

## Trading update: FY23 targets remain on course

16 May 2022

### FY22 revenue impacted by supply chain delays; FY23 outlook unchanged

In a Trading Update for the year to 30 April 2022 Kromek reports that it expects FY22 revenue of £12.1m. This compares to our previous FY22 forecast of £15.0m. However, for the current year, backed by strong contract visibility, our FY23 expectation of £18.0m revenues remains unchanged.

- For FY22 the Group expects revenue of £12.1m +16.5%YoY (FY21: £10.4m), with an additional £5.9m of new orders won in the final quarter (primarily CBRN detection) - ahead of management expectations. H2 22 revenue indicated is up 27.4%YoY and is 56.3% above H1 22.
- As outlined at the interims, the Group continued to be impacted by supply chain issues, notably the availability of key components required to complete £2.9m of orders required by the year end. **These orders are now being shipped** and are set to contribute to H1 '23 earnings.
- As a result of the carry-over of orders into FY23, the Group expects to report an FY22 EBITDA (adj.) loss of approximately £1.2m; this compares to our estimate of a £0.03m EBITDA loss (adj.).
- Despite order shipment delays, strong cost control and cashflow management resulted in a year-end FY22 cash position of £5.1m; this compares to our estimate of £7.4m and matches the impact of inventory build. As a result of the unwinding of inventory, combined with cash inflow from order completion, Kromek reports **sufficient cash reserves for ongoing operations**.

### FY23 outlook

For the current financial year, Kromek reports that it expects growth to accelerate in both its core segments - CBRN and imaging - resulting in the prospect of "**substantial revenue growth**". In addition, the Group reports:

- Visibility over FY revenue forecasts with 50% contracted, 37% under contract negotiation and the remaining 13% being regular repeat order business: **the highest level of visibility to date**.
- This outlook is supported by **existing long-term contracts, the £5.9m of new orders won in Q4 22, and indications of sustained demand**. Further, the current geo-political environment has prompted increased government interest in Kromek's CBRN detection equipment.
- Kromek also reports high demand for its CZT-based equipment citing interest from both existing and new OEM customers.

Kromek reports on two sources of momentum which have been evident since the start of 2022. These are trends which have far-reaching implications across broad swathes of UK and European economies and manufacturing sectors: the dislocation of supply chain processes as the recovery from COVID-19 gains momentum, and the impact of the situation in Ukraine. As Kromek reported from H1 22 it has not been immune to the former, but in stark contrast that negative impact, observes that **its specialist technology is in increasing, and increasingly urgent, demand**.

These factors, combined with the visibility the Group reports on its order book – backed by the £5.9m of new orders received in Q4 22 - underpins justifiable confidence in the rebound projected in FY23 revenue. As a result of which we maintain our FY23 revenue outlook of £18.0m.

We expect that unwinding of the FY22 shortfall will, nevertheless, extend into H1 23 as a result of which our FY23 EBITDA (adj.) outlook is slightly reduced to £0.3m compared to a prior £0.8m.

**The medium-term implication of the trends to which Kromek refers is that this positive momentum should continue. We will review the medium-term outlook in the light of FY22 full financials expected in July.**

Please refer to the important disclosures shown on the back page and note that this information is **Non-independent** and categorised as **Marketing Material**

### Company Data

EPIC	KMK.L
Price (last close)	8.1p
52 weeks Hi / Lo	20.9p / 8.1p
Market cap	£35m
ED Fair Value / share	26p

### Share Price, p



Source: ADVFN

### Description

Kromek is a detection and imaging company operating globally in the fields of advanced imaging and hazard detection (CBRN: chemical, biological, radiation and nuclear). Within the advanced imaging segment, medical imaging, including BMD (bone mineral density), CT (computer tomographic) and SPECT (single photon emission computer tomography), is particularly important, utilising Kromek's cadmium-zinc-telluride (CZT) materials technology.

Other key markets in advanced imaging include security screening and industrial imaging. Principally focused on radiation detection, CBRN also includes development of biohazard threat detection, including the presence of COVID-19.

Headquartered in Sedgefield (NE UK), the company has c.160 employees of whom over 100 are involved in R&D, with two US operations (California and Pittsburgh). Kromek has filed or registered over 280 patents.

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## Outlook and valuation considerations

Our FY22 and FY23 outlook is revised as follows:

- FY22 revenue estimated reduced from £15.0m to £12.1m, +16.5%YoY.
- FY23 revenue estimate unchanged at £18.0m, +49.2%YoY.
- FY22 EBITDA (adj.) reduced from £0.03m loss to £1.2m loss.
- FY23 EBITDA (adj.) reduced from £0.8m to £0.3m.
- FY22 year-end cash position revised from £7.39m to £5.08m. FY23 cash position revised from £6.0m to £3.3m.

### Revisions to FY22 and FY23 outlook

<b>Yr to 30 Apr New estimates, £m</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
Revenue	13.1	10.4	12.1	18.0
EBITDA (adj)	(1.9)	(1.7)	(1.2)	0.3
Pre-Tax Profit (adj)	(5.8)	(6.3)	(6.1)	(4.9)
EPS (adj, p)	(1.2)	(1.5)	(1.0)	(0.7)
(Net debt) cash	3.8	7.4	(1.4)	(3.0)
<b>Prior estimates</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
Revenue	13.1	10.4	15.0	18.0
EBITDA (adj)	(1.9)	(1.7)	(0.03)	0.8
Pre-Tax Profit (adj)	(5.8)	(6.3)	(5.0)	(4.6)
EPS (adj, p)	(1.2)	(1.5)	(0.9)	(0.9)
(Net debt) cash	3.8	7.4	0.7	(0.9)
<b>Change</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
Revenue			-19.6%	0.0%
EBITDA (adj)			N.M.	-60.4%
Pre-Tax Profit (adj)			N.M.	N.M.
EPS (adj, p)			N.M.	9.0%

Source: Company data. Equity Development estimates.

## FINANCIALS

### Summary P&L

Profit & Loss						
Year to Apr 30, £m		FY21	H1 22	H2 22E	FY22E	FY23E
<b>Revenue</b>		<b>10.4</b>	<b>4.7</b>	<b>7.4</b>	<b>12.1</b>	<b>18.0</b>
Gross		5.0	2.2	3.2	5.4	9.0
	<i>Margin</i>	<i>48.4%</i>	<i>46.8%</i>	<i>44.0%</i>	<i>45.1%</i>	<i>50.0%</i>
COGS		(5,346)	(2,503)	(4,118)	(6,621)	(9,000)
Other income		0.4	1.3	0.1	1.4	0.0
Distribution		(0.3)	(0.3)	(0.3)	(0.5)	(0.7)
Admin		(10.9)	(6.1)	(5.9)	(12.1)	(13.0)
<b>Sum Op-ex</b>		<b>(10.8)</b>	<b>(5.1)</b>	<b>(6.1)</b>	<b>(11.2)</b>	<b>(13.6)</b>
Exceptional items		0.1	0.1	0.0	0.1	0.0
EBIT Reported		(5.8)	(2.8)	(2.9)	(5.6)	(4.6)
<b>EBIT Adjusted</b>		<b>(5.7)</b>	<b>(2.7)</b>	<b>(2.8)</b>	<b>(5.5)</b>	<b>(4.3)</b>
Amortisation		(2.4)	(1.3)	(1.3)	(2.6)	(2.8)
Depreciation		(1.7)	(0.9)	(0.9)	(1.8)	(1.8)
EBITDA Reported		(1.7)	(0.7)	(0.7)	(1.3)	0.0
<b>EBITDA Adjusted</b>		<b>(1.7)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(1.2)</b>	<b>0.3</b>
Financial income		0.00	0.01	0.03	0.03	0.03
Financial expense		(0.5)	(0.3)	(0.3)	(0.6)	(0.6)
PBT Reported		(6.3)	(3.1)	(3.2)	(6.2)	(5.2)
<b>PBT Adjusted</b>		<b>(6.3)</b>	<b>(3.0)</b>	<b>(3.1)</b>	<b>(6.1)</b>	<b>(4.9)</b>
Tax		1.0	0.7	0.9	1.6	1.5
PAT Reported		(5.4)	(2.3)	(2.3)	(4.6)	(3.7)
<b>PAT Adjusted</b>		<b>(5.3)</b>	<b>(2.3)</b>	<b>(2.2)</b>	<b>(4.5)</b>	<b>(3.4)</b>
Basic wtd. av. shares		358.9	431.9	431.9	431.9	358.9
Diluted wtd. av. shares		359.3	453.7	453.7	453.7	453.7
EPS Reported Basic (p)		(1.5)	(0.5)	(0.5)	(1.1)	(1.0)
EPS Adjusted Basic (p)		(1.5)	(0.5)	(0.5)	(1.1)	(0.9)

Source: Company data. Equity Development estimates. Diluted basis EPS not reported.

## Summary balance sheet

Balance sheet					
Year to Apr 30, £m	FY21	H1 22	H2 22E	FY22E	FY23E
Goodwill net	1.3	1.3	1.3	1.3	1.3
Intangible assets	24.1	26.2	28.3	28.3	31.2
PPE net	11.2	10.9	10.9	10.9	10.2
RoU net	4.1	3.9	3.9	3.9	3.6
<b>Fixed Assets</b>	<b>40.7</b>	<b>42.3</b>	<b>44.4</b>	<b>44.4</b>	<b>46.3</b>
Inventories	6.2	7.3	10.1	10.1	7.1
Trade receivables	6.6	7.2	6.5	6.5	5.9
Tax assets	1.0	0.4	1.3	1.3	1.5
Cash, Equivalents	15.6	10.2	5.1	5.1	3.3
<b>Current Assets</b>	<b>29.5</b>	<b>25.2</b>	<b>23.0</b>	<b>23.0</b>	<b>17.8</b>
Total Assets	70.2	67.5	67.4	67.4	64.1
Trade payables	(6.2)	(6.0)	(7.5)	(7.5)	(7.9)
Borrowings	(5.4)	(4.8)	(5.7)	(5.7)	(5.7)
Leases	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Current Liabilities</b>	<b>(12.0)</b>	<b>(11.2)</b>	<b>(13.6)</b>	<b>(13.6)</b>	<b>(14.0)</b>
Total Assets less Current Liabilities	58.2	56.3	53.8	53.8	50.1
Deferred income	(1.1)	(1.2)	(1.1)	(1.1)	(1.2)
Leases	(4.3)	(4.1)	(4.2)	(4.2)	(4.1)
Borrowings	(2.8)	(2.0)	(0.7)	(0.7)	(0.5)
<b>Long-term liabilities</b>	<b>(8.1)</b>	<b>(7.3)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(5.9)</b>
<b>Total liabilities</b>	<b>(20.1)</b>	<b>(18.5)</b>	<b>(19.7)</b>	<b>(19.7)</b>	<b>(19.8)</b>
Net Assets	50.1	49.0	47.7	47.7	44.2
Share Capital	4.3	4.3	4.3	4.3	4.3
Share Premium	72.9	72.9	72.9	72.9	72.9
Capital redemption reserve	21.9	21.9	21.9	21.9	21.9
Translation reserve	0.0	1.2	2.3	2.3	2.5
Accumulated losses	(49.1)	(51.3)	(53.7)	(53.7)	(57.4)
<b>Equity</b>	<b>50.1</b>	<b>49.0</b>	<b>47.7</b>	<b>47.7</b>	<b>44.2</b>
Net cash/(debt)	7.4	3.5	(1.4)	(1.4)	(3.0)

Source: Company data. Equity Development estimates.

## Summary cashflow

Cashflow					
Year to Apr 30, £m	FY21	H1 22	H2 22E	FY22E	FY23E
Net profit/loss	(5.4)	(2.3)	(2.3)	(4.6)	(3.7)
Finance (net)	0.5	0.3	0.3	0.6	0.6
Tax	(1.0)	(0.7)	(0.9)	(1.6)	(1.5)
Amortisation	2.4	1.3	1.3	2.6	2.8
Depreciation	1.7	0.9	0.9	1.8	1.8
Other non-cash	0.1	0.1	0.1	0.2	0.3
Other non-cash	0.1	(1.3)	(0.1)	(1.4)	0.0
<b>Operating Cash Flow</b>	<b>(1.5)</b>	<b>(1.8)</b>	<b>(0.7)</b>	<b>(2.5)</b>	<b>0.3</b>
Working capital					
(Increase)/Decrease inventories	0.2	(1.1)	(2.8)	(3.9)	3.0
(Increase)/Decrease in receivables	1.6	(0.5)	0.7	0.1	0.6
Increase/(Decrease) in payables	(2.6)	(0.1)	1.4	1.3	0.3
<b>Change working capital</b>	<b>(0.8)</b>	<b>(1.7)</b>	<b>(0.7)</b>	<b>(2.4)</b>	<b>4.0</b>
<b>Cash from operations</b>	<b>(2.3)</b>	<b>(3.5)</b>	<b>(1.4)</b>	<b>(4.9)</b>	<b>4.3</b>
Tax (paid)/received	1.0	1.3	0.0	1.3	1.3
Net cash from operations	(1.3)	(2.2)	(1.4)	(3.6)	5.6
Investing activities					
Investments	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	(0.0)	0.0	0.0
PPE/RoU	(0.5)	(0.3)	(0.4)	(0.6)	(0.8)
IP	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Capitalised R&D	(5.5)	(3.1)	(2.5)	(5.6)	(5.5)
<b>Net cash used in investing</b>	<b>(6.1)</b>	<b>(3.5)</b>	<b>(2.9)</b>	<b>(6.4)</b>	<b>(6.5)</b>
Net OpFCF	(7.4)	(5.7)	(4.3)	(10.0)	(0.9)
Financing activities					
Shares (net)	12.2	0.0	0.0	0.0	0.0
Borrowings	3.2	0.6	(0.1)	0.5	1.1
Borrowings repaid	(0.6)	(0.7)	(0.6)	(1.3)	(1.3)
Leases	(0.4)	(0.3)	0.2	(0.1)	(0.1)
Interest	(0.3)	(0.2)	(0.5)	(0.6)	(0.6)
<b>Net cash from financing</b>	<b>14.1</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>(1.6)</b>	<b>(0.9)</b>
Net change in cash	6.8	(6.3)	(5.3)	(11.6)	(1.8)
Cash at start of year	9.4	15.6	10.2	15.6	5.1
Forex	(0.6)	1.0	0.1	1.1	0.0
<b>Cash at period-end</b>	<b>15.6</b>	<b>10.2</b>	<b>5.1</b>	<b>5.1</b>	<b>3.3</b>
Net cash/(debt)	7.4	3.5	(1.4)	(1.4)	(3.0)

Source: Company data. Equity Development estimates.



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