

\$17m contract win with major US based OEM

26th October 2021

Bringing truly transformational, hi-tech products (eg autonomous driving) to market often takes years from initial R&D, fine-tuning & prototyping, right through to extensive field-trials and 'proof-of-concept'. Only then to fail at either final customer sign-off or regulatory approval.

Not so Kromek. Saying today that it had been awarded a **7 year \$17m contract with a large US OEM to supply next generation CZT detectors** to identify contaminants within production processes for quality inspection purposes. The order relates to a \$660k development agreement, which was announced on 2nd November 2020.

We think **this is a significant achievement on numerous fronts**. Not least because it's a marvellous endorsement & statement of intent from another leading corporation. Alongside materially increasing Kromek's orderbook and derisking our conservative forecasts, whilst equally enabling the firm to generate long term, high margin revenues across the lifetime of this platform.

CEO Arnab Basu, adding: *"We are delighted at the success of our collaboration with our OEM customer, who has substantial global operations and market share in this sector. Our customer is dedicated to introduce best-of-breed solutions in their next-generation products to ensure we can live healthier and safer lives. We anticipate developing further products for this customer to support their ambitions."*

Coming hot on the heels of signing a \$1.6m D3S order

But that's not all. Last month, Kromek also signed an important **\$1.6m contract with a US federal entity for D3S-ID wearable nuclear radiation detectors** - to accurately identify in real-time, possible radiological threats, such as dirty bombs, nuclear contamination, smuggling of radioactive material and radiation at the scene of a terrorist attack. The work will be completed over the next 2 years.

Mr Basu commenting: *"[In August] there was an incident in France of a student building a dirty bomb with uranium oxide bought on a widely used online platform. This case highlights both the pervasiveness and accessibility of such dangers and the need for constant monitoring. Solutions such as our D3S platform, which is continuously scanning in real time, provides security authorities with an early warning system for potential threats, enabling a more effective response."*

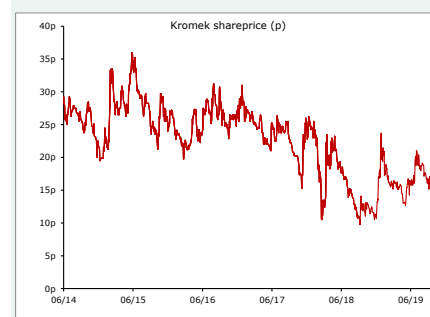
So what does this all mean?

Well as day follows night, we believe Kromek is emerging from the pandemic in fine fettle. Not only demonstrating once again the versatility of its state-of-the-art products across numerous high margin applications within the multi-\$bn medical, nuclear, security and now industrial sectors. But also providing the group with a host of exciting 'shots on goal' via its well funded (£7.4m Apr'21) commercialisation strategy.

Company Data

EPIC	AIM:KMK
Price (previous close)	15.0p
52 weeks Hi/Lo	25p/10p
Market cap	£65m
Share count	431.9m
Net cash April 2021	£7.4m
ED valuation	26p/share
Average daily volume	1.6m

Share Price, p



Source: Yahoo

Description

Kromek is a radiation detection company operating globally in 4 high-value markets – Medical Imaging (eg BMD, SPECT), Nuclear Detection (D3S), Security Screening (Airport baggage/bottles) & Bio-threat surveillance - primarily using cadmium zinc telluride (CZT) crystals.

Headquartered in Sedgefield (UK), Kromek has 150+ employees, of which approx. 118 are in R&D, with 2 further sites in California & Pittsburgh. The firm has >250 registered patents.

Next news: Interims in January 2022

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Key risks

- Although Kromek is presently commercialising its leading technology, there is no absolute certainty that anticipated revenues or growth can be achieved. Plus the adoption of new break-through science can take longer and cost more than originally thought.
- Covid19 related effects endure longer than expected, thus impacting Kromek's major image scanning markets.
- Orders tend to be lumpy in nature, and therefore by their nature difficult to forecast.
- The company is executing on many fronts, and therefore it is important there is sufficient management resource to facilitate the growth.
- Scaling up production and aftermarket support to satisfy substantially higher volumes could cause teething problems.
- Protection of intellectual property, especially from patent challenges.
- Competitive pressures – yet given Kromek's leading position in CZT, then this looks a less immediate threat.
- Customer concentration (largest client generated sales of £2.8m in FY21), and regulatory changes which may impact the introduction of CZT based products.
- Foreign exchange fluctuations.
- The firm is loss making. In the event more funding is required, then it is not certain that future capital would be available at commercial rates.

Summary financials (£'000s)

Kromek (April year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s
Turnover	11,845	14,517	13,120	10,352	15,000
% growth	32.1%	22.6%	-9.6%	-21.1%	44.9%
Gross margin	6,684	8,309	6,208	5,006	7,800
% Margin	56.4%	57.2%	47.3%	48.4%	52.0%
Adjusted EBITDA (pre SBP)	482	1,974	-441	-1,687	-100
% Margin	4.1%	13.6%	-3.4%	-16.3%	-0.7%
Depreciation	-785	-879	-1,185	-1,685	-1,400
Amortisation of capitalised R&D	-1,907	-1,806	-2,142	-2,359	-2,889
Share based payments	-131	-195	-225	-106	-131
Adjusted EBIT (post SBP)	-2,341	-906	-3,993	-5,837	-4,520
% Margin	-19.8%	-6.2%	-30.4%	-56.4%	-30.1%
Underlying Interest charge	-192	-364	-544	-546	-571
Adj. Profit before Tax (post SBPs)	-2,533	-1,270	-4,537	-6,383	-5,091
Adj. Basic EPS (p)	-0.4	-0.1	-0.8	-1.5	-1.2
EPS growth rate	76.0%	75.8%	-670.5%	90.0%	-22.1%
Valuation benchmarks					
P/E ratio					
EV/Sales	4.8	4.0	4.4	5.5	3.8
EV/EBITDA (pre SBPs)		29.1		-34.0	-573.8
EV/EBIT					
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
PEG ratio			0.0	0.0	0.0
% EBITDA drop-through rate	67.5%	55.8%	172.9%	45.0%	34.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net cash/(debt) - pre IFRS16	7,738	16,420	3,838	7,399	1,999
Reported sharecount	260,162	275,073	344,644	358,912	434,011
Sharecount diluted	262,768	277,655	345,729	359,285	434,384
Shareprice (p)	15.0				

Source: Equity Development



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