

## EBITDA breakeven achieved on record sales

1<sup>st</sup> May 2018

Despite the apparent new air of 'entente cordiale' between North and South Korea, the world is still a dangerous place. What with alleged Russian state-involvement in the Salisbury nerve agent attacks, Syria's use of chemical weapons, ISIS' ongoing war against the West and the increasing threats posed by organised crime.

Indeed recently Turkish police, only after acting on a tip-off, managed to thwart a potentially heinous plan to sell 1.4kg of radioactive material (worth £49m) on the black market. Which is why the US Department of Defense (DoD) has committed to develop an early warning system for the detection of 'dirty bombs'.

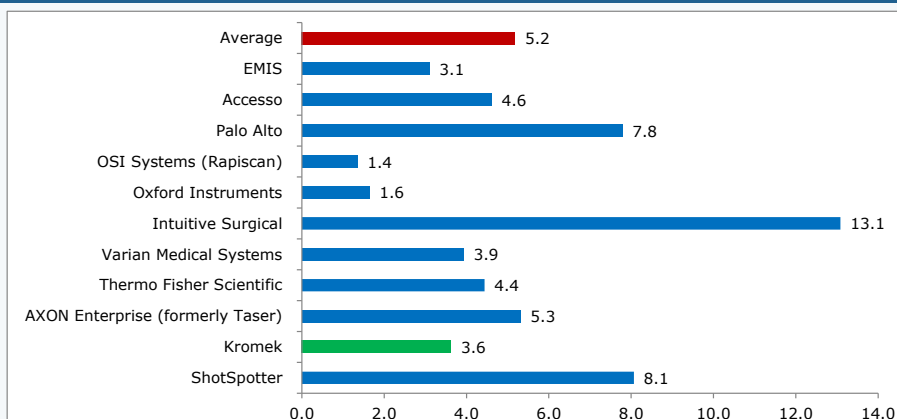
Here Kromek has already shipped >10,000 D3Ss to the DoD - and in March won another \$1.6m contract to further enhance its state-of-the-art technology. The hope being ultimately to roll-out the device across 20+ US cities (each worth \$10m+), along with securing similar orders in other geographies (eg Europe).

## No change to our forecasts or 37p/share valuation

Encouragingly too, **the company is hitting its numbers**. Saying this morning that trading for the 12 months ended April 2018, had been "**in line with expectations**" - achieving "**EBITDA breakeven**" (Act -£311k H1 vs ED £300k H2) on top of positive revenue growth (ED £12.5m; Act £4.8m H1 vs ED £7.7m H2).

What's more, Kromek continues to "**gain traction**" across "**all its business segments**" - and expects further growth in FY19. As such **we make no change either to our numbers or 37p/share valuation**. Albeit we note that at 22p, the stock trades on a modest 3.6x FY19 EV/sales multiple vs 5.2x peers, despite its **superior growth trajectory** (see below).

### Current year (CY) EV/sales multiple

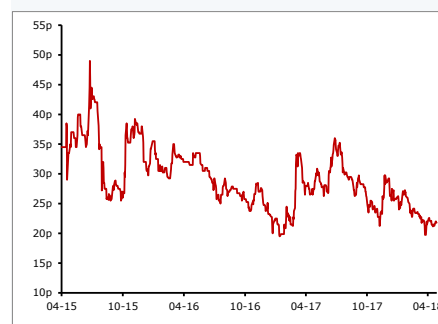


Source: Equity Development. Prices as at 30<sup>th</sup> April 2018 – arithmetic average

### Company Data

EPIC	AIM:KMK
Price (last close)	22p
52 week Hi/Lo	36p/20p
Market cap	£53m
ED value / share	37p

### Share Price, p



Source: WebFG

### Description

Kromek is pioneering digital colour imaging for x- and gamma rays, using cadmium zinc telluride 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, Pennsylvania 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 in July 2018

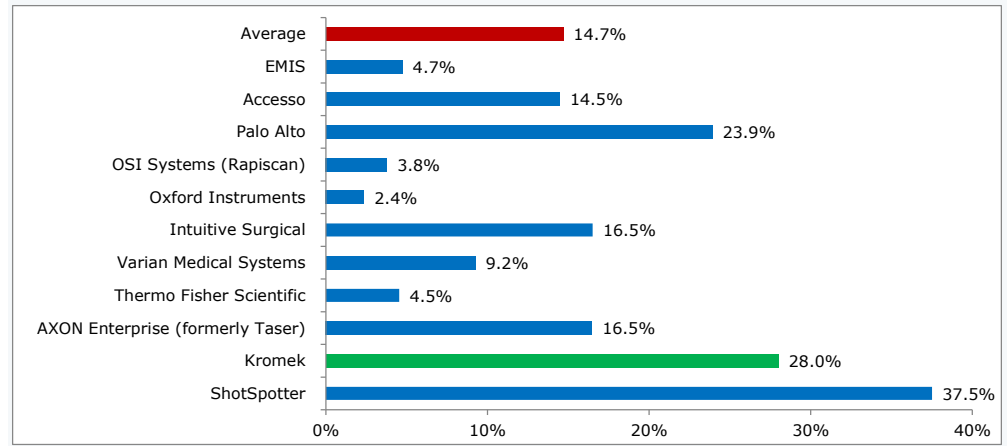
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## CY sales growth



Source: Equity Development

## 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 given Kromek's leading position in CZT, then this looks a less immediate threat.
- Customer concentration with one client representing 33% of FY17 sales.
- Regulatory changes which may impact the introduction of CZT based products.



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