

3 more D3S contract wins totalling £1.6m

1st July 2019

True 'category champions' (eg Facebook, Google, etc) often create vast new markets from scratch. Stage 1 of the genesis usually entails developing unique IPR, customer awareness and strong barriers to entry. Followed closely by extensive field testing, additional product refinement and the receipt of early orders. The last involves full commercialisation, widespread adoption and ultimately becoming the industry's '**de facto standard**'.

We think Kromek's cutting edge 'dirty bomb' detector (D3S) has today reached this final phase, with governments and large corporates continuing to roll out its proprietary handheld devices in real-life conditions. Initially on relatively small-scale deployments, but soon in larger numbers and of much higher values.

\$750m opportunity over next 4 years

Indeed we understand that the **global addressable market for the D3S family and its associated derivatives, could be worth up to \$750m over the next 4 years**. With substantial demand expected across North America, Europe (eg UK), Asia (eg Singapore, Japan) and Australia.

Better still, the company said this morning it had just signed another 3 D3S contracts worth £1.6m in aggregate. Namely;

- £1.1m from a UK government-related company.
- \$389k from the US's Joint Program Executive Office for Chemical, Biological, Radiological and Nuclear Defense (JPEO-CBRND) for military grade applications.
- €180k from the European Commission's Directorate-General for Migration and Home Affairs for the D3S-ID and drone-mounted D3S for wide-area monitoring.

Significant follow-on work possible too

Although these agreements have already been baked into our forecasts (& underpinned by near 80% FY20 revenue visibility), they importantly act as **further endorsements of the Kromek's technology & operational capability**. Along with providing ideal reference sites for securing significant follow-on business, which we deem to be highly likely given the firm's successful '**land & expand**' strategy.

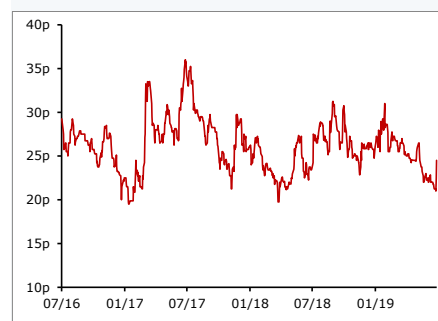
No change to our forecasts or 35p/share valuation

CEO Arnab Basu adding: "**The D3S platform continues to gain traction in the US and the rest of the world. We are working with a number of high value-customers in a number of countries for deployment and implementation of this technology. These new contracts are great examples of the commercial progress in this area as well as the varied security and military applications for our D3S family of products.**"

Company Data

EPIC	AIM:KMK
Price (last close)	24.5p
52 week Hi/Lo	31p/21p
Market cap	£84.4m
Share count	344.6m
Net cash Apr'19	£16.4m
Daily volume	300k
ED valuation / share	35p

Share Price, p



Source: Share Cast

Description

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

Headquartered in Sedgefield (UK), Kromek has c.116 employees, of which approx. 95 are in R&D, with a 3 further sites in California, Pittsburgh and Germany. The firm has filed/registered >280 patents.

We estimate that as at 27/06/19 the orderbook stands at >\$90m providing nearly 80% FY20 revenue cover - defined as orders, normal repeat business and preferred supplier positions.

Next news: AGM Sept'19

Paul Hill (Analyst)

0207 065 2690

paul.hill@equitydevelopment.co.uk

Summary financial projections

Kromek (April year end)	2014 Act £'000s	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s
Product	4,746	3,726	5,432	6,671	9,611	12,060		
Other	1,226	4,375	2,910	2,297	2,234	2,457		
Turnover	5,972	8,101	8,342	8,968	11,845	14,517	18,500	21,553
% growth	121.9%	35.6%	3.0%	7.5%	32.1%	22.6%	27.4%	16.5%
Gross margin	3,871	5,626	4,429	5,117	6,684	8,309	10,630	12,500
% Margin	64.8%	69.4%	53.1%	57.1%	56.4%	57.2%	57.5%	58.0%
Adjusted EBITDA (pre SBP)	-3,007	-1,557	-2,376	-1,461	482	1,974	2,700	3,500
% Margin	-50.4%	-19.2%	-28.5%	-16.3%	4.1%	13.6%	14.6%	16.2%
Depreciation	-737	-673	-709	-762	-785	-879	-1,460	-1,504
Amortisation of capitalised R&D	-560	-711	-828	-1,417	-1,907	-1,806	-2,213	-2,279
Share based payments	-125	-181	-166	-99	-131	-195	-200	-245
Adjusted EBIT (post SBP)	-4,429	-3,122	-4,079	-3,754	-2,341	-906	-1,193	-528
% Margin	-74.2%	-38.5%	-48.9%	-41.9%	-19.8%	-6.2%	-6.4%	-2.5%
Underlying Interest charge	-515	-71	-83	-40	-192	-364	-50	-75
Adj. Profit before Tax (post SBPs)	-4,944	-3,135	-4,162	-3,794	-2,533	-1,270	-1,243	-603
Adj. Basic EPS (p)	-8.0	-2.9	-2.9	-1.8	-0.4	-0.1	-0.4	-0.2
EPS growth rate			-1.3%	40.0%	76.0%	75.8%	-248.9%	-51.7%
Valuation benchmarks								
P/E ratio								
EV/Sales	11.4	8.4	8.2	7.6	5.7	4.7	3.7	3.2
EV/EBITDA (pre SBPs)						34.4	25.2	19.4
EV/EBIT								
Effective tax rate				0.0%	0.0%	0.0%	0.0%	0.0%
PEG ratio							0.0	0.0
% EBITDA drop-through rate					67.5%	55.8%	18.2%	26.2%
Dividend yield					0.0%	0.0%	0.0%	0.0%
Net cash/(debt) - includes £1.25m of long term money market deposits	6,563	151	3,857	17,343	7,738	16,420	14,509	13,713
Reported sharecount	61,871	107,818	141,337	174,573	260,162	275,073	346,282	348,013
Sharecount diluted	66,951	114,042	147,586	178,137	262,768	277,655	348,863	350,594

Source: Company historic data, Equity Development estimates. Net cash includes £1.25m of long term money market deposits secured against US production facility

Key risks

- Although Kromek is presently commercialising its leading technology, there is 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 science 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 – yet given Kromek's leading position in CZT, then this looks a less immediate threat.
- Customer concentration (largest client generated sales of £4.1m in FY19), 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 (albeit unlikely given strong net cash position), then it is not certain that future capital would be available at commercial rates.



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

The research in this document has been produced in accordance with COBS 12.3 as Non-Independent Research and is a marketing communication. This document is not directed at, may not be suitable for and should not be relied on by anyone who is not an investment professional including retail clients. It does not constitute a personal investment recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and financial and operational resources. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is deemed to be 'non-independent research' but is 'objective' in that the authors are stating their own opinions. This report has not been produced under legal requirements designed for independent research.

ED may in the future provide, or may have in the past provided, investment banking services to its client companies. For ED's employees and consultants there are rules to prevent dealing in the shares of client companies whilst notes are being prepared, or immediately after the note's release. Publication is achieved by a new note being freely available from the ED website. ED's engagement with corporate clients is governed by the laws of England & Wales. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about Kromek Group. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Self-certification by investors can be completed free of charge at www.fisma.org

More information is available on our website www.equitydevelopment.co.uk