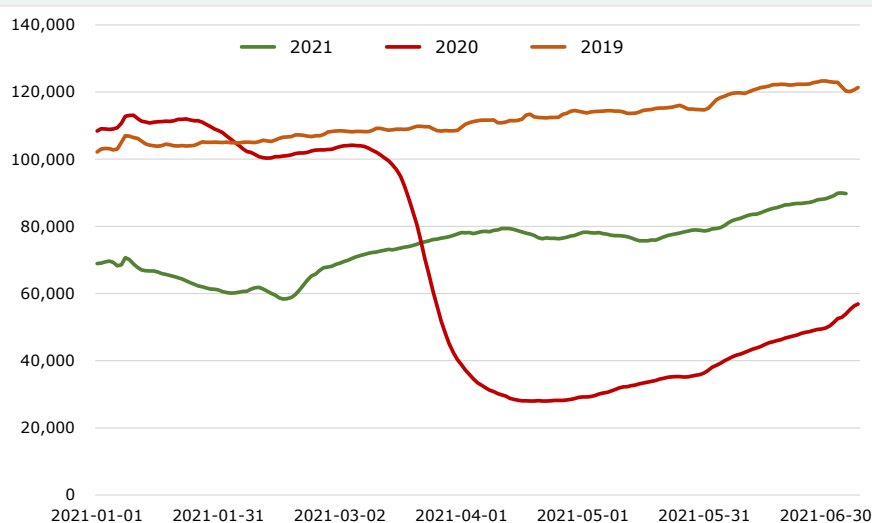


'3-2-1...we have lift-off' for all of KMK's end markets

14th July 2021

Albeit not wanting to tempt fate, 19th July 2021 will hopefully 'go down' in UK history as the day Covid switched from being a pandemic to an endemic disease. A watershed moment for the country, especially those 5.3m (& climbing) NHS patients sitting on waiting lists and holiday makers desperate to travel abroad after the removal of quarantine restrictions for 'amber listed' destinations.

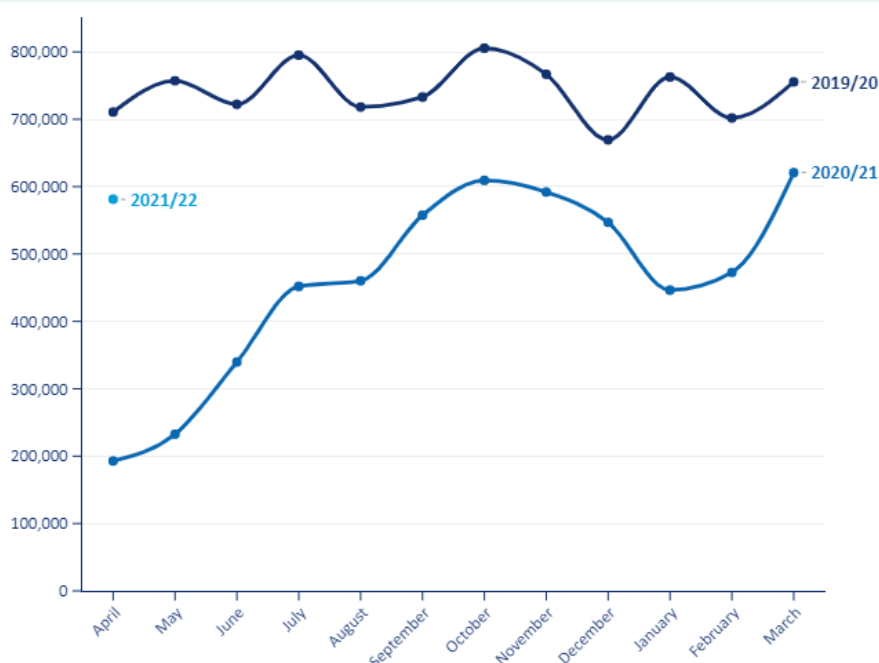
Global commercial flights/day (7-day moving average)



Source: Flight Radar. Commercial passenger + cargo + charter + some business jet flights.

Moreover, this pent-up demand & acceleration of deferred OEM product launches should also provide a **multi-year tailwind** for Kromek's end markets of Medical Imaging (elective procedures – see below), Security Screening (Airports) and Homeland Security (city centre footfall – see overleaf).

Number of UK elective procedures performed

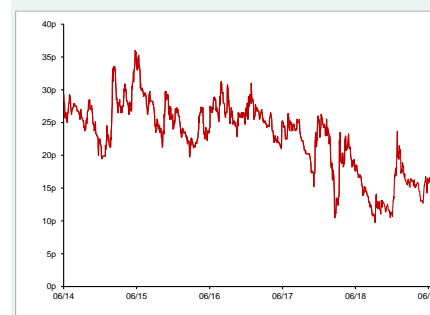


Source: BMA

Company Data

EPIC	AIM:KMK
Price (previous close)	16p
52 weeks Hi/Lo	25p/8p
Market cap	£69.1m
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: AGM

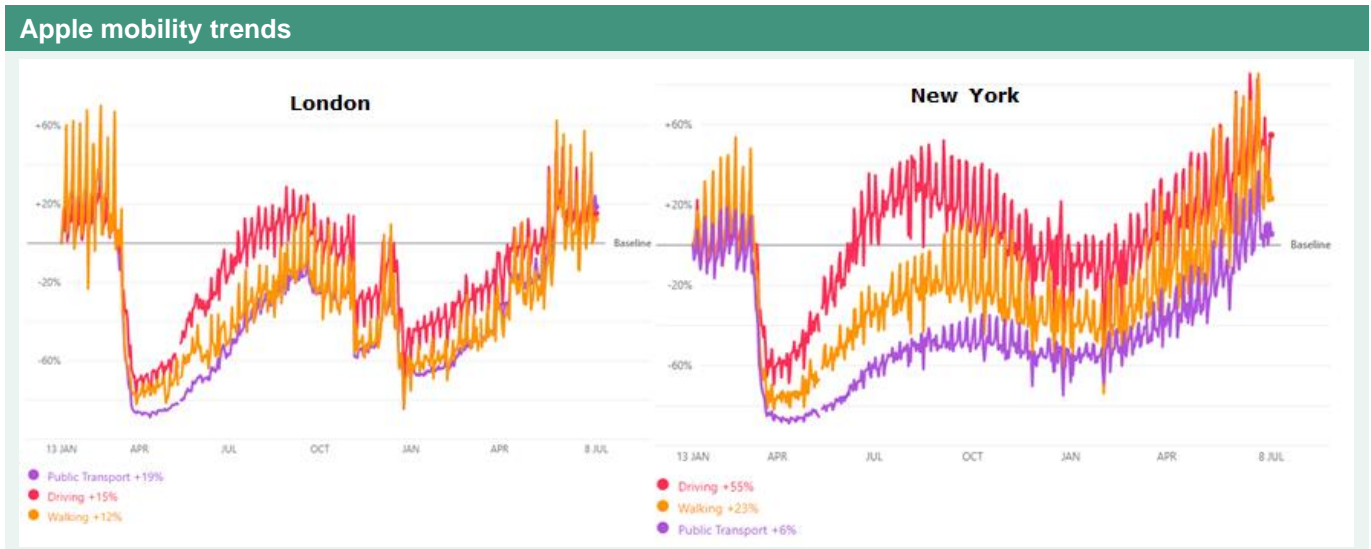
Paul Hill (Analyst)

0207 065 2690

paul.hill@equitydevelopment.co.uk

In particular, Kromek's 'best-in-class' CZT detectors are increasingly being adopted for single photon emission computed tomography (SPECT), molecular breast imaging (MBI) and bone mineral densitometry (BMD) applications. Here they are used to more accurately & earlier diagnose & treat patients with cancer, Parkinson's, cardiovascular illnesses and osteoporosis.

City centre traffic too is rising (eg New York & London) as offices, theatres, museums & other attractions reopen. Similarly driving interest in the firm's proprietary D3S dirty bomb detectors & ground-breaking biological threat detector.



Source: iPhone tracking data

Accuracy of airborne Covid detector comparable to PCR tests

The latter of which is already making great strides, having commenced field trials in schools, 2nd airports (eg Teesside International) and other locations under a £1.25m project with funding from Innovate UK. Plus the device's efficacy is presently being clinically validated by 3rd party laboratories. Where it is demonstrating "**very positive**" performance in terms of sensitivity and specificity. In fact, comparable with 'gold standard' PCR tests.

Significant opportunities across all core verticals

Additionally, the US Dept of Defence (DARPA) has expanded the scope of its agreement with Kromek to develop this device by \$11.2m (last increase being \$6m). With the aim of combatting the risk of say rogue states, organised criminals, terrorists &/or even authorised labs accidentally releasing harmful pathogens into the environmental.

Elsewhere the D3S family of dirty bomb detectors is attracting significant interest too from the UK, US, Europe and Asia. 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 (at least) receive its fair share.

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

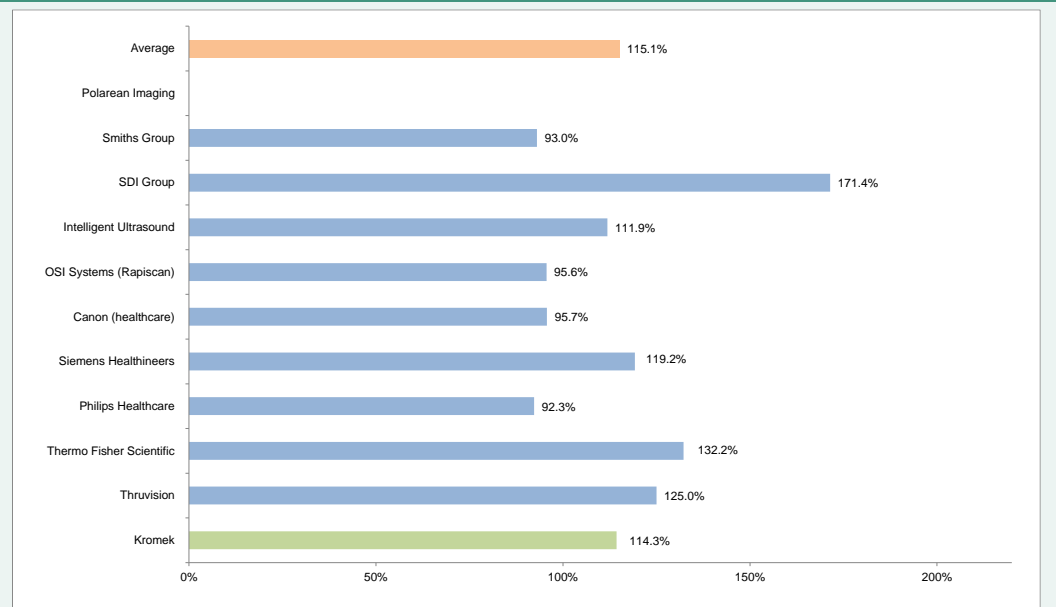


Source: Kromek

Large SPECT OEM is accelerating deliveries

Not wishing to be out-gunned, Kromek's biggest SPECT OEM client (7-year \$58.1m order signed Jan'19) is also ramping up deliveries.

Current year sales as % pre covid levels



Source: Equity Development

Meanwhile, there's recently been a spate of smaller orders (worth £829k in aggregate) post period end, across all segments for delivery this year.

In turn, 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. (AROC). Plus, we understand **there is already 60% orderbook cover & 76% forward visibility** (incl. awards & run-rate) over our Est. FY22 turnover of £15m.

Fine, but what about today's FY21 results?

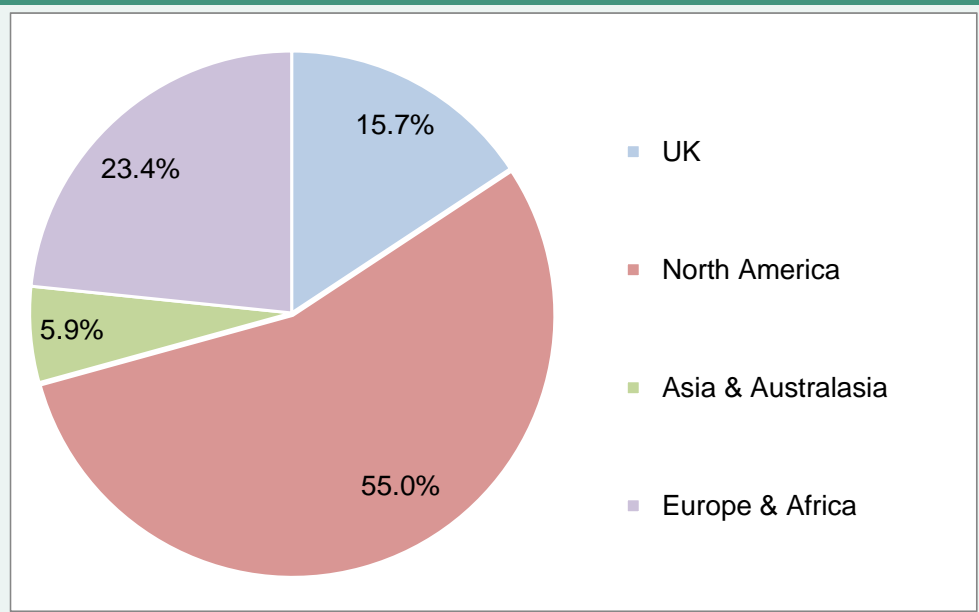
Well in terms of the numbers (see below), **adjusted FY'21 EBITDA** (pre SBPs) **came in slightly better than our estimates at -£1.7m** (vs ED -£1.9m) **on turnover of £10.35m** (ED £10.0m). Alongside **net cash closing April at £7.4m** (split cash +£15.6m, debt £8.2m), after Feb's £13.0m (gross) fundraise at 15p.

Summary H1 vs H2 split

£'000s	Act H1'20	Act H1'21	Act H2'20	Act H2'21	Act FY20	Act FY21	Est FY22
Turnover	5,333	4,576	7,787	5,776	13,120	10,352	15,000
LFL % growth	44.7%	-14.2%	-28.1%	-25.8%	-9.6%	-21.1%	44.9%
Gross Profit	3,093	2,493	3,115	2,513	6,208	5,006	7,800
% Margin	58.0%	54.5%	40.0%	43.5%	47.3%	48.4%	52.0%
Overheads (ex SBPs)	-3,704	-3,366	-2,945	-3,327	-6,649	-6,693	-7,900
Adjusted EBITDA (pre SBPs)	-611	-873	170	-814	-441	-1,687	-100
Share based payments	-100	-120	-125	14	-225	-106	-131
Adjusted EBITDA (post SBPs)	-711	-993	45	-800	-666	-1,793	-231
Depreciation & Amortisation	-1,631	-2,100	-1,341	-1,944	-3,327	-4,044	-4,289
Adjusted EBIT	-2,342	-3,093	-1,296	-2,744	-3,993	-5,837	-4,520
Margin	-43.9%	-67.6%	-16.6%	-47.5%	-30.4%	-56.4%	-30.1%
Net interest	-311	-306	-233	-240	-544	-546	-571
Adjusted PBT	-2,653	-3,399	-2,186	-1,054	-4,537	-6,383	-5,091
Net cash / (debt)	7,674	-1,772	3,838	7,399	3,838	7,399	1,999
Sharecount (Ks)	344,642	344,751	344,644	358,912	344,644	358,912	358,912

Source: Equity Development

FY21 geographical sales split (£10.35m)



Source: Equity Development

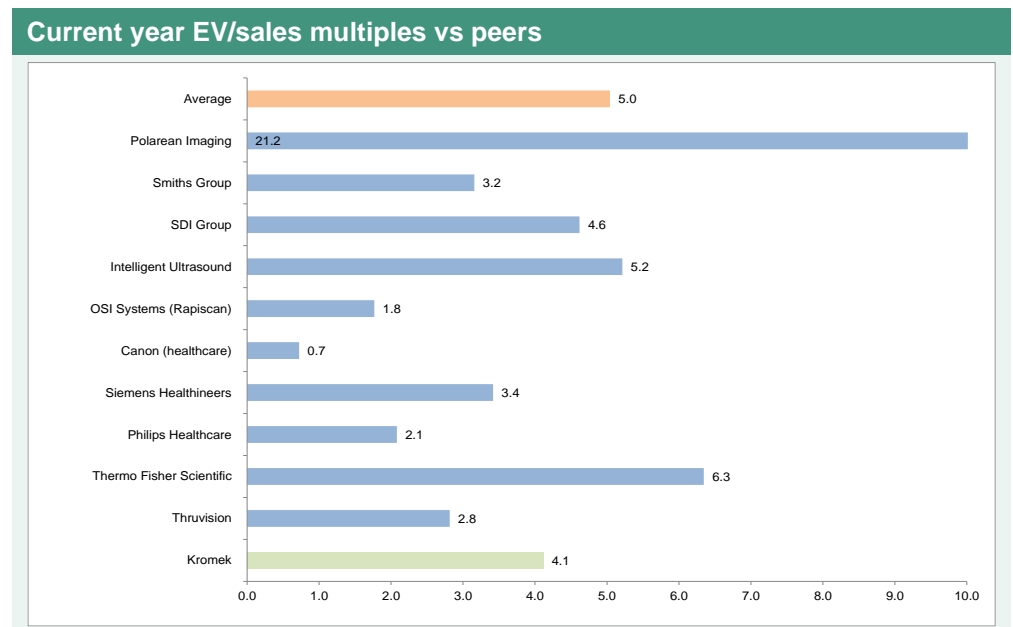
Overheads & cashflow remain tightly controlled, and there is sufficient CZT production capacity to meet all immediate requirements, with the CZT manufacturing facilities currently running at about 60% of installed capacity. Capitalised R&D climbed 4% to £5.5m (£5.3m LY) vs associated amortisation of £2.4m (£2.1m).

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.

Stock appears undervalued in absolute & relative terms

Finally with regards to potential upside, we **reiterate our 26p/share valuation** based on the **strong rebound in demand**. Noting the stock at 16p trades on 4.1x FY22 EV/sales vs 5.0x for the sector (see below), yet is set to grow materially faster over the next few years.

Improved operational gearing too should materially drive profits, as a large chunk of incremental revenues drop through to the bottom line (Est FY22 gross margins of 52% vs 48% FY21).



Source: Equity Development

CEO Arnab Basu concluding: *“Against a backdrop of significant global uncertainty, **Kromek has emerged from the 2021 financial year in a stronger position than when we entered**. While the disruption across our markets in the early part of the year impacted our sales, **our H2 revenue was 26% (£5.8m) above H1 (£4.6m), with the strong momentum continuing post year end**.*

*In particular, **we are seeing continued traction in the medical imaging segment as our customers increasingly roll out their products incorporating our technology**. We are extremely encouraged by the results that we are receiving from the piloting of our biological-threat detection solution. We also believe that we are well-positioned to benefit from the increase in government defence and security spending globally, including in the UK, as evidenced by our announcement today of the receipt of our **first major order for our D5 RIID**.*

*As a result, **and with excellent visibility (>75%) over full year forecasts, we are on track to deliver our highest ever annual revenue for the full year to 30 April 2022, representing significant growth over 2021**.*

Consequently, and combined with the successful fundraising completed in the year under review, we are well-placed to capitalise on the substantial opportunities across our business and the Board continues to look to the future with increased confidence.”

Key risks

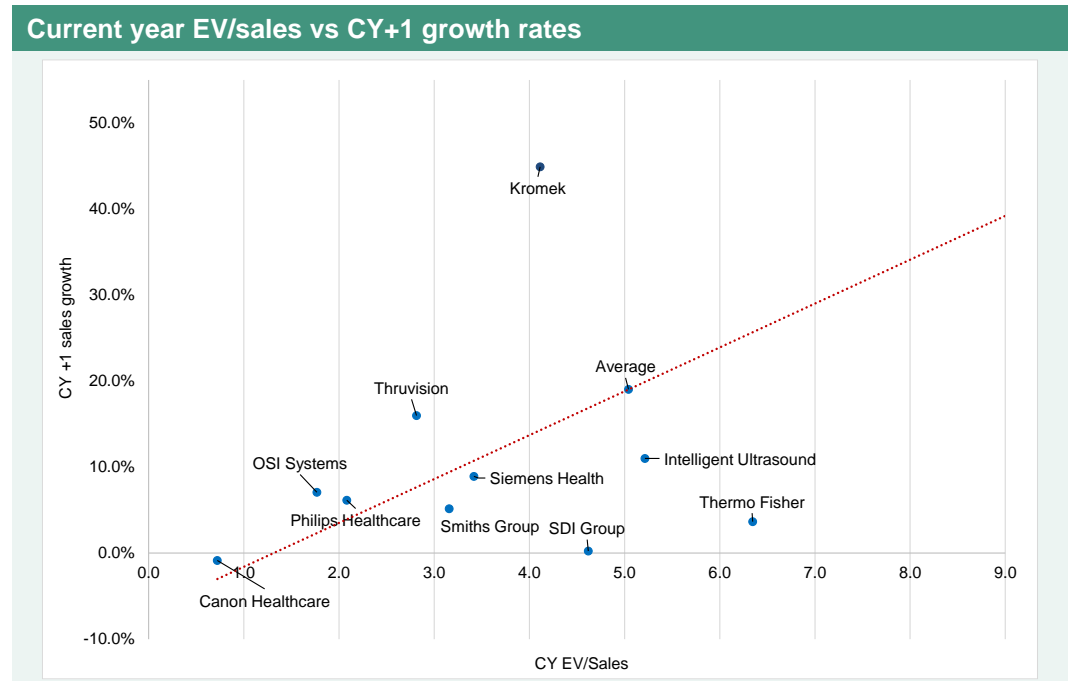
- Although Kromek is presently commercialising its leading technology, there is no absolute certainty that anticipated revenues or growth can be achieved. Plus the adoption of new break-through science can take longer and cost more than originally thought.
- Covid-19 related effects endure longer than 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)

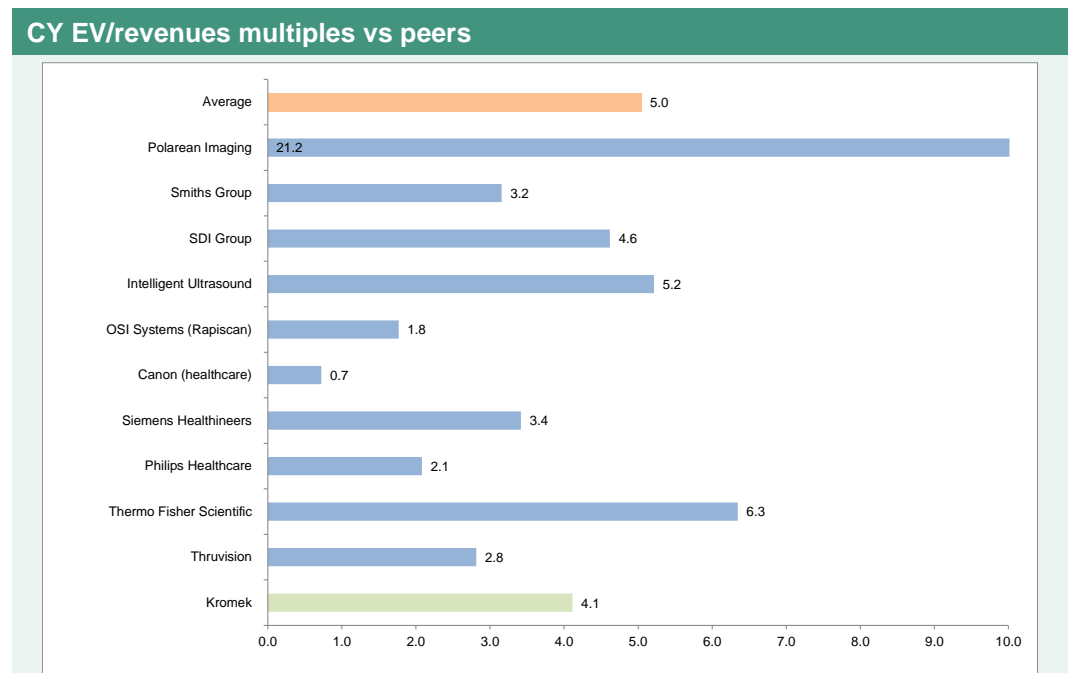
Kromek (April year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s
Product	9,611	12,060	10,314		
Other	2,234	2,457	2,806		
Turnover	11,845	14,517	13,120	10,352	15,000
% growth	32.1%	22.6%	-9.6%	-21.1%	44.9%
Gross margin	6,684	8,309	6,208	5,006	7,800
% Margin	56.4%	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	4.2	3.4	3.8	4.8	3.3
EV/EBITDA (pre SBPs)		25.3		-29.7	-500.3
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)	16.0				

Source: Equity Development

Appendices - sector valuation metrics and KPIs

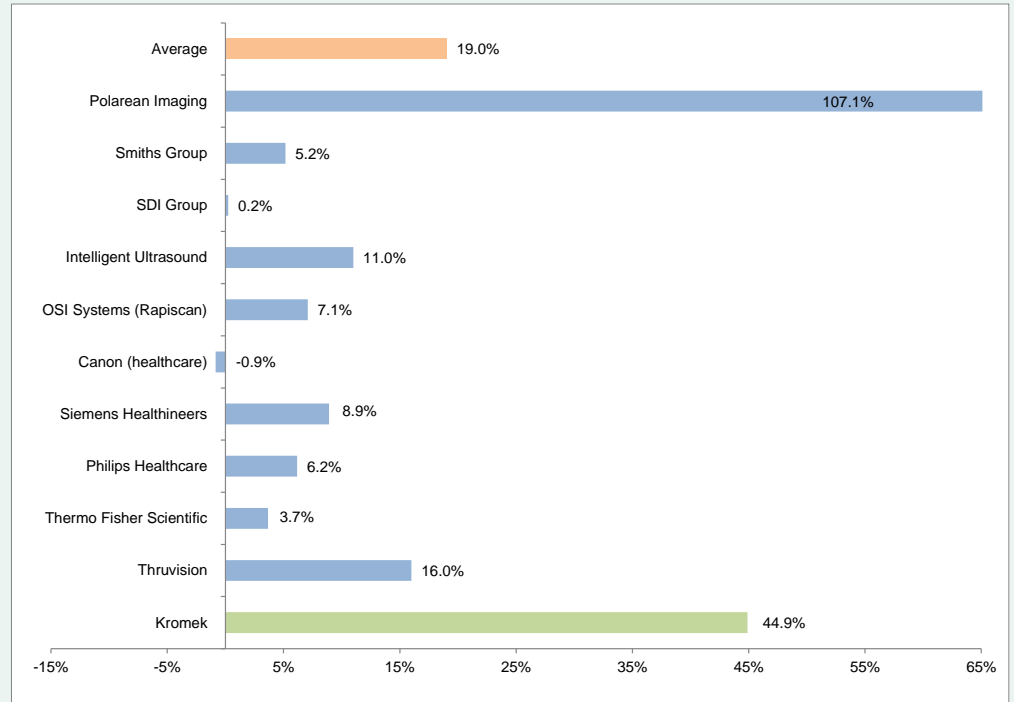


Source: Equity Development.



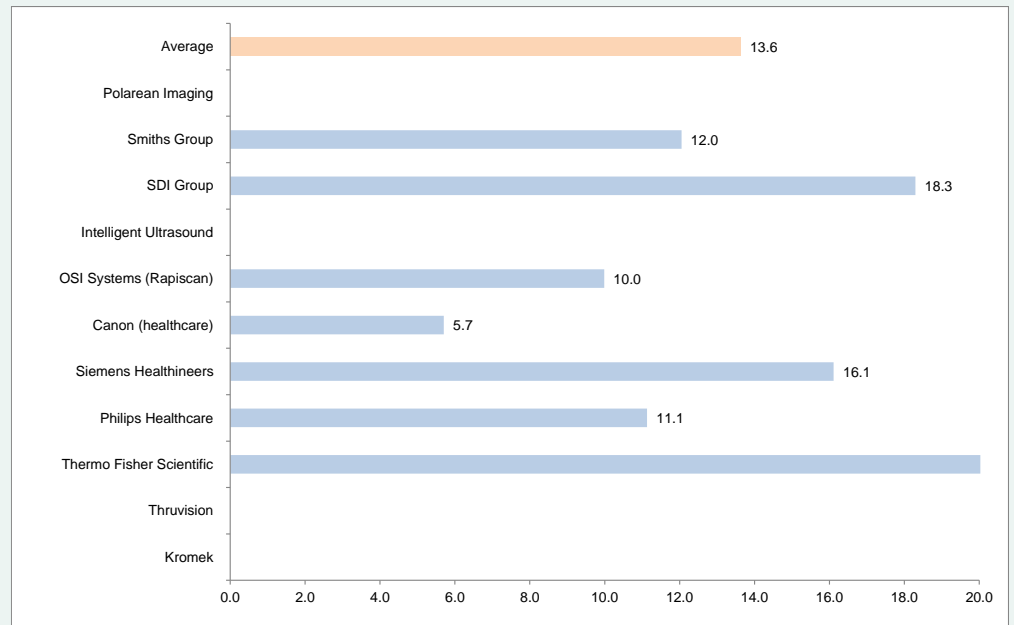
Source: Equity Development

CY + 1 sales growth

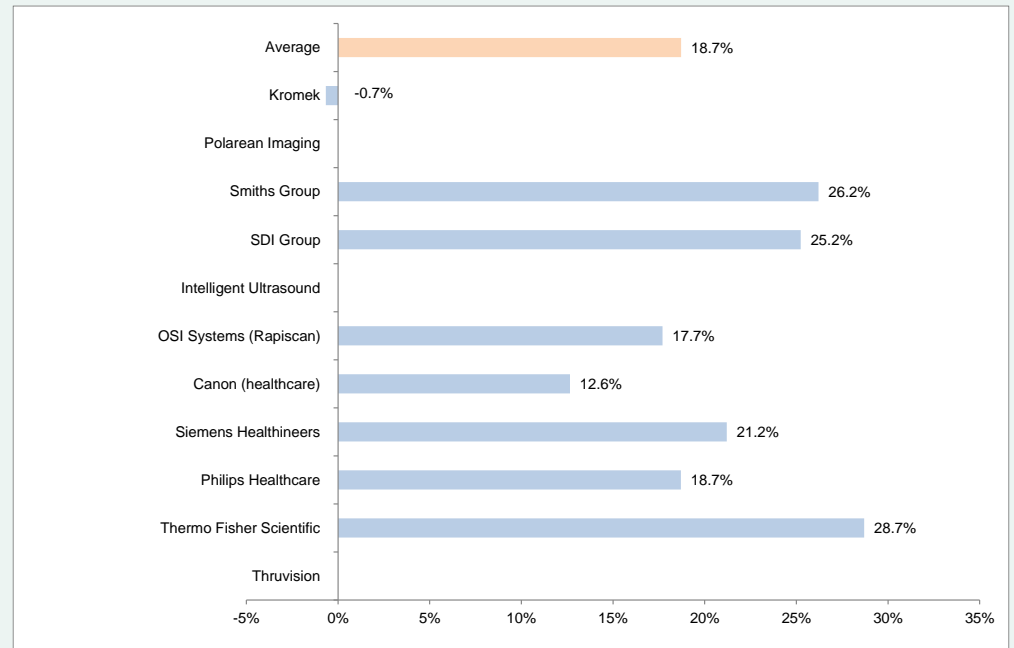


Source: Equity Development

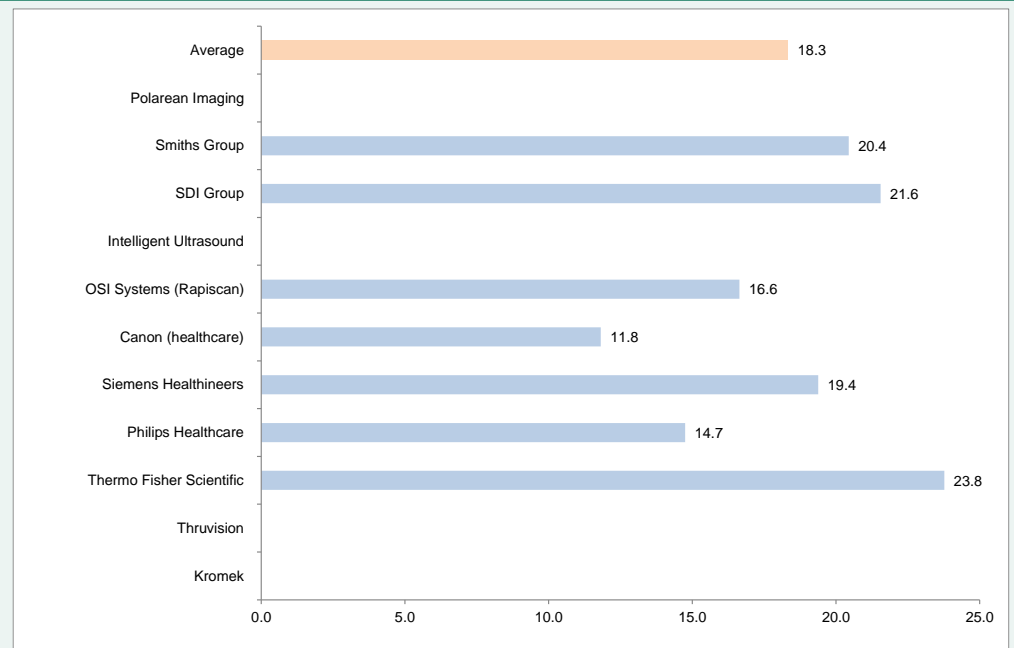
Current Year (CY) EV / EBITDA vs peers



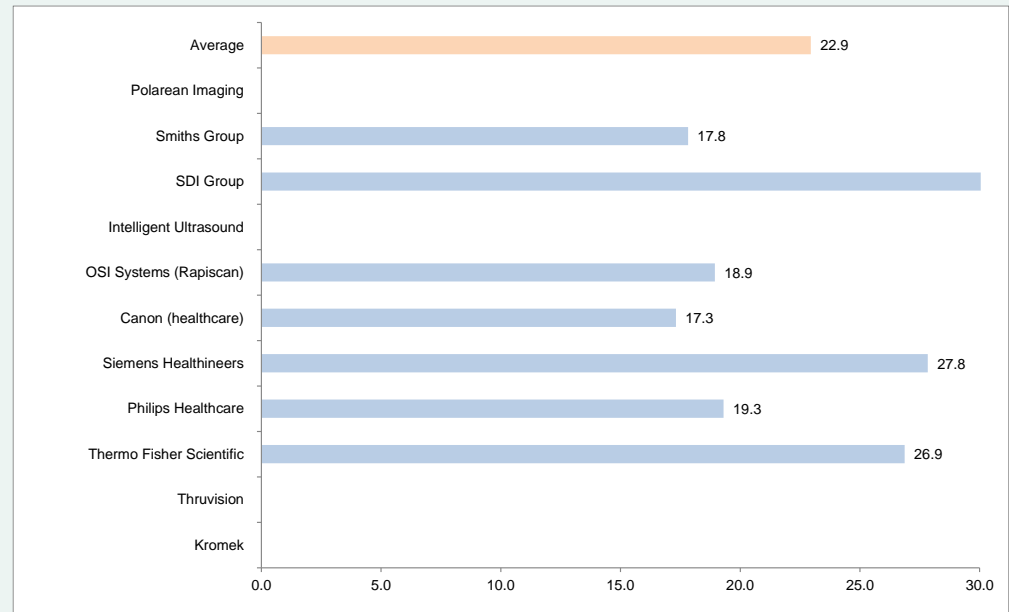
Source: Equity Development

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	24.5p	£35.6	£7.5	£28.1
Thermo Fisher Scientific	\$515.0	\$204,455	-\$9,869	\$214,324
Philips Healthcare	€ 39.00	€ 34,710	-€ 2,709	€ 37,419
Siemens Healthineers	€ 54.00	€ 59,508	€ 359	€ 59,149
Canon (healthcare)	¥2,545	¥2,662,070	¥181,122	¥2,480,948
OSI Systems (Rapiscan)	\$100.0	\$1,800	-\$197	\$1,997
Intelligent Ultrasound	15.0p	£40.4	£6.0	£34.4
SDI Group	£1.92	£188	-£6	£194
Smiths Group	£16.20	£6,415	-£923	£7,338
Polarean Imaging	127c	\$266	\$27	\$240
Kromek	16.0p	£69.1	£7.4	£61.7

Source: Equity Development



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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

Contact: info@equitydevelopment.co.uk | 020 7065 2690