

Action Summary – 22 November 2022

Analyst Theodore R. O'Neill – 3Q22 \$0.01 EPS miss but record revenue - Reiterate Buy and \$7 PT

- **One-cent miss to EPS but record revenue.** KULR reported 3Q22 revenue and an EPS loss of \$1.4MM and \$0.05, respectively. Consensus 3Q22 revenue and EPS loss expectations were \$0.9M and \$0.04, respectively. The \$0.01 EPS variance was due to lower margins and higher non-operating expenses, partially offset by lower operating expenses and higher sales.
- **Batting well above its weight.** The company reported it has over 300 customers in the current quarter, with some of the world's largest industrial and commercial companies such as Lockheed Martin (LMT-NR), Ball Aerospace, SAFT Group, General Motors (GM-NR), Cirba Solutions, Redwood Materials, Leidos Holdings (LDOS-NR), Meta Platforms (META-NR), Viridi Parente and BOSCH. KULR products protect and solve complex, real-world issues of heat, vibration, and safety.
- **Well capitalized.** The company ended the quarter with \$16.2MM of cash.
- We are updating our estimates to include the results in the quarter, which increases our 2022 revenue to \$3.4MM from \$2.7MM. The 2022 EPS loss is unchanged at \$0.19. For 2023, our revenue and EPS estimates are unchanged.
- 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.

11/21/22 Closing price: \$1.81	Market cap: \$203 million	2023 P/E: NMF	2023 EV / Sales: 13
Diluted Shares outstanding: 112 million	Insider ownership: 36%	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%
4Q22E	<u>\$(0.05)</u>	<u>\$1,200</u>	<u>49%</u>
FY22E	<u>\$(0.19)</u>	<u>\$3,381</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 USD thousands)

• 2020A	• \$8,880
• 2021A	• \$14,863
• 2022E	• \$12,662
• 2023E	• \$9,162

Debt (in USD thousands)

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

Adj. EBITDA (in USD 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.
-

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

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

Discounted Earnings		\$ 6.71
	Year 1 is Forecast	Discounted
	2023	EPS
	1	(0.14)
	2	0.00
	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	5.19	7.17
KULR	12.90	14.00
Premium/(Discount) to peers	149%	95%

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. 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.

Quarterly Results

As shown in Figure 4 (below), KULR reported 3Q22 revenue and an EPS loss of \$1.4MM and \$0.05, respectively. Consensus 3Q22 revenue and EPS loss expectations were \$0.9M and \$0.04, respectively. Looking at our estimates,

the company reported a top line beat and in-line EPS. The <10% miss to net income was due to lower margins and higher non-operating expenses, partially offset by higher sales and lower operating expenses.

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

	2022	2022	
	Q3E	Q3A	Better/(worse) than forecast
Income Statement			
Total Revenue	\$750	\$1,393	\$643
Total cost of revenue	<u>375</u>	<u>932</u>	<u>(557)</u>
Total Gross Profit	375	461	86
Operating expenses:			
R&D	1,000	1,070	<u>(70)</u>
General and administrative	<u>4,500</u>	<u>4,349</u>	<u>151</u>
Total Expenses	<u>5,500</u>	<u>5,419</u>	<u>81</u>
Earnings (loss) from Operations	(5,125)	(4,958)	\$167
Total Other income/(expense)	<u>0</u>	<u>(628)</u>	<u>(628)</u>
Earnings before taxes	(5,125)	(5,587)	<u>(462)</u>
Tax expense/(benefit)	<u>0</u>	<u>0</u>	<u>0</u>
Net income	<u>(\$5,125)</u>	<u>(\$5,587)</u>	<u>(\$462)</u>
Deemed dividend for Series C			
Net income attributable to shareholders			
EPS	<u>(\$0.05)</u>	<u>(\$0.05)</u>	<u>(\$0.00)</u>
Diluted common shares	104,000	105,573	(1,573)

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	\$180.19	568,995	610,557	4.69	4.39
RIVN-US	Rivian Automotive, Inc. Class A	\$30.34	27,560	16,086	2.53	4.71
QS-US	QuantumScape Corporation	\$7.22	2,574	2,086		
ENVX-US	Enovix Corporation (US Listing)	\$12.90	2,027	1,637	NMF	NMF
FSR-US	Fisker Inc	\$7.99	1,435	2,283	1.13	1.26
PTRA-US	Proterra Inc.	\$5.86	1,321	1,191	2.15	2.52
LICY-US	Li-Cycle Holdings Corp.	\$6.10	1,070	757		8.77
NVX-AU	NOVONIX Ltd (AU Listing)	\$1.64	798	651	33.41	41.07
BLNK-US	Blink Charging Co	\$14.02	713	657	5.24	6.56
MVST-US	Microvast Holdings, Inc.	\$2.29	708	528	1.14	1.58
ABML-US	American Battery Technology Company	\$0.62	402	378		
RIDE-US	Lordstown Motors Corp	\$1.52	330	83	0.82	5.28
SOLO-US	Electrameccanica Vehicles Corp	\$1.21	144	8	0.02	2.31
IPWR-US	Ideal Power Inc.	\$12.90	76	61		
FUV-US	Arcimoto, Inc.	\$0.39	18	31	0.76	0.46
	AVERAGE				<u>5.19</u>	<u>7.17</u>
KULR-US	KULR Technology Group Inc	\$1.90	203	187	12.90	14.00
	KULR-US Premium/(Discount) to peers:				149%	95%

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	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$624	\$2,413	\$200	\$588	\$1,393	\$1,200	\$3,381	\$2,500	\$3,000	\$4,000	\$5,000	\$14,500
<i>Growth</i>	-25%	287%	-52%	-6%	132%	57%	40%	1147%	411%	187%	317%	329%
Cost of Goods	169	1,102	123	424	932	612	2,091	1,250	1,500	2,000	2,550	7,300
Gross Profit	455	1,311	78	164	461	588	1,290	1,250	1,500	2,000	2,450	7,200
Gross Margin	72.9%	54.3%	38.7%	27.9%	33.1%	49.0%	38.2%	50.0%	50.0%	50.0%	49.0%	49.7%
Operating Expenses												
R&D	\$290	\$1,662	\$721	\$999	\$1,070	\$1,100	\$3,891	\$1,000	\$1,000	\$1,000	\$1,000	\$4,000
% of total revenue	46%	69%	360%	170%	77%	92%	115%	40%	33%	25%	20%	28%
General and administrative	\$2,506	\$11,162	\$3,535	\$4,326	\$4,349	\$4,500	\$16,710	\$4,500	\$4,500	\$4,500	\$4,500	\$18,000
% of total revenue	402%	463%	1763%	736%	312%	375%	494%	180%	150%	113%	90%	124%
Total Operating Expenses	2,795	12,824	4,256	5,326	5,419	5,600	20,601	5,500	5,500	5,500	5,500	22,000
Operating Income	(2,340)	(11,513)	(4,179)	(5,162)	(4,958)	(5,012)	(19,311)	(4,250)	(4,000)	(3,500)	(3,050)	(14,800)
Operating Margin	-375.1%	-477.2%	-2084.1%	-878.5%	-355.9%	-417.7%	-571.1%	-170.0%	-133.3%	-87.5%	-61.0%	-102.1%
Total Other Items	(510)	(398)	42	(93)	(628)	0	(679)	0	0	0	0	0
Pre-Tax Income	(2,850)	(11,911)	(4,137)	(5,255)	(5,587)	(5,012)	(19,990)	(4,250)	(4,000)	(3,500)	(3,050)	(14,800)
Pre-Tax Margin	-456.8%	-493.7%	-2063.1%	-894.3%	-401.0%	-417.7%	-591.2%	-170.0%	-133.3%	-87.5%	-61.0%	-102.1%
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)	(5,012)	(19,990)	(4,250)	(4,000)	(3,500)	(3,050)	(14,800)
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	(19,990)	\$0	(4,000)	\$0	\$0	(14,800)
EPS	(0.03)	(0.12)	(0.04)	(0.05)	(0.05)	(0.05)	(0.19)	(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	(0.19)	0.00	(0.04)	0.00	0.00	(0.14)
Diluted Shares Outstanding	82,032	97,708	102,561	104,546	105,573	106,000	104,670	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	FY2022E	FY2021A	FY2020A	FY2019A	FY2018A
Balance sheet						
Current Assets						
Cash and S.T.I.	\$9,162	\$12,662	\$14,863	\$8,880	\$109	\$230
Accounts receivable	1,000	1,400	136	55	30	112
Inventories	400	400	191	55	27	10
Other assets	500	2,000	570	150	43	55
Total Current Assets	11,062	16,462	15,761	9,142	209	406
Net PP&E	1,000	1,000	374	58	28	45
Goodwill & Intangible	0	0	217	0	0	0
Other non-current assets	5,000	5,000	2,879	9	0	0
Total Assets	\$17,062	\$22,462	\$19,231	\$9,208	\$237	\$451
Current Liabilities						
Accounts payable	\$3,000	\$3,000	\$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	\$10,000	\$14,600	\$418	\$2,463	\$0	\$0
Total current liabilities	15,000	18,600	2,458	2,947	1,034	576
Notes payable	0	0	0	142	0	0
Other Liabilities	0	0	408	0	0	0
Total Liabilities	15,000	18,600	2,866	3,090	1,034	576
Stockholders' Equity						
Preferred stock	0	0	0	0	0	0
Common stock	9	9	10	9	8	8
Additional paid-in-capital	60,000	47,000	39,512	17,356	7,591	6,284
Retained earnings	(57,947)	(43,147)	(23,158)	(11,246)	(8,396)	(6,417)
Cum. Other comp and treasury stock	0	0	0	0	0	0
Total stockholders' equity	2,062	3,862	16,365	6,119	(797)	(125)
Total Liabilities and equity	\$17,062	\$22,462	\$19,231	\$9,208	\$237	\$451

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)	(\$19,990)	(\$11,911)	(\$2,850)
Accounts receivable	400	(1,264)	(81)	(25)
Inventories	0	(209)	(136)	(28)
Other assets	1,500	(1,430)	(420)	(107)
PP&E	0	(626)	(317)	(30)
Goodwill & Intangible	0	217	(217)	0
Other non-current	0	(2,121)	(2,870)	(9)
Accounts payable	0	2,545	388	(282)
Accrued exp & other - related party	0	0	0	(10)
Accrued exp. & other	1,000	(454)	1,056	(262)
Deferred revenue	0	(132)	112	5
Other current liabilities	(4,600)	14,182	(2,046)	2,463
Notes payable	0	0	(142)	142
Other Liabilities	0	(408)	408	0
Common stock	0	(1)	1	1
Additional paid-in-capital	13,000	7,488	22,156	9,765
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends	0	0	0	0
Total Cash Flow	(3,500)	(2,202)	5,983	8,771

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

Analyst Certification

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.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA and the report has been reviewed by a Supervisory Analyst.

MiFID II Compliant Research Report

Our research is classified as minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv, Wind and 13 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website and financial platforms.

Litchfield Hills Research LLC Rating System

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.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Other Disclosures

Litchfield Hills Research, LLC (“LHR”) is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. The principal of LHR and publisher of this report, Theodore R. O’Neill, is a registered representative of Ascendant Capital Markets, LLC (“Ascendant”), a registered broker-dealer and FINRA member firm. Ascendant considers Mr. O’Neill’s association with LHR to be an “outside business activity” and is disclosed as such with FINRA. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analyst owns no shares of the subject company. The analyst and his family have no known material conflicts of interest in authoring this report. No employees of Ascendant Capital Markets, LLC own any material amount of KULR stock or have any influence on the KULR Board of Directors.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation from the company for distribution and investor targeting services. Ascendant Capital Markets, LLC has not received compensation for non-investment banking services from the Company in the past 12 months.

Market Making

Neither Litchfield Hills Research, LLC nor Ascendant Capital Markets, LLC makes a market in the subject company’s securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.