

Action Summary – 20 November 2023

Analyst Theodore R. O'Neill – 3Q23 solid inline quarter with higher revenue - *Reiterate Buy and \$7 PT.*

- **Outperforming Revenue Forecasts.** KULR reported 3Q23 revenue of \$3.04MM and an EPS loss of \$0.05. The consensus for 3Q23 anticipated a revenue of \$2.9MM and an EPS loss of \$0.05. Our estimates (see Figure 2) were for revenue of \$2.5MM and an EPS loss of \$0.05. Product revenue in 3Q was approximately \$1.9MM for a growth of 38% from ~\$1.4MM YoY. Contract Services revenue surged to \$1.14MM, up from \$0.02MM YoY. Gross margin for 3Q23 stood at 44%, up from 37% in the prior quarter.
- **Revision of estimates.** We are raising our 2023 revenue estimate to \$10.5MM from \$9.96MM. EPS is unchanged at a loss of \$0.20. For 2024 we are establishing an initial revenue and EPS target of \$21.5MM and an EPS loss of \$0.15.
- **We consider the shares undervalued.** They trade at a discount to peer multiples of sales and at a discount to our discounted earnings model. If the shares were trading at peer averages of Market Cap/Sales, they would be 2.5X higher. If they traded closer to the high end of the range, where we believe they should trade because it has a better margin profile, the shares would be worth nearly 5X from where they are today. Based on our discounted earnings model, we believe the shares should trade at \$7. All of these factors support a significantly higher price.

11/17 Closing price: \$0.31	Market cap: \$40 million	2024 P/E: NMF	2024 EV / Sales: 1.1
Diluted Shares outstanding: 132 million	Insider ownership: 35%	3-month avg. trading volume: >400,000	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	\$(0.04)	\$766	70%
FY21A	\$(0.12)	\$2,413	54%
1Q22A	\$(0.04)	\$200	39%
2Q22A	\$(0.05)	\$588	28%
3Q22A	\$(0.05)	\$1,393	33%
4Q22A	\$(0.04)	\$1,813	92%
FY22A	\$(0.18)	\$3,994	59%
1Q23A	\$(0.06)	\$1,760	37%
2Q23A	\$(0.05)	\$2,696	37%
3Q23A	\$(0.05)	\$3,041	44%
4Q23E	\$(0.04)	\$3,000	49%
FY23E	\$(0.20)	\$10,496	42%

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	• \$2,185

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	• (\$22.7)

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. 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 3Q23 revenue of \$3.04MM and an EPS loss of \$0.05. The consensus for 3Q23 anticipated a revenue of \$2.9MM and an EPS loss of \$0.05. Our estimates (see Figure 2) were for revenue of \$2.5MM and an EPS loss of \$0.05.

Product revenue in 3Q was approximately \$1.9MM for a growth of 38% from ~\$1.4MM YoY. Contract Services revenue surged to \$1.14MM, up from \$0.02MM YoY. Gross margin for 3Q23 stood at 44%, up from 37% in the prior quarter.

The inline variance to EPS was due primarily to lower operating expenses, partially offset by higher non-operating expenses.

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

	2023	2023	Better/(worse) than forecast
	Q3E	Q3A	
Total Revenue	\$2,500	\$3,041	\$541
Total cost of revenue	<u>1,250</u>	<u>1,704</u>	(454)
Total Gross Profit	1,250	1,337	87
Operating expenses:			
R&D	1,500	1,641	(141)
General and administrative	<u>5,900</u>	<u>4,794</u>	1,106
Total Expenses	<u>7,400</u>	<u>6,434</u>	966
Earnings (loss) from Operations	(6,150)	(5,097)	\$1,053
Total Other income/(expense)	<u>0</u>	<u>(465)</u>	(465)
Earnings before taxes	(6,150)	(5,562)	588
Tax expense/(benefit)	<u>0</u>	<u>0</u>	0
Net income	<u>(\$6,150)</u>	<u>(\$5,562)</u>	<u>\$588</u>
EPS	\$ (0.05)	\$ (0.05)	\$0.00
Diluted common shares	118,000	117,144	856

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 late 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 \$6.70, which we round up to \$7.

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

Discounted Earnings		\$ 6.70
Year 1 is Forecast	Discounted	
2024	EPS	EPS
1	(0.15)	(\$0.15)
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	2.43	3.23
KULR	1.13	1.30
Premium/(Discount) to peers	(54%)	(60%)

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

Guidance and Financial Forecasts

The company is not providing guidance. 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	\$233.59	742,564	798,616	6.66	6.22
RIVN-US	Rivian Automotive, Inc.	\$16.39	15,569	9,509	1.55	2.58
QS-US	QuantumScape Corporation	\$5.88	2,527	1,751		
ENVX-US	Enovix Corporation (US Listing)	\$11.37	1,908	1,638		
FSR-US	Fisker Inc	\$2.81	593	1,514	0.55	0.34
MVST-US	Microvast Holdings, Inc.	\$1.30	411	453		
BLNK-US	Blink Charging Co	\$4.23	285	223	0.95	1.49
NVX-AU	NOVONIX Ltd (AU Listing)	\$0.47	230	202		
ABML-US	American Battery Technology Co.	\$4.04	191	200		
LICY-US	Li-Cycle Holdings Corp.	\$0.65	115	333	X	5.55
SOLO-US	Electrameccanica Vehicles Corp	\$0.43	51	(6)		
IPWR-US	Ideal Power Inc.	\$8.41	50	42		
RIDEQ-US	Lordstown Motors Corp	\$1.18	19	(88)		
FUV-US	Arcimoto, Inc.	\$0.57	5	19		
	AVERAGE				<u>2.43</u>	<u>3.23</u>
KULR-US	KULR Technology Group Inc	\$0.31	40	35	1.13	1.30
KULR-US Premium/(Discount) to peers:					-54%	-60%

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	2024E
	Year	Year	Q1A	Q2A	Q3A	Q4A	YEAR	Q1A	Q2A	Q3A	Q4E	YEAR	YEAR
Total revenue	\$624	\$2,413	\$200	\$588	\$1,393	\$1,813	\$3,995	\$1,760	\$2,696	\$3,041	\$3,000	\$10,496	\$21,500
<i>Growth</i>	-25%	287%	-52%	-6%	132%	137%	66%	778%	359%	118%	65%	163%	105%
Cost of Goods	169	1,102	123	424	932	152	1,631	1,116	1,693	1,704	1,530	6,043	11,825
Gross Profit	455	1,311	78	164	461	1,662	2,364	643	1,002	1,337	1,470	4,453	9,675
Gross Margin	72.9%	54.3%	38.7%	27.9%	33.1%	91.6%	59.2%	36.6%	37.2%	44.0%	49.0%	42.4%	45.0%
Operating Expenses													
R&D	\$290	\$1,662	\$721	\$999	\$1,070	\$1,187	\$3,978	\$1,388	\$1,408	\$1,641	\$1,600	\$6,037	\$6,400
% of total revenue	46%	69%	360%	170%	77%	65%	100%	79%	52%	54%	53%	58%	30%
General and administrative	\$2,506	\$1,162	\$3,535	\$4,326	\$4,349	\$4,462	\$16,673	\$5,516	\$5,592	\$4,794	\$5,200	\$21,101	\$22,600
% of total revenue	402%	463%	1763%	736%	312%	246%	417%	313%	207%	158%	173%	201%	105%
Total Operating Expenses	2,795	12,824	4,256	5,326	5,419	5,649	20,650	6,904	7,000	6,434	6,800	27,138	29,000
Operating Income	(2,340)	(11,513)	(4,179)	(5,162)	(4,958)	(3,987)	(18,286)	(6,261)	(5,997)	(5,097)	(5,330)	(22,685)	(19,325)
Operating Margin	-375.1%	-477.2%	-2084.1%	-878.5%	-355.9%	-219.9%	-457.8%	-355.8%	-222.5%	-167.6%	-177.7%	-216.1%	-89.9%
Total Other Items	(510)	(398)	42	(93)	(628)	(472)	(1,150)	(342)	(338)	(465)	0	(1,145)	(680)
Pre-Tax Income	(2,850)	(11,911)	(4,137)	(5,255)	(5,587)	(4,459)	(19,436)	(6,603)	(6,335)	(5,562)	(5,330)	(23,830)	(20,005)
Pre-Tax Margin	-456.8%	-493.7%	-2063.1%	-894.3%	-401.0%	-245.9%	-486.6%	-375.2%	-235.0%	-182.9%	-177.7%	-227.0%	-93.0%
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	(\$2,850)	(\$11,911)	(\$4,137)	(\$5,255)	(\$5,587)	(\$4,459)	(\$19,436)	(\$6,603)	(\$6,335)	(\$5,562)	(\$5,330)	(\$23,830)	(\$20,005)
Deemed dividend for Series C	(\$2)	(\$2,624)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income attributable to shareholders	(\$2,852)	(\$14,535)	\$0	(\$5,255)	(\$5,587)	(\$4,459)	(\$19,436)	(\$6,603)	(\$6,335)	(\$5,562)	(\$5,330)	(\$23,830)	(\$20,005)
EPS	(0.03)	(0.12)	(0.04)	(0.05)	(0.05)	(0.04)	(0.18)	(0.06)	(0.05)	(0.05)	(0.04)	(0.20)	(0.15)
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	(0.20)	(0.15)
Diluted Shares Outstanding	82,032	97,708	102,561	104,546	105,573	110,000	105,656	112,877	118,323	117,144	132,000	120,086	134,500

Source: Company reports and Litchfield Hills Research LLC

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

December year-end	FY2023E	FY2022A	FY2021A	FY2020A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$2,185	\$10,334	\$14,863	\$8,880
Accounts receivable	1,600	1,542	136	55
Inventories	1,800	1,962	191	55
Other assets	<u>1,500</u>	<u>1,898</u>	<u>570</u>	<u>150</u>
Total Current Assets	7,085	15,736	15,761	9,142
Net PP&E	6,000	3,193	374	58
Goodwill & Intangible	0	721	217	0
Other non-current assets	<u>3,000</u>	<u>3,976</u>	<u>2,879</u>	<u>9</u>
Total Assets	<u>\$16,085</u>	<u>\$23,626</u>	<u>\$19,231</u>	<u>\$9,208</u>
Current Liabilities				
Accounts payable	\$2,000	\$1,408	\$455	\$67
Accrued exp. & other	\$3,000	\$2,370	\$1,454	\$398
Deferred revenue	\$0	\$23	\$132	\$20
Other current liabilities	<u>\$7,000</u>	<u>\$5,879</u>	<u>\$418</u>	<u>\$2,463</u>
Total current liabilities	<u>12,000</u>	<u>9,681</u>	<u>2,458</u>	<u>2,947</u>
Notes payable	0	0	0	142
Other Liabilities	<u>500</u>	<u>3,452</u>	<u>408</u>	<u>0</u>
Total Liabilities	12,500	13,132	2,866	3,090
Stockholders' Equity				
Preferred stock	0	0	0	0
Common stock	9	11	10	9
Additional paid-in-capital	70,000	53,373	39,512	17,356
Retained earnings	(66,424)	(42,594)	(23,158)	(11,246)
Cum. Other comp and treasury stock	<u>0</u>	<u>(296)</u>	<u>0</u>	<u>0</u>
Total stockholders' equity	<u>3,585</u>	<u>10,494</u>	<u>16,365</u>	<u>6,119</u>
Total Liabilities and equity	<u>\$16,085</u>	<u>\$23,626</u>	<u>\$19,231</u>	<u>\$9,208</u>

Source: Company reports and Litchfield Hills Research LLC

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

	FY23E	FY22A	FY21A	FY20A
Net Income	(\$23,830)	(\$19,436)	(\$11,911)	(\$2,850)
Accounts receivable	(58)	(1,406)	(81)	(25)
Inventories	162	(1,771)	(136)	(28)
Other assets	398	(1,328)	(420)	(107)
PP&E	(2,807)	(2,819)	(317)	(30)
Goodwill & Intangible	721	(504)	(217)	0
Other non-current	976	(1,098)	(2,870)	(9)
Accounts payable	592	954	388	(282)
Accrued exp & other - related party	0	0	0	(10)
Accrued exp. & other	630	916	1,056	(262)
Deferred revenue	(23)	(109)	112	5
Other current liabilities	1,121	5,462	(2,046)	2,463
Notes payable	0	0	(142)	142
Other Liabilities	(2,952)	3,044	408	0
Common stock	(2)	1	1	1
Additional paid-in-capital	16,627	13,861	22,156	9,765
Cum. trans. adj. and treasury stock	296	(296)	0	0
Dividends	0	0	0	0
Total Cash Flow	(8,149)	(4,530)	5,983	8,771

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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