

Action Summary – 3 April 2023

Analyst Theodore R. O'Neill – 4Q22 EPS beat on record revenue - Reiterate Buy and \$7 PT

- **One-cent beat on record revenue.** KULR reported 4Q22 revenue and an EPS loss of \$1.8MM and \$0.04, respectively. Consensus 4Q22 revenue and EPS loss expectations were \$1.5M and \$0.05, respectively. The \$0.01 favorable EPS variance was due to higher sales and better gross profit margins, partially offset by higher operating and non-operating expenses.
- **Batting well above its weight.** Record revenue is mainly due to the scaling up of design and test services from large customers. KULR products protect and solve complex, real-world issues of heat, vibration, and safety.
- **Well capitalized.** The company ended the quarter with \$10.3MM of cash.
- **Raising 2023 revenue estimates.** We are raising our 2023 revenue estimates to \$16.5MM from \$14.5MM. Our expected EPS loss of \$0.14 is unchanged due to the addition of higher operating expenses to support this growth.
- Although the shares trade at peer averages, we believe it deserves a premium due to its high gross profit margins. Shares are trading below our discounted earnings based price target.

03/31/23 Closing price: \$0.88	Market cap: \$102 million	2024 P/E: NMF	2024 EV / Sales: 2.3
Diluted Shares outstanding: 116 million	Insider ownership: 35%	3-month avg. trading volume: ~600,000	Dividend/Yield: NA/NA

GAAP estimates (EPS excluding deemed dividend in dollars – Revenue in USD 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%
3Q22A	\$(0.05)	\$1,393	33%
4Q22A	<u>\$(0.04)</u>	<u>\$1,813</u>	<u>92%</u>
FY22A	<u>\$(0.18)</u>	<u>\$3,995</u>	<u>59%</u>
1Q23E	\$(0.04)	\$2,500	50%
2Q23E	\$(0.04)	\$3,500	50%
3Q23E	\$(0.03)	\$4,500	50%
4Q23E	<u>\$(0.03)</u>	<u>\$6,000</u>	<u>49%</u>
FY23E	<u>\$(0.14)</u>	<u>\$16,500</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 USD thousands)

• 2020A	• \$8,880
• 2021A	• \$14,863
• 2022A	• \$10,334
• 2023E	• \$8,905

Debt (in USD thousands)

• 2020A	• \$142
• 2021A	• \$0
• 2022A	• \$0
• 2023E	• \$0

Adj. EBITDA (in USD millions)

• 2020A	• (\$2.4)
• 2021A	• (\$11.6)
• 2022A	• (\$17.8)
• 2023E	• (\$15.8)

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

Quarterly Results

As shown in Figure 2 (below), KULR reported 4Q22 revenue and an EPS loss of \$1.8MM and \$0.04, respectively. Consensus 4Q22 revenue and EPS loss expectations were \$1.5M and \$0.05, respectively. The \$0.01 favorable EPS variance was due to higher sales and better gross profit margins, partially offset by higher operating and non-operating expenses.

Figure 2 – KULR Technology Group, Inc. – Quarterly Variance Analysis (\$'000)

	2022	2022	
	Q4E	Q4A	Better/(worse) than forecast
Income Statement			
Total Revenue	\$1,200	\$1,813	\$613
Total cost of revenue	612	152	460
Total Gross Profit	588	1,662	1,074
Operating expenses:			
R&D	1,100	1,187	(87)
General and administrative	4,500	4,462	38
Total Expenses	5,600	5,649	(49)
Earnings (loss) from Operations	(5,012)	(3,987)	\$1,025
Total Other income/(expense)	0	(472)	(472)
Earnings before taxes	(5,012)	(4,459)	553
Tax expense/(benefit)	0	0	0
Net income	(\$5,012)	(\$4,459)	\$553
Deemed dividend for Series C			
Net income attributable to shareholders			
EPS	(\$0.05)	(\$0.04)	\$0.01

Source: Litchfield Hills Research LLC

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 3)
- 2) Valuation relative to peers (see Figure 4)

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 \$6.71 which we round up to \$7.

Figure 3 - KULR Technology Group, Inc. - Discounted Future Earnings

Discounted Earnings		\$ 6.71
Year 1 is	Forecast	Discounted
2023	EPS	EPS
1	(0.14)	(\$0.14)
2	0.00	\$0.00
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 4 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 par with its peers. We believe KULR shares should command a premium to its peers because it has high gross profit margins and companies with high gross profit margins tend to trade for higher sales multiples. A high multiple for KULR isn't extraordinary. Details on each of the peers can be found in Figure 5

Figure 4 – KULR Technology Group, Inc. – Valuation Relative to Peers

	2024 EV / Sales	2024 Sales Multiple
Average	2.22	3.38
KULR	2.25	2.78
Premium/(Discount) to peers	2%	(18%)

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 assumed a faster growth in H222, which we are now seeing. We anticipate a capital raise sometime in late 2023 to support working capital and growth. The company has been pulling together solid business relationships with companies that will use KULR products and those companies are executing on their production plans.

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

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples	
					EV /Sales	Market Cap / Sales
TSLA-US	Tesla Inc	\$195.28	617,886	663,061	5.20	4.84
RIVN-US	Rivian Automotive, Inc. Class A	\$14.40	13,149	3,189	0.48	1.67
QS-US	QuantumScape Corporation	\$7.73	2,756	2,392	X	X
ENVX-US	Enovix Corporation (US Listing)	\$14.20	2,240	1,874	X	X
FSR-US	Fisker Inc	\$5.98	1,074	1,770	0.44	0.47
LICY-US	Li-Cycle Holdings Corp.	\$5.48	966	698	2.22	3.04
NVX-AU	NOVONIX Ltd (AU Listing)	\$0.78	380	338	2.56	2.84
BLNK-US	Blink Charging Co	\$8.22	496	355	2.40	3.35
MVST-US	Microvast Holdings, Inc.	\$1.11	343	184		
ABML-US	American Battery Technology Company	\$0.98	635	621		
RIDE-US	Lordstown Motors Corp	\$0.64	152	(58)		4.55
SOLO-US	Electrameccanica Vehicles Corp	\$0.51	60	(76)		6.30
IPWR-US	Ideal Power Inc.	\$9.91	59	45	X	X
FUV-US	Arcimoto, Inc.	\$1.39	9	17		
	AVERAGE				<u>2.22</u>	<u>3.38</u>
KULR-US	KULR Technology Group Inc	\$0.92	107	87	2.25	2.78
	KULR-US Premium/(Discount) to peers:				2%	-18%
Comparable metrics that are more than 4x the mean are X'ed out in order to make the comparison meaningful						

Source: Litchfield Hills Research LLC and FactSet

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

December year-end	2020A	2021A	2022A				2022A	2023E				2023E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$624	\$2,413	\$200	\$588	\$1,393	\$1,813	\$3,995	\$2,500	\$3,500	\$4,500	\$6,000	\$16,500
<i>Growth</i>	-25%	287%	-52%	-6%	132%	137%	66%	1147%	496%	223%	231%	313%
Cost of Goods	169	1,102	123	424	932	152	1,631	1,250	1,750	2,250	3,060	8,310
Gross Profit	455	1,311	78	164	461	1,662	2,364	1,250	1,750	2,250	2,940	8,190
Gross Margin	72.9%	54.3%	38.7%	27.9%	33.1%	91.6%	59.2%	50.0%	50.0%	50.0%	49.0%	49.6%
Operating Expenses												
R&D	\$290	\$1,662	\$721	\$999	\$1,070	\$1,187	\$3,978	\$1,300	\$1,400	\$1,500	\$1,600	\$5,800
% of total revenue	46%	69%	360%	170%	77%	65%	100%	52%	40%	33%	27%	35%
General and administrative	\$2,506	\$11,162	\$3,535	\$4,326	\$4,349	\$4,462	\$16,673	\$4,500	\$4,500	\$4,500	\$4,500	\$18,000
% of total revenue	402%	463%	1763%	736%	312%	246%	417%	180%	129%	100%	75%	109%
Total Operating Expenses	2,795	12,824	4,256	5,326	5,419	5,649	20,650	5,800	5,900	6,000	6,100	23,800
Operating Income	(2,340)	(11,513)	(4,179)	(5,162)	(4,958)	(3,987)	(18,286)	(4,550)	(4,150)	(3,750)	(3,160)	(15,610)
Operating Margin	-375.1%	-477.2%	-2084.1%	-878.5%	-355.9%	-219.9%	-457.8%	-182.0%	-118.6%	-83.3%	-52.7%	-94.6%
Total Other Items	(510)	(398)	42	(93)	(628)	(472)	(1,150)	0	0	0	0	0
Pre-Tax Income	(2,850)	(11,911)	(4,137)	(5,255)	(5,587)	(4,459)	(19,436)	(4,550)	(4,150)	(3,750)	(3,160)	(15,610)
Pre-Tax Margin	-456.8%	-493.7%	-2063.1%	-894.3%	-401.0%	-245.9%	-486.6%	-182.0%	-118.6%	-83.3%	-52.7%	-94.6%
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%
Net income	(\$2,850)	(\$11,911)	(\$4,137)	(\$5,255)	(\$5,587)	(\$4,459)	(\$19,436)	(\$4,550)	(\$4,150)	(\$3,750)	(\$3,160)	(\$15,610)
Deemed dividend for Series C	(\$2)	(\$2,624)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income attributable to share	(\$2,852)	(\$14,535)	\$0	(\$5,255)	\$0	\$0	(\$19,436)	\$0	(\$4,150)	\$0	\$0	(\$15,610)
EPS	(0.03)	(0.12)	(0.04)	(0.05)	(0.05)	(0.04)	(0.18)	(0.04)	(0.04)	(0.03)	(0.03)	(0.14)
EPS plus deemed dividend	0.00	(0.15)	0.00	(0.05)	0.00	0.00	(0.18)	0.00	(0.04)	0.00	0.00	(0.14)
Diluted Shares Outstanding	82,032	97,708	102,561	104,546	105,573	110,000	105,656	107,000	108,000	109,000	110,000	108,500

Source: Company reports and Litchfield Hills Research LLC

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

December year-end	FY2023E	FY2022A	FY2021A	FY2020A	FY2019A
Balance sheet					
Current Assets					
Cash and S.T.I.	\$8,905	\$10,334	\$14,863	\$8,880	\$109
Accounts receivable	1,000	1,542	136	55	30
Inventories	400	1,962	191	55	27
Other assets	500	1,898	570	150	43
Total Current Assets	10,805	15,736	15,761	9,142	209
Net PP&E	1,000	3,193	374	58	28
Goodwill & Intangible	0	721	217	0	0
Other non-current assets	5,000	3,976	2,879	9	0
Total Assets	\$16,805	\$23,626	\$19,231	\$9,208	\$237
Current Liabilities					
Accounts payable	\$3,000	\$1,408	\$455	\$67	\$349
Accrued exp. & other	\$2,000	\$2,370	\$1,454	\$398	\$659
Deferred revenue	\$0	\$23	\$132	\$20	\$15
Other current liabilities	\$10,000	\$5,879	\$418	\$2,463	\$0
Total current liabilities	15,000	9,681	2,458	2,947	1,034
Notes payable	0	0	0	142	0
Other Liabilities	0	3,452	408	0	0
Total Liabilities	15,000	13,132	2,866	3,090	1,034
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Common stock	9	11	10	9	8
Additional paid-in-capital	60,000	53,373	39,512	17,356	7,591
Retained earnings	(58,204)	(42,594)	(23,158)	(11,246)	(8,396)
Cum. Other comp and treasury stock	0	(296)	0	0	0
Total stockholders' equity	1,805	10,494	16,365	6,119	(797)
Total Liabilities and equity	\$16,805	\$23,626	\$19,231	\$9,208	\$237

Source: Company reports and Litchfield Hills Research LLC

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

	FY23E	FY22A	FY21A	FY20A
Net Income	(\$15,610)	(\$19,436)	(\$11,911)	(\$2,850)
Accounts receivable	542	(1,406)	(81)	(25)
Inventories	1,562	(1,771)	(136)	(28)
Other assets	1,398	(1,328)	(420)	(107)
PP&E	2,193	(2,819)	(317)	(30)
Goodwill & Intangible	721	(504)	(217)	0
Other non-current	(1,024)	(1,098)	(2,870)	(9)
Accounts payable	1,592	954	388	(282)
Accrued exp & other - related party	0	0	0	(10)
Accrued exp. & other	(370)	916	1,056	(262)
Deferred revenue	(23)	(109)	112	5
Other current liabilities	4,121	5,462	(2,046)	2,463
Notes payable	0	0	(142)	142
Other Liabilities	(3,452)	3,044	408	0
Common stock	(2)	1	1	1
Additional paid-in-capital	6,627	13,861	22,156	9,765
Cum. trans. adj. and treasury stock	296	(296)	0	0
Dividends	0	0	0	0
Total Cash Flow	(1,429)	(4,530)	5,983	8,771

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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