

Action Summary – 1 December 2021

Analyst Theodore R. O'Neill – KULR Announces initial order from Lockheed (LMT-NR) - Reiterate Buy rating and \$7 PT

- **Initial \$500K order for immediate delivery.** Yesterday, the company announced the Company has received an initial order totaling approximately \$500K for its passive propagation resistant ("PPR") battery systems from the Lockheed Martin Corporation (NYSE: LMT-NR). This initial order is for immediate delivery and is the starting point in the partnership as LMT leverages KULR's technological advancements in PPR energy products for its Advanced Energy Systems that use next generation lithium-ion batteries.
- **Demand growing as lithium-ion battery use grows rapidly.** KULR's PPR energy products include the Thermal Runaway Shield ("TRS"), the Internal Short Circuit ("ISC"), its full suite of proprietary battery design and testing methodologies, as well as the battery cell screening and monitoring system KULR developed for its aerospace and U.S. Department of Defense ("DoD") customers.
- **Well protected IP.** The company's technology is well protected. It has eleven granted U.S. patents of which five are directly related to "thermal runaway shield(s)".
- **Building a suite of battery safety products.** It's lithium-ion battery safety technology solutions is recognized by the U.S. Department of Transportation which expanded its expansion of a permit to transport reused, refurbished and retrofitted lithium-ion batteries for recycling on September 24, 2021.
- **Attractive valuation.** Although the shares trade above peer averages, on the basis of discounted future earnings, we feel the shares are undervalued.

11/30/21 Closing price: \$3.53	Market cap: \$361 million	2022 P/E: NMF	2022 EV / Sales: 41
Shares outstanding: 104.7 million	Insider ownership: 37%	3-month avg. trading volume: >3MM	Dividend/Yield: NA/NA

GAAP estimates (EPS excluding deemed dividend in dollars – Revenue in thousands)

Period	EPS	Revenue	GP Margin
1Q20A	\$(0.01)	\$78	67%
2Q20A	\$(0.01)	\$201	79%
3Q20A	\$(0.00)	\$137	55%
4Q20A	<u>\$(0.01)</u>	<u>\$208</u>	<u>81%</u>
FY20A	<u>\$(0.03)</u>	<u>\$624</u>	<u>73%</u>
1Q21A	\$(0.02)	\$418	34%
2Q21A	\$(0.03)	\$628	30%
3Q21A	\$(0.03)	\$601	74%
4Q21E	<u>\$(0.03)</u>	<u>\$750</u>	<u>60%</u>
FY21E	<u>\$(0.11)</u>	<u>\$2,397</u>	<u>51%</u>
1Q22E	\$(0.03)	\$1,500	50%
2Q22E	\$(0.03)	\$2,000	50%
3Q22E	\$(0.03)	\$2,000	50%
4Q22E	<u>\$(0.02)</u>	<u>\$3,000</u>	<u>50%</u>
FY22E	<u>\$(0.10)</u>	<u>\$8,500</u>	<u>50%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (in thousands)

• 2019A	• \$109
• 2020A	• \$8,880
• 2021E	• \$9,513
• 2022E	• \$1.195

Debt (in thousands)

• 2019A	• NA
• 2020A	• \$2,332
• 2021E	• NA
• 2022E	• NA

Adj. EBITDA (in thousands)

• 2019A	• (\$2.0)
• 2020A	• (\$2.4)
• 2021E	• (\$10.7)
• 2022E	• (\$10.7)

Risks/Valuation

- Risks include: Highly competitive business; changes in customer demand, commercialization of technology
- Our \$7 target is derived using a discounted future earnings model.

Company description: KULR Technology Group, Inc. (OTCQB: KULR) is a leading developer of next-generation lithium-ion battery safety and thermal management technologies. Backed by a strong intellectual property portfolio, KULR enables leading aerospace, electronics, and electric vehicle manufacturers to make their products cooler, lighter and safer for the consumer.

Figure 1 – KULR Technology Group, Inc. – One-Year Trading snapshot



Source: FactSet

Valuation Methodology

We believe KULR is undervalued and we support that belief with two valuation techniques, one absolute and one relative. The following valuation techniques are being used:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$7 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings discounted at 8%. This is down from our previous discount rate of 8.5 due to the company's success in advancing its technology. We are making two main assumptions:

- Near-term rapid growth for earnings which steps down to GDP after 7 years
- Company reaches breakeven in 2023

Our valuation model is shown in Figure 2 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$6.65 which we round up to \$7.

Figure 2 - KULR Technology Group, Inc. - Discounted Future Earnings

Discounted Earnings			\$ 6.65
	Year 1 is 2021	Forecast EPS	Discounted EPS
	1	(0.11)	(\$0.11)
	2	(0.10)	(\$0.09)
	3	0.20	\$0.16
	4	0.30	\$0.22
	5	0.45	\$0.31
	Terminal Value		\$6.16

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

In Figure 3 we look at a summary of metrics for KULR peers. If we compare KULR to a simple average of its peers, the shares sell, on average, above for a premium. One thing common to the companies on the list is that they have high gross profit margins and companies with high gross profit margins tend to trade for higher sales multiples. A very high multiple for KULR isn't extraordinary. Details on each of the peers can be found in Figure 4.

Figure 3 – KULR Technology Group, Inc. – Valuation Relative to Peers

	2022 EV / Sales	2022 Sales Multiple
Average	19.52	29.25
KULR	41.29	42.47
Premium/(Discount) to peers	112%	45%

Source: Litchfield Hills Research LLC and Refinitiv Eikon (Formerly Thomson Reuters Eikon)

Guidance and Financial Forecasts

The company is not providing guidance. It appears to us that it has sufficient cash to get through 2021, but we assume there is a small capital raise in 2022 to fund growth. Our financial forecast assumes a slow growth in revenue. The company has been pulling together solid business relationships with companies that will use KULR products. Those companies, however need to execute on their production plans.

Figure 4 – KULR Technology Group, Inc. – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2022 Consensus Multiples	
					EV /Sales	Market Cap / Sales
TSLA-US	Tesla Inc	\$1,136.99	1,141,839	1,271,985	17.44	15.64
RIVN-US	Rivian Automotive, Inc. Class A	\$119.77	103,056	14,538		
QS-US	QuantumScape Corporation	\$30.32	9,880	11,280		
ENVX-US	Enovix Corporation (US Listing)	\$35.72	5,188	4,857		
NVX-AU	NOVONIX Ltd	\$7.80	3,764	2,769	40.08	54.25
FSR-US	Fisker Inc	\$22.08	3,618	5,817	23.77	29.38
MVST-US	Microvast Holdings, Inc.	\$8.56	2,572	1,614	9.00	9.26
PTRA-US	Proterra Inc.	\$11.45	2,500	2,091	4.53	5.67
LICY-US	Li-Cycle Holdings Corp.	\$12.73	2,077	477	9.40	40.89
BLNK-US	Blink Charging Co	\$38.40	1,620	1,435	38.34	46.67
RIDE-US	Lordstown Motors Corp	\$4.76	915	621	2.50	4.59
ABML-US	American Battery Technology Company	\$1.24	780	689		
RMO-US	Romeo Power Inc	\$4.02	539	363	3.40	6.06
FUV-US	Arcimoto, Inc.	\$10.00	376	347	12.07	14.03
SOLO-US	Electrameccanica Vehicles Corp	\$3.01	346	115	8.53	22.22
IPWR-US	Ideal Power Inc.	\$14.12	83	62	65.14	102.34
	AVERAGE				<u>19.52</u>	<u>29.25</u>
KULR-US	KULR Technology Group Inc	\$3.45	361	351	41.29	42.47
	KULR-US Premium/(Discount) to peers:				112%	45%

Figure 5 – KULR Technology Group, Inc. – Income Statement (\$000)

December year-end	2018	2019	2020A	2021E				2021E	2022E				2022E
	Year	Year	Year	Q1A	Q2A	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$1,274	\$830	\$624	\$418	\$628	\$601	\$750	\$2,397	\$1,500	\$2,000	\$2,000	\$3,000	\$8,500
<i>Growth</i>		-35%	-25%	439%	212%	339%	260%	284%	259%	218%	233%	300%	255%
Cost of Goods	337	227	169	275	439	155	300	1,170	750	1,000	1,000	1,530	4,280
Gross Profit	937	604	455	143	189	446	450	1,227	750	1,000	1,000	1,470	4,220
Gross Margin	73.6%	72.7%	72.9%	34.1%	30.1%	74.2%	60.0%	51.2%	50.0%	50.0%	50.0%	49.0%	49.6%
Operating Expenses													
R&D	\$508	\$502	\$290	\$123	\$353	\$482	\$500	\$1,458	\$500	\$500	\$500	\$500	\$2,000
% of total revenue	40%	60%	46%	29%	56%	80%	67%	61%	33%	25%	25%	17%	24%
General and administrative	\$2,511	\$2,081	\$2,506	\$1,493	\$2,723	\$3,104	\$3,100	\$10,421	\$3,100	\$3,200	\$3,300	\$3,400	\$13,000
% of total revenue	197%	251%	402%	357%	433%	517%	413%	435%	207%	160%	165%	113%	153%
Total Operating Expenses	3,019	2,583	2,795	1,616	3,076	3,586	3,600	11,878	3,600	3,700	3,800	3,900	15,000
Operating Income	(2,082)	(1,979)	(2,340)	(1,473)	(2,887)	(3,140)	(3,150)	(10,651)	(2,850)	(2,700)	(2,800)	(2,430)	(10,780)
Operating Margin		-238.4%	-375.1%	-352.5%	-459.5%	-522.6%	-420.0%	-444.3%	-190.0%	-135.0%	-140.0%	-81.0%	-126.8%
Total Other Items	23	(0)	(510)	(242)	(140)	45	0	(337)	0	0	0	0	0
Pre-Tax Income	(2,058)	(1,980)	(2,850)	(1,715)	(3,027)	(3,096)	(3,150)	(10,988)	(2,850)	(2,700)	(2,800)	(2,430)	(10,780)
Pre-Tax Margin			-456.8%	-410.3%	-481.8%	-515.2%	-420.0%	-458.4%	-190.0%	-135.0%	-140.0%	-81.0%	-126.8%
Taxes (benefit)	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	(\$2,058)	(\$1,980)	(\$2,850)	(\$1,715)	(\$3,027)	(\$3,096)	(\$3,150)	(\$10,988)	(\$2,850)	(\$2,700)	(\$2,800)	(\$2,430)	(\$10,780)
Deemed dividend for Series C			(\$2)	\$0	(\$2,624)	\$0	\$0	(\$2,624)	\$0	\$0	\$0	\$0	\$0
Net income attributable to shareholders			(\$2,852)	\$0	(\$5,651)	\$0	\$0	(\$13,612)	\$0	(\$2,700)	\$0	\$0	(\$10,780)
EPS	(0.03)	(0.02)	(0.03)	(0.02)	(0.03)	(0.03)	(0.03)	(0.11)	(0.03)	(0.03)	(0.03)	(0.02)	(0.10)
EPS plus deemed dividend	0.00	0.00	0.00	0.00	(0.06)	0.00	0.00	(0.14)	0.00	(0.03)	0.00	0.00	(0.10)
Diluted Shares Outstanding	77,642	80,123	82,032	90,079	92,513	99,019	104,700	96,578	105,000	105,000	105,000	105,000	105,000

Figure 6 – KULR Technology Group, Inc. – Balance Sheet (\$'000)

December year-end	FY2022E	FY2021E	FY2020E	FY2019	FY2018
Balance sheet					
Current Assets					
Cash and S.T.I.	\$1,195	\$9,513	\$8,880	\$109	\$230
Accounts receivable	1,000	800	55	30	112
Inventories	400	200	55	27	10
Other assets	500	500	150	43	55
Total Current Assets	3,095	11,013	9,142	209	406
Net PP&E	200	100	58	28	45
Goodwill & Intangible	0	0	0	0	0
Other non-current assets	800	813	9	0	0
Total Assets	\$4,095	\$11,926	\$9,208	\$237	\$451
Current Liabilities					
Accounts payable	\$1,000	\$500	\$69	\$349	\$118
Accrued exp. & other	\$1,000	\$700	\$395	\$659	\$374
Deferred revenue	\$0	\$0	\$20	\$15	\$0
Other current liabilities	\$500	\$400	\$2,463	\$0	\$0
Total current liabilities	2,500	1,600	2,947	1,034	576
Notes payable	0	0	142	0	0
Other Liabilities	600	550	0	0	0
Total Liabilities	3,100	2,150	3,090	1,034	576
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Common stock	9	10	9	8	8
Additional paid-in-capital	34,000	32,000	17,356	7,591	6,284
Retained earnings	(33,014)	(22,234)	(11,246)	(8,396)	(6,417)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	995	9,776	6,119	(797)	(125)
Total Liabilities and equity	\$4,095	\$11,926	\$9,208	\$237	\$451

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – KULR Technology Group, Inc. – Cash Flow (\$000)

	FY22E	FY21E	FY20A	FY19
Net Income	(\$10,780)	(\$10,988)	(\$2,850)	(\$1,980)
Accounts receivable	(200)	(745)	(25)	82
Inventories	(200)	(145)	(28)	(17)
Other assets	0	(350)	(107)	11
PP&E	(100)	(42)	(30)	17
Goodwill & Intangible	0	0	0	0
Other non-current	13	(804)	(9)	0
Accounts payable	500	431	(280)	231
Accrued exp & other - related party	0	0	(10)	(74)
Accrued exp. & other	300	305	(264)	285
Deferred revenue	0	(20)	5	15
Other current liabilities	100	(2,063)	2,463	0
Notes payable	0	(142)	142	0
Other Liabilities	50	550	0	0
Common stock	(1)	1	1	0
Additional paid-in-capital	2,000	14,644	9,765	1,308
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends	0	0	0	0
Total Cash Flow	(8,318)	633	8,771	(121)

Source: Company reports and Litchfield Hills Research LLC

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