Zacks Small-Cap Research

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Integral Technologies, Inc. (ITKG-OTC)

ITKG: Upcoming Revenue Catalysts

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/05/2014
Current Price (11/23/15)	$0.47
Six- Month Target Price	**$0.85**

OUTLOOK

Integral is confident about its underlying business trends and believes there are several potential revenue catalysts, including the recently signed biggest ElectriPlast contract ever and a licensing agreement with an undisclosed partner. While the Delphi and BASF affiliations have not yet produced revenue, management remains optimistic about their prospects. The company also indicated that the interest following the recent exhibition of its patent pending ElectriPlast plates at the Battery Show has been strong.

SUMMARY DATA

52-Week High	**$0.85**
52-Week Low	**$0.40**
One-Year Return (%)	**-13.0**
Beta	**-0.97**
Average Daily Volume (sh)	**91,626**
Shares Outstanding (mil)	**117**
Market Capitalization ($mil)	**$55**
Short Interest Ratio (days)	**2.7**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**13**
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)
2013	0.07A	0.05 A	0.07 A	0.06 A	0.25 A
2014	6.41 A	6.31 A	6.31 A	10.14 A	29.17 A
2015	90.8 A	62.0 A	45.5 A	24.1 A	222.3 A
2016	12.7 A	55.8 E	50.0 E	48.2 E	167.0 E

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

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2013	-$0.00 A	-$0.01 A	-$0.00 A	-$0.01 A	-$0.00 A
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 E	-$0.01 E	-$0.01 E	-$0.03 E

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

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KEY POINTS

- Integral reported 1Q FY16 results last week, and y/y comparisons were weak. However, management indicated that several factors skewed comparisons. Management remains optimistic about its underlying business trends and believes there are several potential revenue catalysts, including the recently signed biggest ElectriPlast contract ever and a licensing agreement with an undisclosed partner.

- 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.

- Integral received its largest ElectriPlast order ever in August of 2015, placed by Chang Rim, Integral's Asian molding partner. We believe it illustrates the benefits of the company's partnership strategy and the difficulty of predicting when partnerships will lead to commercial orders and revenue. Despite this challenge, we would expect Integral's revenue to build as more partnerships begin to generate commercial orders.

- Integral has entered into an agreement in principle with an undisclosed global manufacturing company to license rights to ElectriPlast, which would provide Integral with a better-capitalized global partner to expand ElectriPlast sales and application development reach. The company expects the agreement to be finalized shortly.

- On November 4, 2015, the company exhibited its patent pending ElectriPlast plates at the Battery Show. Management has indicated that the follow-up interest has been strong and that it is working with several battery companies to assist with the design and application of its technology in their batteries.

FY 1Q 2016 FINANCIAL HIGHLIGHTS

Integral Technologies (OTC: ITKG) reported 1Q FY16 results last week, and year-over-year comparisons were weak. However, management indicated that several factors – discussed in this report – made comparisons not completely apples-to-apples. Management remains optimistic about its underlying business trends and believes there are several potential revenue catalysts, including the recently signed biggest ElectriPlast contract ever and a licensing agreement with an undisclosed partner.

Integral generated revenue of $12,700 during fiscal 1Q 2016 compared to $90,782 recorded in fiscal 1Q 2015. Revenue during the quarter came primarily from the company's recognition of the Hanwha deferred revenue. Integral is amortizing the $500,000 payment it received from Hanwha over a 10-year period corresponding to the terms of Hanwha's license.

In 2015, Hanwha restructured, which caused some disruption for Integral in the short-term, according to management. First, over the past several months, Hanwha relocated its ElectriPlast manufacturing line, putting its ElectriPlast manufacturing capability on hold for a short time. According to management, the line is back in operation now and management remains optimistic about its prospects in Korea with Hanwha.

Revenue comparisons are also somewhat skewed, as last year's first quarter included one-time revenue of $75,000 for engineering services that Integral provided to East Penn Manufacturing. By comparison, the company recorded no engineering revenue in the first quarter of FY 2016. We continue to believe that revenue from licensing, engineering and ElectriPlast sales is likely to ramp over time, despite some expected quarter-to-quarter lumpiness.

Reflecting the higher revenue and lower non-operating costs, Integral's fiscal 1Q 2016 net loss attributable to common shareholders was ($1.1) million compared to ($0.84) million registered in fiscal 1Q 2015. We have revised our forecast to reflect recent trends.

CATALYSTS FOR FUTURE REVENUE GROWTH

Joint Development With Delphi

As noted, management remains optimistic about its underlying business and expects substantially improved results in future periods. While the Delphi and BASF affiliations have not yet produced revenue, management remains optimistic about their prospects. Among the potential catalysts, Integral continues to work with Delphi. The two companies are jointly developing a new wire technology. Integral noted that the relationship has been active in 2015, even though it has not generated any revenue yet. The companies have had a few product trials over the past few months, with additional tests scheduled. The partners have made significant investments in engineering and tooling to advance the development of the new wire technology. Integral remains optimistic about the prospects, although currently there is no timeline as to when the new wire technology will come to market commercially.

Letter of Intent with BASF

In June of 2013, the company signed a Letter of Intent with BASF Corporation, a leader in the chemical sector, 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.

Chang Rim Order

Integral received its largest ElectriPlast order ever in August of 2015. The order was placed by Chang Rim, Integral's Asian molding partner, and it was Chang Rim's first commercial order for ElectriPlast. The company noted that the order for a consumer product began production even though no associated revenue was recorded in 1Q 2016. Chang Rim and Integral anticipate that production will climb to about 100,000 units / month from 30,000 units initially. Management expects that Chang Rim will need almost 50 tons annually, once it has reached full production.

Integral has been affiliated with Chang Rim for several years and this is its first commercial order. We believe it illustrates the benefits of the company's partnership strategy and the difficulty of predicting when partnerships will lead to commercial orders and revenue. Despite this challenge, we would expect Integral's revenue to build as more partnerships begin to generate commercial orders.

Integral also plans to stimulate ElectriPlast sales by developing new applications such as the new wire with Delphi and the new plastic bipolar plate. In turn, 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.

Licensing Partner

Integral has entered into an agreement in principle with an undisclosed global manufacturing company to license rights to ElectriPlast, which would provide Integral with a better-capitalized global partner to expand ElectriPlast sales and application development reach. The company expects the agreement to be finalized shortly.

BALANCE SHEET

The company had $252,000 of cash on its balance sheet at September 2015 compared to $708,000 of cash used in operating activities during the quarter. The company hopes to raise funds in ways that are non-dilutive to current shareholders, including through the exercise of warrants. The company estimates that it would raise about $8.3 million of cash from the warrants that are already issued and outstanding at the current level of ITKG shares. During 1Q FY16, proceeds from the exercise of warrants were $69,000.

During 1Q FY16, the company also added $663,950 of convertible debt, essentially to bridge the gap between its need for short-term capital to fund operations and the October 1, 2015 expiration of a significant number of warrants. The company expects to repay a substantial portion of this new debt within 1Q FY16, with minimal prepayment penalty.

The company believes its warrant holders are long-term investors, but has noted that it plans to repurchase the notes if dilutive conversion seems likely. Minimizing dilution to shareholders is an important goal for Integral. The company remains committed to debt reduction and has reduced debt by some $600 thousand since March of 2014 and has eliminated preferred shares.

NEW BATTERY TECHNOLOGY

Developing Applications to Drive ElectriPlast Sales

As with the wire technology that Integral is developing with Delphi, the company's goal is to develop applications that spur the use of ElectriPlast. One such application is the recent invention of a highly conductive plastic bipolar plate that Integral will develop into a lightweight, moldable, cost effective battery. We believe the company has four patents pending around this technology. Management believes this represents a significant improvement over existing technology and 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.

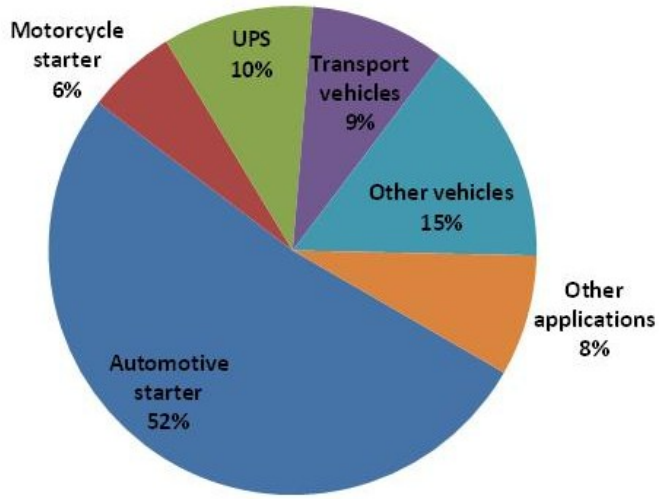
On November 4, 2015, the company exhibited its patent pending ElectriPlast plates at the Battery Show. The Battery event showcases the latest advances in battery technology. The company was able to showcase its new battery technology, with a functional, 12V bipolar battery containing ElectriPlast bipolar plates on display. The company also displayed several prototypes designed especially for use in electric and hybrid vehicles. Management has indicated that the follow-up interest has been strong and that it is working with several battery companies to assist with the design and application of its technology in their batteries.

According to Integral, the plates are "lightweight and easy to assemble" into the bipolar battery package. The technology reduces battery weight by more than 50%, enabling it to be applied in motorcycles, 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. For example, management believes the technology could be used in improving grid efficiency and for fuel cells for baseload power, among other

applications. Use of lead-acid batteries to power grid storage is projected to grow dramatically from a small percentage currently.

Integral also believes that its bipolar plate is highly cost effective, reflecting high volume processing capability and the elimination of the multiple components that are required to assemble plates made from other materials. Integral expects significant advantages from using plastic instead of metal, as lead corrodes and has a limited lifetime.

Demand for Lead-Acid Batteries



Source: Industrial Technology Research Institute, 2011

Over the years, consumer electronics have improved in a variety of ways, becoming thinner, lighter, more durable and more sophisticated. The rapid growth in portable smart devices, as well as of electric automobiles, has led to growing demand for battery power. However, R&D and innovation of battery technology has not kept pace with strides on the consumer electronics and green automotive side or with growing demand for power storage.

RECENT NEWS

Earlier this month, the company reported 1Q FY16 results on November 16, 2015.

On November 16, 2015, Integral entered into an agreement in principle with an undisclosed global manufacturing company to license rights to ElectriPlast, which would provide Integral with a better-capitalized global partner to expand ElectriPlast sales and application development reach. The company expects the agreement to be finalized shortly.

On November 4, 2015, the company exhibited at the Battery Show, which was the first time that Integral's bipolar plates were showcased publicly. Concurrently, the company also exhibited its solutions for the automotive sector at the Electric & Hybrid Technology Expo.

The company also announced the receipt of the largest ElectriPlast order in its history in August 2015.

RISKS

- 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. Moreover, revenue has been lumpy, which may continue, and revenue growth may be slower than management anticipates.

- Another company could gain traction with a competing technology. For this reason, management has aggressively launched a go-to market strategy to benefit from early mover advantage.

- Market penetration and adoption for ElectriPlast could be slower than the company anticipates or could never materialize.

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

- Integral is under-capitalized and will likely need to seek additional short-term funding until it reaches a certain revenue level. The company intends to minimize the dilutive impact largely through warrants, but could require more funding than management currently anticipates.

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

PROJECTED INCOME STATEMENT & BALANCE SHEET

Integral Technologies, Inc. Income Statement & Projections

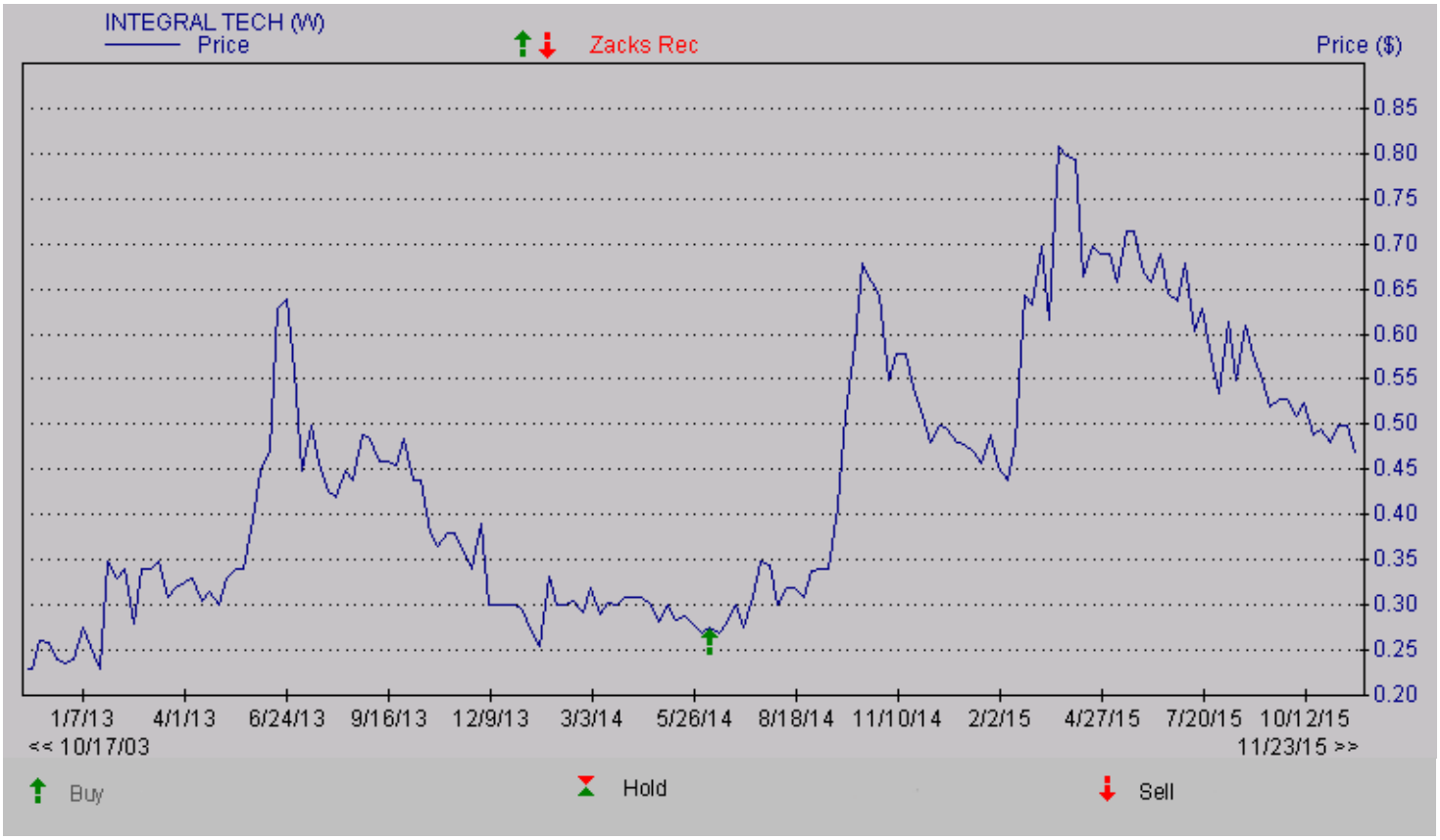
($)	Sep-14	Dec-14	Mar-15	Jun-15		Sep-15	Dec-15	Mar-16	Jun-16	
	1Q15A	2Q15A	3Q15A	4Q15A	FY15A	1Q16A	2Q16E	3Q16E	4Q16E	FY16E
Revenue	90,782	62,000	45,450	24,100	222,332	12,700	55,800	49,995	48,200	166,695
R&D	19,349	41,217	19,715	575,151	655,432	796,453	395,000	395,000	395,000	1,981,453
S,G&A	909,233	1,096,696	1,105,749	584,160	3,695,838	182,997	595,000	595,000	595,000	1,967,997
Non-recurring					-		-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total operating expense	928,582	1,137,913	1,125,464	1,159,311	4,351,270	979,450	990,000	990,000	990,000	3,949,450
Operating income	**(837,800)**	**(1,075,913)**	**(1,080,014)**	**(1,135,211)**	**(4,128,938)**	**(966,750)**	**(934,200)**	**(940,005)**	**(941,800)**	**(3,782,755)**
Other inc / exp net	62	913	(6,490)	5,258	(257)	26	(100)	(100)	(100)	(274)
Bank charges & interest	2,655	35,376	82,444	37,484	157,959	(60,738)	40,000	40,000	40,000	59,262
Fair value derivatives				-		(56,850)				
Conv. debentures gain/ chg				6,577	6,577					
Gain/ (loss) debt exting.				139,400	139,400	1,927				
Financing fees	-	-	-	-	-	-	-	-	-	-
	2,717	36,289	75,954	188,719	303,679	(115,635)	39,900	39,900	39,900	58,988
Loss for common sharehol	(840,517)	(1,112,202)	(1,155,968)	(1,323,930)	(4,432,617)	(1,082,385)	(894,300)	(900,105)	(901,900)	(3,723,767)
Loss Per Share	($0.01)	($0.01)	($0.01)	($0.01)	($0.04)	($0.01)	($0.01)	($0.01)	($0.01)	($0.03)
Avg. shares out	99,824,249	104,154,424	105,375,238	106,267,953	106,267,953	114,539,678	114,589,678	114,589,678	114,639,678	114,639,678

Integral Technologies, Inc. Balance Sheet

($)	Sept 2013	Dec 2013	March 2014	June 2014	Sept 2014	Dec 2014	Mar 2015	June 2015	Sept 2015
Cash	309,784	41,878	755,971	199,777	181,196	80,552	306,860	117,307	252,142
Prepaid expense	30,227		46,106	23,831	192,732	79,212	75,305	64,541	56,559
Account receivable	-	-	-	-		4,500			
Property & equipment	-	-	-	27,821	35,017	50,572	66,820	65,514	64,368
Other	-	-	-	-	-	2,500	2,500	2,500	2,500
Total Assets	**$340,011**	**$41,878**	**$802,077**	**$251,429**	**$408,945**	**$217,336**	**$451,485**	**$249,862**	**$375,569**
Accounts payable and accruals	1,803,061	1,650,692	943,930	973,220	739,613	776,555	669,795	405,652	616,230
Loan payable			52,323	60,000			56,587	32,335	50,000
Notes payable	53,950	60,000	65,000		110,000	60,000	165,000		
Deferred revenue	25,000	25,000	25,000	50,000	125,000	80,000	50,000	50,000	154,510
Loan payable	20,189								
Convertible debentures	108,895	137,030	217,846			44,779	55,254	94,107	
Derivative financial liabilities	517,109	300,117	271,957			105,820	125,550	87,821	575,790
Redeemable preferred stock	210,000	240,000	170,000	-	-	-	-	-	-
Total current liabilities	**$2,738,204**	**$2,412,839**	**$1,746,056**	**$1,083,220**	**$974,613**	**$1,067,154**	**$1,122,186**	**$669,915**	**$1,396,530**
Deferred revenue	218,750	212,500	206,250	420,833	408,333	395,833	383,333	370,833	358,333
Redeemable Preferred Stock	90,000	60,000	-						
Notes payable	-	215,000	450,000	229,500	219,000	204,000	-	-	-
Total Liabilities	**$3,046,954**	**$2,900,339**	**$2,402,306**	**$1,733,553**	**$1,601,946**	**$1,666,987**	**$1,505,519**	**$1,040,748**	**$1,754,863**
Total Stockholders' Deficit	**($2,706,943)**	**($2,858,461)**	**($1,600,229)**	**($1,482,124)**	**($1,193,001)**	**($1,449,651)**	**($1,054,034)**	**($790,886)**	**($1,379,294)**
Total Liabilities and Stockholders'	**$340,011**	**$41,878**	**$802,077**	**$251,429**	**$408,945**	**$217,336**	**$451,485**	**$249,862**	**$375,569**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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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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