

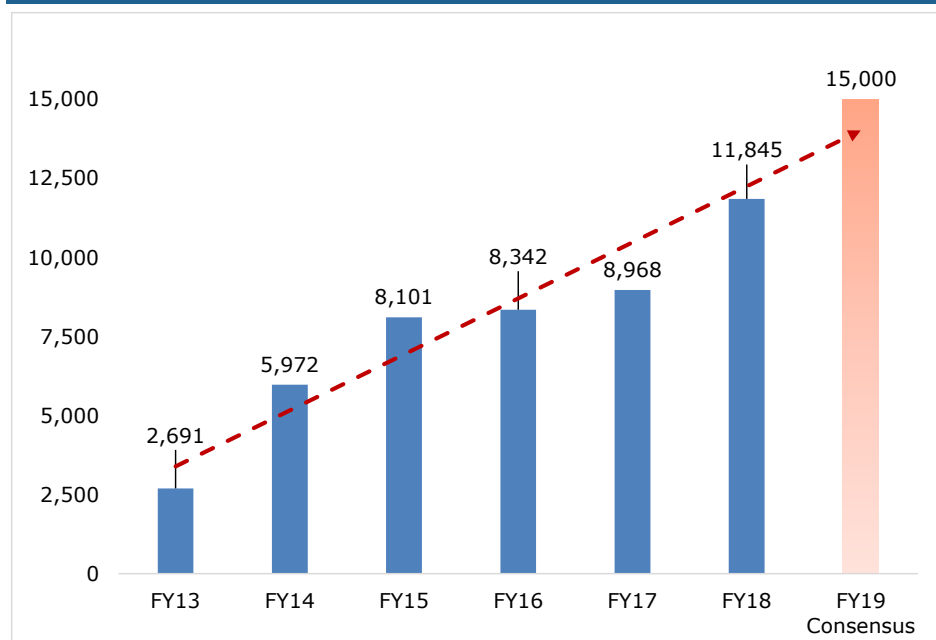
Trading in line with expectations

10th May 2019

Momentum is crucial across many walks of life. Not least politics, sports and the economy. However, for rapidly expanding tech firms it is one of the most important KPIs, particularly when it comes to orderflow and ultimately achieving sector dominance.

On Tuesday (7th), Kromek certainly did not disappoint. Saying that it **"expects to report revenue growth for the full year 2018/19 and EBITDA profit in-line with market expectations."** Implying a **strong H2'19**, partly aided by £1.5m-£2.0m of shipments which were deferred from H1'19, due to the relocation of US production to a new medical grade, manufacturing facility in Pittsburgh. I guess we shouldn't be too surprised though, since Kromek has delivered 33% top line CAGR since FY13 (see below).

Revenue progression (£'000s)



Source: Equity Development

Significant upside assuming momentum continues

Additionally, after raising £21m (£19.9m net) in February at 25p/share, we suspect there is also a decent chance that a similar pace of growth can be maintained over the next 6 years. Albeit prudently we have baked much slower growth rates into our estimates.

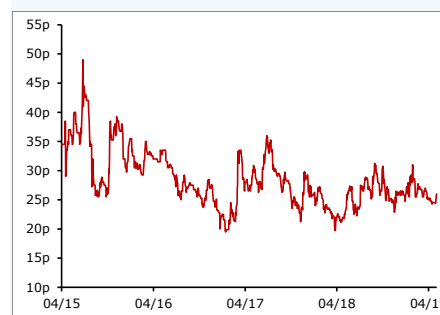
Highlighting once again the upside potential for investors of this **'category champion'**. An IP/science rich business that develops next generation gamma and x-ray detectors for the multi-\$bn medical imaging, homeland security and nuclear screening industries.

Indeed hypothetically, if Kromek delivered 33% CAGR until FY24, then our valuation would rise from 35p today to >75p. Not an implausible outcome either, considering it **"continues to gain traction in all its segments with the award of high-value, multi-year contracts from its commercial and large government customers worldwide. Plus, the Board continues to look to the future with confidence."**

Company Data

EPIC	AIM:KMK
Price (last close)	25p
52 week Hi/Lo	32p/22p
Market cap	£86m
Share count	344.6m
Est net cash (Apr'19)	£19.1m
Daily volume	400k
ED valuation / share	35p

Share Price, p



Source: Share Cast

Description

Kromek is pioneering digital colour imaging for gamma and x-rays, using cadmium zinc telluride (CZT) crystals. Key markets include medical imaging, homeland security and nuclear detection.

Headquartered in Sedgefield (UK), Kromek has c.109 employees, of which approx. 88 are in R&D, with a 3 further sites in California, Pittsburgh and Germany. The firm has filed/registered >270 patents.

Having invested in its facilities, the company is able to manufacture >30k D3S' per year (re dirty bomb detection).

Next news: Prelims July

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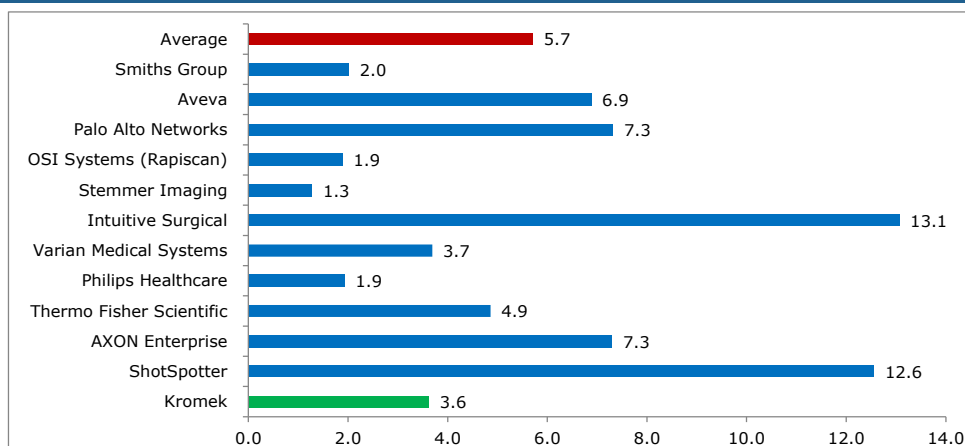
Another stamp of approval by major OEM

So much so, that only 9 days ago **Kromek secured a \$2.7m expansion order** - to be recognised over the next 24 months - **under an existing 5 year security screening contract** (now worth a minimum of \$5.8m). In turn, further building the orderbook (ED est. \$90m+) and improving visibility (ED est. >70% for FY20).

CEO Arnab Basu, adding: ***"This was our first long-term contract in the security screening market and we are pleased to see the value now increase by almost 90%. This latest order expansion is an endorsement of the strength of our detection solution and credentials as a high-quality product supplier. We are gaining traction across all our markets as our customers continue to recognise the value that our technology adds to their products. This customer, like many others, is seeing increasing market adoption of its next-generation equipment that incorporates our detection solutions, and so we will continue to benefit from this growing momentum."***

In summary, **we make no change to our forecasts or 35p/share valuation**, but believe there is scope for future upgrades, especially given the group's modest EV/sales multiple vs peers (see below).

Current year EV/sales



Source: Equity Development. CY = FY20

Key risks

- Kromek is at a relatively early stage of its commercial development, with no absolute certainty that anticipated revenues or growth can be achieved.
- Orders tend to be lumpy in nature, and therefore by their nature difficult to forecast.
- The adoption of new break-through technology can take longer and cost more than originally thought.
- 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 - albeit in light of Kromek's leading position in CZT, then this looks a less immediate threat.
- Customer concentration, and regulatory changes which may impact the introduction of CZT based products.
- Foreign exchange fluctuations for UK holders, given that >90% of turnover is derived from America.
- The firm is presently loss making. In the event more funding is required, then it is not certain that future capital would be available at commercial rates.



Investor Access

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