Zacks Small-Cap Research

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Integral Technologies, Inc. (ITKG-OTC)

ITKG: FY 2015 Groundwork Position Company for Growth Going Forward

OUTLOOK

Integral's FY 2015 achievements likely position it for growth going forward, in our view. The company has transitioned from essentially the pre-revenue stage to early revenue generation from three different business sources: engineering services, licensing and ElectriPlast sales. Moreover, in 1Q FY16, Integral received its largest ElectriPlast order to-date. We view this as a positive indicator that the company can continue to grow revenue in FY 2016-17.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/05/2014
Current Price (10/20/15)	$0.50
Six- Month Target Price	**$0.85**

SUMMARY DATA

52-Week High	**$0.85**
52-Week Low	**$0.40**
One-Year Return (%)	**23.5**
Beta	**-0.86**
Average Daily Volume (sh)	**136,611**
Shares Outstanding (mil)	**115**
Market Capitalization ($mil)	**$58**
Short Interest Ratio (days)	**1.2**
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	40.9 E	59.5 E	77.3 E	84.4 E	262.0 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 E	-$0.01 E	-$0.01 E	-$0.01 E	-$0.03 E

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

Disclosures begins on page 10

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KEY POINTS

- Integral attained many milestones in fiscal 2015 and to-date in fiscal 2016 that likely position it for a stronger FY 2016, in our view, including deleveraging, moving from essentially pre-revenue to revenue generation, developing a new battery technology and receiving its biggest ElectriPlast order ever in 1Q FY 2016.
- FY 2015 revenue came in at $222,332 compared to $29,167 recorded in FY 2014, moving the company essentially from the pre-revenue stage to early revenue generation. The $193,165 advance reflected increases in all three revenue sources, engineering services, licensing and ElectriPlast sales.
- With the largest ElectriPlast order ever received in 1Q FY16, we are optimistic that Integral can continue to grow its revenue in FY 2016-17. Integral also plans to stimulate ElectriPlast sales by developing new applications, such as its plastic bipolar plate.
- The company plans to continue its cost cutting measures and to earmark spending towards business development, manufacturing and generating revenue.

RECENT MILESTONES

With its recently reported fourth quarter 2015 results, Integral Technologies (OTC: ITKG) enumerated the many milestones that it attained in FY 2015 and to-date in FY 2016. These include dramatically deleveraging the balance sheet, moving from essentially the pre-revenue stage to generating revenue through three different business sources, developing a new battery technology that management believes could lead to new partnerships and income, and receiving the largest ElectriPlast order ever in 1Q FY16.

Integral Recent Highlights

Strengthened balance through deleveraging measures	Total debt declined by $75,237 in FY 2015
Moved from pre-revenue stage to early revenue generator	FY 2015 revenue was $222,332 vs. FY 2014 revenue of $29,167
Developed new battery technology	Expected to spur demand for ElectriPlast
Received largest ElectriPlast order ever	Chang Rim placed its first commercial order for ElectriPlast
Improved internal controls	Removed material weakness reported in FY 2014
Strengthened Board	Added independent Audit Committee chairman, positioning for future uplisting
Strengthened finance team	Hired new Controller
Emphasized non-dilutive sources of new financing	Raised $685,989 in FY 2015 through the exercise of outstanding warrants

Source: Company reports

We believe the company provided proof of concept about its technology and business in fiscal 2015. Management has laid the groundwork, in our view, to turn Integral from a *show me* story to a growth company that leverages its core technologies and business development plans.

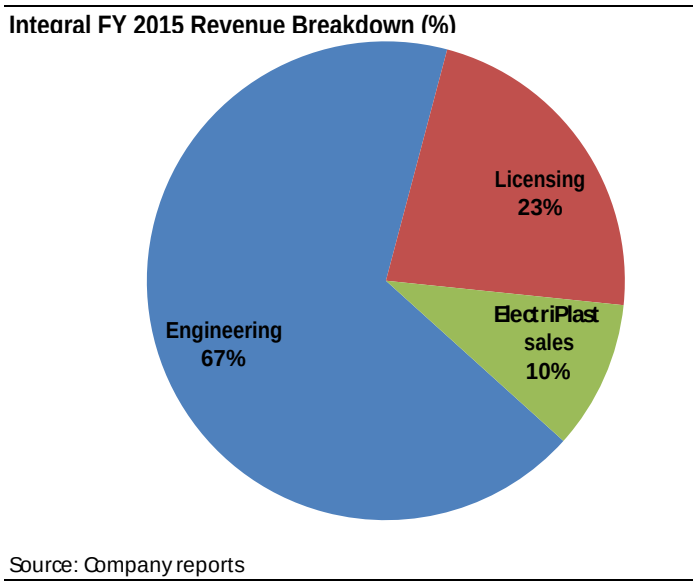
FY 2015 FINANCIAL HIGHLIGHTS

Integral generated revenue of $222,332 for fiscal 2015 compared to $29,167 generated in fiscal 2014. This $193,165 revenue increase was attributable to higher licensing revenue, engineering support and sales of ElectriPlast. Engineering services revenue was $150,000. By comparison, the company recorded no engineering revenue in FY 2014. Engineering revenue accounted for 67% of the total FY

2015 top-line. The engineering services contribution reflects Integral's September 2014 agreement with East Penn Manufacturing, which operates the largest single-site, lead-acid battery manufacturing facility in the world and, according to management, is a leader in custom wire and cable solutions. ElectriPlast provided engineering and design services, materials and finished products to East Penn and recognized the $150,000 payment over the course of FY 2015.

Licensing revenue was $50,000 or 22% of total FY 2015 revenue compared to $25,000 in FY 2014. Integral is amortizing the $500,000 payment it received from Hanwha over a 10-year period corresponding to the terms of Hanwha's license. The company reiterated that it is optimistic about its opportunities with Hanwha, which has opened a manufacturing line dedicated to ElectriPlast and continues to make progress in Asia, according to management.

Another $22,332 or 10% of total FY 2015 revenue came from sales of ElectriPlast. This is still minimal, in our opinion, but we view it as a beginning. We expect revenue from all three sources is likely to ramp substantially over time, despite some expected quarter-to-quarter lumpiness. The company has also indicated that it plans to direct its operating spending toward supporting manufacturing and spurring revenue.



Source: Company reports

Reflecting its stronger balance sheet (see below), fiscal 2015 interest expense was ($157,959), down from ($401,904) recorded in FY 2014. Following the reduction in convertible promissory notes, the company registered a loss on convertible debt extinguishment of ($6,577) compared to ($150,076). Having eliminated the preferred shares, Integral did not pay a preferred stock dividend in fiscal 2015 compared to ($15,460) in FY 2014. Reflecting the higher revenue and lower non-operating costs, Integral's fiscal 2015 net loss attributable to common shareholders was ($4.432) million compared to ($4.542) million registered in FY 2014, when the company also benefited from a $198,654 non-cash gain on extinguishment of liabilities.

Integral received its largest ElectriPlast order to-date in 1Q FY16, which we view as a positive indicator that it can continue to grow revenue in FY 2016-17. Integral also plans to stimulate ElectriPlast sales by developing new applications such as its plastic bipolar plate. In turn, new ElectriPlast 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.

NEW BATTERY TECHNOLOGY

Management Expects Applications to Drive ElectriPlast Sales

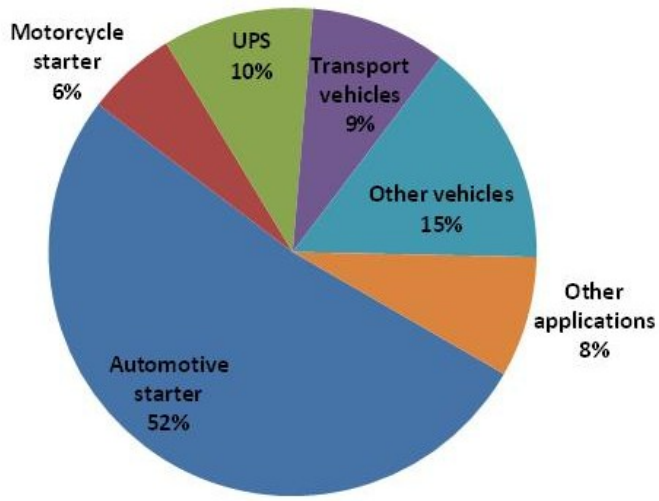
The company's goal is to develop applications that spur the use of ElectriPlast. One such application is the recent invention of a highly conductive plastic bipolar plate that Integral will develop into a lightweight, moldable, cost effective battery. We believe the company has four patents pending around 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.

Management noted that it is working with three separate battery companies to assist with the design and application of its technology in their batteries. In addition, the company also exhibited at the Battery Show and Electric & Hybrid Vehicle events last month. 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.

Integral 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.

According to management, the technology has applications in a variety of sectors including the automotive sector, which is one of the largest end-user markets for lead-acid batteries. The transportation sector accounts for the lions' share of lead-acid battery demand, although this is expected to shift somewhat, particularly as use of lead-acid batteries to power grid storage is projected to grow dramatically from a small percentage currently. In addition to the automotive sector, Integral believes that its battery technology has many other applications, as well.

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.

Structured as a Separate Business Unit: Targeting Direct Investment

Integral does not intend to pursue the battery opportunity independently. Just as it has formulated partnerships for its core business, the company intends to seek partners to help develop and commercialize the battery technology. Towards this goal, Integral's strategy is to create a new battery business unit that will be separate from its main ElectriPlast business. Management believes this structure will allow potential partners to invest directly in the battery business. The company intends to leverage relationships of advisory board members to form partnerships for battery and power storage and has noted that this process is already underway. In fact, management has indicated that it has already garnered interest from some high profile industry participants interested in its technology.

Integral intends to develop large market verticals including aerospace, consumer electronics, power grid storage and Department of Defense government contracting. While the company expects that battery partners will focus development efforts primarily on the new battery business, management believes there could be cross-over opportunities for partners to engage with multiple Integral verticals. This structure would also facilitate a potential spin-off or sale of the battery unit down the road, depending on the economics.

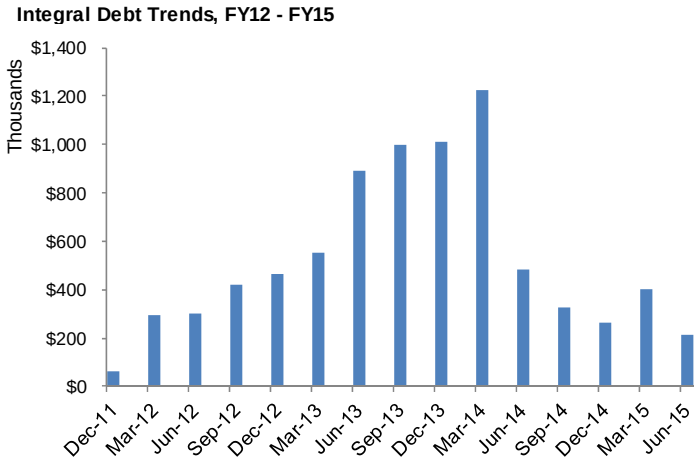
LARGEST ELECTRIPLAST ORDER TO-DATE

Integral received its largest ElectriPlast order ever in 1Q FY 2016. The order was placed by Chang Rim, Integral's Asian molding partner, and it was Chang Rim's first commercial order for ElectriPlast. The consumer product is expected to go into production in the near-term, initially at 30,000 units / month. Chang Rim and Integral anticipate that production will climb to about 100,000 units / month. 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. To-date, the Hanwha relationship has produced licensing revenue but no ElectriPlast sales, we believe, while the Delphi and BASF affiliations have not yet produced revenue, although management remains optimistic about their prospects. We are conservatively forecasting an 18% revenue increase in FY 2016 and lowering our price target to $0.85 from $1.25. We would not be surprised if revenue lumpiness continued in the near-term. Reflecting how quickly the Chang Rim order ramps, as well as the timing of expected new orders and when other affiliations produce revenue, our forecast could prove conservative or even prove aggressive. Nevertheless, we believe management has laid the groundwork to turn Integral over time into a growth company leveraging its core technologies and business development plans.

BALANCE SHEET

The company has reduced debt by some $75 thousand since June 2014, which contributed to lower interest expense in fiscal 2015, as noted. Management expects to raise funds as existing warrants are exercised, which is a non- dilutive way of financing its operations, as the fully diluted share count already reflects the exercise of outstanding warrants. In fiscal 2015, the company raised $685,989 through the exercise of warrants. 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.



Source: Company reports

RECENT NEWS

In July 2015, Integral announced the addition of Jeffrey Babka to its Board of Directors and as Chairman of the Audit Committee. He has more than 40 years of experience in financial and operational management of both public and private companies, according to the company, and has focused on the technology, software and telecommunications sectors. Management believes that his background makes him particularly qualified as the Chairman of the Audit Committee and is another example of Integral strengthening its corporate governance and oversight. It is also a step forward in the company's goal of having an independent board. Management also noted that with an independent head of the Audit Committee, Integral has positioned itself for a potential uplising in the future.

This appointment follows the company's April 2015 announcement that it had added James Wise, Managing Partner of PACE Companies, LLP, to its Advisory Board. Integral believes that he is well positioned to help the company build strategic alliances to exploit the light-weighting opportunity.

In August, the company announced that it would exhibit ElectriPlast technologies at last month's 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

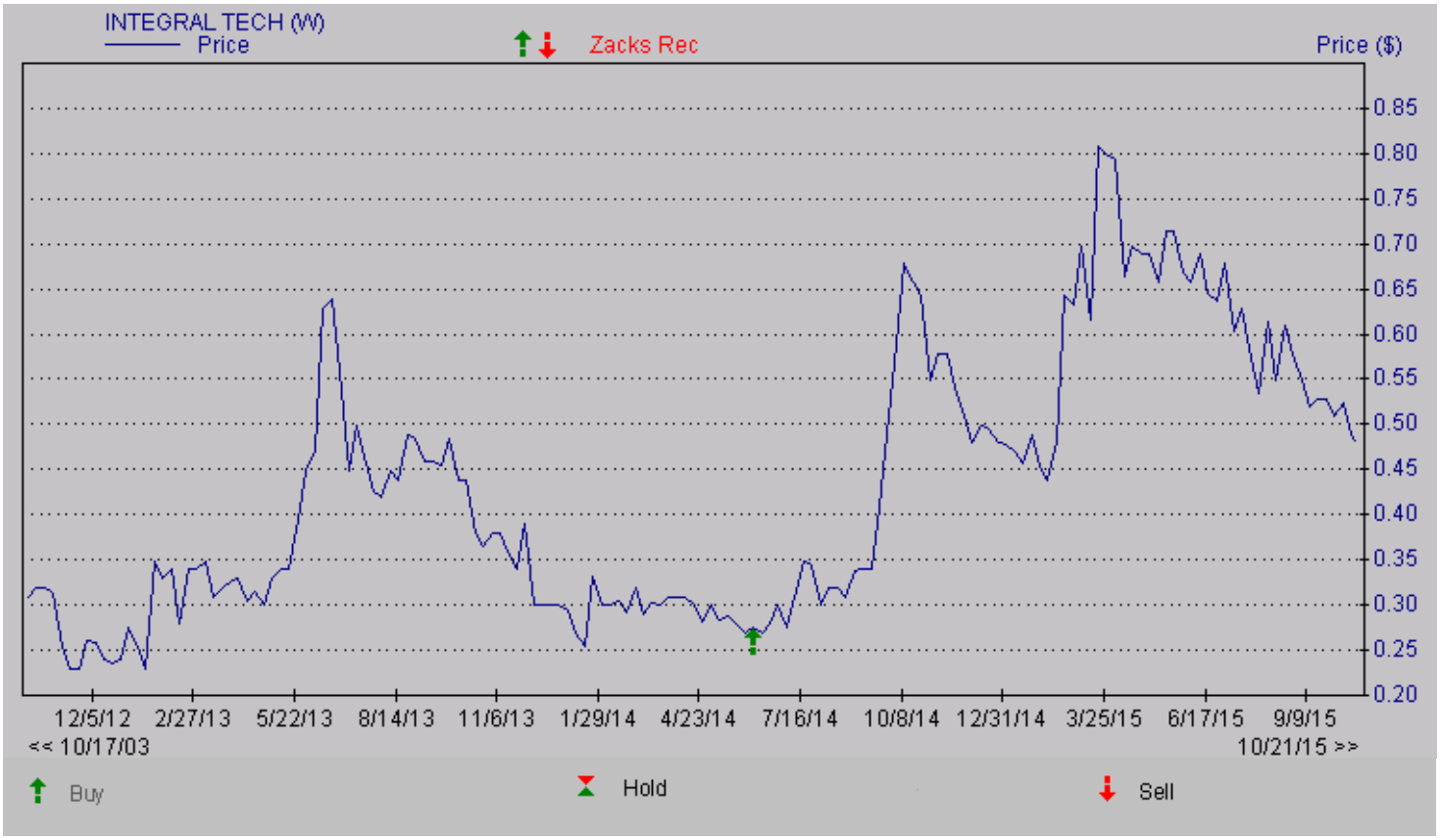
($)	Sep-14	Dec-14	Mar-15	Jun-15		Sep-15	Dec-15	Mar-16	Jun-16	
	1Q15A	2Q15A	3Q15A	4Q15A	FY15A	1Q16E	2Q16E	3Q16E	4Q16E	FY16E
Revenue	90,782	62,000	45,450	24,100	222,332	40,852	59,520	77,265	84,350	261,987
R&D	19,349	41,217	19,715	575,151	655,432	395,000	395,000	395,000	395,000	1,580,000
S,G&A	909,233	1,096,696	1,105,749	584,160	3,695,838	595,000	595,000	595,000	595,000	2,380,000
Non-recurring					-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total operating expense	928,582	1,137,913	1,125,464	1,159,311	4,351,270	990,000	990,000	990,000	990,000	3,960,000
Operating income	**(837,800)**	**(1,075,913)**	**(1,080,014)**	**(1,135,211)**	**(4,128,938)**	**(949,148)**	**(930,480)**	**(912,735)**	**(905,650)**	**(3,698,013)**
Other inc / exp net	62	913	(6,490)	5,258	(257)	(100)	(100)	(100)	(100)	(400)
Bank charges & interest	2,655	35,376	82,444	37,484	157,959	40,000	40,000	40,000	40,000	160,000
Fair value derivatives				-						
Conv. debentures gain/ chg				6,577	6,577					
Gain/ (loss) debt exting.				139,400	139,400					
Financing fees	-	-	-	-	-	-	-	-	-	-
	2,717	36,289	75,954	188,719	303,679	39,900	39,900	39,900	39,900	159,600
Loss for common sharehol	(840,517)	(1,112,202)	(1,155,968)	(1,323,930)	(4,432,617)	(909,248)	(890,580)	(872,835)	(865,750)	(3,538,413)
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	106,317,953	106,367,953	106,367,953	106,417,953	106,417,953

Integral Technologies, Inc. Balance Sheet

($)	June 2012	Sept 2012	Dec 2012	March 2013	June 2013	Sept 2013	Dec 2013	March 2014	June 2014	Sept 2014	Dec 2014	Mar 2015	June 2015
Cash	172,173	321,890	284,222	169,064	532,308	309,784	41,878	755,971	199,777	181,196	80,552	306,860	117,307
Prepaid expense	19,723	111,276	80,928	50,580	20,232	30,227		46,106	23,831	192,732	79,212	75,305	64,541
Account receivable	-	-	-	-	250,000	-	-	-	-		4,500		
Property & equipment	-	-	-	-	-	-	-	-	27,821	35,017	50,572	66,820	65,514
Other	-	-	-	-	-	-	-	-	-	-	2,500	2,500	2,500
Total Assets	**$191,896**	**$433,166**	**$365,150**	**$219,644**	**$802,540**	**$340,011**	**$41,878**	**$802,077**	**$251,429**	**$408,945**	**$217,336**	**$451,485**	**$249,862**
Accounts payable and accruals	2,032,309	2,353,369	2,410,715	1,890,307	2,270,727	1,803,061	1,650,692	943,930	973,220	739,613	776,555	669,795	405,652
Loan payable				31,708				52,323	60,000			56,587	32,335
Notes payable	123,696	79,461	60,529	-	-	53,950	60,000	65,000		110,000	60,000	165,000	
Deferred revenue	-		67,273		25,000	25,000	25,000	25,000	50,000	125,000	80,000	50,000	50,000
Loan payable		103,423				20,189							
Convertible debentures	93,356	129,576	48,773	116,207	174,827	108,895	137,030	217,846			44,779	55,254	94,107
Derivative financial liabilities	84,718	105,610	56,426	107,616	414,102	517,109	300,117	271,957			105,820	125,550	87,821
Redeemable preferred stock	-	-	120,000	150,000	180,000	210,000	240,000	170,000	-	-	-	-	-
Total current liabilities	**$2,334,079**	**$2,771,439**	**$2,763,716**	**$2,295,838**	**$3,064,656**	**$2,738,204**	**$2,412,839**	**$1,746,056**	**$1,083,220**	**$974,613**	**$1,067,154**	**$1,122,186**	**$669,915**
Deferred revenue	-				225,000	218,750	212,500	206,250	420,833	408,333	395,833	383,333	370,833
Redeemable Preferred Stock	-		180,000	150,000	120,000	90,000	60,000	-					
Notes payable	-	-	-	-	-	-	215,000	450,000	229,500	219,000	204,000	-	-
Total Liabilities	**$2,334,079**	**$2,771,439**	**$2,943,716**	**$2,445,838**	**$3,409,656**	**$3,046,954**	**$2,900,339**	**$2,402,306**	**$1,733,553**	**$1,601,946**	**$1,666,987**	**$1,505,519**	**$1,040,748**
Total Stockholders' Deficit	**($2,142,183)**	**($2,338,273)**	**($2,578,566)**	**($2,226,194)**	**($2,607,116)**	**($2,706,943)**	**($2,858,461)**	**($1,600,229)**	**($1,482,124)**	**($1,193,001)**	**($1,449,651)**	**($1,054,034)**	**($790,886)**
Total Liabilities and Stockholders'	**$191,896**	**$433,166**	**$365,150**	**$219,644**	**$802,540**	**$340,011**	**$41,878**	**$802,077**	**$251,429**	**$408,945**	**$217,336**	**$451,485**	**$249,862**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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