

Action Summary – 17 April 2024

Analyst Theodore R. O'Neill – 4Q23 solid inline quarter - *Reiterate Buy and \$7 PT.*

- **Inline EPS on a slight miss to revenue.** KULR reported 4Q23 revenue of \$2.3MM and an EPS loss of \$0.04. The consensus was for revenue of \$3.7MM and an EPS loss of \$0.04. Our estimates (see Figure 2) were for revenue of \$3.0MM and an EPS loss of \$0.04. The company was able to report inline EPS on lower revenue due to lower G&A partially offset by higher R&D and higher non-operating expenses.
- **2024 is going to be a pivotal year for the company.** It now has more clients and ongoing revenue streams than it ever has in its history and its patented products offer real solutions to multiple problems. However, the end customers have to ramp up production and this isn't likely to happen in 1Q24. While we remain confident of the company's future, investors need to look through 2024 into 2025.
- **Revision of estimates.** We are lowering our 2024 revenue estimate to \$15.5MM from \$21.5MM and our EPS loss falls to \$0.10 from a loss of \$0.20, of which \$0.05 is due to a higher share count.
- **We consider the shares undervalued.** They trade at a discount to peer multiples of sales and at a discount to our discounted earnings model. Based on our discounted earnings model, we believe the shares should trade at \$7. All of these factors support a significantly higher price.

| | | | |
|---|---------------------------|---------------------------------------|-----------------------|
| 4/16 Closing price: \$0.51 | Market cap: \$101 million | 2025 P/E: NMF | 2025 EV / Sales: 1.2 |
| Diluted Shares outstanding: 172 million | Insider ownership: 9% | 3-month avg. trading volume: >500,000 | 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% |
| 3Q23A | \$(0.05) | \$3,041 | 44% |
| 4Q23A | <u>\$(0.04)</u> | <u>\$2,334</u> | <u>29%</u> |
| FY23A | <u>\$(0.20)</u> | <u>\$9,830</u> | <u>37%</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)

| | |
|---------|------------|
| • 2021A | • \$14,863 |
| • 2022A | • \$10,334 |
| • 2023A | • \$1,195 |
| • 2024E | • \$196 |

Debt (in USD thousands)

| | |
|---------|-----------|
| • 2021A | • \$0 |
| • 2022A | • \$0 |
| • 2023A | • \$250 |
| • 2024E | • \$5,000 |

EBITDA (in USD millions)

| | |
|---------|------------|
| • 2021A | • (\$11.4) |
| • 2022A | • (\$17.8) |
| • 2023A | • (\$20.2) |
| • 2024E | • (\$15.2) |

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

Inline EPS on a slight miss to revenue. KULR reported 4Q23 revenue of \$2.3MM and an EPS loss of \$0.04. The consensus was for revenue of \$3.7MM and an EPS loss of \$0.04. Our estimates (see Figure 2) were for revenue of \$3.0MM and an EPS loss of \$0.04.

The company was able to report inline EPS on lower revenue due to lower G&A partially offset by higher R&D and higher non-operating expenses.

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

| | 2023 | 2023 | Better/(worse) than forecast |
|---------------------------------|------------------|------------------|---------------------------------|
| | Q4E | Q4A | |
| Total Revenue | \$3,000 | \$2,334 | (\$666) |
| Total cost of revenue | <u>1,530</u> | <u>1,651</u> | (121) |
| Total Gross Profit | 1,470 | 683 | (787) |
| Operating expenses: | | | |
| R&D | 1,600 | 1,758 | (158) |
| General and administrative | <u>5,200</u> | <u>3,981</u> | 1,219 |
| Total Expenses | <u>6,800</u> | <u>5,740</u> | 1,060 |
| Earnings (loss) from Operations | (\$5,330) | (\$5,057) | \$273 |
| Total Other income/(expense) | <u>0</u> | <u>(137)</u> | (137) |
| Earnings before taxes | (5,330) | (5,193) | 137 |
| Tax expense/(benefit) | <u>0</u> | <u>1</u> | (1) |
| Net income | <u>(\$5,330)</u> | <u>(\$5,194)</u> | <u>\$136</u> |
| EPS | (\$0.04) | (\$0.04) | (\$0.00) |
| Diluted common shares | 132,000 | 123,000 | 9,000 |

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 \$6.75, which we round to \$7.

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

| Discounted Earnings | | \$ 6.75 |
|----------------------------|------------|----------------|
| Year 1 is Forecast | Discounted | |
| 2024 | EPS | EPS |
| 1 | (0.10) | (\$0.10) |
| 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

| | 2025 EV / Sales | 2025 Sales Multiple |
|------------------------------------|-----------------|---------------------|
| Average | 3.35 | 3.28 |
| KULR | 1.23 | 1.41 |
| Premium/(Discount) to peers | (63%) | (57%) |

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 | 2025 Consensus Multiples | |
|---|---------------------------------|---------------|--------------------|---------|-----------------------------|--------------------------|
| | | | | | EV /Sales | Market Cap / Sales |
| TSLA-US | Tesla Inc | \$161.48 | 514,280 | 543,669 | 4.25 | 4.02 |
| RIVN-US | Rivian Automotive, Inc. | \$8.40 | 8,145 | 3,506 | 0.50 | 1.13 |
| QS-US | QuantumScape Corporation | \$5.41 | 2,387 | 1,532 | NMF | NMF |
| ENVX-US | Enovix Corporation (US Listing) | \$6.70 | 1,129 | 956 | 7.73 | 9.10 |
| NVX-AU | NOVONIX Ltd (AU Listing) | \$0.67 | 328 | 322 | 5.32 | 5.42 |
| BLNK-US | Blink Charging Co | \$2.29 | 231 | 42 | 0.20 | 1.05 |
| LICY-US | Li-Cycle Holdings Corp. | \$0.88 | 157 | 426 | 6.81 | 2.54 |
| MVST-US | Microvast Holdings, Inc. | \$0.49 | 154 | 269 | 0.53 | 0.31 |
| IPWR-US | Ideal Power Inc. | \$7.70 | 57 | 39 | 4.10 | 5.87 |
| FSR-US | Fisker Inc | \$0.05 | 34 | 929 | 0.71 | 0.05 |
| RIDEQ-US | Nu Ride Inc | \$1.70 | 27 | (34) | | |
| FUV-US | Arcimoto, Inc. | \$0.44 | 4 | 23 | | |
| AVERAGE | | | | | <u>3.35</u> | <u>3.28</u> |
| KULR-US | KULR Technology Group Inc | \$0.58 | 101 | 68 | 1.23 | 1.41 |
| KULR-US Premium/(Discount) to peers: | | | | | -63% | -57% |

Source: Litchfield Hills Research LLC and FactSet

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

| December year-end | 2020A Year | 2021A Year | 2022A | | | | 2022A YEAR | 2023A | | | | 2023A YEAR | 2024E YEAR |
|--|----------------|-----------------|-----------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| | | | Q1A | Q2A | Q3A | Q4A | | Q1A | Q2A | Q3A | Q4A | | |
| Total revenue | \$624 | \$2,413 | \$200 | \$588 | \$1,393 | \$1,813 | \$3,995 | \$1,760 | \$2,696 | \$3,041 | \$2,334 | \$9,830 | \$15,500 |
| <i>Growth</i> | -25% | 287% | -52% | -6% | 132% | 137% | 66% | 778% | 359% | 118% | 29% | 146% | 58% |
| Cost of Goods | 169 | 1,102 | 123 | 424 | 932 | 152 | 1,631 | 1,116 | 1,693 | 1,704 | 1,651 | 6,164 | 8,525 |
| Gross Profit | 455 | 1,311 | 78 | 164 | 461 | 1,662 | 2,364 | 643 | 1,002 | 1,337 | 683 | 3,666 | 6,975 |
| Gross Margin | 72.9% | 54.3% | 38.7% | 27.9% | 33.1% | 91.6% | 59.2% | 36.6% | 37.2% | 44.0% | 29.3% | 37.3% | 45.0% |
| Operating Expenses | | | | | | | | | | | | | |
| R&D | \$290 | \$1,662 | \$721 | \$999 | \$1,070 | \$1,187 | \$3,978 | \$1,388 | \$1,408 | \$1,641 | \$1,758 | \$6,195 | \$7,400 |
| % of total revenue | 46% | 69% | 360% | 170% | 77% | 65% | 100% | 79% | 52% | 54% | 75% | 63% | 48% |
| General and administrative | \$2,506 | \$11,162 | \$3,535 | \$4,326 | \$4,349 | \$4,462 | \$16,673 | \$5,516 | \$5,592 | \$4,794 | \$3,981 | \$19,882 | \$17,100 |
| % of total revenue | 402% | 463% | 1763% | 736% | 312% | 246% | 417% | 313% | 207% | 158% | 171% | 202% | 110% |
| Total Operating Expenses | 2,795 | 12,824 | 4,256 | 5,326 | 5,419 | 5,649 | 20,650 | 6,904 | 7,000 | 6,434 | 5,740 | 26,078 | 24,500 |
| Operating Income | (2,340) | (11,513) | (4,179) | (5,162) | (4,958) | (3,987) | (18,286) | (6,261) | (5,997) | (5,097) | (5,057) | (22,412) | (17,525) |
| Operating Margin | -375.1% | -477.2% | -2084.1% | -878.5% | -355.9% | -219.9% | -457.8% | -355.8% | -222.5% | -167.6% | -216.7% | -228.0% | -113.1% |
| Total Other Items | (510) | (398) | 42 | (93) | (628) | (472) | (1,150) | (342) | (338) | (465) | (137) | (1,282) | (400) |
| Pre-Tax Income | (2,850) | (11,911) | (4,137) | (5,255) | (5,587) | (4,459) | (19,436) | (6,603) | (6,335) | (5,562) | (5,193) | (23,694) | (17,925) |
| Pre-Tax Margin | -456.8% | -493.7% | -2063.1% | -894.3% | -401.0% | -245.9% | -486.6% | -375.2% | -235.0% | -182.9% | -222.5% | -241.0% | -115.6% |
| 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) | (5,193) | (23,694) | (17,925) |
| 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) | (5,193) | (23,694) | (17,925) |
| 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) | (0.10) |
| 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) | (0.10) |
| Diluted Shares Outstanding | 82,032 | 97,708 | 102,561 | 104,546 | 105,573 | 110,000 | 105,656 | 112,877 | 118,323 | 117,144 | 123,000 | 117,821 | 174,750 |

Source: Company reports and Litchfield Hills Research LLC

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

| December year-end | FY2024E | FY2023A | FY2022A | FY2021A |
|-------------------------------------|-----------------------|------------------------|------------------------|------------------------|
| Balance sheet | | | | |
| Current Assets | | | | |
| Cash and S.T.I. | \$196 | \$1,195 | \$10,334 | \$14,863 |
| Accounts receivable | 1,600 | 902 | 1,542 | 136 |
| Inventories | 1,000 | 1,149 | 1,962 | 191 |
| Other assets | <u>500</u> | <u>659</u> | <u>1,898</u> | <u>570</u> |
| Total Current Assets | 3,296 | 3,904 | 15,736 | 15,761 |
| Net PP&E | 4,800 | 4,698 | 3,193 | 374 |
| Goodwill & Intangible | 0 | 719 | 721 | 217 |
| Other non-current assets | <u>1,200</u> | <u>1,542</u> | <u>3,976</u> | <u>2,879</u> |
| Total Assets | <u>\$9,296</u> | <u>\$10,864</u> | <u>\$23,626</u> | <u>\$19,231</u> |
| Current Liabilities | | | | |
| Accounts payable | \$2,000 | \$2,770 | \$1,408 | \$455 |
| Accrued exp. & other | \$4,000 | \$3,476 | \$2,370 | \$1,454 |
| Deferred revenue | \$0 | \$0 | \$23 | \$132 |
| Other current liabilities | <u>\$7,000</u> | <u>\$653</u> | <u>\$5,879</u> | <u>\$418</u> |
| Total current liabilities | <u>13,000</u> | <u>6,899</u> | <u>9,681</u> | <u>2,458</u> |
| Notes payable | 5,000 | 250 | 0 | 0 |
| Other Liabilities | <u>500</u> | <u>5,898</u> | <u>3,452</u> | <u>408</u> |
| Total Liabilities | 18,500 | 13,047 | 13,132 | 2,866 |
| Stockholders' Equity | | | | |
| Preferred stock | 0 | 0 | 0 | 0 |
| Common stock | 9 | 13 | 11 | 10 |
| Additional paid-in-capital | 75,000 | 64,388 | 53,373 | 39,512 |
| Retained earnings | (84,213) | (66,288) | (42,594) | (23,158) |
| Cum. Other comp and treasury stock | <u>0</u> | <u>(296)</u> | <u>(296)</u> | <u>0</u> |
| Total stockholders' equity | <u>(9,204)</u> | <u>(2,183)</u> | <u>10,494</u> | <u>16,365</u> |
| Total Liabilities and equity | <u>\$9,296</u> | <u>\$10,864</u> | <u>\$23,626</u> | <u>\$19,231</u> |

Source: Company reports and Litchfield Hills Research LLC

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

| | FY24E | FY23A | FY22A | FY21A |
|-------------------------------------|------------|------------|------------|------------|
| Net Income | (\$17,925) | (\$23,694) | (\$19,436) | (\$11,911) |
| Accounts receivable | (698) | 640 | (1,406) | (81) |
| Inventories | 149 | 813 | (1,771) | (136) |
| Other assets | 159 | 1,239 | (1,328) | (420) |
| PP&E | (102) | (1,505) | (2,819) | (317) |
| Goodwill & Intangible | 719 | 1 | (504) | (217) |
| Other non-current | 342 | 2,434 | (1,098) | (2,870) |
| Accounts payable | (770) | 1,362 | 954 | 388 |
| Accrued exp & other - related party | 0 | 0 | 0 | 0 |
| Accrued exp. & other | 524 | 1,106 | 916 | 1,056 |
| Deferred revenue | 0 | (23) | (109) | 112 |
| Other current liabilities | 6,347 | (5,226) | 5,462 | (2,046) |
| Notes payable | 4,750 | 250 | 0 | (142) |
| Other Liabilities | (5,398) | 2,446 | 3,044 | 408 |
| Common stock | (4) | 2 | 1 | 1 |
| Additional paid-in-capital | 10,612 | 11,015 | 13,861 | 22,156 |
| Cum. trans. adj. and treasury stock | 296 | 0 | (296) | 0 |
| Dividends | 0 | 0 | 0 | 0 |
| Total Cash Flow | (998) | (9,139) | (4,530) | 5,983 |

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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