or correlation with the fair market value? And also, with profit margins being bigger on the Vicon section, wouldn't it be interesting in the next PR to include that? [Suggestion to Cemtrex to discuss the specific business as a B2B and in terms of competition, as Vicon has a dominant position in the B2B space.]

Press releases serve the investor community, but also have many other audiences, such as employees and customers and from that perspective, that level of detail may not serve all those interests.

If the belief is that gross margin is improving, Cemtrex will continue to explain that in its quarterly reports.

As to enterprise value, Cemtrex is still very much under the radar. Though the company is very much undervalued, five different people will give five different valuations, so hard to assess. The focus is on continued execution, and if so, things will correct themselves.

- Would the company ever consider buybacks in CETX, if the low valuation would continue for a longer time and if indeed the business would be accelerating?

Cemtrex would consider this if the balance sheet allowed it, if there's sufficient cash and the company could sufficiently manage and structure its debt, and the stock continued to be where it is, the company would certainly consider it. When it comes to buying back stock in the company, with more cash and with debt restructuring, then the company would certainly consider that.

- Is there a list of the current customers for Vicon and the kind of customers that Cemtrex looks at, and what are the typical sizes of these contracts; in the range of what has been reported, smaller, larger? Geographically, where could there be growth?

Cemtrex services a lot of organizations, most in the US, but also internationally. In the US, the biggest customer (three letter name) faces a crisis along the southern border right now. That has been a big driver for growth. Corrections facilities such as Tennessee Department of Corrections, South Carolina Department of Corrections, Oregon Department of Corrections, Maryland Department of Corrections are other customer. Furthermore, airports in San Diego to medical centers, hospitals in New York, universities, Modelo, Pemex refinery, Thai Oil, two giant towers in Kuala Lumpur, Liverpool Stadium in the UK, Miami soccer stadium. Motorola and Canon are also competitors.

Cemtrex has a very robust AI product, one of three companies that can provide zero latency video, and that's a specialty.

In terms of growth, the United States is a replacement market. For instance, 95% of schools have CCTV or some form of access control, but with many problems with respect to school shootings and so forth. Whatever solution there is either outdated or insufficient.

As organizations reevaluate sort the seriousness of their security, opportunity for growth is created. Looting is another sector. Retail hasn't historically been a big sector for Cemtrex, but the company sees more and more interest there, with potentially more demand in the US.

Internationally, business relates more to new constructions. E.g. in India, 500 new railway stations are being built, and India is trying to equip all police stations with new cameras. In Saudi (Arabia), entirely new cities are being built that are all going to have cameras. Similarly, one can think about Vietnam and Indonesia, Malaysia, Thailand. Southeast Asia, India, Saudi, and some of these developing economies are all starting to see massive infrastructure investment, with accompanying need for security infrastructure. Highways, power plants, refineries, police stations, may require cameras and security. Those are all new growth opportunities over the next 10, 15 years.

Cemtrex was quoting projects that are maybe one to two million in size, two to three million in size, but now is getting requests for quotations that are 15 million in size, 20 million in size, seeing more and more demand growth.

Cemtrex has done safe city projects in the past, and seeing more and more opportunities to participate and go after these bigger types of projects. That's another piece of the puzzle in terms of how the company goes from, 30, 35 million in sales to a hundred million in sales.

Second quarter segment reporting shows Vicon being profitable, based on a certain level of sales. As the company continues to win projects, more and more cash will fall to the bottom line. If Cemtrex wins a \$15 million project, the gross margin is going to be in the 46 to 52% range.

The profile of the company and the visibility is going to start to change as it goes into some of these projects and opportunities. In aggregate, as the company continues to move along this trajectory, there is a lot of the potential going forward.

- Would there be the potential to receive or execute a proposal that would be that big, 15 to 20 million, as you just said?

Absolutely.

- Can you talk a little bit more about the core business also, because that seems to be expanding as well? Some may have thought that that business may eventually be sold off, but it appears that that's also now growing.

Sometimes a non-sexy business can still drive real value. On the industrial services side, Cemtrex continues to see robust interest and demand for industrial services in the United States. AIS has been around since 1984, with high-quality service and a strong balance sheet, in a market where the players are either over a billion in revenue or over 500 million in revenue or they're under 10 million in revenue. There aren't a lot of middle market players, which is what's interesting: a platform which has a great brand reputation, great training, solid balance sheet, great equipment, well organized, well run.

It may become a very interesting target for perhaps one of the bigger players in the market, like a Whiting Turner, Mitsubishi Heavy, Bechtel, Larson and Tubro, EPC companies that are doing projects in the US or globally. Cemtrex can see a path towards that.

A lot of little acquisitions, five, 10, 20 million in revenue can help. The last acquisition was with Fulton Bank. The purchase price was 2.4 million. The company was doing about 800,000 in EBITDA. They financed 2.16 million of that, almost 90%, with a seven year term loan at 3% over prime, which is a fantastic financing. Deals like that are good as they can be scaled, leveraged and integrated, with cost savings, customer scaling, and continued growth and more cash flow as a result.

Cemtrex could easily identify five to 10 companies. It's just a matter of getting a deal and structuring it, which sometimes takes time. There is a generation of baby boomers who are looking to figure out what to do with their company, and most of their kids are knowledge workers. Cemtrex can those companies a nice home. There may be a big potential to put together a well organized roll up in this space.

Cemtrex will do north of 30 million in that business this year, and may identify a few more acquisitions to grow that number even further. There's a lot of potential there.

- Although the company is exclusively commercial and governmental at this point, there are planned communities which may have 100 homes or hundreds of apartments / condos in a gated community that could easily equal that of a commercial customer. Is that something Cemtrex could possibly move into?

It's possible, but not part of the core strategy as the marginal value for the security features that Cemtrex builds becomes less and less valuable to that kind of customer. The continued build of advanced AI features will be worth millions of dollars for every feature to the city of Atlanta, but the willingness to pay for that from a private customer is less. So Cemtrex prefers to play in the enterprise space because there is more and more margin and more and more value for every incremental dollar of R&D spent, and for every new attractive AI feature that is being built and weaved together.

Could there be some upside in growth from some of that market at the lower end of the spectrum? Sure, and Cemtrex certainly does explore that, having done high-rise buildings in Miami. If you have a axis of the size of deployment, like an X and Y graph, showing the size of deployment versus the complexity of the security, the further you are in more complex larger deployment, the more you can charge for the security solution. Generally the services you're layering on are all software, and software is 100% margin, allowing to bring home and capture more of that value. The goal is to get to 60% gross margin. The way how to is by being able to sell more software, not more hardware.

- The AI features, can you give a few examples of what those might be?

For schools, for instance, being able to tap into a public sex offender database and use AI to automatically identify people who may be on the premise, using facial recognition and tapping it into a database. Or to know where all students are at all time on campus. Being able to track students across campus, being able to track guests or people who are on the premise who weren't credentialed. The system can autonomously recognize, who is supposed to be where. In the event of a shooting or an event where the security threat increases, one may want that information. You won't be able to share that information with the authorities and so forth. With AI being able to track people across multiple screens intelligently, using visual recognition, using AI for predictive patterns and behavior, something that's going bad can be prevented from getting a lot worse.

As to weapon detection, there's value in more and more AI here, but it's not easy to detect people who have hidden firearms. It becomes very easy once the firearm is brandished. There's a lot of untapped potential with respect to AI, just from knowing who's where, doing what they should be, knowing where they shouldn't be.

Also, most schools don't have a security center. Using large language models like the GPT, one could start to have an interface that operates a little bit more like a command center, an interactive security system that operates more like a GPT, allowing security personnel at a school the capability to have 80% of a command center functionality without having to invest millions of dollars in building a command center.

- Being a small company, how did you do this basically?

It's not necessarily about how much money you have, it's about what you're building, how you're building it, the customers you're delivering it to and what's the value you're providing. Sometimes the

money can be distracting. It's about incrementally growing revenues and increasing the amount of investment that's being made into the product. The core product today started being built in 2014, has been launched in 2017, and is the combination of six, seven years of ongoing investment into the product. It's also about knowing the market and knowing what market you want to play in and what you don't. Valerus has an appeal to a certain type of customer, and may not appeal to other applications and that's fine. The product isn't perfect for the retail customer for certain reasons, but it is really good for some of the corrections and the other high-end, high rigorous video requirements that some core customers demand. That's the reality in most businesses.

- Regarding CETXP preferred shares, one of the requirements for the extension was board approval by September 29. There hasn't been a filing about that. Did that happen?

The board approved the split. There will be an SEC filing.

Discussion on 2-1 vs 3-1 split, which would create a smaller float than CETX, with the issue being the minimum number of shares.

- What about the blackout period?

Insiders generally have a blackout period. The fiscal year ended September 30th. So there's a blackout period for 30 days prior to the end of the fiscal year.

- The business has been restructured and it's almost like a brand new game. Has Cemtrex considered rebranding?

Cemtrex has thought about it seriously and still does. It's still in the cards.

- What are the major operational challenges you have recognized, and how are you going to tackle them?

In any business, there's no shortage of challenges. Running a business requires attention to detail and managing people. That's the focus. Operational challenges can go from shortage of parts to changes in personnel to price changes, cost increase. That's nothing unusual, it's part of running any business. There's nothing unusual like that at the moment.

- You've mentioned a number of the different types of client types that you've reached out to and successfully implemented security systems, especially on the Vicon side. Has Cemtrex concertededly cultivated any relationships or outreach toward security engineering or architectural or urban planning design teams, so those teams can propose Cemtrex to clients as a preferred option?

That's already part of the core sales strategy. Specs should be written Vicon so that when the bid comes out, all the people who are bidding on the project will use Vicon.