

## \$6m contract win for breakthrough biothreat detector

14th June 2021

Once the world is fully vaccinated, many investors incorrectly assume there will be no need for covid testing. Wrong. More contagious & deadlier variants are sure to appear, together with perhaps totally new infectious diseases that might even trigger another pandemic.

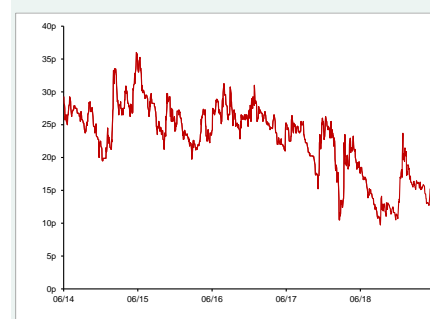
Equally, the danger posed by deliberate (re rogue states, organised crime &/or terrorism) &/or even accidental (say a lab) biological release of harmful pathogens into the environment isn't going away anytime soon. The US government recognises this, and hence wants to get ahead of the curve.

Today, **pioneering radiation detection firm Kromek said that it had received a \$6m follow-on order from DARPA**. Covering Phase II of its development of a biological threat detector which - via rapid DNA sequencing – will continually monitor, sense, analyse and identify such airborne bugs. The work starts immediately & is set to run over the next 28 months. Elsewhere, Version 1 of these mobile or static devices (see below) are currently being piloted at a UK airport and another public location.

### Company Data

EPIC	AIM:KMK
Price (previous close)	15.25p
52 weeks Hi/Lo	25p/8p
Market cap	£64.8m
Share count	431.9m
Est. 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 c.150 employees, of which approx. 116 are in R&D, with 2 further sites in California & Pittsburgh. The firm has filed/registered >280 patents.

**Next news: Prelims in July**

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### 100s of possible uses for Kromek's airborne Covid/Biothreat detectors



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Wide area bio-surveillance. Vehicle-mounted biological threat identifier

Portable / fixed biological threat identifier for use in shops, offices, restaurants etc.

Fixed / mounted unit for use in shopping malls, airports and traffic hubs, entertainment venues etc.

Source: Kromek

Clearly this is another **marvellous endorsement of KMK's technology** – and like the D3S handheld nuclear threat detector - will enable all field deployed equipment to be networked together in order to provide the US government with accurate, real-time & importantly actionable information.

In terms of the numbers, we have prudently held our forecasts and 26p/share valuation, albeit accept **this major agreement provides significant forward visibility**.

CEO Arnab Basu adding: *"In addition to the ever-present danger of bio-terrorism, the outbreak of the pandemic has exposed the world to the severity of biological threats and their potential impact on public health and the global economy and has demonstrated the need to rapidly evolve bio-security systems and associated technologies.*

***This contract will allow us to continue our work in developing a mobile wide-area bio-surveillance system capable of detecting airborne pathogens in real-time. We look forward to reporting on our progress as we deliver on our milestones***".

## Key risks

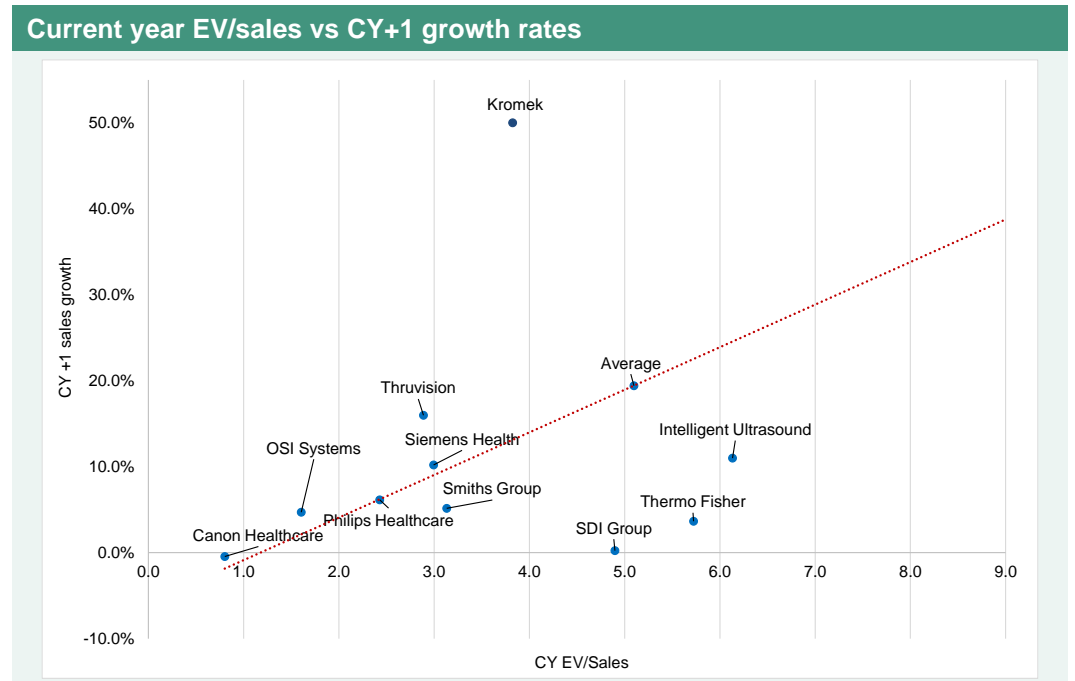
- Although Kromek is presently commercialising its leading technology, there is no absolute certainty that anticipated revenues or growth can be achieved. Plus the adoption of new break-through science can take longer and cost more than originally thought.
- Covid19 related effects endure longer than 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 £2.2m in FY20), 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**

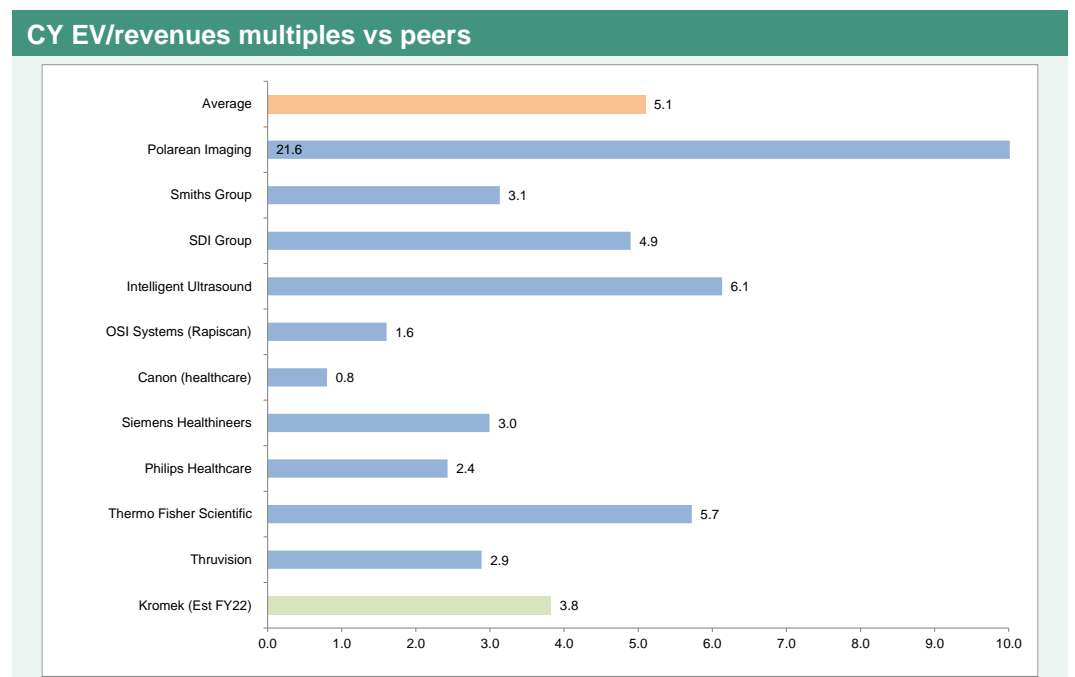
<b>Kromek</b> (April year end)	<b>2018 Act</b> £'000s	<b>2019 Act</b> £'000s	<b>2020 Act</b> £'000s	<b>2021 Est</b> £'000s	<b>2022 Est</b> £'000s
Product	9,611	12,060	10,314		
Other	2,234	2,457	2,806		
<b>Turnover</b>	<b>11,845</b>	<b>14,517</b>	<b>13,120</b>	<b>10,000</b>	<b>15,000</b>
<i>% growth</i>	32.1%	22.6%	-9.6%	-23.8%	50.0%
<b>Gross margin</b>	<b>6,684</b>	<b>8,309</b>	<b>6,208</b>	<b>5,313</b>	<b>7,800</b>
<i>% Margin</i>	56.4%	57.2%	47.3%	53.1%	52.0%
<b>Adjusted EBITDA (pre SBP)</b>	<b>482</b>	<b>1,974</b>	<b>-441</b>	<b>-1,900</b>	<b>-100</b>
<i>% Margin</i>	4.1%	13.6%	-3.4%	-19.0%	-0.7%
Depreciation	-785	-879	-1,185	-1,600	-1,400
Amortisation of capitalised R&D	-1,907	-1,806	-2,142	-2,500	-3,125
Share based payments	-131	-195	-225	-250	-275
<b>Adjusted EBIT (post SBP)</b>	<b>-2,341</b>	<b>-906</b>	<b>-3,993</b>	<b>-6,250</b>	<b>-4,900</b>
<i>% Margin</i>	-19.8%	-6.2%	-30.4%	-62.5%	-32.7%
Underlying Interest charge	-192	-364	-544	-550	-575
<b>Adj. Profit before Tax (post SBPs)</b>	<b>-2,533</b>	<b>-1,270</b>	<b>-4,537</b>	<b>-6,800</b>	<b>-5,475</b>
<b>Adj. Basic EPS (p)</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.8</b>	<b>-1.4</b>	<b>-1.3</b>
<i>EPS growth rate</i>	76.0%	75.8%	-670.5%	75.3%	-9.2%
<b>Valuation benchmarks</b>					
<i>P/E ratio</i>					
<i>EV/Sales</i>	4.8	4.0	4.4	5.7	3.8
<i>EV/EBITDA (pre SBPs)</i>		29.1		-30.2	-573.8
<i>EV/EBIT</i>					
<i>Effective tax rate</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<i>PEG ratio</i>			0.0	0.0	0.0
<i>% EBITDA drop-through rate</i>	67.5%	55.8%	172.9%	46.7%	36.0%
<i>Dividend yield</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net cash/(debt) - pre IFRS16</b>	<b>7,738</b>	<b>16,420</b>	<b>3,838</b>	<b>7,400</b>	<b>2,000</b>
Reported sharecount	260,162	275,073	344,644	431,852	434,011
Sharecount diluted	262,768	277,655	345,729	432,937	435,096
<b>Shareprice (p)</b>	<b>15.0</b>				

Source: Equity Development

## Appendices - sector valuation metrics and KPIs

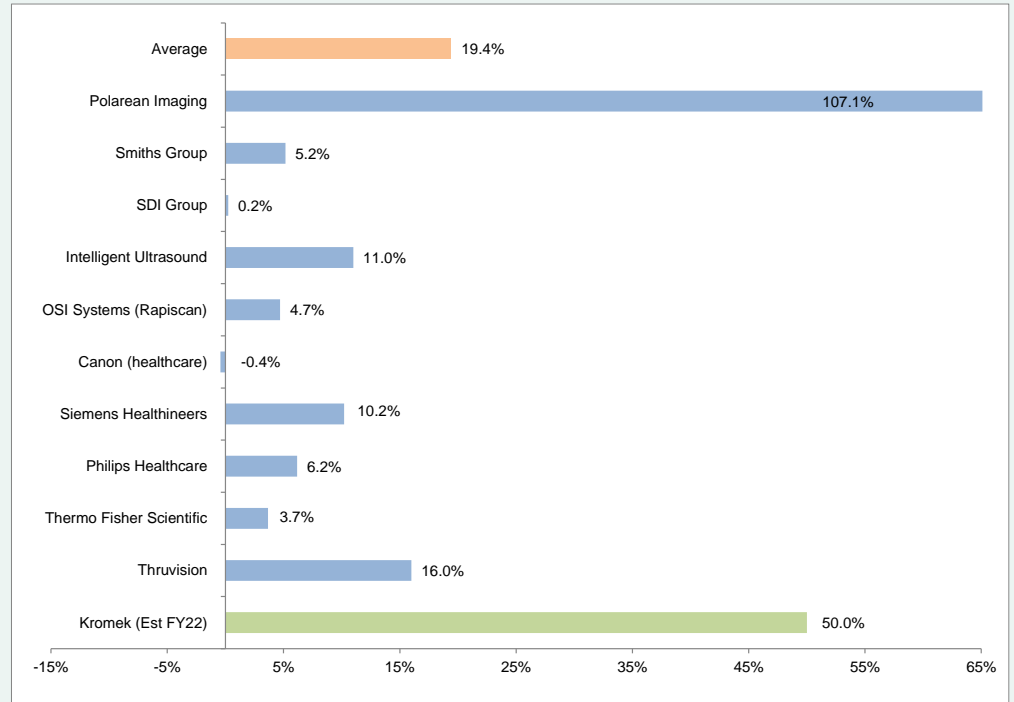


Source: Equity Development.



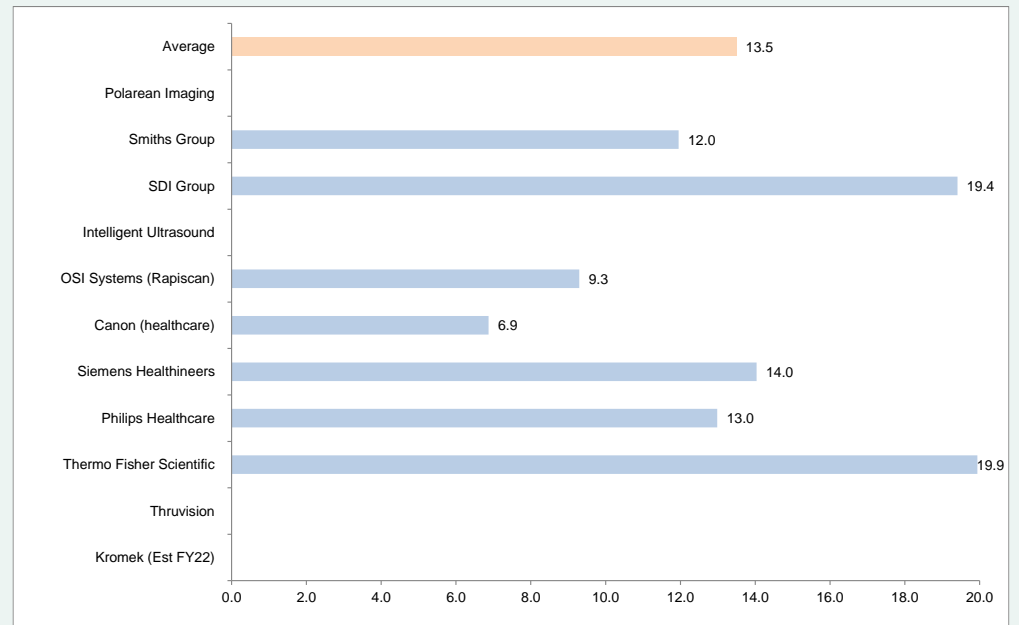
Source: Equity Development

### CY + 1 sales growth

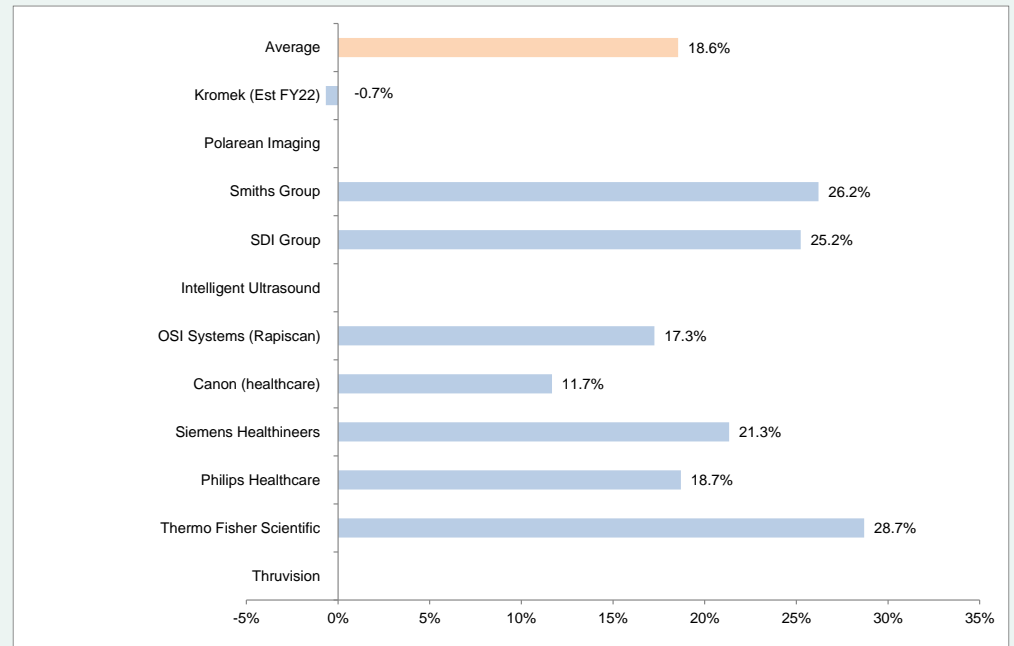


Source: Equity Development

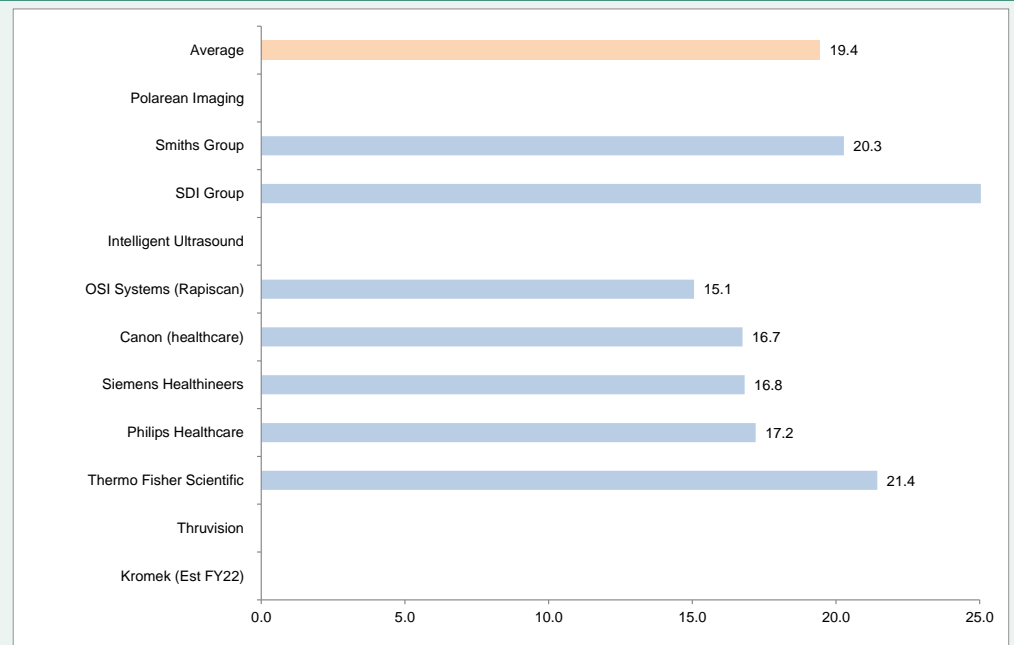
### Current Year (CY) EV / EBITDA vs peers



Source: Equity Development

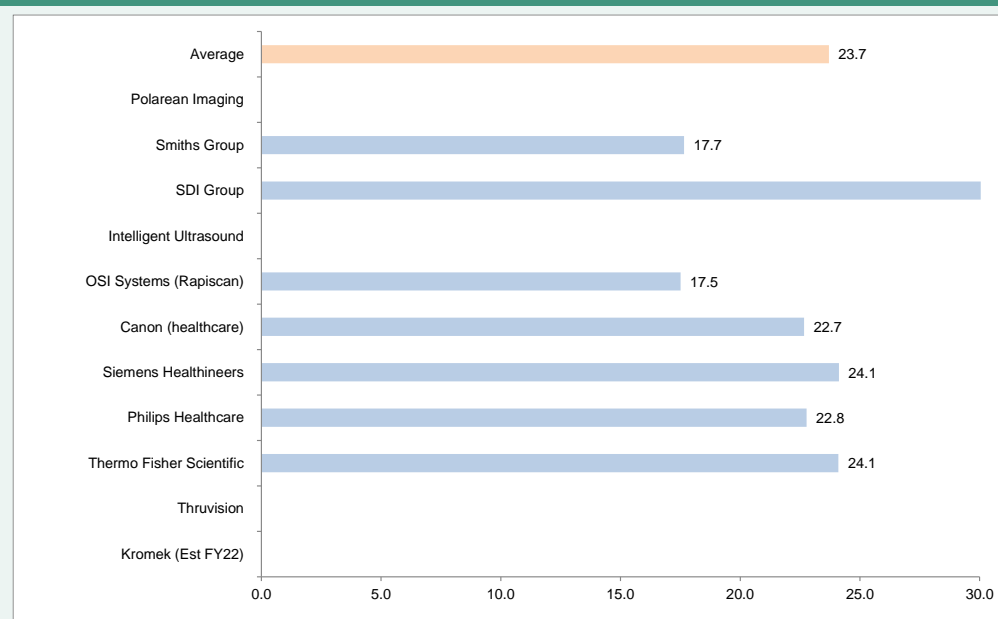
**CY EBITDA margins (%) vs peers**


Source: Equity Development.

**Current Year (CY) EV / EBIT vs peers**


Source: Equity Development

### Current Year (CY) PERs vs peers



Source: Equity Development

### Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Thruvision	25.0p	£36.4	£7.5	£28.9
Thermo Fisher Scientific	\$462.0	\$183,414	-\$9,869	\$193,283
Philips Healthcare	€ 46.00	€ 40,940	-€ 2,709	€ 43,649
Siemens Healthineers	€ 48.00	€ 52,800	€ 350	€ 52,450
Canon (healthcare)	¥2,600	¥2,719,600	¥40,000	¥2,679,600
OSI Systems (Rapiscan)	\$97.0	\$1,746	-\$197	\$1,943
Intelligent Ultrasound	17.3p	£46.5	£6.0	£40.5
SDI Group	£2.04	£200	-£6	£206
Smiths Group	£16.05	£6,356	-£923	£7,279
Polarean Imaging	130c	\$271	\$27	\$245
Kromek (Est FY22)	15.0p	£64.8	£7.4	£57.4

Source: Equity Development

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