

Action Summary – 21 Aug 2023

Analyst Theodore R. O'Neill – 2Q23 beats on revenue - *Reiterate Buy and \$7 PT*

- **Outperforming Revenue Forecasts.** KULR reported 2Q23 revenue of \$2.7M and an EPS loss of \$0.05. The consensus for 2Q23 anticipated a revenue of \$2.06M and an EPS loss of \$0.04. Our estimates were a revenue of \$2M and an EPS loss of \$0.05. The EPS loss was in line with our projections but a miss of \$0.01 to consensus. The \$0.01 unfavorable EPS variance was due to lower margins and higher non-operating expenses, partially offset by lower operating expenses.
- **Reach Expansion Through Strategic Partnerships and Contracts.** While early revenue has come in discrete packets, KULR continues to evolve, highlighting the potential for more consistent financial performance. In 2Q23, KULR secured a \$1.13M U.S. Army contract, collaborated with a top-selling global automaker for EVs, provided battery testing for a leading eVTOL manufacturer, and expanded the SafeCASE™ product line for electric bikes.
- **Revision to estimates.** We are raising our estimates to an EPS loss of \$0.20 and \$9.96MM of revenue, compared to our previous estimates for revenue and EPS of \$9.26MM and a loss of \$0.21.
- Although the shares trade at near peer averages, we believe they deserve a premium due to the company's high gross profit margins. The shares are trading below our price target, which is based on discounted earnings.

8/18 Closing price: \$0.77	Market cap: \$97 million	2024 P/E: NMF	2024 EV / Sales: 2.3
Diluted Shares outstanding: 118 million	Insider ownership: 35%	3-month avg. trading volume: >300,000	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>\$3,994</u>	<u>59%</u>
1Q23A	\$(0.06)	\$1,760	37%
2Q23A	\$(0.05)	\$2,696	37%
3Q23E	\$(0.05)	\$2,500	50%
4Q23E	<u>\$(0.04)</u>	<u>\$3,000</u>	<u>49%</u>
FY23E	<u>\$(0.20)</u>	<u>\$9,956</u>	<u>47%</u>

Note: Numbers may not add up 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	• \$797

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	• (\$24.7)

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.
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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

Outperforming Revenue Forecasts. KULR reported 2Q23 revenue of \$2.7MM and an EPS loss of \$0.05. The consensus for 2Q23 anticipated a revenue of \$2.06MM and an EPS loss of \$0.04. Our estimates (see Figure 2) were a revenue of \$2MM and an EPS loss of \$0.05.

Product revenue in 2Q was approximately \$2MM, a surge of over 250% from ~\$0.6MM YoY. Contract Services revenue increased to \$0.7MM, up from \$0.03MM YoY. Gross margin for 2Q23 stood at 37%, up from 28% YoY.

The \$0.01 unfavorable EPS variance was due to lower margins and higher non-operating expenses, partially offset by lower operating expenses.

Reach Expansion Through Strategic Partnerships and Contracts. While early revenue has come in discrete packets, KULR continues to evolve, underlining the potential for more consistent financial performance in the near future. In 2Q23, KULR continued expanding its reach through strategic partnerships and contracts that are likely to produce follow-on orders. Key operational highlights for 2Q23 include:

- **Defense Engagements:** KULR secured a \$1.13M U.S. Army contract to develop battery packs using the K1-DS platform and obtained a development contract from the U.S. Armed Forces for uninterruptible power supplies for mobile command centers.

- **Automotive & eVTOL Collaborations:** KULR partnered with a top-selling global automaker to test and enhance the design readiness of high-energy battery cells for EVs. Furthermore, the company provided battery testing solutions to a leading eVTOL manufacturer, emphasizing its pivotal role in this emerging sector.
- **Consumer Market Advances:** KULR expanded the SafeCASE™ product line for electric bikes and engaged with Homeowner Associations and community leaders to offer safety solutions in urban multi-story buildings.

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

Income Statement	2023	2023	Better/(worse) than forecast
	Q2E	Q2A	
Total Revenue	\$2,000	\$2,696	\$696
Total cost of revenue	1,000	1,693	(693)
Total Gross Profit	1,000	1,002	2
Operating expenses:			
R&D	1,400	1,408	(8)
General and administrative	5,750	5,592	158
Total Expenses	7,150	7,000	150
Earnings (loss) from Operations	(6,150)	(5,997)	\$153
Total Other income/(expense)	0	(338)	(338)
Earnings before taxes	(6,150)	(6,335)	(185)
Tax expense/(benefit)	0	0	0
Net income	(\$6,150)	(\$6,335)	(\$185)
Net income attributable to sharehc	(\$6,150)	(\$6,335)	
EPS	\$ (0.05)	\$ (0.05)	-
Diluted common shares	118,000	118,323	(323)

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. We used the following valuation techniques:

- 1) The discounted value of all future earnings 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 make two main assumptions:

- Near-term rapid growth in earnings, which steps down to GDP rates after 5 years.
- The company will reach breakeven by early 2024.

Our valuation model is shown in Figure 3 below. Note that this model may understate future new products and growth through acquisitions, and possibly understates the tax benefits. However, as a counterbalance, our projections do not foresee earnings having a down year. The implied share price is \$6.64, which we round up to \$7.

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

Discounted Earnings		\$ 6.64
Year 1 is Forecast	Discounted	
2023	EPS	EPS
1	(0.21)	(\$0.21)
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 provide a summary of metrics for KULR's peers. When comparing KULR to the simple average of its peers, the shares, on average, trade just slightly below par. We believe KULR shares should command a premium over its peers because of its high gross profit margins. Companies with high gross profit margins typically trade at higher sales multiples. Thus, a high multiple for KULR isn't out of the ordinary. Details on each of the peers are in Figure 5.

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

	2024 EV / Sales	2024 Sales Multiple
Average	2.87	3.08
KULR	2.39	2.58
Premium/(Discount) to peers	(17%)	(16%)

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

Guidance and Financial Forecasts

The company is not providing guidance. On August 16, 2023, KULR recently announced its intention to conduct a public offering of its common stock. This announcement aligns with our previous anticipation of a capital raise in 2023. While the offering depends on market conditions, the actual size and terms remain uncertain.

KULR aims to use the net gains from this proposed offering to settle specific outstanding balances from its existing financing facility. The funds will also support working capital and other general corporate needs.

The company has been pulling together solid business relationships with companies that will use KULR products. These companies are executing their production plans, which is expected to drive demand for KULR's products and services.

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	\$219.22	695,803	745,851	5.67	5.30
RIVN-US	Rivian Automotive, Inc.	\$20.95	19,700	12,556	1.72	2.77
QS-US	QuantumScape Corporation	\$6.82	2,865	2,233		
ENVX-US	Enovix Corporation (US Listing)	\$13.89	2,224	1,948		
FSR-US	Fisker Inc	\$5.64	1,189	2,083	0.65	0.64
LICY-US	Li-Cycle Holdings Corp.	\$4.38	780	835	5.11	4.77
MVST-US	Microvast Holdings, Inc.	\$1.95	615	569		
ABML-US	American Battery Technology Company	\$0.58	400	367		
NVX-AU	NOVONIX Ltd (AU Listing)	\$0.65	314	272		
BLNK-US	Blink Charging Co	\$4.83	309	240	1.21	1.90
SOLO-US	Electrameccanica Vehicles Corp	\$0.76	91	19		
IPWR-US	Ideal Power Inc.	\$10.60	63	53		
RIDE-US	Lordstown Motors Corp	\$3.67	59	(87)		
FUV-US	Arcimoto, Inc.	\$1.05	9	23		
	AVERAGE				2.87	3.08
KULR-US	KULR Technology Group Inc	\$0.80	95	91	2.39	2.58
	KULR-US Premium/(Discount) to peers:				-17%	-16%

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	Q1A	Q2A	Q3E	Q4E	YEAR
Total revenue	\$624	\$2,413	\$200	\$588	\$1,393	\$1,813	\$3,995	\$1,760	\$2,696	\$2,500	\$3,000	\$9,955
<i>Growth</i>	-25%	287%	-52%	-6%	132%	137%	66%	778%	359%	79%	65%	149%
Cost of Goods	169	1,102	123	424	932	152	1,631	1,116	1,693	1,250	1,530	5,590
Gross Profit	455	1,311	78	164	461	1,662	2,364	643	1,002	1,250	1,470	4,366
Gross Margin	72.9%	54.3%	38.7%	27.9%	33.1%	91.6%	59.2%	36.6%	37.2%	50.0%	49.0%	43.9%
Operating Expenses												
R&D	\$290	\$1,662	\$721	\$999	\$1,070	\$1,187	\$3,978	\$1,388	\$1,408	\$1,500	\$1,600	\$5,896
% of total revenue	46%	69%	360%	170%	77%	65%	100%	79%	52%	60%	53%	59%
General and administrative	\$2,506	\$11,162	\$3,535	\$4,326	\$4,349	\$4,462	\$16,673	\$5,516	\$5,592	\$5,900	\$6,000	\$23,007
% of total revenue	402%	463%	1763%	736%	312%	246%	417%	313%	207%	236%	200%	231%
Total Operating Expenses	2,795	12,824	4,256	5,326	5,419	5,649	20,650	6,904	7,000	7,400	7,600	28,904
Operating Income	(2,340)	(11,513)	(4,179)	(5,162)	(4,958)	(3,987)	(18,286)	(6,261)	(5,997)	(6,150)	(6,130)	(24,538)
Operating Margin	-375.1%	-477.2%	-2084.1%	-878.5%	-355.9%	-219.9%	-457.8%	-355.8%	-222.5%	-246.0%	-204.3%	-246.5%
Total Other Items	(510)	(398)	42	(93)	(628)	(472)	(1,150)	(342)	(338)	0	0	(680)
Pre-Tax Income	(2,850)	(11,911)	(4,137)	(5,255)	(5,587)	(4,459)	(19,436)	(6,603)	(6,335)	(6,150)	(6,130)	(25,218)
Pre-Tax Margin	-456.8%	-493.7%	-2063.1%	-894.3%	-401.0%	-245.9%	-486.6%	-375.2%	-235.0%	-246.0%	-204.3%	-253.3%
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)	(\$6,603)	(\$6,335)	(\$6,150)	(\$6,130)	(\$25,218)
Deemed dividend for Series C	(\$2)	(\$2,624)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income attributable to shareholders	(\$2,852)	(\$14,535)	\$0	(\$5,255)	\$0	\$0	(\$19,436)	\$0	(\$6,335)	\$0	\$0	(\$25,218)
EPS	(0.03)	(0.12)	(0.04)	(0.05)	(0.05)	(0.04)	(0.18)	(0.06)	(0.05)	(0.05)	(0.04)	(0.21)
EPS plus deemed dividend	0.00	(0.15)	0.00	(0.05)	0.00	0.00	(0.18)	0.00	(0.05)	0.00	0.00	(0.21)
Diluted Shares Outstanding	82,032	97,708	102,561	104,546	105,573	110,000	105,656	112,877	118,323	118,000	138,000	121,800

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	FY2018A
Balance sheet						
Current Assets						
Cash and S.T.I.	\$797	\$10,334	\$14,863	\$8,880	\$109	\$230
Accounts receivable	1,600	1,542	136	55	30	112
Inventories	1,800	1,962	191	55	27	10
Other assets	1,500	1,898	570	150	43	55
Total Current Assets	5,697	15,736	15,761	9,142	209	406
Net PP&E	6,000	3,193	374	58	28	45
Goodwill & Intangible	0	721	217	0	0	0
Other non-current assets	3,000	3,976	2,879	9	0	0
Total Assets	\$14,697	\$23,626	\$19,231	\$9,208	\$237	\$451
Current Liabilities						
Accounts payable	\$2,000	\$1,408	\$455	\$67	\$349	\$118
Accrued exp. & other	\$3,000	\$2,370	\$1,454	\$398	\$659	\$374
Deferred revenue	\$0	\$23	\$132	\$20	\$15	\$0
Other current liabilities	\$7,000	\$5,879	\$418	\$2,463	\$0	\$0
Total current liabilities	12,000	9,681	2,458	2,947	1,034	576
Notes payable	0	0	0	142	0	0
Other Liabilities	500	3,452	408	0	0	0
Total Liabilities	12,500	13,132	2,866	3,090	1,034	576
Stockholders' Equity						
Preferred stock	0	0	0	0	0	0
Common stock	9	11	10	9	8	8
Additional paid-in-capital	70,000	53,373	39,512	17,356	7,591	6,284
Retained earnings	(67,812)	(42,594)	(23,158)	(11,246)	(8,396)	(6,417)
Cum. Other comp and treasury stock	0	(296)	0	0	0	0
Total stockholders' equity	2,197	10,494	16,365	6,119	(797)	(125)
Total Liabilities and equity	\$14,697	\$23,626	\$19,231	\$9,208	\$237	\$451

Source: Company reports and Litchfield Hills Research LLC

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

	FY23E	FY22A	FY21A	FY20A	FY19
Net Income	(\$25,218)	(\$19,436)	(\$11,911)	(\$2,850)	(\$1,980)
Accounts receivable	(58)	(1,406)	(81)	(25)	82
Inventories	162	(1,771)	(136)	(28)	(17)
Other assets	398	(1,328)	(420)	(107)	11
PP&E	(2,807)	(2,819)	(317)	(30)	17
Goodwill & Intangible	721	(504)	(217)	0	0
Other non-current	976	(1,098)	(2,870)	(9)	0
Accounts payable	592	954	388	(282)	231
Accrued exp & other - related party	0	0	0	(10)	(74)
Accrued exp. & other	630	916	1,056	(262)	285
Deferred revenue	(23)	(109)	112	5	15
Other current liabilities	1,121	5,462	(2,046)	2,463	0
Notes payable	0	0	(142)	142	0
Other Liabilities	(2,952)	3,044	408	0	0
Common stock	(2)	1	1	1	0
Additional paid-in-capital	16,627	13,861	22,156	9,765	1,308
Cum. trans. adj. and treasury stock	296	(296)	0	0	0
Dividends	0	0	0	0	0
Total Cash Flow	(9,536)	(4,530)	5,983	8,771	(121)

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

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KULR Technology Group, Inc.

KULR-Buy-\$7 PT

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

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