

Action Summary – 21 March 2022

Analyst Theodore R. O'Neill – Advancing Li-ion battery technology - 4Q21 results - Reiterate Buy and \$7 PT

- **KULR reported preliminary 4Q21 revenue and an EPS loss of \$766K and \$0.04, respectively.** Full P&L and balance sheet will be available later this week. It beat consensus revenue and missed EPS by \$0.01 on higher expenses. Consensus was for revenue and an EPS loss of \$700K and \$0.03, respectively. The higher level of expenses was due to adding staff to support commercial operations.
- Company continues to focus on near-term commercialization opportunities for its Li-ion battery thermal management, charging and energy solutions.
- The company has added staff, tripling employee count this year. Between its customers plans and COVID possible supply chain issues, we are back-end loading our 2022 estimates. For 2022 we are lowering our revenue and EPS loss to \$4.75MM and \$0.15, respectively from \$8.5MM and \$0.10, respectively. We have no change to our \$7 price target.
- Although the shares trade above peer averages, it has held a premium for considerable time, on the basis of discounted future earnings, we feel the shares are undervalued.

3/18/22 Closing price: \$2.44	Market cap: \$262 million	2023 P/E: NMF	2023 EV / Sales: 29
Shares outstanding: 104.7 million	Insider ownership: 37%	3-month avg. trading volume: ~630,000	Dividend/Yield: NA/NA

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

Period	EPS	Revenue	GP Margin
1Q20A	\$(0.01)	\$195	67%
2Q20A	\$(0.01)	\$56	79%
3Q20A	\$(0.00)	\$527	55%
4Q20A	<u>\$(0.01)</u>	<u>\$52</u>	<u>81%</u>
FY20A	<u>\$(0.03)</u>	<u>\$830</u>	<u>73%</u>
1Q21A	\$(0.02)	\$418	34%
2Q21A	\$(0.03)	\$628	30%
3Q21A	\$(0.03)	\$601	74%
4Q21P	<u>\$(0.04)</u>	<u>\$766</u>	<u>70%</u>
FY21P	<u>\$(0.10)</u>	<u>\$2,413</u>	<u>54%</u>
1Q22E	\$(0.04)	\$500	50%
2Q22E	\$(0.04)	\$750	50%
3Q22E	\$(0.04)	\$1,500	50%
4Q22E	<u>\$(0.03)</u>	<u>\$2,000</u>	<u>50%</u>
FY22E	<u>\$(0.15)</u>	<u>\$4,750</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
• 2021P	• \$14,900
• 2022E	• \$1.021

Debt (in thousands)

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

Adj. EBITDA (in thousands)

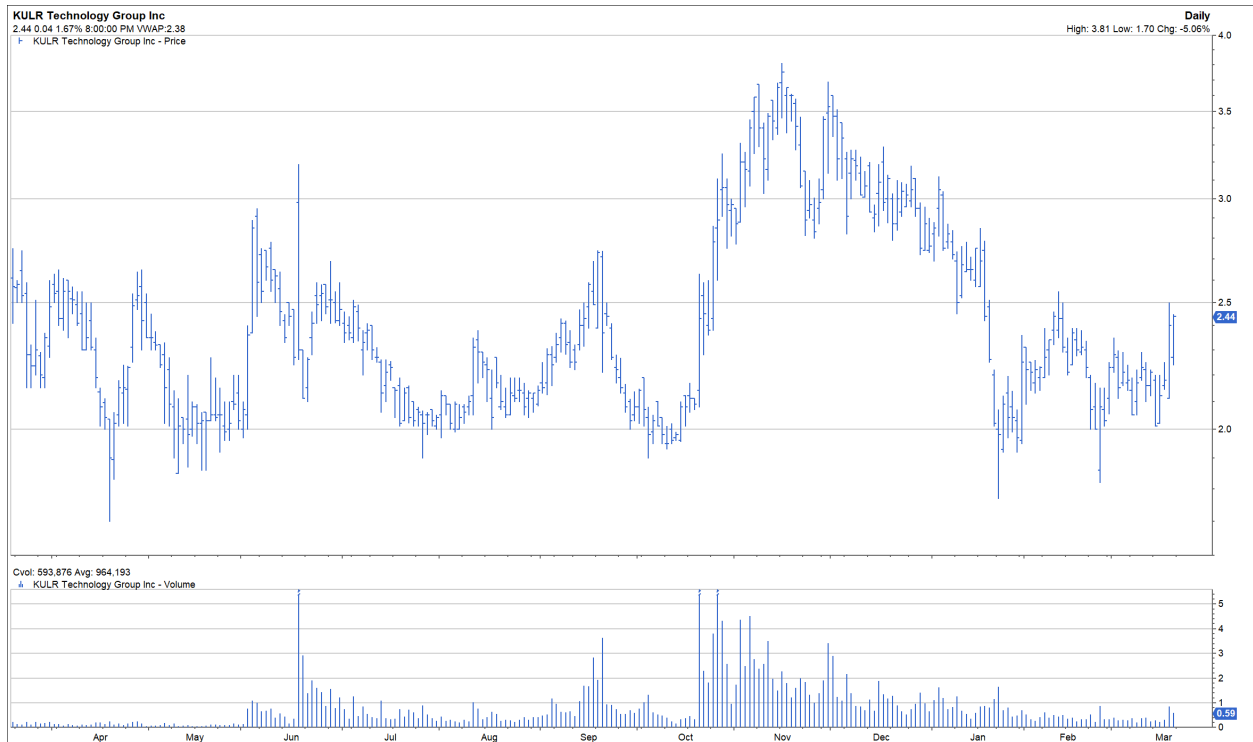
• 2019A	• (\$2.0)
• 2020A	• (\$2.4)
• 2021P	• (\$11.6)
• 2022E	• (\$16.0)

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.
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Company description: KULR Technology Group, Inc. develops, manufactures and licenses next-generation carbon fiber thermal management technologies for batteries and electronic systems. 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 \$6.74 which we round up to \$7.

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

Discounted Earnings		\$ 6.74
Year 1 is	Forecast	Discounted
2022	EPS	EPS
1	(0.15)	(\$0.15)
2	0.05	\$0.04
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, at a higher multiple. 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 5 near the back of the report.

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

	2023 EV / Sales	2023 Sales Multiple
Average	9.15	12.16
KULR	25.25	30.08
Premium/(Discount) to peers	220%	147%

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.

Quarterly Results

As shown in Figure 4 (below), KULR reported preliminary 4Q21 revenue and an EPS loss of \$766K and \$0.04 respectively. Full P&L and balance sheet will be available later this week. It beat consensus revenue and missed EPS by \$0.01 on higher expenses. Consensus was for revenue and an EPS loss of \$700K and \$0.03, respectively. The higher level of expenses was due to adding staff to support commercial operations.

Figure 4 – KULR Technology Group, Inc. – Quarterly Variance Analysis (\$000)

	2021	2021	
	Q4E	Q4P	Better/(worse) than forecast
Income Statement			
Total Revenue	\$750	\$766	\$16
Total cost of revenue	<u>300</u>	<u>230</u>	<u>70</u>
Total Gross Profit	450	536	86
Operating expenses:			
R&D	500	705	(205)
General and administrative	<u>3,100</u>	<u>3,840</u>	<u>(740)</u>
Total Expenses	<u>3,600</u>	<u>4,545</u>	<u>(945)</u>
Earnings (loss) from Operations	(3,150)	(4,009)	(\$859)
Total Other income/(expense)	<u>0</u>	<u>(50)</u>	<u>(50)</u>
Earnings before taxes	(3,150)	(4,059)	(909)
Tax expense/(benefit)	<u>0</u>	<u>0</u>	<u>0</u>
Net income	<u>(\$3,150)</u>	<u>(\$4,059)</u>	<u>(\$909)</u>
Deemed dividend for Series C			
Net income attributable to shareholders			
EPS	(\$0.03)	(\$0.04)	(\$0.01)
EPS plus deemed dividend			
Diluted common shares	104,700	104,700	0

Source: Litchfield Hills Research LLC

Figure 5 – KULR Technology Group, Inc. – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2023 Consensus Multiples	
					EV /Sales	Market Cap / Sales
TSLA-US	Tesla Inc	\$905.39	935,727	1,014,400	9.19	8.48
RIVN-US	Rivian Automotive, Inc. Class A	\$45.60	40,698	46,978		
QS-US	QuantumScape Corporation	\$17.07	5,708	5,622		
ENVX-US	Enovix Corporation (US Listing)	\$15.47	2,356	1,437		
MVST-US	Microvast Holdings, Inc.	\$7.16	2,152	1,273	9.00	8.11
FSR-US	Fisker Inc	\$12.49	2,054	3,124	1.40	1.66
NVX-AU	NOVONIX Ltd	\$4.19	2,035	1,703	42.23	53.92
PTRA-US	Proterra Inc.	\$7.53	1,675	373	0.58	2.61
LICY-US	Li-Cycle Holdings Corp.	\$9.25	1,562	1,128	2.94	8.32
BLNK-US	Blink Charging Co	\$25.61	1,087	900	15.37	18.55
ABML-US	American Battery Technology Company	\$0.96	611	566		
RIDE-US	Lordstown Motors Corp	\$2.80	550	264	0.65	1.36
FUV-US	Arcimoto, Inc.	\$7.08	267	237	9.55	11.52
SOLO-US	Electrameccanica Vehicles Corp	\$2.28	262	32	8.53	17.23
RMO-US	Romeo Power Inc	\$1.73	233	141	1.18	1.95
IPWR-US	Ideal Power Inc.	\$8.91	52	30		
	AVERAGE				<u>9.15</u>	<u>12.16</u>
KULR-US	KULR Technology Group Inc	\$2.44	361	351	29.25	30.08
	KULR-US Premium/(Discount) to peers:				220%	147%

Figure 6 – KULR Technology Group, Inc. – Income Statement (\$000)

December year-end	2020A				2020A Year	2021E				2021E Year	2022E				2022E Year
	Q1A	Q2A	Q3A	Q4A		Q1A	Q2A	Q3A	Q4P		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$78	\$201	\$137	\$208	\$624	\$418	\$628	\$601	\$766	\$2,413	\$500	\$750	\$1,500	\$2,000	\$4,750
<i>Growth</i>	-60%	257%	-74%	298%	-25%	439%	212%	339%	267%	287%	20%	19%	150%	161%	97%
Cost of Goods	26	41	61	41	169	275	439	155	230	1,099	250	375	750	1,020	2,395
Gross Profit	52	160	76	168	455	143	189	446	536	1,314	250	375	750	980	2,355
Gross Margin	66.5%	79.4%	55.4%	80.5%	72.9%	34.1%	30.1%	74.2%	70.0%	54.4%	50.0%	50.0%	50.0%	49.0%	49.6%
Operating Expenses															
R&D	\$112	\$58	\$52	\$68	\$290	\$123	\$353	\$482	\$705	\$1,663	\$800	\$800	\$800	\$800	\$3,200
% of total revenue	144%	29%	38%	33%	46%	29%	56%	80%	92%	69%	160%	107%	53%	40%	67%
General and administrative	\$470	\$425	\$835	\$777	\$2,506	\$1,493	\$2,723	\$3,104	\$3,840	\$11,161	\$3,800	\$3,800	\$3,800	\$3,800	\$15,200
% of total revenue	606%	211%	610%	373%	402%	357%	433%	517%	501%	463%	760%	507%	253%	190%	320%
Total Operating Expenses	581	483	886	845	2,795	1,616	3,076	3,586	4,545	12,823	4,600	4,600	4,600	4,600	18,400
Operating Income	(530)	(323)	(811)	(677)	(2,340)	(1,473)	(2,887)	(3,140)	(4,009)	(11,509)	(4,350)	(4,225)	(3,850)	(3,620)	(16,045)
Operating Margin	-683.4%	-160.7%	-592.3%	-324.8%	-375.1%	-352.5%	-459.5%	-522.6%	-523.3%	-477.0%	-870.0%	-563.3%	-256.7%	-181.0%	-337.8%
Total Other Items	(21)	(106)	(202)	(181)	(510)	(242)	(140)	45	(50)	(387)	0	0	0	0	0
Pre-Tax Income	(550)	(429)	(1,012)	(859)	(2,850)	(1,715)	(3,027)	(3,096)	(4,059)	(11,897)	(4,350)	(4,225)	(3,850)	(3,620)	(16,045)
Pre-Tax Margin	-710.0%	-213.3%	-739.7%	-411.8%	-456.8%	-410.3%	-481.8%	-515.2%	-529.9%	-493.0%	-870.0%	-563.3%	-256.7%	-181.0%	-337.8%
Taxes (benefit)	0	0	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%	0.0%	0.0%
Net income	(550)	(429)	(1,012)	(859)	(2,850)	(1,715)	(3,027)	(3,096)	(4,059)	(11,897)	(4,350)	(4,225)	(3,850)	(3,620)	(16,045)
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	(\$14,521)	\$0	(\$4,225)	\$0	\$0	(\$16,045)
EPS	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.02)	(0.03)	(0.03)	(0.04)	(0.12)	(0.04)	(0.04)	(0.04)	(0.03)	(0.15)
EPS plus deemed dividend	0.00	0.00	0.00	0.00	0.00	0.00	(0.06)	0.00	0.00	(0.15)	0.00	(0.04)	0.00	0.00	(0.15)
Diluted Shares Outstanding	81,098	81,235	82,447	83,400	82,032	90,079	92,513	99,019	104,700	96,578	105,000	105,000	105,000	105,000	105,000

Figure 7 – KULR Technology Group, Inc. – Balance Sheet (\$000)

December year-end	FY2022E	FY2021P	FY2020E	FY2019	FY2018
Balance sheet					
Current Assets					
Cash and S.T.I.	\$1,021	\$14,904	\$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	2,921	16,404	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	\$3,921	\$17,317	\$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	40,000	38,300	17,356	7,591	6,284
Retained earnings	(39,188)	(23,143)	(11,246)	(8,396)	(6,417)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	821	15,167	6,119	(797)	(125)
Total Liabilities and equity	\$3,921	\$17,317	\$9,208	\$237	\$451

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – KULR Technology Group, Inc. – Cash Flow (\$000)

	FY22E	FY21E	FY20A	FY19
Net Income	(\$16,045)	(\$11,897)	(\$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	1,700	20,944	9,765	1,308
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends	0	0	0	0
Total Cash Flow	(13,883)	6,024	8,771	(121)

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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