Zacks Small-Cap Research

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Integral Technologies, Inc. (ITKG-OTC)

ITKG: Is a Six-Digit Order Coming From Korea?

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	06/08/2014
Current Price (02/17/16)	$0.35
Target Price	**$0.50**

OUTLOOK

Integral Technologies, owner of ElectriPlast, is an R&D company seeking to capture business from metal-based products with its patented polymer that conducts electricity. This polymer can be used for a variety of products but the company is currently pursuing wires, batteries and consumer products in applications where weight and ease of manufacture is key. This quarter it shipped samples of mobile consumer product that could place a six-digit order in Q4 or Q1. The company has had difficulty getting traction, but has multiple large long-term opportunities.

SUMMARY DATA

52-Week High	**$0.84**
52-Week Low	**$0.35**
One-Year Return (%)	**-42.1**
Beta	**0.43**
Average Daily Volume (sh)	**63,967**
Shares Outstanding (mil)	**117**
Market Capitalization ($mil)	**$41**
Short Interest Ratio (days)	**1.7**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**23**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Elec-Misc Compn**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2014	6.4 A	6.3 A	6.3 A	10.1 A	29.2 A
2015	90.8 A	62.0 A	45.5 A	24.1 A	223.3 A
2016	12.7 A	29.7 A	12.7 E	13.0 E	68.1 E
2017					870.0 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2014	-$0.02 A	-$0.01 A	-$0.02 A	-$0.01 A	-$0.05 A
2015	-$0.01 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.04 A
2016	-$0.01 A	-$0.01 A	-$0.01 E	-$0.01 E	-$0.03 E
2017					-$0.02 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/M**

Disclosures begins on page 9

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KEY POINTS

- Integral reported Q2 FY16 revenues of $30,000 versus $62,000 a year ago. Non-GAAP losses in the quarter were $0.9 million versus a loss of $1.1 million last year, a reduction of 12%. This resulted in a non-GAAP EPS loss of $0.01 versus a loss of $0.01 in the 2014 quarter, a decline of 27% due to the 12% increase in shares outstanding.

- The revenue booked was from the ratable recognition of a 10-year license to Hanwa ($12,500) that is booked every quarter and fulfillment of an order to Chang Rim to build 3000 units of a mobile consumer product.

- If this consumer product is well received by Chang Rim's customers, **we believe the company could receive an order over $100,000 in Q4 2016 or Q1 2017**. In our earnings model we have put the revenue into FY 2017. We estimate an order of 100,000 units could result in revenue of $200,000. As it is a consumer product, we anticipate that Chang Rim would build to meet Christmas. We believe this could be the beginning of a recurring revenue stream going forward with a highly seasonal nature.

- While the Delphi and BASF affiliations have not yet produced revenue, management remains optimistic about their prospects. Integral continues to work with Delphi, jointly developing a **new wire technology**. The company also continues to work with BASF as its conductive polymer solution.

- The company has been talking to a number of battery manufacturers that make both bipolar batteries (such as those used in cars) and flow batteries (that are larger and typical in solar and wind facilities) where weight and cost to manufacture are considerations. We believe the company will create a separate wholly-owned subsidiary to pursue battery opportunities separate from the rest of the business.

- The company believes its competitive advantage against other conductive resin suppliers is its ability to turn its polymer into an electronic product that works due to its expertise in electrical engineering as well as its IP protection.

- At an enterprise value of $40 million, investors clearly have high long-term expectations for the company that may or may not come to fruition and may require patience and cash to reach that state. Near term the stock could react to a sizable order from Chang Rim, or an announcement of a battery partner.

CATALYSTS FOR FUTURE REVENUE GROWTH

Chang Rim Order

Chang Rim, Integral's Asian molding partner with exclusive rights to sell in Korea, took delivery of its first commercial order for ElectriPlast in Q2 2015. Although neither company is saying what product is being built, we do know it is a mobile consumer product. Chang Rim has sent out samples to its distributors who in turn may chose to OEM the product, putting their name on it and selling it to consumers. This is a product that may sell millions of units. The companies had anticipated that production could climb to about 100,000 units / month from 30,000 units initially. Management expects that Chang Rim could need almost **50 tons annually**, at full production. Although Integral has not yet gotten an order in hand, we believe that a consumer product would want to be on shelves by Christmas and we believe that the company could receive an order in the June or September quarter in order to have product on shelves for Christmas. An initial order of enough material to create 100,000 units could be as much as $200,000. Needless to say we have no idea if or when, or how big an order might be received for an unknown product.

Joint Development With Delphi

Integral continues to work with **Delphi on jointly developing a new wire technology**. Integral noted that the relationship has been active but has not generated any revenue. The companies continue to test product with no timeline as to if or when the new wire technology would come to market commercially.

Letter of Intent with BASF

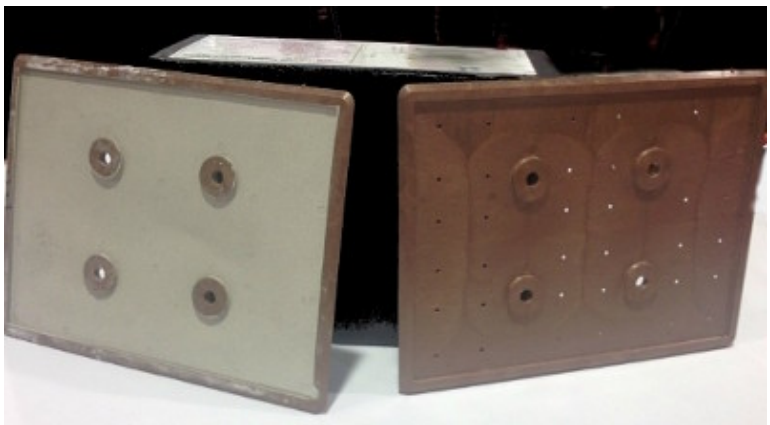
Since 2013 the company has had a relationship with BASF Corporation to jointly **explore the North American market for ElectriPlast's patented line of conductive thermoplastics**. Along with BASF, the company will approach key OEMs and Tier 1 manufacturers with opportunities for conductive thermoplastics as a lightweight material **alternative to metals**. As the world's leading chemical company, BASF's portfolio ranges from chemicals, plastics, performance products and crop protection products to oil and gas. Although there has been no revenue generated yet from the BASF relationship, Integral noted that it continues to work with BASF.

Battery Technology

Another application of the company's product is for use in batteries, both bipolar and flow batteries. The company is in talks with three distinct bipolar battery companies as well as three flow battery companies. We believe the company plans to put the battery business in its own wholly owned subsidiary where it can partner in joint ventures with battery manufacturers with out affecting the rest of the business.

Bipolar technology eliminates the use of top lead to connect the plates, thereby reducing weight by over 50%. As a plastic it also avoid corrosion associated with metal. Flow batteries are the large batteries used to store energy in solar and wind installations. Given this use the company is also pursuing government grants for research in flow battery technology. Integral believes these applications might also drive revenue from engineering services. Management believes that many companies will require Integral's engineering expertise on conductive plastic applications in order to use ElectriPlast, which is such a new product that others have not developed engineering expertise around it.

12V Bipolar Lead Acid Battery With ElectriPlast Conductive Plastic Plates



THE BATTERY MARKET

The company has four patents pending using it technology for batteries that represents a significant improvement over traditional technology and is a sizable opportunity. The lead-acid battery market was estimated at $44.7 billion globally in 2014. It is projected to reach $58.5 billion by 2020, according to Future Market Insights, which represents 4.6% CAGR.

Integral has been showing its patent pending ElectriPlast plates to the industry including a functional, 12V bipolar battery containing ElectriPlast bipolar plates as well as several prototypes **designed especially for use in electric and hybrid vehicles**.

The advantages of plastic plates are:

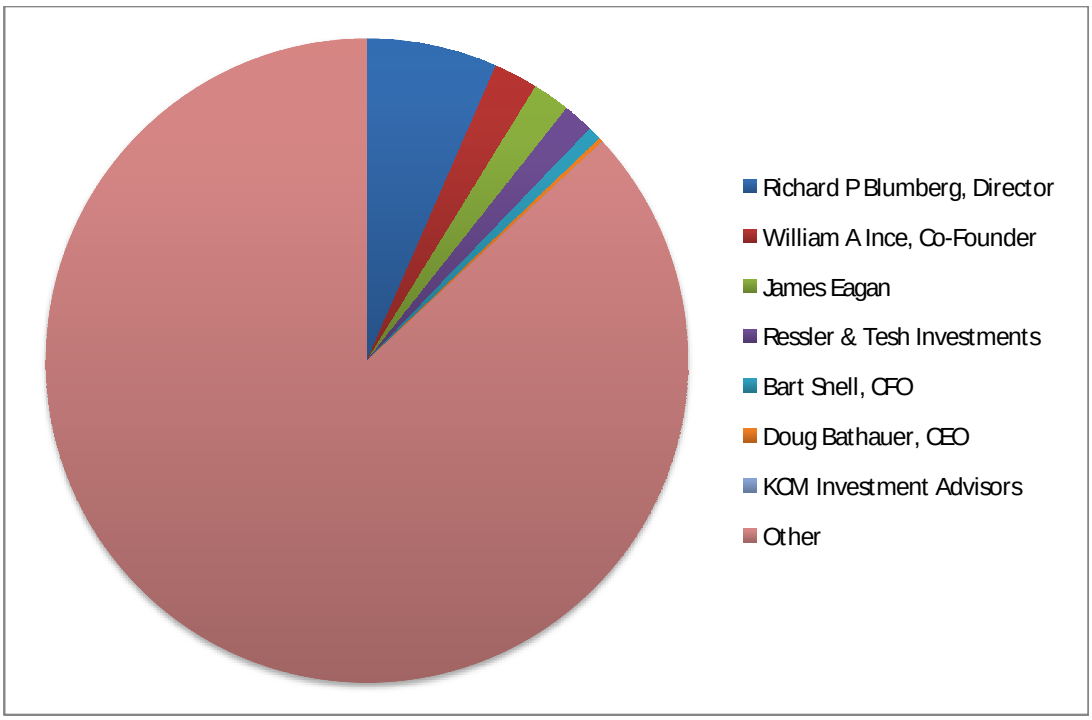
- **Lightweight and easy to assemble** into the bipolar battery package, **reducing battery weight by more than 50**%, enabling it to be applied in motorcycles, ebikes, golf carts and forklifts, as well as many applications outside of the transportation sector, which currently accounts for the largest use of lead-acid batteries. There are many other industries that have battery-operated products and require less weight such as portable appliances, power tools and even toys.

- **Highly cost effective**, since parts are molded rather than machined and as such can eliminate multiple components that are required to assemble plates made from other materials.

- **Avoids corrosion** associated with metal.

OWNERSHIP

Management, directors and insiders own 12%.



RISKS

- Despite being in business since 1996, the company still primarily in the R&D stage for its product. It has very small revenues generated from customers and losses that burn approximately $700,000 per quarter in cash. The company has funded this cash need through equity and stockholders should expect dilution of their equity investments until the company can emerge from its R&D state. We believe this could take years.

- The commercialization strategy for ElectriPlast with existing partners might not materialize in a meaningful way, spurring Integral to seek new affiliations and delaying revenue growth.

- In addition to tough competition from traditional products, other companies could gain traction with a competing technology. Integral competes with a number of very large, well-funded companies.

- Market penetration and adoption for ElectriPlast could be slower than the company anticipates or could never materialize. In particular the automotive market requires a number of years before products that are ordered are even shipped.

- The cost of retrofitting manufacturing plants in order to use ElectriPlast as a substitute material could also constrain its adoption.

- Integral might not find a partner for its battery business, which could delay further development on the technology.

INCOME STATEMENT

Income Statement	Q1 Sep. 30,	Q2 Dec 31, 2014	Q3 Mar 31, 2015	Q4 June 30,	Q1 Sep. 30,	Q2 Dec 31, 2015	Q3 Mar 31,	Q4 June 30,	FY2015	FY2016E	FY2017E
Revenue	**$ 90,782**	**$ 62,000**	**$ 45,450**	**$ 24,100**	**$ 12,700**	**$ 29,743**	**$ 12,700**	**$ 13,000**	**$ 222,332**	**$ 68,143**	**$ 870,000**
					-86%	-52%	-72%	-46%		-69%	1177%
Operating expenses:											
SG&A	891,329	1,137,913	1,105,749	$ 560,847	796,453	714,255	710,000	$ 700,000	3,695,838	2,920,708	2,800,000
Research and development	37,349	41,217	19,715	$ 557,151	182,997	162,252	165,000	$ 165,000	655,432	675,249	699,008
Total operating expenses	928,678	1,179,130	1,125,464	1,117,998	979,450	876,507	875,000	865,000	4,351,270	3,595,957	3,499,008
Operating Margin	(837,896)	(1,117,130)	(1,080,014)	(1,093,898)	(966,750)	(846,764)	(862,300)	(852,000)	(4,128,938)	(3,527,814)	(2,629,008)
Fair value loss on derivative fin liab	0	0	0	$ (139,400)	(56,850)	17,351	0	0	(139,400)	(39,499)	$ 0
Gain on ext of conv debenture	0	0	0	$ (6,577)	1,927	0	0	0	(6,577)	1,927	$ 0
Other income, net	34	(1,079)	6,490	$ (5,188)	26	157	0	0	257	183	$ 0
Interest expense	(2,655)	35,376	(82,444)	$ (108,236)	(60,738)	(164,159)	(164,159)	(164,159)	(157,959)	(553,215)	$ 0
Net Loss	(840,517)	(1,151,427)	(1,155,968)	(1,082,385)	(1,082,385)	(993,415)	(1,026,459)	(1,082,385)	(4,432,617)	(4,118,418)	(2,629,008)
Stock-based comp	44,896	49,755	44,985	44,986	44,896	89,792	89,792	45,000	184,622	269,480	184,622
Non-GAAP Loss	**(795,621)**	**(1,101,672)**	**(1,110,983)**	**(891,422)**	**(982,566)**	**(920,974)**	**(936,667)**	**(1,037,385)**	**(4,102,018)**	**(3,811,366)**	**(2,444,386)**
					15%	12%	11%	2%			
Net loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.03)	$ (0.02)
Non-GAAP EPS	**$ (0.01)**	**$ (0.0106)**	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**	**$ (0.0079)**	**$ (0.01)**	**$ (0.01)**	**$ (0.04)**	**$ (0.03)**	**$ (0.02)**
					8%	-26%	-25%	11%			
Shares Outstanding	99,824,249	104,154,424	105,375,238	114,539,678	114,539,678	117,022,424	118,465,000	120,000,000	106,267,953	117,506,776	137,482,927
			30%		15%	12%	12%	5%	24%	11%	17%

BALANCE SHEET

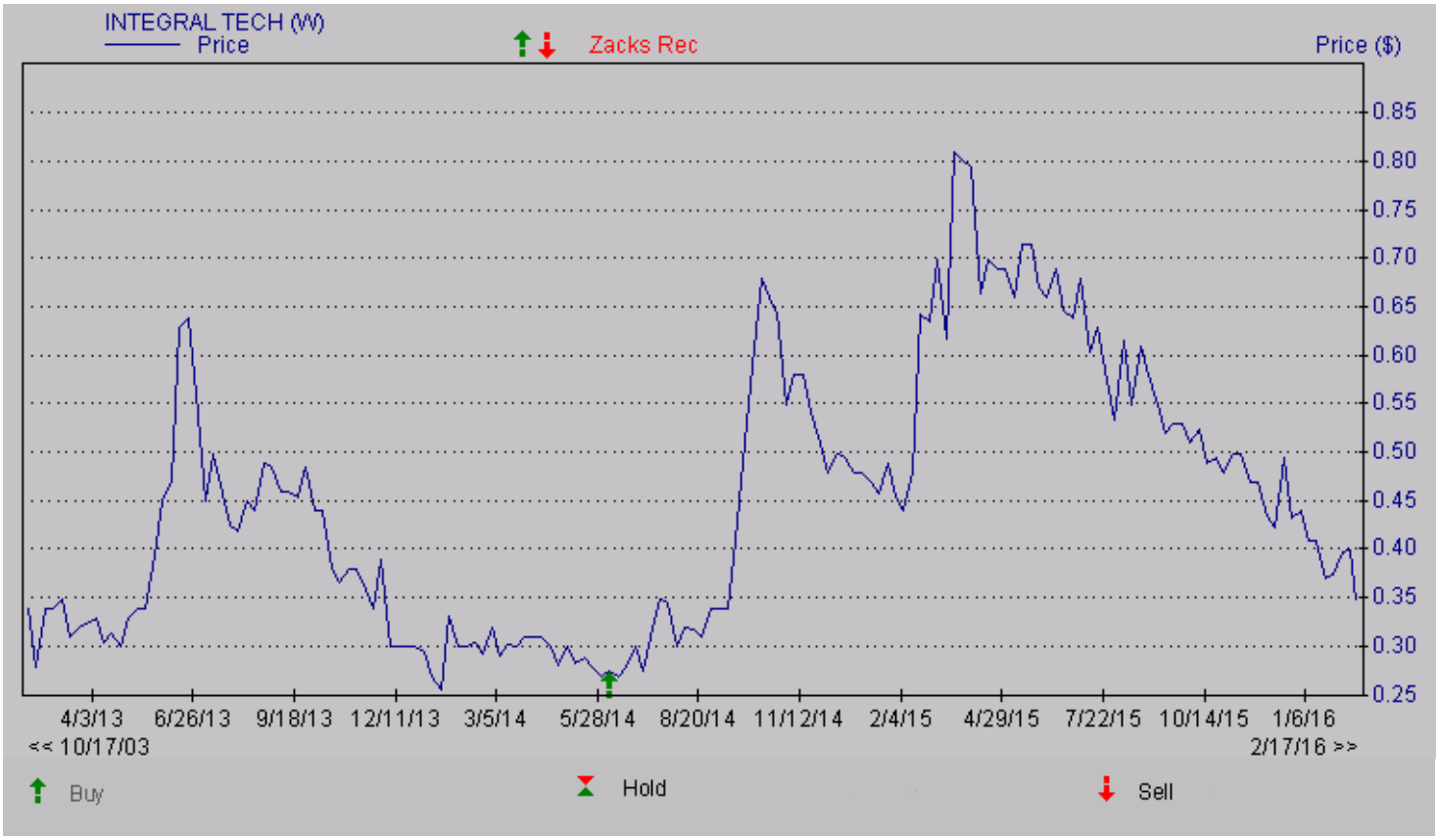
The company had $282,000 of cash on its balance sheet at December 31 2015. It continues to fund losses through the **exercise of warrants**. The company estimates that it would raise about $6.1 million of cash from the warrants that are already issued and outstanding at the current level of ITKG shares. During Q2 FY16, proceeds from the exercise of warrants were $813,000 and $100,000 from convertible debt.

	Dec 31, 2015	Sep. 30, 2015	% Change
Current assets:			
Cash	$ 281,569	$ 252,142	12%
Accounts receivable	$ 5,420	$ 0	NM
Prepaid expenses	41,825	56,559	-26%
Total current assets	323,394	308,701	5%
Deposit	2,500	2,500	0%
Property and equipment, net	76,979	64,368	20%
Total Assets	402,873	375,569	7%
Current liabilities:			
Accounts payable and accruals	667,049	616,230	8%
Deferred revenue	50,000	50,000	0%
Convertible debentures	325,538	154,510	111%
Derivative liabilities	640,075	575,790	11%
Total current liabilities	1,682,662	1,396,530	20%
Non-current liabilities:			
Deferred revenue, net of current portion	345,833	358,333	-3%
Total non-current liabilities	345,833	358,333	-3%
Total Liabilities	$ 2,028,495	$ 1,754,863	16%
Stockholders' Deficit			
Common stock	53,089,381	52,231,214	2%
Share subscriptions and obligations to issue shares	302,534	408,194	-26%
Accumulated other comprehensive income	46,267	46,267	0%
Accumulated deficit	55,058,384	(54,064,969)	-202%
Total stockholders' deficit	(1,620,202)	(1,379,294)	17%
Total Liabilities and Stockholders' Deficit	$ 408,293	$ 375,569	9%
Current Ratio	0.2	0.2	-13%
Debt	965,613	730,300	32%
Working Capital	(1,359,268)	(1,087,829)	25%

CASH FLOWS

2016 Quarterly Cash Flows	3 months Sep. 30, 2015	3 months Dec 31, 2015
Cash flows from operating activities:		
Net loss	$ (1,082,385)	$ (993,415)
Items not involving cash		
Depreciation	1,146	$ 1,145
Stock issued for consulting services	6,220	$ 0
Stock-based compensation	44,896	$ 44,896
Interest on convertible debenture	51,640	$ 152,664
Fair value loss on derivative financial liabilities	56,850	$ (17,351)
Gain on extinguishment of convertible debenture	(1,927)	$ 0
Obligation to issue shares for consulting services	9,720	$ 8,340
Deferred revenues	(12,500)	$ (12,500)
Changes in working capital	218,560	$ 60,133
Net cash used in operating activities	(707,780)	(756,088)
Cash flows from investing activity:		
Purchase of property, equipment and intangible assets	0	$ (13,756)
Net cash used in investment activity	0	$ (13,756)
Cash flows from financing activities:		
Repayment of loan	(32,335)	$ 0
Proceeds from issuance of common stock	28,000	$ 0
Proceeds from warrants exercised	69,000	$ 813,271
Subscriptions received	114,000	$ (114,000)
Proceeds from convertible debentures	663,950	$ 100,000
Net cash provided by financing activities	842,615	$ 799,271
Increase (decrease) in cash	134,835	$ 29,427
Cash, beginning of period	117,307	$ 252,142
Cash, end of period	$ 252,142	$ 281,569
Cash Flow	$ (707,780)	$ (756,088)
Free Cash Flow	(707,780)	(769,844)

HISTORICAL ZACKS RECOMMENDATIONS



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Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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