

## Est H2'21 sales (£5.4m) jump 17% vs H1'21 (£4.6m)

11th May 2021

After a quiet 1<sup>st</sup> half (p/e Oct'21) due to the pandemic, Kromek is now enjoying a powerful rebound for its next generation, radiation detectors from existing & new medical (eg BMD, SPECT), nuclear (D3S) & security screening (Airport baggage/bottles) customers.

Saying today that **FY'21 results would be "in line with expectations"**, with the Board equally being "**excited**" about the near-term prospects for its ground-breaking, biological threat detector (see below). These mobile or static devices continuously test for airborne pathogens including Covid19, and are currently being piloted at an airport and another UK public location.

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



Source: Kromek

In terms of the numbers, **we are forecasting adjusted FY'21 EBITDA (pre SBPs) to come in at -£1.9m on turnover of £10.0m**, alongside **April net cash of £7.4m** (split cash +£15.6m, debt £8.2m), post Feb's £13.0m (gross) fundraise at 15p.

## However this is just the tip of the iceberg

Why? Well, simply because most airports, border-crossings, city centres and hospitals are nowhere near back to pre-coronavirus levels with regards to passenger traffic, footfall and elective procedures. Once this happens (hopefully sometime in the summer), it could trigger much higher demand, as overseas travel and leisure pursuits return, on top of the urgent need to clear literally Himalayan sized patient waiting lists (4.7m in the UK alone).

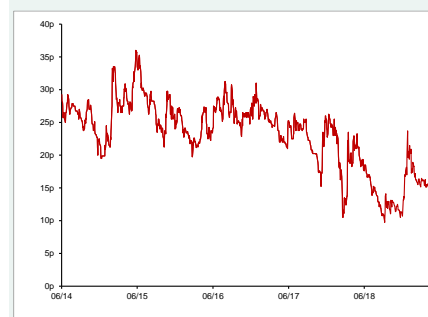
More than underpinning our **conservative** FY'22 revenue, adjusted EBITDA and y/e net cash projections of **£15.0m, -£0.1m & £2.0m** respectively. Which do not include any bio-threat detector sales, nor possible receipt of some of the £13m of Asian debt (AROC) that was written off in FY'20.

Overheads & cashflow remain tightly controlled too, and there is sufficient CZT production capacity to meet all demand within the core business for the foreseeable future. Further out, the group should be **self-funding from FY23 onwards**. Albeit if the airborne pathogen opportunity really takes off, then extra working capital MAY be required. All told, leading us to **upgrade our valuation from 24p to 26p/share**, based on the above **strong industry tailwinds**.

### Company Data

EPIC	AIM:KMK
Price (previous close)	15.5p
52 weeks Hi/Lo	25p/8p
Market cap	£66.9m
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**

**Paul Hill (Analyst)**

0207 065 2690

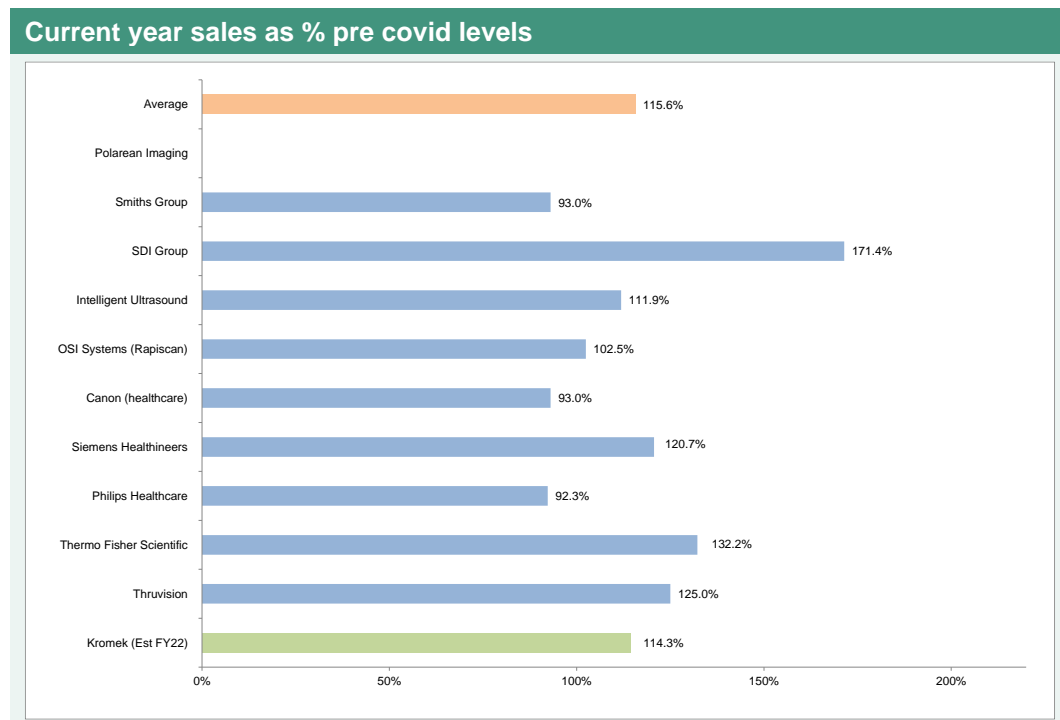
[paul.hill@equitydevelopment.co.uk](mailto:paul.hill@equitydevelopment.co.uk)

Summary H1'21 vs Est H2'21 forecasts							
£'000s	Act H1'20	Act H1'21	Act H2'20	Est H2'21	Act FY20	Est FY21	Est FY22
<b>Turnover</b>	<b>5,333</b>	<b>4,576</b>	<b>7,787</b>	<b>5,424</b>	<b>13,120</b>	<b>10,000</b>	<b>15,000</b>
LFL % growth	44.7%	-14.2%	-28.1%	-30.3%	-9.6%	-23.8%	50.0%
<b>Gross Profit</b>	<b>3,093</b>	<b>2,493</b>	<b>4,516</b>	<b>2,820</b>	<b>6,208</b>	<b>5,313</b>	<b>7,800</b>
% Margin	58.0%	54.5%	58.0%	52.0%	47.3%	53.1%	52.0%
Overheads (ex SBPs)	-3,704	-3,366	-4,346	-3,847	-6,649	-7,213	-7,900
<b>Adjusted EBITDA (pre SBPs)</b>	<b>-611</b>	<b>-873</b>	<b>170</b>	<b>-1,027</b>	<b>-441</b>	<b>-1,900</b>	<b>-100</b>
Share based payments	-100	-120	-125	-130	-225	-250	-275
<b>Adjusted EBITDA (post SBPs)</b>	<b>-711</b>	<b>-993</b>	<b>45</b>	<b>-1,157</b>	<b>-666</b>	<b>-2,150</b>	<b>-375</b>
Depreciation & Amortisation	-1,631	-2,100	-1,341	-2,000	-3,327	-4,100	-4,525
<b>Adjusted EBIT</b>	<b>-2,342</b>	<b>-3,093</b>	<b>-1,296</b>	<b>-3,157</b>	<b>-3,993</b>	<b>-6,250</b>	<b>-4,900</b>
Margin	-43.9%	-67.6%	-16.6%	-58.2%	-30.4%	-62.5%	-32.7%
Net interest	-311	-306	-233	-244	-544	-550	-575
Adjusted PBT	-2,653	-3,399	-784	-1,271	-4,537	-6,800	-5,475
<b>Net cash / (debt)</b>	<b>7,674</b>	<b>-1,772</b>	<b>3,838</b>	<b>7,400</b>	<b>3,838</b>	<b>7,400</b>	<b>2,000</b>
Sharecount (Ks)	344,642	344,751	344,644	431,852	344,644	431,852	431,852

Source: Equity Development

## Large SPECT OEM is ramping deliveries

Indeed just as an illustration, Kromek's biggest SPECT OEM client (\$58m order signed Jan'19) is already increasing deliveries, which on its own could eventually become a £6m+/year generator.



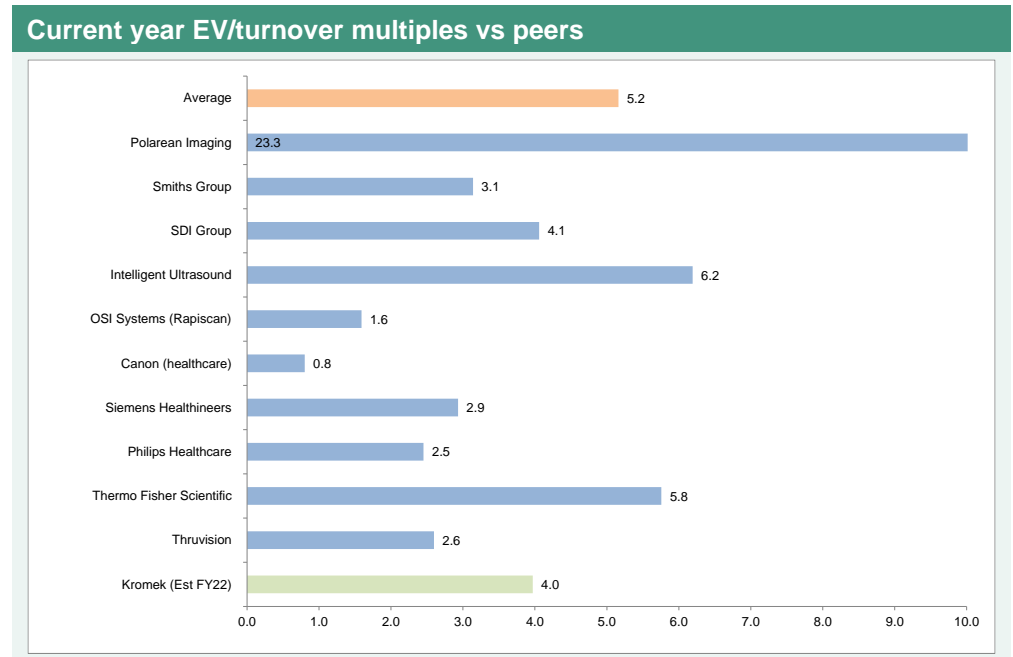
Source: Equity Development

Meanwhile the D3S family of dirty bomb detectors is attracting significant interest from the UK, US, Europe and Asia. Here, the **UK government is planning to spend £329m over the next 4 years from Apr'21 to improve its nuclear detection capability.** Most of the budget is being allocated for border and inland

security (city & critical infrastructure) – from which Kromek, being a British supplier post Brexit, should receive its fair share.

## Stock appears undervalued in absolute & relative terms

Finally, the stock at 15.5p trades at >20% discount to 'IPR' rich tech peers – on 4.0x FY22 EV/sales vs 5.2x for the sector (see below), yet is set to grow materially faster over the next few years.



Source: Equity Development

## 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.

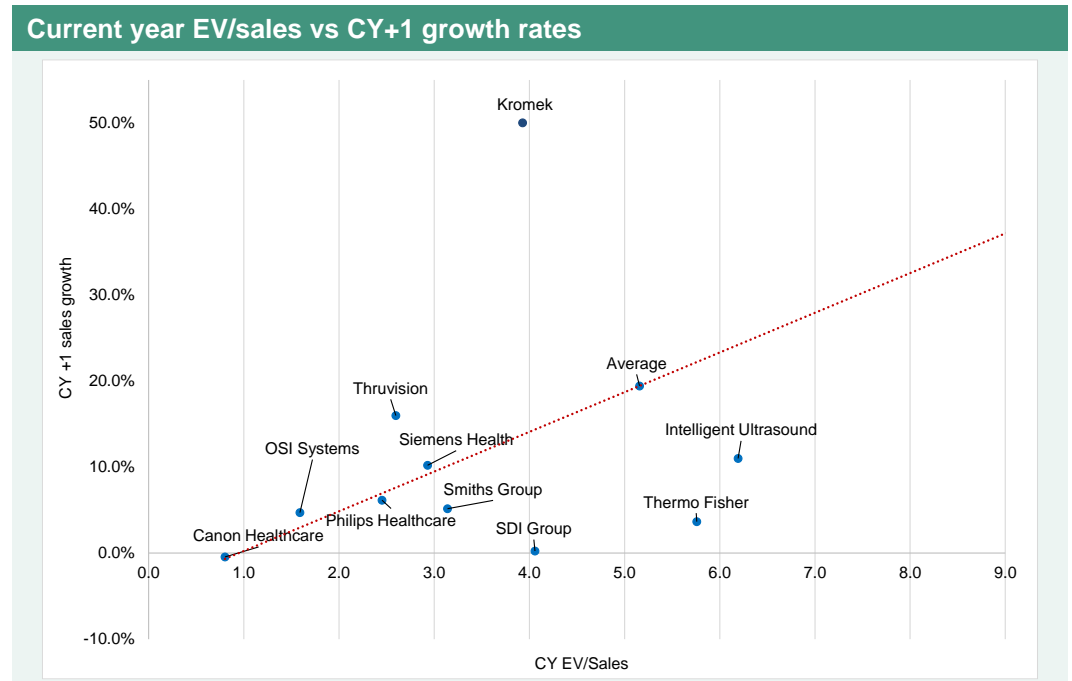
- Foreign exchange fluctuations.
- The firm is loss making. In the event more funding is required, then it is not certain that future capital would be available at commercial rates.

### Summary financials

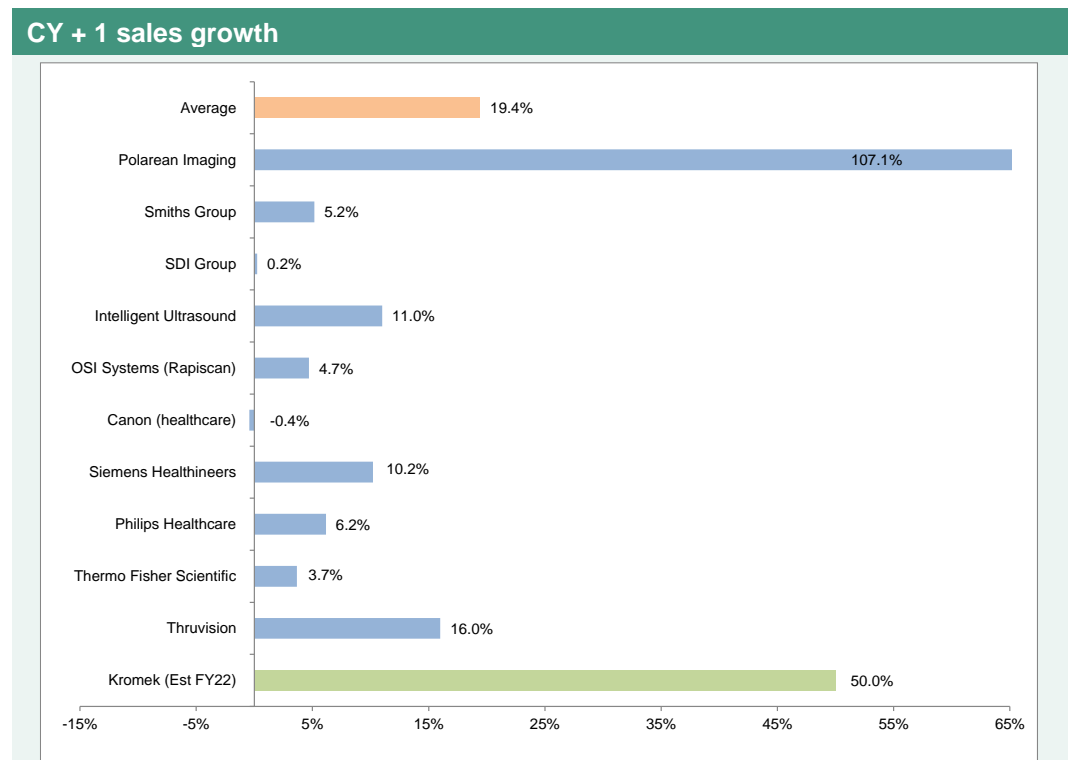
Kromek (April year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s
Product	9,611	12,060	10,314		
Other	2,234	2,457	2,806		
<b>Turnover</b>	<b>11,845</b>	<b>14,517</b>	<b>13,120</b>	<b>10,000</b>	<b>15,000</b>
% growth	32.1%	22.6%	-9.6%	-23.8%	50.0%
<b>Gross margin</b>	<b>6,684</b>	<b>8,309</b>	<b>6,208</b>	<b>5,313</b>	<b>7,800</b>
% Margin	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>
% Margin	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>
% Margin	-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>
EPS growth rate	76.0%	75.8%	-670.5%	75.3%	-9.2%
<b>Valuation benchmarks</b>					
P/E ratio					
EV/Sales	5.0	4.1	4.5	6.0	4.0
EV/EBITDA (pre SBPs)		30.2		-31.3	-595.4
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%	46.7%	36.0%
Dividend yield	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>15.5</b>				

Source: Equity Development

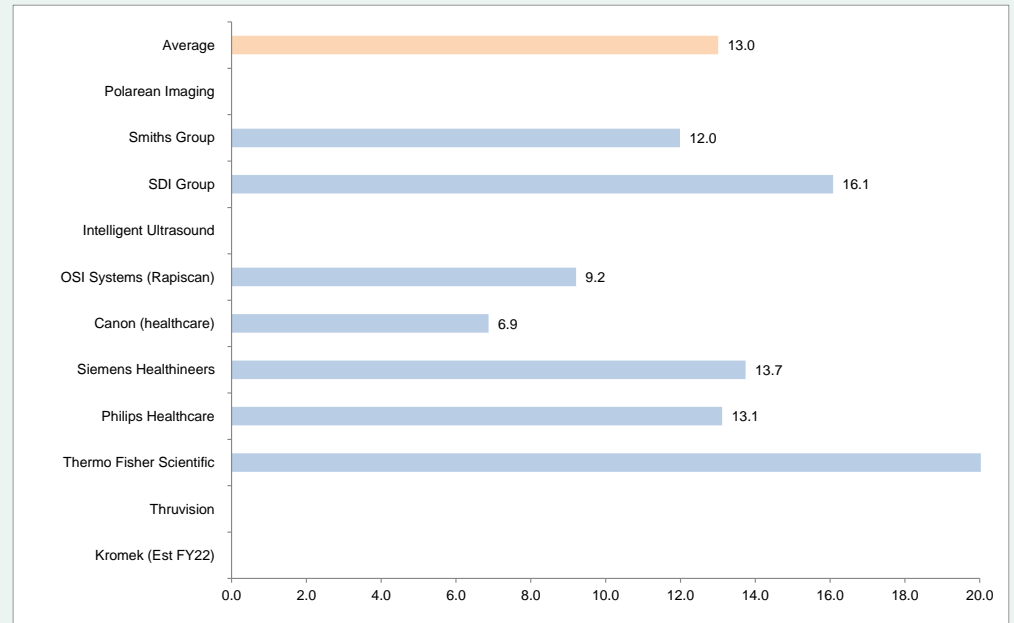
## Appendices - sector valuation metrics and KPIs



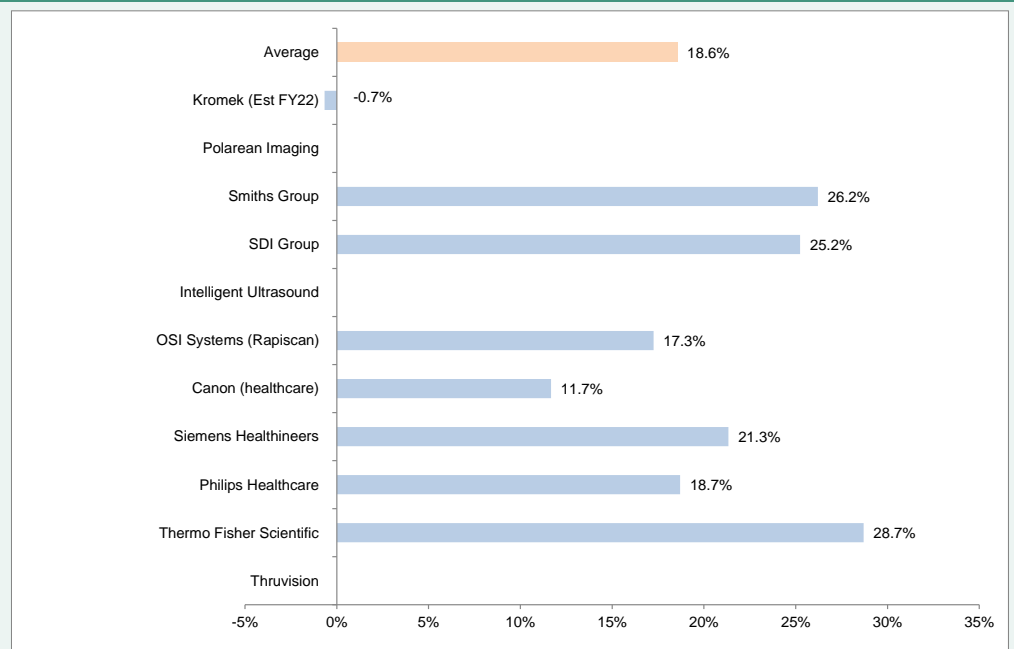
Source: Equity Development.



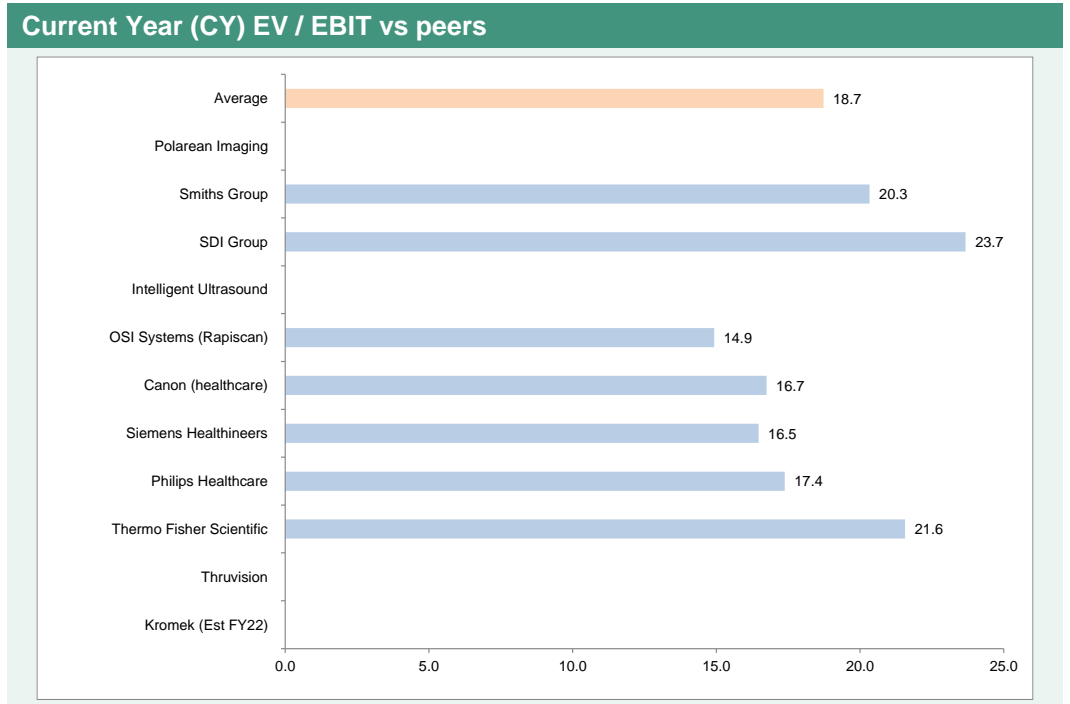
Source: Equity Development

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


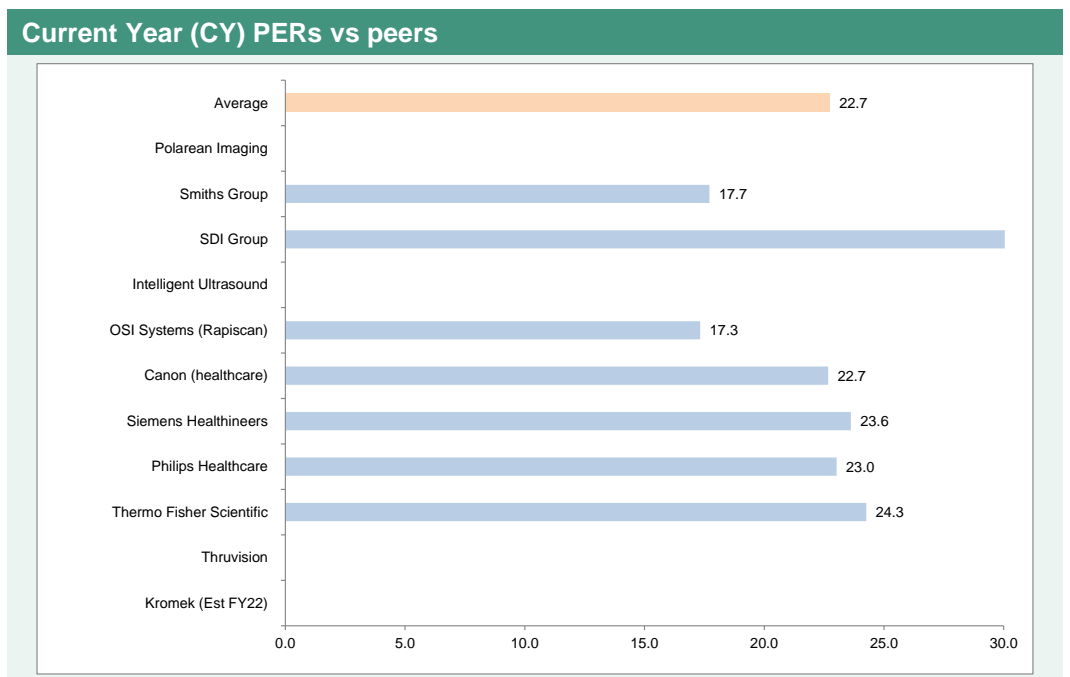
Source: Equity Development

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


Source: Equity Development.



Source: Equity Development



Source: Equity Development

**Market capitalisation of peers**

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Thruvision	23.0p	£33.5	£7.5	£26.0
Thermo Fisher Scientific	\$465.0	\$184,605	-\$9,869	\$194,474
Philips Healthcare	€ 46.50	€ 41,385	-€ 2,709	€ 44,094
Siemens Healthineers	€ 47.00	€ 51,700	€ 350	€ 51,350
Canon (healthcare)	¥2,600	¥2,719,600	¥40,000	¥2,679,600
OSI Systems (Rapiscan)	\$96.0	\$1,728	-\$197	\$1,925
Intelligent Ultrasound	17.4p	£46.9	£6.0	£40.9
SDI Group	£1.68	£165	-£6	£170
Smiths Group	£16.10	£6,376	-£923	£7,299
Polarean Imaging	139c	\$290	\$27	\$263
Kromek (Est FY22)	15.5p	£66.9	£7.4	£59.5

Source: Equity Development





## Contacts

### Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690