

**Action Summary – 23 August 2022**

Analyst Theodore R. O’Neill – \$0.01 EPS miss but customer count growing - Reiterate Buy and \$7 PT

- One-cent miss to EPS. KULR reported 2Q22 revenue and an EPS loss of \$587K and \$0.05, respectively. Consensus 2Q22 revenue and EPS loss expectations were \$0.9M and \$0.04, respectively. The \$0.01 EPS variance was due to lower sales, margins, and higher expenses.
- Increasing customer volume shows product traction. The company reported sales to 12 customers in the current quarter, compared to half that many in the year-ago quarter.
- Since it reported 2Q22, it has received two orders from a leading Fortune 20 e-commerce and cloud computing company for its next generation Li-ion battery powered commercial drone delivery fleet. The first order was for the proof of concept of KULR’s design; the second follow-on order is for prototype, field testing and certification trials. Pre-production is scheduled for 2023 with full ramp-up set to start in the second half of 2024. These drones will feature improved safety and longer flight time.
- We are updating our estimates to include the results in the quarter, increase in headcount and slight change in ramp profile. Our 2022 revenue and EPS loss estimates decline/increase to \$2.7MM and \$0.19, respectively from \$4.75MM and \$0.15, respectively. For 2023, our revenue estimate is unchanged at \$14.5MM while our EPS loss increases to \$0.14 from \$0.11. These changes are not enough to change our price target of \$7.00.
- Although the shares trade above peer averages, it has held a premium for a considerable time, and based on discounted future earnings, we feel the shares are undervalued.

<b>8/22/22 Closing price: \$1.52</b>	<b>Market cap: \$167 million</b>	<b>2023 P/E: NMF</b>	<b>2023 EV / Sales: 11</b>
<b>Diluted Shares outstanding: 109 million</b>	<b>Insider ownership: 36%</b>	<b>3-month avg. trading volume: ~250,000</b>	<b>Dividend/Yield: NA/NA</b>

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

Period	EPS	Revenue	GP Margin
1Q21A	\$(0.02)	\$418	34%
2Q21A	\$(0.03)	\$628	30%
3Q21A	\$(0.03)	\$601	74%
4Q21A	<u>\$(0.04)</u>	<u>\$766</u>	<u>70%</u>
FY21A	<u>\$(0.12)</u>	<u>\$2,413</u>	<u>54%</u>
1Q22A	\$(0.04)	\$200	39%
2Q22A	\$(0.05)	\$588	28%
3Q22E	\$(0.05)	\$750	50%
4Q22E	<u>\$(0.05)</u>	<u>\$1,200</u>	<u>49%</u>
FY22E	<u>\$(0.19)</u>	<u>\$2,738</u>	<u>44%</u>
1Q23E	\$(0.04)	\$2,500	50%
2Q23E	\$(0.04)	\$3,000	50%
3Q23E	\$(0.03)	\$4,000	50%
4Q23E	<u>\$(0.03)</u>	<u>\$5,000</u>	<u>49%</u>
FY23E	<u>\$(0.14)</u>	<u>\$14,500</u>	<u>50%</u>

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

**Cash balance (in thousands)**

• 2020A	• \$8,880
• 2021A	• \$14,863
• 2022E	• \$23
• 2023E	• \$2,723

**Debt (in thousands)**

• 2020A	• \$2,332
• 2021A	• \$142
• 2022E	• \$0
• 2023E	• \$0

**Adj. EBITDA (in millions)**

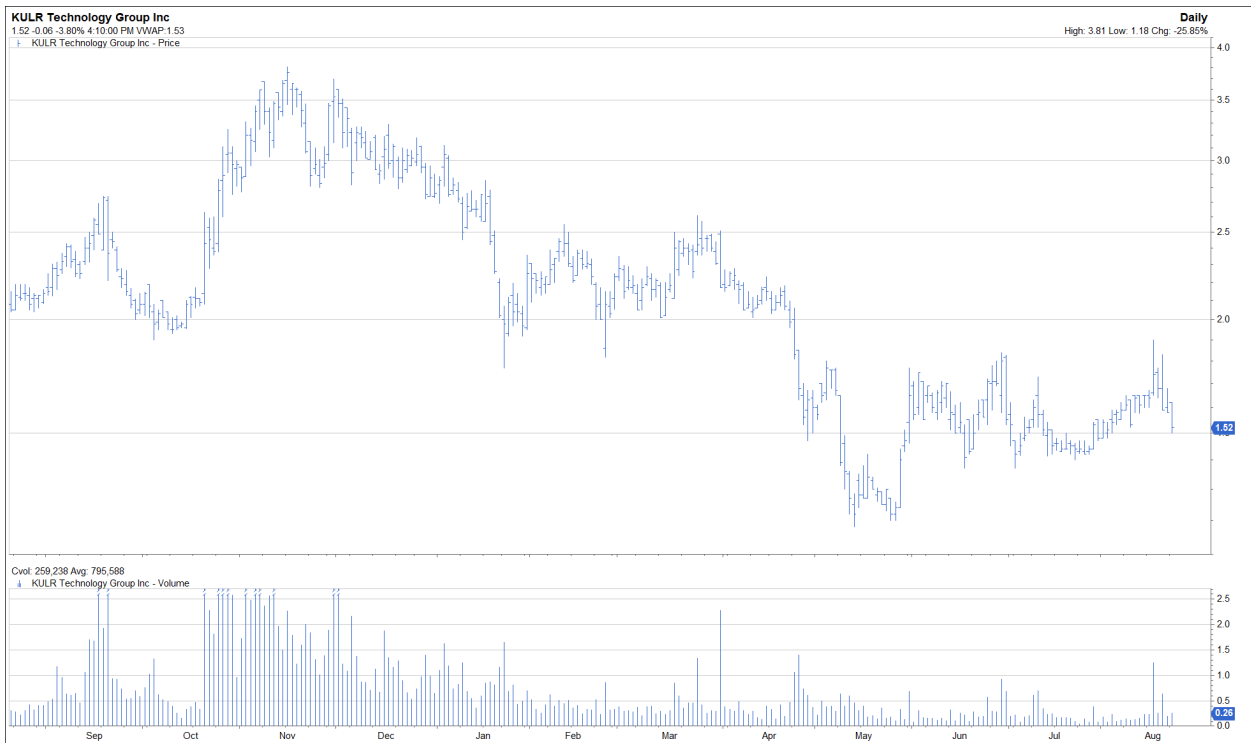
• 2020A	• (\$2.4)
• 2021A	• (\$11.6)
• 2022E	• (\$19.4)
• 2023E	• (\$14.8)

**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%. We are making two main assumptions:

- Near-term rapid growth for earnings which steps down to GDP after 5 years
- Company reaches breakeven in early 2024

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 \$6.54 which we round up to \$7.

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

<b>Discounted Earnings</b>		<b>\$ 6.54</b>
	Year 1 is Forecast	Discounted
	2022	EPS
	1	(0.19)
	2	(0.14)
	3	0.20
	4	0.30
	5	0.45
	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

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

	2023 EV / Sales	2023 Sales Multiple
Average	7.71	10.46
KULR	10.97	11.52
<b>Premium/(Discount) to peers</b>	<b>42%</b>	<b>10%</b>

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

## Guidance and Financial Forecasts

The company is not providing guidance. After a sluggish H122, our financial forecast assumes a faster growth in H222. We anticipate a capital raise sometime in late 2022 or early 2023. The company has been pulling together solid business relationships with companies that will use KULR products. Those companies, however, need to execute their production plans.

## Quarterly Results

As shown in Figure 4 (below), KULR reported 2Q22 revenue and an EPS loss of \$587K and \$0.05, respectively. Consensus 2Q22 revenue and EPS loss expectations were \$0.9M and \$0.04, respectively. The \$0.01 EPS variance was due to lower sales, margins and higher expenses.

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

	2022	2022	
	Q2E	Q2A	Better/(worse) than forecast
<b>Income Statement</b>			
Total Revenue	\$750	\$588	(\$162)
Total cost of revenue	375	424	(49)
Total Gross Profit	375	164	(211)
Operating expenses:			
R&D	800	999	(199)
General and administrative	3,800	4,326	(526)
Total Expenses	4,600	5,326	(726)
Earnings (loss) from Operations	(4,225)	(5,162)	(\$937)
Total Other income/(expense)	0	(93)	(93)
Earnings before taxes	(4,225)	(5,255)	(1,030)
Tax expense/(benefit)	0	0	0
Net income	(\$4,225)	(\$5,255)	(\$1,030)
Deemed dividend for Series C			
Net income attributable to shareholders	(\$4,225)	(\$5,255)	
EPS	\$ (0.04)	\$ (0.05)	(\$0.01)
Diluted common shares	104,000	104,546	(546)

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	\$890.00	929,596	1,016,688	8.14	7.53
RIVN-US	Rivian Automotive, Inc. Class A	\$34.45	30,758	17,861	2.61	4.73
QS-US	QuantumScape Corporation	\$11.36	3,973	3,743		
ENVX-US	Enovix Corporation (US Listing)	\$19.06	2,995	2,531	NMF	NMF
FSR-US	Fisker Inc	\$8.93	1,486	2,495	1.23	1.33
PTRA-US	Proterra Inc.	\$6.36	1,432	1,186	2.07	2.66
LICY-US	Li-Cycle Holdings Corp.	\$7.00	1,228	797		6.35
BLNK-US	Blink Charging Co	\$22.79	1,159	907	8.59	11.32
NVX-AU	NOVONIX Ltd (AU Listing)	\$1.74	849	618	39.87	58.21
MVST-US	Microvast Holdings, Inc.	\$2.61	790	563	1.33	1.95
ABML-US	American Battery Technology Company	\$0.71	458	414		
RIDE-US	Lordstown Motors Corp	\$2.21	455	222	1.90	4.76
SOLO-US	Electrameccanica Vehicles Corp	\$1.54	183	24	0.28	2.99
RMO-US	Romeo Power Inc	\$0.67	124	95		
FUV-US	Arcimoto, Inc.	\$2.29	89	98	1.21	1.13
IPWR-US	Ideal Power Inc.	\$12.75	75	59	17.53	22.58
	<b>AVERAGE</b>				<b>7.71</b>	<b>10.46</b>
KULR-US	KULR Technology Group Inc	\$1.58	167	159	10.97	11.52
	<b>KULR-US Premium/(Discount) to peers:</b>				<b>42%</b>	<b>10%</b>

Source: Litchfield Hills Research LLC and FactSet

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

December year-end	2020A	2021A	2022E				2022E	2023E				2023E
	Year	Year	Q1A	Q2A	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
<b>Total revenue</b>	\$624	\$2,413	\$200	\$588	\$750	\$1,200	\$2,738	\$2,500	\$3,000	\$4,000	\$5,000	\$14,500
<i>Growth</i>	-25%	287%	-52%	-6%	25%	57%	13%	1147%	411%	433%	317%	430%
Cost of Goods	169	1,102	123	424	375	612	1,534	1,250	1,500	2,000	2,550	7,300
<b>Gross Profit</b>	<b>455</b>	<b>1,311</b>	<b>78</b>	<b>164</b>	<b>375</b>	<b>588</b>	<b>1,204</b>	<b>1,250</b>	<b>1,500</b>	<b>2,000</b>	<b>2,450</b>	<b>7,200</b>
<b>Gross Margin</b>	<b>72.9%</b>	<b>54.3%</b>	<b>38.7%</b>	<b>27.9%</b>	<b>50.0%</b>	<b>49.0%</b>	<b>44.0%</b>	<b>50.0%</b>	<b>50.0%</b>	<b>50.0%</b>	<b>49.0%</b>	<b>49.7%</b>
Operating Expenses												
R&D	\$290	\$1,662	\$721	\$999	\$1,000	\$1,100	\$3,821	\$1,000	\$1,000	\$1,000	\$1,000	\$4,000
% of total revenue	46%	69%	360%	170%	133%	92%	140%	40%	33%	25%	20%	28%
General and administrative	\$2,506	\$11,162	\$3,535	\$4,326	\$4,500	\$4,500	\$16,861	\$4,500	\$4,500	\$4,500	\$4,500	\$18,000
% of total revenue	402%	463%	1763%	736%	600%	375%	616%	180%	150%	113%	90%	124%
Total Operating Expenses	2,795	12,824	4,256	5,326	5,500	5,600	20,682	5,500	5,500	5,500	5,500	22,000
<b>Operating Income</b>	<b>(2,340)</b>	<b>(11,513)</b>	<b>(4,179)</b>	<b>(5,162)</b>	<b>(5,125)</b>	<b>(5,012)</b>	<b>(19,477)</b>	<b>(4,250)</b>	<b>(4,000)</b>	<b>(3,500)</b>	<b>(3,050)</b>	<b>(14,800)</b>
<b>Operating Margin</b>	<b>-375.1%</b>	<b>-477.2%</b>	<b>-2084.1%</b>	<b>-878.5%</b>	<b>-683.3%</b>	<b>-417.7%</b>	<b>-711.4%</b>	<b>-170.0%</b>	<b>-133.3%</b>	<b>-87.5%</b>	<b>-61.0%</b>	<b>-102.1%</b>
Total Other Items	(510)	(398)	42	(93)	0	0	(51)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>(2,850)</b>	<b>(11,911)</b>	<b>(4,137)</b>	<b>(5,255)</b>	<b>(5,125)</b>	<b>(5,012)</b>	<b>(19,528)</b>	<b>(4,250)</b>	<b>(4,000)</b>	<b>(3,500)</b>	<b>(3,050)</b>	<b>(14,800)</b>
<b>Pre-Tax Margin</b>	<b>-456.8%</b>	<b>-493.7%</b>	<b>-2063.1%</b>	<b>-894.3%</b>	<b>-683.3%</b>	<b>-417.7%</b>	<b>-713.2%</b>	<b>-170.0%</b>	<b>-133.3%</b>	<b>-87.5%</b>	<b>-61.0%</b>	<b>-102.1%</b>
Taxes (benefit)	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%
<b>Net income</b>	<b>(\$2,850)</b>	<b>(\$11,911)</b>	<b>(\$4,137)</b>	<b>(\$5,255)</b>	<b>(\$5,125)</b>	<b>(\$5,012)</b>	<b>(\$19,528)</b>	<b>(\$4,250)</b>	<b>(\$4,000)</b>	<b>(\$3,500)</b>	<b>(\$3,050)</b>	<b>(\$14,800)</b>
Deemed dividend for Series C	(\$2)	(\$2,624)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net income attributable to share</b>	<b>(\$2,852)</b>	<b>(\$14,535)</b>	<b>\$0</b>	<b>(\$5,255)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$19,528)</b>	<b>\$0</b>	<b>(\$4,000)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$14,800)</b>
<b>EPS</b>	<b>(0.03)</b>	<b>(0.12)</b>	<b>(0.04)</b>	<b>(0.05)</b>	<b>(0.05)</b>	<b>(0.05)</b>	<b>(0.19)</b>	<b>(0.04)</b>	<b>(0.04)</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>(0.14)</b>
<b>EPS plus deemed dividend</b>	<b>0.00</b>	<b>(0.15)</b>	<b>0.00</b>	<b>(0.05)</b>	<b>0.00</b>	<b>0.00</b>	<b>(0.19)</b>	<b>0.00</b>	<b>(0.04)</b>	<b>0.00</b>	<b>0.00</b>	<b>(0.14)</b>
Diluted Shares Outstanding	82,032	97,708	102,561	104,546	104,000	105,000	104,027	105,000	105,000	105,000	105,000	105,000

Source: Company reports and Litchfield Hills Research LLC

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

December year-end	FY2023E	FY2022E	FY2021A	FY2020A	FY2019A	FY2018A
<b>Balance sheet</b>						
<b>Current Assets</b>						
Cash and S.T.I.	\$2,723	\$23	\$14,863	\$8,880	\$109	\$230
Accounts receivable	1,000	1,000	136	55	30	112
Inventories	400	400	191	55	27	10
Other assets	500	500	570	150	43	55
<b>Total Current Assets</b>	<b>4,623</b>	<b>1,923</b>	<b>15,761</b>	<b>9,142</b>	<b>209</b>	<b>406</b>
Net PP&E	1,000	500	374	58	28	45
Goodwill & Intangible	0	0	217	0	0	0
Other non-current assets	3,500	3,000	2,879	9	0	0
<b>Total Assets</b>	<b>\$9,123</b>	<b>\$5,423</b>	<b>\$19,231</b>	<b>\$9,208</b>	<b>\$237</b>	<b>\$451</b>
<b>Current Liabilities</b>						
Accounts payable	\$3,000	\$1,000	\$455	\$67	\$349	\$118
Accrued exp. & other	\$2,000	\$1,000	\$1,454	\$398	\$659	\$374
Deferred revenue	\$0	\$0	\$132	\$20	\$15	\$0
Other current liabilities	\$1,000	\$500	\$418	\$2,463	\$0	\$0
<b>Total current liabilities</b>	<b>6,000</b>	<b>2,500</b>	<b>2,458</b>	<b>2,947</b>	<b>1,034</b>	<b>576</b>
Notes payable	0	0	0	142	0	0
Other Liabilities	600	600	408	0	0	0
<b>Total Liabilities</b>	<b>6,600</b>	<b>3,100</b>	<b>2,866</b>	<b>3,090</b>	<b>1,034</b>	<b>576</b>
<b>Stockholders' Equity</b>						
Preferred stock	0	0	0	0	0	0
Common stock	9	9	10	9	8	8
Additional paid-in-capital	60,000	45,000	39,512	17,356	7,591	6,284
Retained earnings	(57,486)	(42,686)	(23,158)	(11,246)	(8,396)	(6,417)
Cum. Other comp and treasury stock	0	0	0	0	0	0
<b>Total stockholders' equity</b>	<b>2,523</b>	<b>2,323</b>	<b>16,365</b>	<b>6,119</b>	<b>(797)</b>	<b>(125)</b>
<b>Total Liabilities and equity</b>	<b>\$9,123</b>	<b>\$5,423</b>	<b>\$19,231</b>	<b>\$9,208</b>	<b>\$237</b>	<b>\$451</b>

Source: Company reports and Litchfield Hills Research LLC

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

	FY23E	FY22E	FY21A	FY20A
Net Income	(\$14,800)	(\$19,528)	(\$11,911)	(\$2,850)
Accounts receivable	0	(864)	(81)	(25)
Inventories	0	(209)	(136)	(28)
Other assets	0	70	(420)	(107)
PP&E	(500)	(126)	(317)	(30)
Goodwill & Intangible	0	217	(217)	0
Other non-current	(500)	(121)	(2,870)	(9)
Accounts payable	500	545	388	(282)
Accrued exp & other - related party	0	0	0	(10)
Accrued exp. & other	0	(454)	1,056	(262)
Deferred revenue	0	(132)	112	5
Other current liabilities	0	82	(2,046)	2,463
Notes payable	0	0	(142)	142
Other Liabilities	0	192	408	0
Common stock	0	(1)	1	1
Additional paid-in-capital	10,000	5,488	22,156	9,765
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends	0	0	0	0
Total Cash Flow	<u>(5,300)</u>	<u>(14,840)</u>	<u>5,983</u>	<u>8,771</u>

Source: Company reports and Litchfield Hills Research LLC

#### Disclosures:

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Total return is defined as price appreciation plus dividend yield.



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